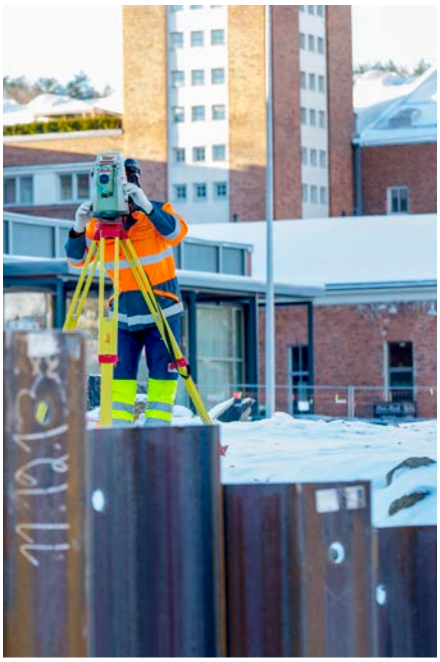


Lemminkäinen

ANNUAL REPORT 2013

Lemminkäinen

ANNUAL REPORT 2013

Contents

Lemminkäinen in brief

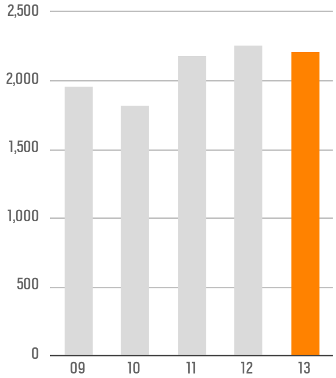
We are known for our expertise in infrastructure construction, building construction and technical building services. We operate in Northern Europe. With a hundred years of experience we create conditions that make travelling, living and working easy, safe and healthy. We aim to grow into one of the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

In 2013, our net sales were about EUR 2.2 billion, of which operations outside Finland 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.

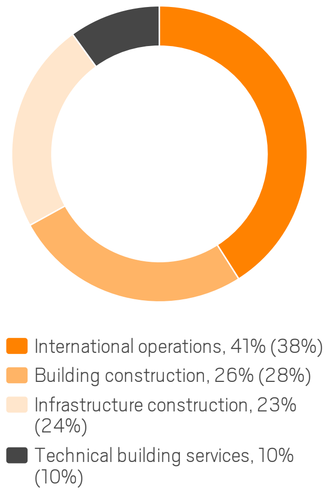
KEY FIGURES	2013	2012	change, %
Net sales, EUR million	2,218.2	2,267.6	-2.2
of which operations abroad, EUR million	929.0	897.3	3.5
Operating profit, EUR million	-90.9	50.4	over 100
Profit for financial year, EUR million	-93.5	44.1	over 100
Operating margin, %	-4.1	2.2	over 100
Return on investment, %	-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*	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
Site accident frequency rate, accidents/ million working hours	16.3	22.0**	
Net Promoter Score	23.4	29.3	

* Board of Directors' proposal to the AGM
** Excluding operations in Russia

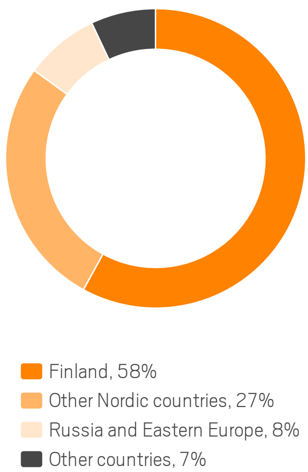
NET SALES, EUR million



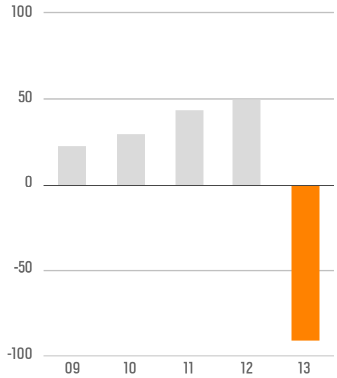
NET SALES BY SEGMENT



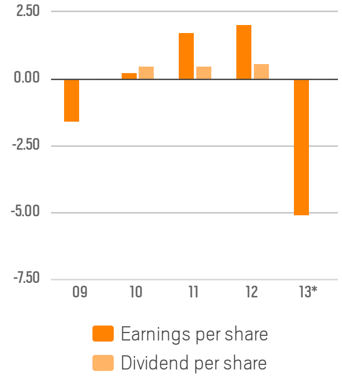
NET SALES BY MARKET AREA



OPERATING PROFIT, EUR million

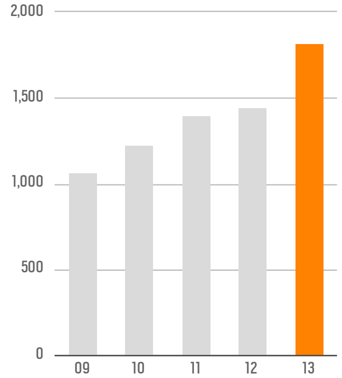


EARNINGS PER SHARE, DIVIDEND PER SHARE, EUR

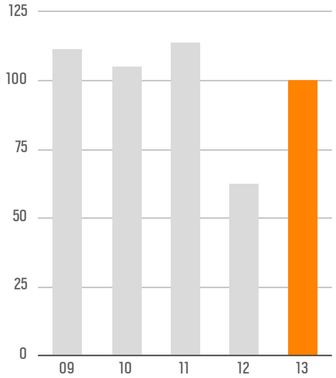


* Board of Directors' proposal to the AGM

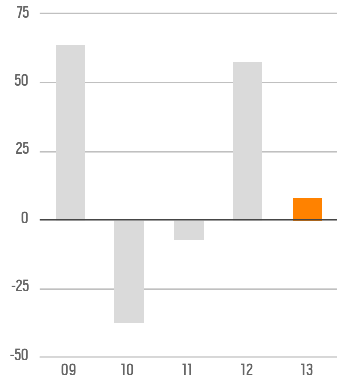
ORDER BOOK, EUR million



GEARING, %



CASH FLOW FROM OPERATING ACTIVITIES, EUR million



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 are beginning to show in the operational result of our operations in Finland.

Despite all the actions taken, I cannot be satisfied with the 2013 financial result, which was clearly negative. This was mainly due to the challenges in international operations and significant non-recurring items, the largest of which were 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 in Finland.

Ever more efficient

We have carried out two large efficiency programmes in Finland, and their impact is beginning to show in our operational result. Our cost structure is lighter, and our corporate structure and service offering simpler. Furthermore, we have harmonised our business processes and information systems.

Efficiency programmes in other countries were started later. We expect to see results from this year onwards. In addition to cost discipline, we have to improve our everyday operations, starting from project management, which last year failed in several projects. We have 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 must learn new ways to operate – and unlearn those that do not work for us anymore.

- We will adjust the number of employees, increase subcontracting and strengthen our year-round service offering in order to minimise the effects of seasonal fluctuation.
- 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 intend also to strengthen our position in specialised infrastructure construction projects. We will make sure that the good results and best practices obtained in our working capital optimisation project will continue to be applied.

When we do the everyday work better, our result for 2014 will clearly improve from 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: Insightful solutions above ground and underground. With insightful solutions we want to bring added value both to our customers and the users of the built environment. We are convinced that this will make us a better partner for our customers and, at the same time, differentiate us from the more traditional operators in the construction industry.

We have been actively involved in developing new operating models in the industry. In Tampere, we are renewing the Rantaväylä route in a unique alliance contract with customers. Together with Etera, a mutual pension insurance company, we developed a cooperation model to build three modern office blocks in the Töölö Bay area in the heart of Helsinki. In addition, there was room for our own residential development and construction in this prime location. The attractiveness of the area was further enhanced by the underground parking facility we built under the Finlandia Hall. 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. But they require that the conventional production methods are critically evaluated and upgraded, and planning is more efficient. They will also require new kinds of partnerships and networks, and new competences from both customers and service providers. For example, the significance of sustainable development is increasing, particularly in terms of energy and material efficiency. This requires, in turn, that we continuously develop our production and services.

In addition to our customers, 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 on increasing urbanisation.

In Finland, residential construction is concentrating in urban growth centres, and major commercial construction projects in the Helsinki metropolitan area in particular. Concern for the vitality of other areas is increasing. Both the major traffic projects and the basic infrastructure improvement are focused in urban growth centres, as well. At the same time elsewhere in Finland, asphalt-paved roads are retrograded back into gravel roads because of cuts in public spending.

In Russia, 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. Vast new residential areas are arising near the traditional urban growth centres.

Construction quality and energy efficiency are becoming more and more important.

Urbanisation has been faster in Norway, Sweden and Denmark than in Finland. In each of these countries the government wants to maintain the national competitive advantage, and has started long-term investment programmes 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 references of solutions for carrying out challenging projects in city centres—be it new housing, renovations of prestigious properties, underground parking facilities or traffic routes.

Building a strong foundation

Lemminkäinen is a 103-year-old company that does not want to be a prisoner of history. We have a strong will for renewal and, at the same time, to 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 with improved efficiency, and 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 confidence in us. It is now our task to repay that confidence.

Timo Kohtamäki

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. 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

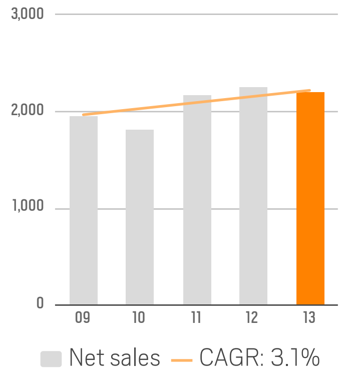
Target: net sales growth at an average of 10 per cent

- 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.

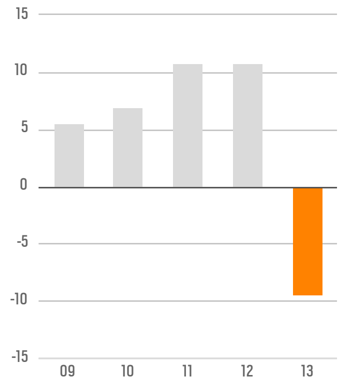
Target: return on investment more than 18 per cent

- A return on investment of 18 per cent would have required an operating margin of approximately 5 per cent.
- Our profitability was weakened by, for example, investments related to the establishment of a united Group, challenges in international project management due to fast growth 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 targets 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 was to shift the focus of business operations to more profitable segments.

NET SALES, EUR million and CAGR, %



RETURN ON INVESTMENT, %



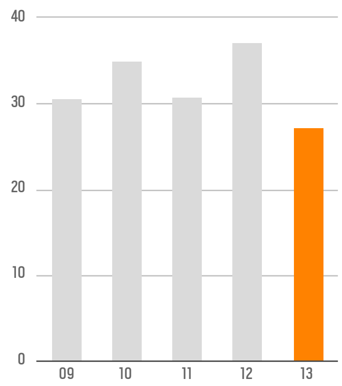
Target: equity ratio more than 35 per cent

- 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.

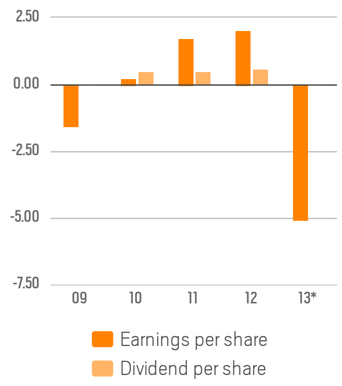
Target: dividend distribution 40 per cent of net profit

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

EQUITY RATIO, %



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 Scandinavia

The States of Sweden and Norway have published extensive infrastructure development programmes. 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 came 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.

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.

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 the city. 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 the coming strategy period, we aim 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 focused especially in increasing the share of 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 were 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 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.

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

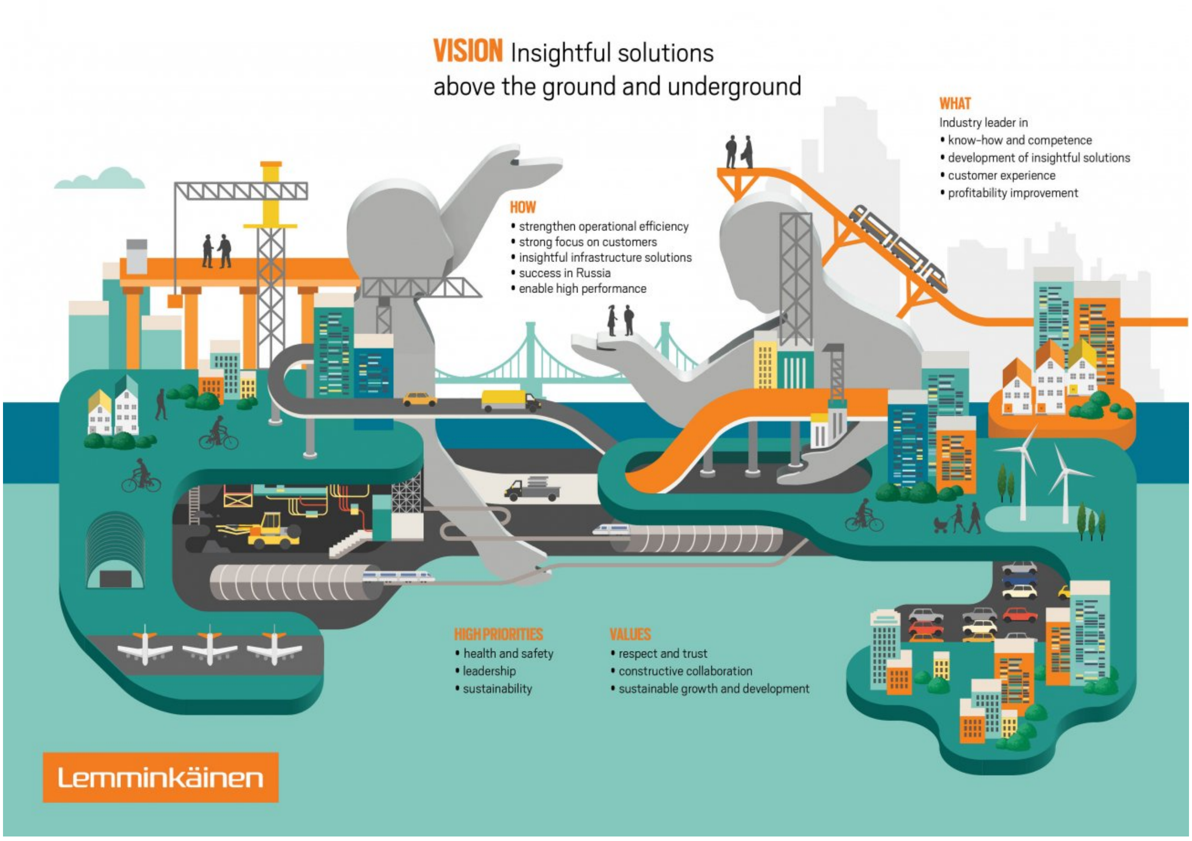
We estimate that our net sales at the end of the strategy period will be slightly higher than in 2013.

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 will launch the first five strategic programmes (must-win battles) in spring 2014. These phased programmes finish at the end of 2015 and guide all of our operations.



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

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 through our housing pricing and by aquiring plots in central locations, where demand of apartments is more stable. 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.

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, for exampe, 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 adjust 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.

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 competitive contracting in building construction 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.

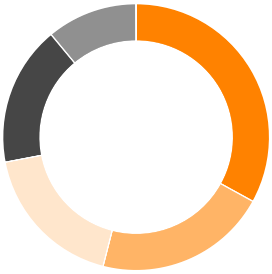
The decline in the Russian economy and the downward trend in the exchange rate of the rouble did not decrease demand for comfort-class apartments in St Petersburg. The official permit process in St Petersburg has returned to normal, which was also reflected as an increase in our residential construction 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
Net sales *	**2,218**	**2,268**	↓
International operations	931	903	↑
Building construction	593	682	↓
Infrastructure construction	533	537	↓
Technical building services	222	230	↓
Other operations and Group eliminations	-61	-84	
Operating profit *	**-91**	**50**	↓
International operations	-22	15	↓
Building construction	5	17	↓
Infrastructure construction	9	22	↓
Technical building services	-2	4	↓
Corporate functions	-81**	-8	
Operating profit without non-recurring items	**-5**	**50**	↓
Order backlog	**1,821**	**1,444**	↑
International operations	730	575	↑
Building construction	544	527	↑
Infrastructure construction	459	235	↑
Technical building services	88	108	↓

* The figures for 2012 do not include discontinued operations.
** 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



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 book

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 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 book 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 book 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 write-downs 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 our decision-making authorisations, 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 2013 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 from operating activities 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

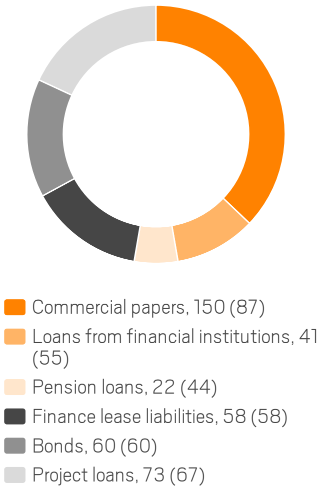
Our debt portfolio is centred around commercial papers; we prepared for damages

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.

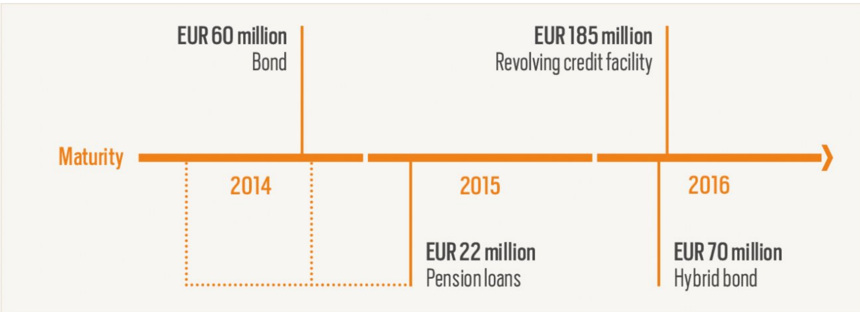
In March, we agreed on a financing arrangement totalling EUR 255 million and comprising two separate (EUR 185 million + EUR 70 million) syndicated credit facilities. This arrangement replaced the EUR 160 million credit facility that was agreed earlier. With these arrangements and sufficient cash reserves, we prepared ourselves for possible 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
EUR million



Debt maturity



A closer look

Jouni Pekonen, Executive Vice President, Procurement
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.

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. However, the procurement gains were not fully realised in the company's result due to intensified competition. In the future, we will measure the realisation of procurement savings separately for annual agreements and for project purchases.

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.

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 in Finland 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 interal 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.

Long-term partnerships

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 partners 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.

Operating environment

Geo-graphical area		GROWTH DRIVERS	OUTLOOK FOR THE NEAR FUTURE	COMPETITIVE FIELD
FINLAND	BUILDING CONSTRUC-TION	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 CONSTRUC-TION	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 finan-ces 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 re-quirements 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
SCANDI-NAVIA	INFRA-STRUCTURE CONSTRUC-TION	Multi-year State investment programmes Basic renovation and new investments required in the energy supply sector Road and rail networks around and connecting urban growth centres require renewal and renovation	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 CONSTRUC-TION (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 CONSTRUC-TION	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 CONSTRUC-TION	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 our customer comprehensive services — from the construction of road, street and rail networks to basic road maintenance and specialised contracting in infrastructure construction.

Although infrastructure construction has declined in Finland over several years, our order book 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 Suunnittelu Oy 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 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 spring 2013, we started the renovation of an old dam and a power plant in Tisleifjord, Norway. We also continued the repair work at the Bergeforsen 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 per cent 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 businesses' 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. We 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 per cent 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.

A closer look

Harri Kailasalo, Executive Vice President, Infrastructure construction in Finland, the Baltic countries and project exports
harri.kailasalo@lemminkainen.com

We need new approaches

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 investments?

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 customer knows exactly what it wants, orders designs accordingly and decides on changes when and if the need arises. Optimally, the customer 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.

New 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 cities, 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 regulations.

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 per cent 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 per cent 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 new 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 would be one in which the customer 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.

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, in the Helsinki metropolitan area. 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 road 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 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 road, 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.

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.

Rantaväylä is the main artery for traffic flow in Tampere 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 cause 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 disruption 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.

CASE

Improving dam safety in leaps and bounds

We have constructed a new spillage route for Bergeforsen 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 is used throughout the project. In addition, the project includes extensive landscaping.

Heavy concrete structures, special excavation, mass hauling and landscaping have 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 Bergeforsen 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.

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 coordination," 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.

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, Site Manager 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 disruption 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.

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 residential 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.

A closer look

Casimir Lindholm, Executive Vice President, Building Construction in Finland
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.

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. Being 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 › 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 › 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. 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 Töölö Bay area in the heart 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 2013. 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 Aleksi7 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 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.

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.

CASE

Growth centre Lappeenranta

We want to participate closely in the development of growth centres. In Lappeenranta, we have built 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 has been 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, which are 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.

CASE

A living room for the city of Helsinki

Töölö Bay area 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 Töölö Bay 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 railway 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.

EY'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.

Töölö Bay 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."

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 gross 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 environmental certificate.

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

"Geothermal heat, water accumulator and condensing heat are utilised in the cooling of the building. In addition, with an approximately 50 per cent 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.

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 increased. 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.

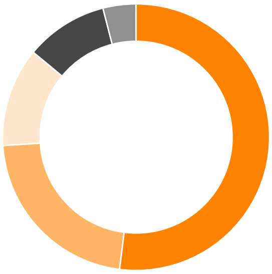
Better service on the Internet

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



- Infrastructure construction, Scandinavia, 52%
- Infrastructure construction, Baltics and Russia, 22%
- Building construction, Sweden, 12%
- Building construction, Russia, 10%
- Other, 4%

ORDER BOOK , EUR million

574.6
2012

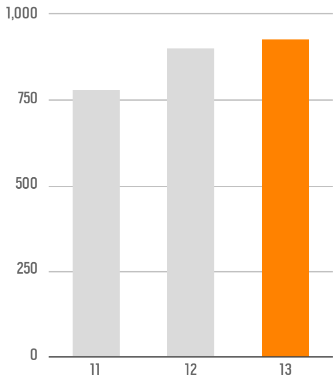
729.9
2013

PERSONNEL

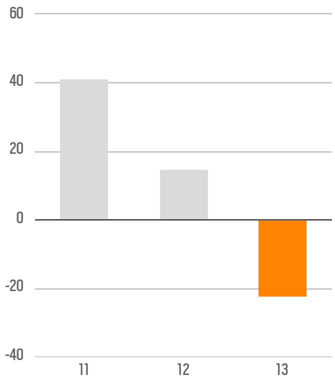
3,057
2012

2,953
2013

NET SALES, EUR million

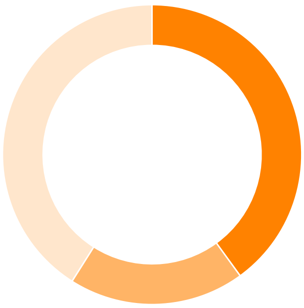


OPERATING PROFIT, EUR million



Building construction

NET SALES

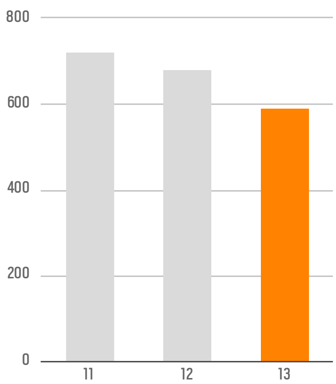


- Residential development, 40%
- Commercial development, 19%
- Contracting and other operations, 41%

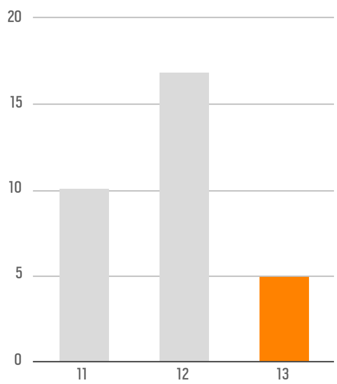
ORDER BOOK , EUR million

PERSONNEL

NET SALES, EUR million

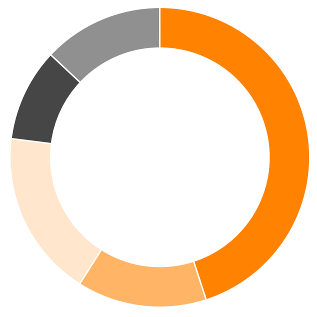


OPERATING PROFIT, EUR million



Infrastructure construction

NET SALES



ORDER BOOK , EUR million

234.7
2012

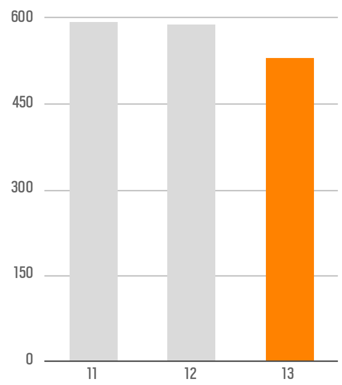
459.0
2013

PERSONNEL

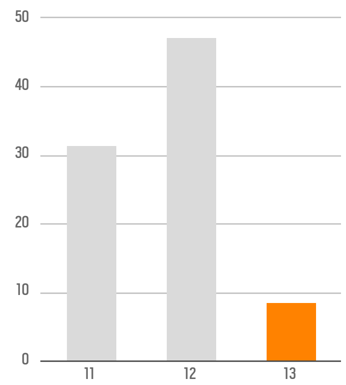
1,751
2012

1,518
2013

NET SALES, EUR million

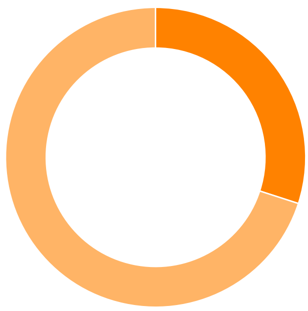


OPERATING PROFIT, EUR million



Technical building services

NET SALES



Upkeep and maintenance, 30%
Contracting, 70%

ORDER BOOK , EUR million

107.7
2012

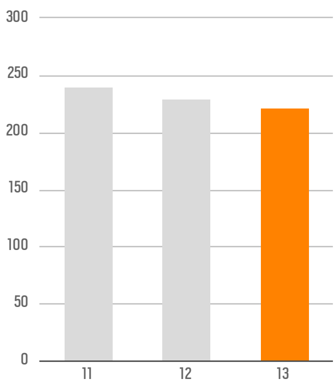
88.1
2013

PERSONNEL

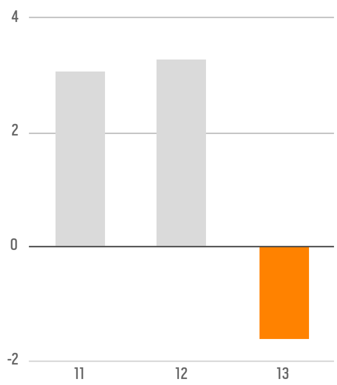
1,631
2012

1,658
2013

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.

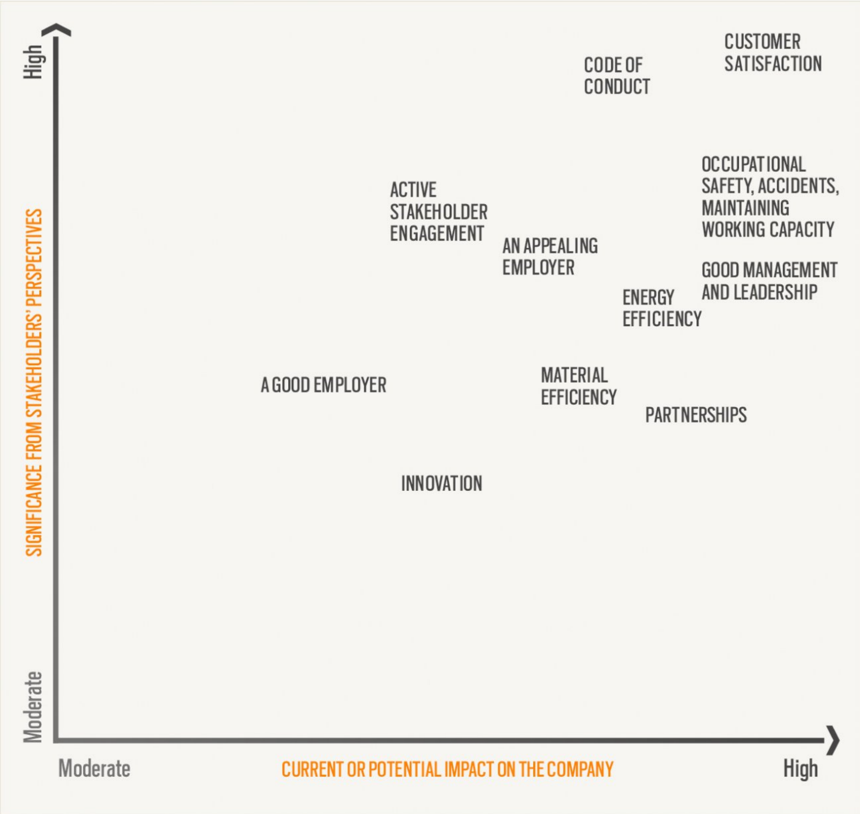
Our Code of Conduct is supplemented by various policies and guidelines, such as a competition law guidebook, insider and entertainment guidelines and sponsorship principles. According to the 2013 employee survey, 76 per cent of Lemminkäinen employees feel that they know how to apply our Code of Conduct.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

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 Helsinki-based 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.

Table of stakeholders

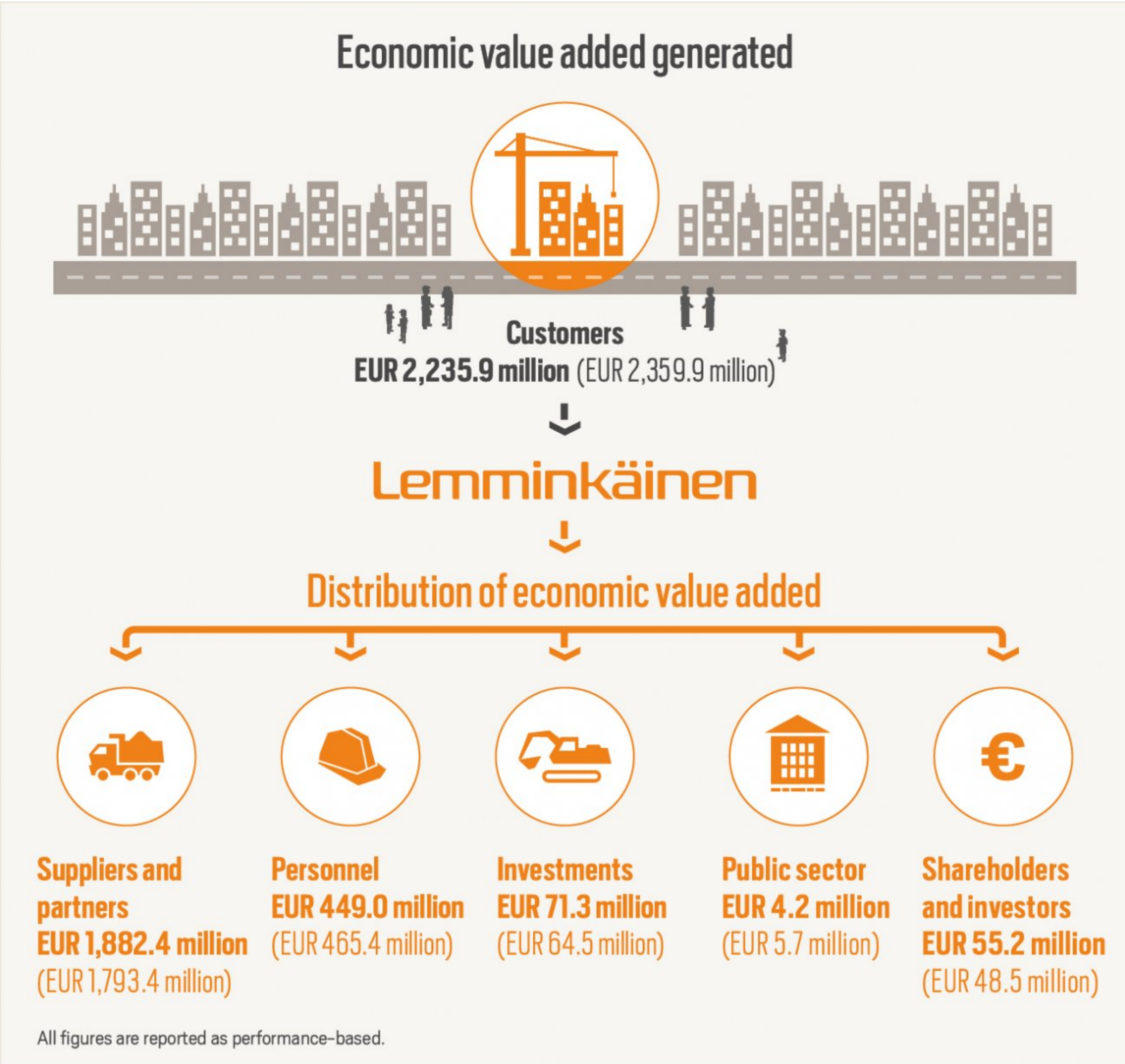
Stakeholder	Expectations	Actions 2013
Industry associations, such as the Confederation of Finnish Construction Industries RT	• Continuous development in the industry • Promoting common interests	• Active participation in associations' work, work groups and projects
Customers	• High-quality, reliable and sustainable solutions • Good project management, delivery reliability, transparency, and the right price-quality ratio • Understanding customer needs, customer service, and customer relations management	• Face-to-face meetings • Customer events • Dialogue at industry trade fairs and other events • Newsletters and online services • Customer magazine • Customer satisfaction surveys
Personnel	• Good leadership, management and supervisory work • Motivating remuneration and opportunities for training and personal development • Equality and openness within the organisation • Occupational safety and well-being	• Developing supervisory work, management and leadership • Training and competence development • Employee survey • Developing remuneration • Continual development of occupational safety and well-being • Open communications and building an open corporate culture

Media	• Reliable and up-to-date information about the company's operations • Open communications culture	• Stock exchange and press releases • Press conferences and visits by editorial staff • Interviews and off-the-record meetings • Easy to contact
Shareholders and investors	• Sufficient return on their investment and a sufficient analysis of the company's risk management • Open and timely information about the company's financial position and outlook	• Investor and analyst meetings • Annual General Meeting • Stock exchange and press releases and regular, open reporting • Website
Students and job applicants	• Interesting and challenging tasks • Comprehensive information about career opportunities offered by Lemminkäinen	• Summer jobs and trainee positions, opportunities for writing theses, and cooperation with educational institutions • Dialogue at trade fairs • Visibility in student and professional publications • Employer image surveys • Cooperation with Taitaja, a competition run by Skills Finland • Amis-Dialogi project with vocational students
Decision makers and opinion leaders	• Compliance with laws and regulations • Transparency and minimising hazardous impacts • Regular reporting • Increasing employment; good corporate citizenship • Payment of taxes	• Dialogue through industry organisations in, for example, political decision making • Local meetings with decision makers • Stock exchange and press releases and regular, open reporting
Suppliers and partners	• Safeguarding earnings and growth • Opportunities for networking and developing operations • Operational reliability and continuity	• Meetings and direct contacts • Supplier audits • Development of procurement systems

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 to offer our customers the best services in the market.



Economic value added generated 2013

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 reclaimed asphalts reduce the environmental footprint of infrastructure projects, as their manufacture consumes less energy or virgin materials.

Distribution of economic value added 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.

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.

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.

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

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 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 (in 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 raw 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.

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 supevisors 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 VIILA 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.

Support from an experienced expert

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.

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 Dialogi?

Each year, 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.

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 (3.60). 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.

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 occupational safety. 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. Ou 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.

CASE

Focus on occupational safety, every 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 previously. “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.

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

Global Compact		GRI Content	Reporting	Remarks	Pages	
		1. Strategy and Analysis				
	1.1	CEO's statement	●		CEO's review	
	1.2	Key impacts, risks and opportunities	●		Strategy	The new strategy for 2014–2018
					Operating environment	Risk management
		2. Organizational Profile				
	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, quantitity 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.		

	3. Report Parameters				
	Report profile				
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	●		http://www.lemminkainen.com/Lemminkainen/Contacts/	
	Report scope and boundary				
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	
	GRI content index				
3.12	Table identifying the location of the Standard Disclosures in the report.	●			
	Assurance				
3.13	Policy and current practice with regard to seeking external assurance for the report.	●		Reporting principles	Independent assurance report
	4. Governance, Commitments and Engagement				
	Governance				
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	
	Commitments to External Initiatives			
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	
	Stakeholder Engagement			
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	Personnel
				Customer cooperation	
		Economic Performance Indicators			
		Management approach to economic responsibility	●	Corporate Governance Statement	Risk management
		Economic Performance		Group strategy	Sustainability management systems
	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
7	**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	
		Market presence			
1	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.	●		
6	**EC7***	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●		
		Indirect Economic Impacts			
	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

		Environmental Performance Indicators			
		Management approach to environmental responsibility	●	Sustainability management systems	Environmental responsibility
		Materials			
8	**EN1***	Materials used by weight or volume	●		
8-9	**EN2***	Percentage of materials used that are recycled input materials	●	Environmental responsibility	
		Energy			
8	**EN3***	Direct energy consumption by primary source	●	Environmental performance indicators	
8	**EN4***	Indirect energy consumption by primary source	●	Environmental performance indicators	
8-9	EN5	Energy saved due to conservation and efficiency improvements	●		
8-9	EN6	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	
8-9	EN7	Initiatives to reduce indirect energy consumption and reductions achieved	●		
		Water			
8	**EN8***	Total water withdrawal by source	●	Environmental performance indicators	
8	EN9	Water sources significantly affected by withdrawal of water (incl. value/importance of water source to local communities)	●		
8-9	EN10	Percentage and total volume of water recycled and reused	●		
		Biodiversity			
8	**EN11***	Location and size of land holdings in areas of high biodiversity	●		
8	**EN12***	Description of significant impact of activities, products, and services on biodiversity	●		
8	EN13	Habitats protected or restored	●		
8	EN14	Managing impacts on biodiversity (incl. engagement with relevant stakeholders)	●	Environmental performance indicators	
8	EN15	Species with extinction risk with habitats in areas affected by operations	●		
		Emissions, Effluents and Waste			
8	**EN16***	Total direct and indirect greenhouse gas emissions	●	Environmental performance indicators	
8	**EN17***	Other relevant indirect greenhouse gas emissions	●		
7-9	EN18	Initiatives to reduce greenhouse gas emissions	●		
8	**EN19***	Emissions of ozone-depleting substances	●		
8	**EN20***	NOx, SOx, and other significant air emissions	●		
8	**EN21***	Total water discharge by quality and destination	●		
8	**EN22***	Total amount of waste by type and disposal method	●	Environmental performance indicators	
8	**EN23***	Total number and volume of significant spills	●		
8	EN24	Transported, imported, exported, or treated hazardous waste	●		
8	EN25	Water bodies and habitats affected by discharges of water	●		

		Products and Services				
7-9	**EN26***	Mitigating environmental impacts of products and services	●		Environmental responsibility	
8-9	**EN27***	Percentage of products sold and their packaging materials reclaimed by category	●			
		Compliance				
8	**EN28***	Significant fines and sanctions for non-compliance with environmental regulations	●		Environmental performance indicators	
		Transport				
8	EN29	Environmental impacts of transportation	●		Environmental performance indicators	
		Overall				
7-9	EN30	Total environmental protection expenditures and investments	●			
		Social Performance Indicators				
		Labor Practices and Decent Work	●		Sustainability management systems	Personnel
		Management approach to labor practices and decent work			Occupational well-being	Occupational safety
		Employment				
	LA1*	Total workforce by employment type, employment contract and region, broken down by gender	●		Social performance indicators	Board of Directors' report
6	**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	●			
		Labor/Management Relations				
1-3	**LA4***	Coverage of collective bargaining agreements	●		Social performance indicators	
3	**LA5***	Minimum notice period regarding operational changes	●	Lemminkäinen complies with local legislation.	Social performance indicators	Personnel
		Occupational Health and Safety				
1	LA6	Percentage of employees represented in joint health and safety committees	●		Social performance indicators	
1	**LA7***	Rates of injury, occupational diseases, lost days, fatalities and absenteeism by region, and by gender	●		Social performance indicators	Occupational safety
1	**LA8***	Education and prevention programmes regarding serious diseases	●		Social performance indicators	Occupational well-being
1	LA9	Health and safety topics covered in formal agreements with trade unions			Occupational safety	
		Training and Education	●			
	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	
		Diversity and Equal Opportunity	●		Social performance indicators	
1-6	**LA13***	Composition of governance bodies and breakdown of employees				
1-6	**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	●			

			●		
		Management approach to human rights	●	Sustainability management systems	Our way of working
		Investment and procurement practices			
1-6	**HR1***	Percentage and number of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening	●		
1-6	**HR2***	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening and actions taken	●	Social performance indicators	
1-6	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	●		
		Non-discrimination			
1-2, 6	**HR4***	Incidents of discrimination and actions taken	●		
		Freedom of association and collective bargaining			
1-3	**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	
		Child labor			
1-2, 5	**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	
		Forced and compulsory labor			
1-2, 4	**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	
		Security practices			
1-2	HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	●		
		Indigenous rights			
1-2	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	●		

		Society			
		Management approach to society	●	Sustainability management systems	Our way of working
		Local community			
	SO1*	Percentage of operations with implemented local community engagement, impact assessments, and development programs	●	Environmental performance indicators	
		Corruption			
10	**SO2***	Percentage and total number of business units analyzed for risks related to corruption	●		
10	**SO3***	Percentage of employees trained in anti-corruption policies and procedures	●		
10	**SO4***	Actions taken in response to incidents of corruption	●	Social performance indicators	
		Public Policy			
1-10	**SO5***	Public policy positions and participation in public policy development and lobbying	●	Social performance indicators	
10	SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions	●	Social performance indicators	
	SO7	Number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	●	Social performance indicators	Legal proceedings
		Compliance			
	SO8*	Monetary value of significant fines and number of non-monetary sanctions for non-compliance with laws and regulations	●	Social performance indicators	
	SO9*	Operations with significant potential or actual negative impacts on local communities	●		
	SO10*	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	●		

		Product Responsibility			
		Management approach to product responsibility	●	Sustainability management systems	Cooperation with stakeholders
		Customer Health and Safety			
1	**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	●		
1	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	●		
		Product and Service Labeling			
8	**PR3***	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	●		

8	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
		Marketing Communications			
	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	●		
		Customer Privacy			
1	PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data	●		
		Compliance			
	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

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

THE GLOBAL COMPACT
WE SUPPORT

WWF
GREEN OFFICE
A WWF INITIATIVE TO REDUCE ECOLOGICAL FOOTPRINT

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.

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 (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.

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

* During 2012-2013 production facilities have not had district heating consumption. In 2011 district heating was used only in 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 m3 (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. The reporting is based on estimated usage.

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 fuels 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_2 emissions, Scopes 1 + 2	81,800	91,800	87,600

The following CO_2 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 2007-2011).

The coefficient for purchased electricity is obtained annually from data published by the IEA.
We have defined CO_2 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_2, we also cause environmental loading through, for example, noise, dust, vibration and odour pollution, and SOx, NOx and small particle emissions.

EN22 Total amount of waste by type and disposal method

Waste, production facilities Finland

	2013
Production facilities	
Recycled, reused and incinerated waste, %	73.4
Recycled, reused and incinerated waste, t	756
Landfill waste, %	26.6
Landfill waste, t	274

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_2/km.

Traffic and transportation

GWh	2013	2012	2011
Energy consumption	31	27	25

Transportation causes CO_2, SOx, and NOx emissions as well as noise and dust pollution. CO_2 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

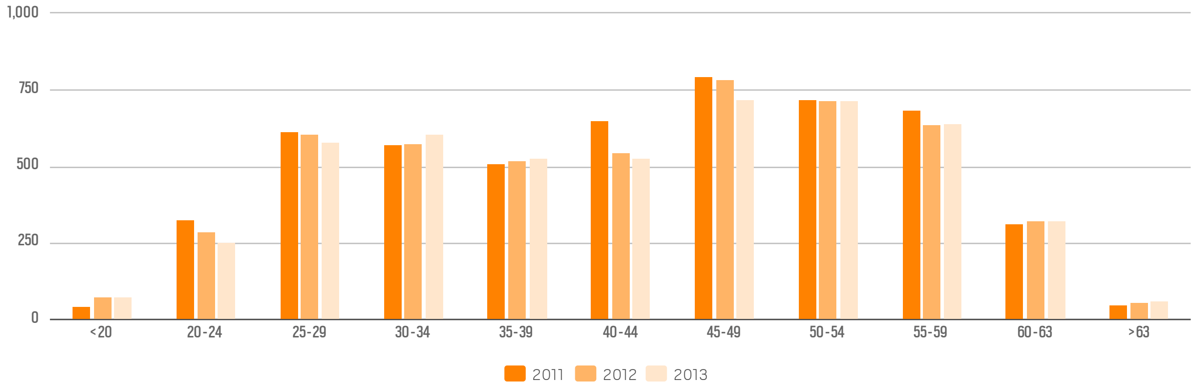
Lemminkäinen made environmental investments of approximately EUR 1 million. They were associated with the operational improvements at our production facilities.

Social performance indicators

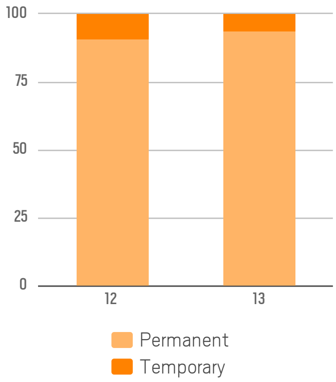
LA1 Total workforce by employment type, employment contract and region

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

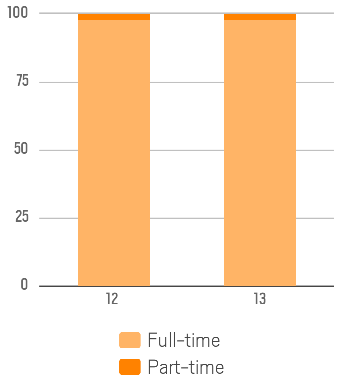
AGE DISTRIBUTION, FINLAND, AT 31 DEC.



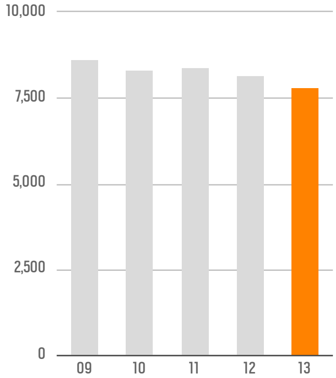
PERMANENT AND TEMPORARY EMPLOYMENT, FINLAND, AT 31 DEC., %



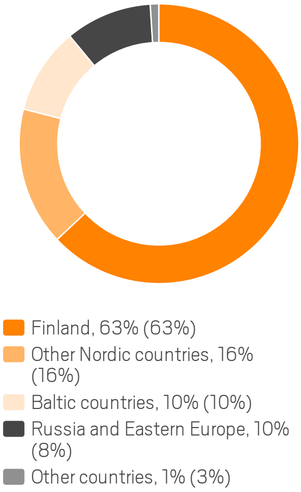
FULL-TIME AND PART-TIME EMPLOYMENT, FINLAND, AT 31 DEC., %



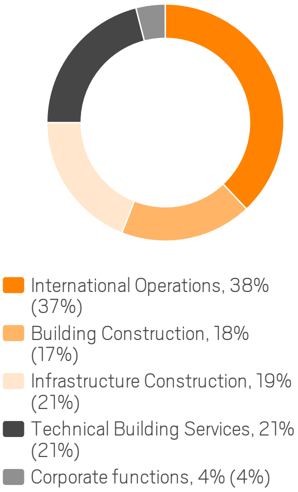
PERSONNEL ON AVERAGE



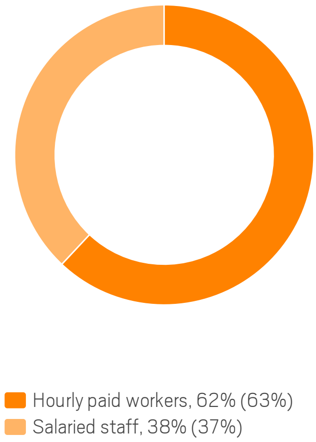
PERSONNEL BY MARKET AREA



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
Personnel turnover (outgoing)		
Employments ended / number of personnel at 31 Dec.	10.6	12.0
Personnel turnover (ingoing)		
Employments began / number of personnel at 31 Dec.	9.6	7.5
Average personnel turnover		
Employments ended and began / 2 / number of personnel at 31 Dec.	10.1	9.8
Reason for departure (permanent personnel) by category, %		
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	1	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 VIILA 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 VIILA 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

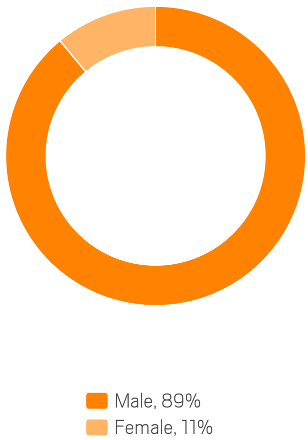
Lemminkäinen's Code of Conduct requires our personnel to be treated equally. Lemminkäinen does not condone any form of discrimination on the basis of race, religion, political beliefs, gender, age, nationality, language or sexual orientation.

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.



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.

SO4 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.

SO5 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.

SO6 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.

SO7 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.

SO8 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.

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, 7 March, 2014

PricewaterhouseCoopers Oy

Sirpa Juutinen	Maj-Lis Steiner
Partner	Director,
	Authorised Public Accountant
Sustainability &	Sustainability &
Climate Change	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 Räty. 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 Directors3)	Audit Committee3)	Nomination Committee3)	HR Committee3)
Berndt Brunow, born 1950 B.Sc. (Econ.)	Yes	Yes	Chair (13/13)		Chair (2/2)	Member2) (1/1) Chair1) (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 Johnsson1), born 1946 M.Sc. (Econ.)	Yes	Yes	Member1) (9/9)			
Mikael Mäkinen2), born 1956 M.Sc. (Eng.). Director, Marine, Cargotec	Yes	Yes	Member2) (4/4)			Chair2) (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)	Member1) (4/4)
Heikki Räty, born 1953, M.Sc. (Econ.), Managing Director, Helectron Oy Ab	Yes	Yes	Member (13/13)	Chair (5/5)		

Chair=Chairman, Vice=Vice Chairman
1) As of 9 April 2013
2) Until 9 April 2013
3) 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.

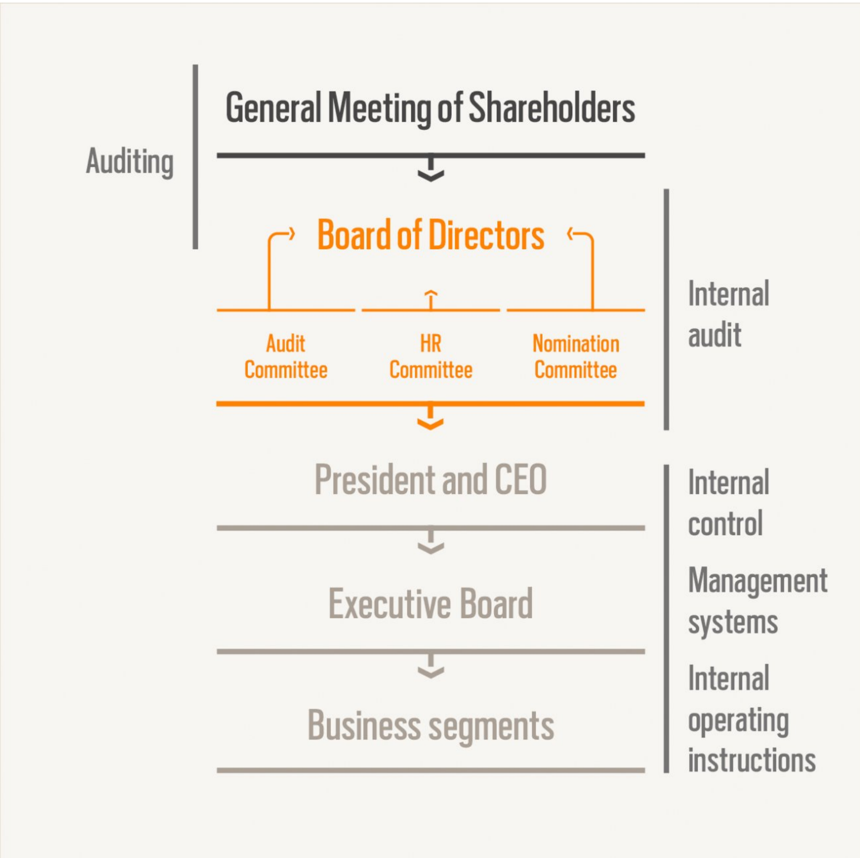
Executive Team

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

(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.

2013 The Annual General Meeting 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.

Travel expenses were reimbursed as invoiced.

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

1) From 2 April 2012
2) From 9 April 2013. Fees have been paid in Swedish krona, do not include possible exchange rate difference.
3) Until 9 April 2013
4) Until 2 April 2012

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

1) From 2 April 2012
2) From 9 April 2013. Fees have been paid in Swedish krona, 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

Board of Directors

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 Räty

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_and_Corporate_Governance/Board_of_Directors/Members_of_Board_of_

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_and_Corporate_Governance/Group_management/Executive_Board

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 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 aquiring 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.

Unusual or harsh weather can weaken the profitability of our operations by interrupting or delaying projects.

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.

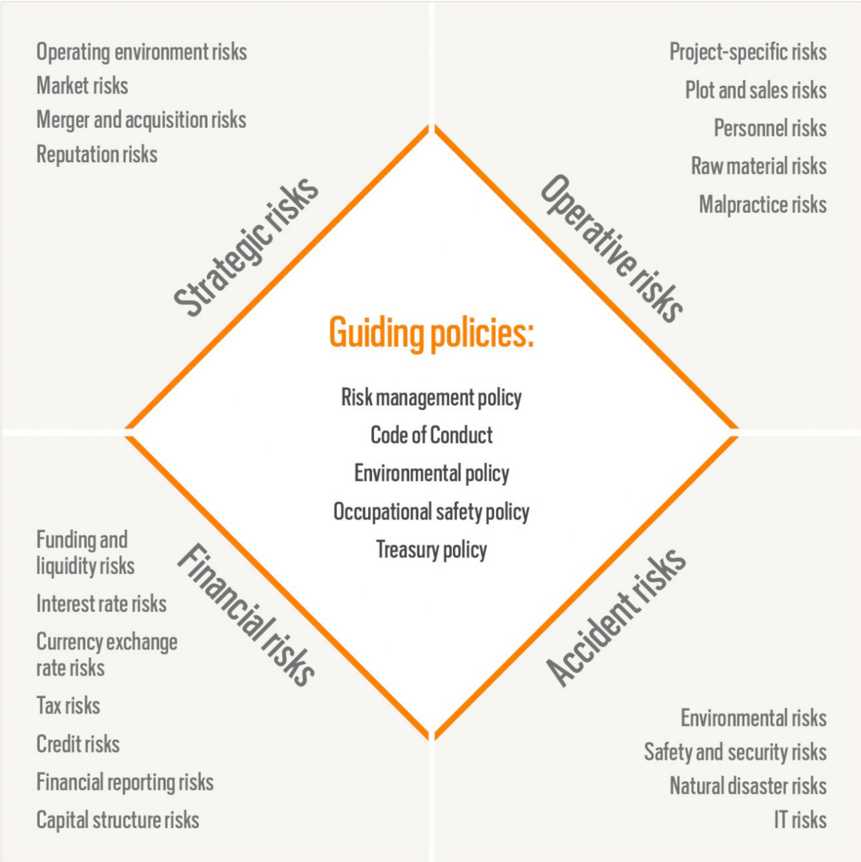
In addition to the claims that the District Court decided on, 14 claims against Lemminkäinen and other asphalt companies for damages are pending. Lemminkäinen has made a provision worth EUR 6 million for these. The amount also includes interest and legal expenses related to the damages.

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.

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 www.lemminkainen.com/investors.

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 development of rouble rate	Central location of plots, securing sales by, for example, investor sales
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


Operating environment risks
Market risks
Merger and acquisition risks
Reputation risks
Strategic risks
Project-specific risks
Plot and sales risks
Personnel risks
Raw material risks
Malpractice risks
Operative risks
Guiding policies:
Risk management policy
Code of Conduct
Environmental policy
Occupational safety policy
Treasury policy
Funding and liquidity risks
Interest rate risks
Currency exchange rate risks
Tax risks
Credit risks
Financial reporting risks
Capital structure risks
Financial risks
Accident risks
Environmental risks
Safety and security risks
Natural disaster risks
IT risks

OPERATING ENVIRONMENT IN 2013

In **Finland**, the general market situation in construction remained weak. Construction costs increased moderately, and the availability of subcontractor services increased, particularly in building construction in the Helsinki metropolitan area. Housing sales to investors and housing funds increased. Commercial construction remained at a low level and was concentrated in the Helsinki metropolitan area. Infrastructure construction activity was brisk during the second half of the year, as the long winter delayed the start of the season. Demand for specialised contracting in infrastructure construction was good, while the declining market in the paving business intensified competition.

In the **Scandinavian countries**, the market situation for infrastructure construction remained good. In Sweden and Norway, road traffic projects and the public sector´s investments in road maintenance increased demand for paving. Increasing investments in the energy supply sector also boosted the demand for specialised contracting in infrastructure construction.

In **Russia**, changes in the country's economic growth forecasts did not affect housing sales. In St Petersburg, price development of apartments was moderate and interest rates for loans remained stable. More mortgages were drawn compared to the previous year. The construction and repair of major inter-city highways boosted the demand for infrastructure construction in Russia.

In the **Baltic countries**, the demand for infrastructure construction remained good in Latvia and Lithuania, while in Estonia the market situation slightly weakened.

GROUP KEY FIGURES

	Jan–Dec 2013	Jan–Dec 2012	Change
Net sales, € million	2,218.2	2,267.6	-49.4
Operating profit, excluding non-recurring items, € million	-5.2	50.4	-55.6
Operating margin, %	-0.2	2.2	
Operating profit, € million	-90.9 **	50.4	141.3
Profit for the period from continuing operations, € million	-93.5 **	20.4	-113.9
Profit for the period *, € million	-93.5 **	44.1	-137.6
Earnings per share from continuing operations, €	-5.06 ***	0.83	-5.89
Earnings per share *, €	-5.06 ***	2.04	-7.10
Cash flow from operations, € million	8.3	57.8	-49.5
Order book, € million	1,821.3	1,443.9	377.4
Balance sheet total, € million	1,342.7	1,303.5	39.2
Interest-bearing net debt, € million	326.5	277.3	49.2
Equity ratio, %	27.3	37.2	
Gearing, %	100.8	62.8	
Return on investment, rolling 12 months, %	-9.4	10.8	

* Includes discontinued operations.

** Includes expenses from the District Court's decision on damages related to the asphalt cartel (EUR 65.6 million) and write-downs mainly related to commercial properties (EUR 20.1 million).

*** Includes expenses from the District Court's decision on damages related to the asphalt cartel (EUR -3.35/share) and write-downs mainly related to commercial properties (EUR -1.03 / share).

GROUP STRATEGY

STRATEGY FOR 2010–2013

The main targets of Lemminkäinen's strategy for 2010–2013 were profitable growth and improved solvency. Halfway through the strategy period, the strategic focus of the Finnish operations was specified to increasing the share of residential development and construction to over 50% of the Building construction segment's net sales, and increasing the share of service business to 50% of the Technical building services segment's net sales. In infrastructure construction in Scandinavia, the goal was to increase net sales by a total of approximately EUR 100 million in 2012–2013. In Russia, Lemminkäinen's goal was to launch the construction of about 1,000 new housing units every year.

In 2013, the share of net sales of residential development and construction in the Building construction segment was approximately 40%, and the share of service business of the Technical building services segment's net sales was approximately 30%. Net sales from infrastructure business in Sweden, Norway and Denmark grew by EUR 43 million in 2012–2013. In Russia, Lemminkäinen launched the construction of approximately 800 new housing units in 2013.

Financial targets and actual performance in the strategy for 2010–2013

Financial target	Target level	Actual performance 2013	Actual performance 2012	Actual performance 2011	Actual performance 2010
Net sales growth	average 10%	-2%	4%	19%	-7%
Return on investment	18%	-9%	11%	11%	7%
Equity ratio	over 35%	27%	37%	31%	35%
Payment of dividend	40% of net profit	0%*	27%	28%	over 100%

* The Board of Directors' proposal to the AGM

STRATEGY FOR 2014–2018

Lemminkäinen's 2014–2018 strategy focuses on insightful infrastructure solutions as well as residential construction in urban growth centres, especially in Russia. Lemminkäinen aims to grow into one of the leading providers of demanding infrastructure solutions in Northern Europe. In Russia, the residential development and construction business will be extended from St Petersburg to other selected urban growth centres. In paving and mineral aggregates, Finnish building construction, and technical building services, Lemminkäinen will continue to focus on improving operational and capital efficiency. Strategic options for technical building services will be examined. The financial targets for the strategy period are a return on investment of 18% over the cycle and an equity ratio of at least 35%.

EFFICIENCY PROGRAMME AND MEASURES

The efficiency programme that was launched in autumn 2011 sought cost savings of EUR 50 million as of 2014, mainly in the business operations in Finland. The efficiency programme sought to improve procurement efficiency, lighten administrative structures and develop operational efficiency. The number of employees was reduced by 300. By the end of 2013, the efficiency programme had identified the cost savings pursued. However, the procurement gains were not fully realised in the company's result due to intensified competition.

In August 2013, Lemminkäinen announced a new efficiency programme, the goal of which is to cut the cost structure by EUR 30 million. In order to decrease the impact of seasonality, Lemminkäinen will increase the use of subcontracting and outsourcing. The company will also conclude measures to reduce the number of regional units in Finland and Norway. As part of the efficiency improvement measures, the company started personnel negotiations to cut approximately 500 man-years.

The full impact of the efficiency improvement measures is expected to materialise by the end of 2014. By the end of 2013, the personnel had been reduced by approximately 360 man-years and 24 regional units or sites had been closed.

FINANCIAL PERFORMANCE

NET SALES

Net sales from continuing operations

	Jan–Dec 2013	Jan–Dec 2012	Change
International operations, € million	930.9	903.2	27.7
Building construction, € million	592.9	682.4	-89.5
Infrastructure construction, € million	533.4	536.6	-3.2
Technical building services, € million	221.9	229.7	-7.8
Other operations and Group eliminations, € million	-61.0	-84.3	
Group, total, € million	2,218.2	2,267.6	-49.4

The Group's net sales in 2013 were roughly at the same level as in the previous year. The net sales of building construction in Finland decreased clearly from 2012. The decline in the volume is due to Lemminkäinen's decision to decrease the volume of contracting, in which profitability has been weak in recent years. Net sales in Russia were boosted by residential development and construction, and in Sweden by contracting in commercial construction.

Net sales by country in 2013 were 58% (61) from Finland, 27% (25) from Scandinavia, 7% (6) from Russia, 7% (6) from the Baltic countries and 1% (2) from other countries. Net sales by business type were 35% (35) from building construction, 54% (53) from infrastructure construction and 11% (12) from technical building services.

OPERATING PROFIT

Operating profit from continuing operations

	Jan–Dec 2013 *	Jan–Dec 2012	Change
International operations, € million	-22.0	15.0	-37.0
Building construction, € million	5.0	16.9	-11.9
Infrastructure construction, € million	8.5	22.3	-13.8
Technical building services, € million	-1.6	3.8	-5.4
Business segments, total, € million	-10.1	58.0	-68.1
Corporate functions, € million	-80.8 **	-7.7	-73.1
Group, total, € million	-90.9 **	50.4	-141.3

* Includes EUR 20.1 million write-downs, of which EUR 14.1 million from Building construction, EUR 3.0 million from Infrastructure construction, EUR 2.7 million from International operations and EUR 0.3 million from Technical building services.

** Includes EUR 65.6 million as expenses from the District Court´s decision on damages related to the asphalt cartel.

Lemminkäinen's 2013 result was clearly negative. The long winter delayed the start of the paving season and increased costs in all operating countries. The operating profit was also impaired by margin decreases from major projects in Norway, Sweden and Russia. In addition, the company expensed non-recurring items from the District Court's decision on damages related to the asphalt cartel, EUR 65.6 million, and write-downs mainly related to commercial properties, EUR 20.1 million. Also, the full year result was affected by costs related efficiency measures, approximately EUR 10 million, and costs related to the divestment of parts of telecommunications network business, approximately EUR 6 million.

In Finland, the result in building construction was supported by moderate housing unit sales as well as commercial construction in the Helsinki metropolitan area. The specialised contracting in infrastructure construction progressed well in the declining infrastructure market. The declining building construction market reduced the demand for mineral aggregates, foundation engineering and contracting in technical building services, and impaired profitability.

Operating margin from continuing operations	Jan–Dec 2013	Jan–Dec 2012
International operations, %	-2.4	1.7
Building construction, %	0.8	2.5
Infrastructure construction, %	1.6	4.2
Technical building services, %	-0.7	1.7
Group, total, %	-4.1	2.2

ORDER BOOK

Order book at end of period, € million	31 Dec 2013	31 Dec 2012	Change
International operations	729.9	574.6	155.3
Building construction	544.3	526.9	17.4
Infrastructure construction	459.0	234.7	224.3
Technical building services	88.1	107.7	-19.6
Group, total	1 821,3	1 443,9	377.4
- of which unsold	346.5	176.7	

In 2013, the order book grew by one fourth and stood at EUR 1,821.3 million (1,443.9). The largest increase took place in infrastructure construction in Finland and in building construction in Russia. Significant new projects in 2013 were the contract for a 46-house residential area in Moscow (EUR 100 million), the first phase of S Group's logistics centre (EUR 49 million) near Helsinki, two stations on the West Metro line (EUR 81 million) in Espoo, and the alliance contract for the Rantaväylä tunnel in Tampere (EUR 180 million).

Of the order book, 60% (60) originated in Finland, 20% (23) in Scandinavia, 18% (11) in Russia, and 2% (6) in other countries.

BALANCE SHEET, CASH FLOW AND FINANCING

On 31 December 2013, the balance sheet total was EUR 1,342.7 million (1,303.5), of which equity accounted for EUR 324.0 million (441.8). Lemminkäinen's net working capital was EUR 325.1 million (426.5). Lemminkäinen's working capital optimisation pays particular attention to the timeliness of invoicing and the optimisation of the turnover of trade receivables and trade payables.

At the end of the financial period, Lemminkäinen's equity ratio was 27.3% (37.2) and gearing was 100.8% (62.8). As a four-quarter average, the equity ratio was 30.3% and gearing was 91.1%. Lemminkäinen's return on investment was -9.4% (10.8). The clearly negative result and the decreasing shareholders' equity impaired key figures.

Interest-bearing debt increased by 10 per cent, totalling EUR 407.6 million (371.2) at the end of the review period. Long-term interest-bearing debt totalled EUR 61.3 million (138.8) and short-term interest-bearing debt EUR 346.3 million (232.4). Of all interest-bearing debt, 32 per cent (45) was at a fixed interest rate. At the end of the review period, the Group's liquid funds stood at EUR 81.1 million (93.9) and interest-bearing net debt totalled EUR 326.5 million (277.3).

Of the company's interest-bearing debt, 10% (15) comprises loans from financial institutions, 37% (23) commercial papers, 18% (18) project loans related to residential and commercial development, 5% (12) pension loans, 14% (16) finance lease liabilities, and 15% (16) bonds. At the end of the financial period, the company had binding, unused credit limits amounting to EUR 175.0 million (139.6) and overdraft limits amounting to EUR 44.0 million (54.1). In the fourth quarter of the year, Lemminkäinen terminated the EUR 70 million, two-year syndicated credit facility agreed in March 2013, considering it unnecessary. In 2013, the financing expenses, on average, were 2.9% (3.1).

Some of Lemminkäinen's financial agreements include two financial covenants, which are monitored quarterly: the ratio of net debt to EBITDA and the equity ratio. In March 2013, in connection with limit-related negotiations, Lemminkäinen and its creditors agreed that potential damages will be ignored in the calculation model. Furthermore, before the end of the financial period, an agreement was reached on changes in the covenant terms for Q4/2013 and Q1/2014.

In 2013, net finance costs amounted to EUR 26.7 million (21.4), representing 1.2 per cent (0.9) of net sales.

The increase in finance costs were due to the increase in interest-bearing debt, financing limits renewed during the first months of the year and increasing currency hedging costs.

Cash flow from operations totalled EUR 8.3 million (57.8). The difference from the comparison period was mainly due to the clearly negative result.

FINANCIAL PERFORMANCE BY BUSINESS SEGMENT

INTERNATIONAL OPERATIONS

Key figures from continuing operations, International operations	Jan–Dec 2013	Jan–Dec 2012	Change
Net sales, € million	930.9	903.2	27.7
Operating profit, € million	-22.0 *	15.0	-37.0
Operating margin, %	-2.4	1.7	
Order book at end of period, € million	729.9	574.6	155.3

* Includes write-downs worth EUR 2.7 million

The net sales grew in building construction in Russia and Sweden and in infrastructure construction in Latvia and Lithuania. Of the net sales, 28% were generated in Sweden, 28% in Norway, 18% in Russia, 16% in the Baltic countries, 9% in Denmark, and 1% in other countries. By business operation, 73% were generated by infrastructure construction, 23% by building construction, and 4% by technical building services and project exports.

The operating profit of International operations was clearly negative, EUR -22.0 million (15.0). The long winter delayed the start of the paving season and increased costs in all operating countries. The result was also impaired by margin decreases from major projects in Norway, Sweden and Russia as well as costs related to the divestment of parts of telecommunications network business and efficiency improvement measures in Norway. In Norway, Lemminkäinen reduced its site network and closed 11 unprofitable sites or business units. The Norwegian management structure and model were also changed.

In Russia, Lemminkäinen's residential development and construction picked up speed in 2013. In the summer, the company started the construction of a 757-apartment residential project in the centre of St Petersburg, estimated to be completed in phases by the end of 2015. The first phase (approximately 222 apartments) of another, approximately 450-apartment residential project, was completed. At the moment, Lemminkäinen has 946 residential units for sale in the centre of St Petersburg. In Q3 Lemminkäinen launched the planning and construction (contracting) of a 46-house residential area in the city of Istra in the Moscow region. The value of the contract is around EUR 100 million.

The amount of capital tied up in building construction in Russia at the end of the financial period was EUR 79.4 million (61.9).

The segment's order book at the end of 2013 was clearly larger than in the previous year, amounting to EUR 729.9 million (574.6). The largest increase took place in building construction in Sweden and Russia.

Lemminkäinen's residential development and construction, Russia	Jan–Dec 2013	Jan–Dec 2012	Change
Units started	757	0	757
Units sold	165	141	24
Units completed	222	0	222
Under construction at end of period	963	425	538
- of which unsold	812	349	463
Completed and available for sale	134	17	117

BUILDING CONSTRUCTION

Key figures from continuing operations, Building construction	Jan–Dec 2013	Jan–Dec 2012	Change
Net sales, € million	592.9	682.4	-89.5
Operating profit, € million	5.0 *	16.9	-11.9
Operating margin, %	0.8	2.5	
Order book at end of period, € million	544.3	526.9	17.4

* Includes write-downs worth EUR 14.1 million.

Building construction's net sales fell by 13%, and the operating profit was EUR 5.0 million (16.9). The operating profit includes write-downs worth EUR 14.1 million mainly related to commercial properties. Excluding the write-downs, the operating profit improved and was EUR 19.1 million (16.9). During the first half of the year, housing sales were boosted by changes in taxation. Housing sales remained active during the second half of the year, too, especially in urban growth centres, and new units were started at the same pace as in the previous year. Due to the uncertain market situation, Lemminkäinen increased the reservation levels required for starting the construction of new units and improved the sales efficiency of completed units. The number of completed housing units for sale at the end of the year decreased from last year´s level. In competitive contracting the company has deliberately reduced the volume due to unsatisfactory margin levels.

At the end of the financial period, Building construction's order book was EUR 544.3 million (526.9). The order book increased in Lemminkäinen's residential development and construction, whereas the order book in contracting was smaller than before.

Lemminkäinen's residential development and construction, Russia	Jan–Dec 2013	Jan–Dec 2012	Change
Units started	757	0	757
Units sold	165	141	24
Units completed	222	0	222
Under construction at end of period	963	425	538
- of which unsold	812	349	463
Completed and available for sale	134	17	117

INFRASTRUCTURE CONSTRUCTION

Key figures from continuing operations, Infrastructure construction	Jan–Dec 2013	Jan–Dec 2012	Change
Net sales, € million	533.4	536.6	536.6
Operating profit, € million	8.5 *	22.3	22.3
Operating margin, %	1.6	4.2	
Order book at end of period, € million	459.0	234.7	234.7

* Includes write-downs worth EUR 3.0 million.

In Infrastructure construction, net sales remained on par with last year but operating profit declined. The operating profit includes write-downs worth EUR 3 million related to mineral aggregates reserves. Losses caused by the delayed paving season could not be fully offset, despite the active late autumn. The demand for mineral aggregates weakened as building construction activity declined. In earthworks and rock engineering, too, the result was slightly weaker than in the previous year. The efficiency measures in Infrastructure construction sought to decrease the impact of seasonality and optimise resources.

At the end of the year, the order book was all-time-high, EUR 459.0 million (234.7). The order book was increased by the demanding specialised infrastructure construction work.

TECHNICAL BUILDING SERVICES

Key figures from continuing operations, Technical building services	Jan–Dec 2013	Jan–Dec 2012	Change
Net sales, € million	221.9	229.7	-7.8
Operating profit, € million	-1.6 *	3.8	-5.4
Operating margin, %	-0.7	1.7	
Order book at end of period, € million	88.1	107.7	-19.6

* Includes write-downs worth EUR 0.3 million.

In Technical building services, 2013 was a challenging year. The segment's result and volume of business was burdened by delayed and cancelled project start-ups and the clearly weakened market situation. The decline in building construction had a significant impact on technical building services contracting where the overall profitability was still weak. In addition, the costs related to efficiency improvement measures affected the segments' full year result. Demand for upkeep and maintenance services remained good.

The number of new orders received in 2013 declined, especially towards the end of the year. The order book in Technical building services was clearly below the previous year at EUR 88.1 million (107.7).

INVESTMENTS

Gross investments in 2013 amounted to EUR 71.2 million (64.5), representing 3.2% (2.8) of the company's net sales. They were mainly replacement investments in infrastructure construction. Small complementary corporate acquisitions increased investments during early 2013. As part of its efficiency programme, Lemminkäinen has imposed more systematic criteria for investments as well as effective monitoring processes.

PERSONNEL

At the end of 2013, the Group employed 7,049 people (7,370), a decrease of 321 people from previous year. Of these, 2,784 (3,009) were salaried employees and 4,265 (4,361) were hourly paid employees. During the year, the number of salaried employees decreased by 225 people (-7%) and hourly paid employees by 96 people (-2%).

Lemminkäinen has carried out two rounds of personnel reduction-related negotiations in Finland in 2011–2013. In 2012, personnel were reduced by 300 man-years, and as a result of the negotiations concluded in October 2013, Lemminkäinen cut 265 man-years from its Finnish operations.

Negotiations on the reduction of personnel are still being carried out in the operating countries outside Finland. In Norway, the company negotiated on the reduction of more than 60 man-years, in addition to which the new working time bank system, agreed on with employees, will generate savings for the company in the 2014–2015 winter season. In all operating countries, the number of seasonal employees will be further increased in relation to permanent employees.

Personnel by business segment, employees	31 Dec 2013	31 Dec 2012	Change
International operations	2,831	3,013	-182
Building construction	1 224	1,420	-196
Infrastructure construction	1,190	1,092	98
Technical building services	1,523	1,537	-14
Parent company	281	308	-27
Group total	7,049	7,370	-321

Personnel by country, employees	31 Dec 2013	31 Dec 2012	Change
Finland	4,249	4,396	-147
Scandinavia	1,256	1,232	24
Baltic countries	738	702	36
Russia	755	741	14
Other countries	51	299	-248
Group total	7,049	7,370	-321

CHANGES IN ORGANISATIONAL STRUCTURE

As of 1 January 2013, Mr. Casimir Lindholm was appointed Executive Vice President, Building Construction and a member of Lemminkäinen's Executive Board. Mr. Jukka Terhonen, the former Executive Vice President, Building Construction and a member of the Executive Board, retired in January 2013.

From 8 August 2013 onwards, Lemminkäinen re-allocated the management responsibilities for its International Operations business segment. Ms. Maaret Heiskari was appointed Executive Vice President, Russia and a member of the Executive Board. Mr. Timo Vikström was appointed Executive Vice President, Scandinavia and a member of the Executive Board.

The responsibilities of Mr. Harri Kailasalo, Executive Vice President, Infrastructure Construction in Finland, were extended to the Baltic countries and the project business in other areas. Executive Vice President, International Operations, Mr. Henrik Eklund was appointed to the position of Senior Vice President, Sweden, and will no longer be a member of the Executive Board.

OCCUPATIONAL SAFETY AND ENVIRONMENT

The goal of Lemminkäinen's occupational safety measures is to create a safe working environment for all employees. Lemminkäinen is committed to the shared occupational safety principles of the Confederation of Finnish Construction Industries RT, which aims to accelerate the construction industry's progress towards the zero-accident target.

The theme for 2013 was occupational safety, and during the year Lemminkäinen introduced obligatory weekly meetings at construction sites, among other measures. Particular attention was also paid to the use of protective equipment.

Lemminkäinen seeks to minimise any environmental impact of its operations by using natural resources sparingly and by generating as little waste as possible. The company also offers its customers products and services that enable them to reduce their own environmental footprint.

At the Group level, Lemminkäinen measures energy consumption figures and the environmental impact of its production facilities in Finland. Each business segment monitors the indicators relevant to their industry.

More detailed information on Lemminkäinen's occupational safety and environmental issues are presented in the company's Annual Report and on its website.

RESEARCH AND DEVELOPMENT

Research and development activities at Lemminkäinen focus on the utilisation of information technology in construction, environmental and energy efficiency, and service development. Lemminkäinen has also initiated a variety of developmental measures to improve operational efficiency.

In 2013, the company continued to develop the utilisation of building information modelling in project planning. Lemminkäinen participated in the PRE (Process Re-Engineering) development project that fine-tunes the latest achievements in data modelling, as well as in the BIMforLEAN development project by Aalto University that combines data modelling and Lean production.

The Group's business segments are each responsible for their own research and development activities, which focus on, for example, quality assurance and ensuring the efficiency and viability of business activities. Lemminkäinen's Central Laboratory carries out infrastructure construction R&D. In 2013, the Group's research and development expenditure accounted for 0.6 (0.6) per cent of net sales.

SHARES

The company has one share class. Each share carries one vote at a general meeting of shareholders and confers an equal right to a dividend. Lemminkäinen's share capital is EUR 34,042,500 and the total number of shares was 19,650,176 at the end of the review period.

At the end of review period, Lemminkäinen terminated the liquidity providing (LP) agreement it had with Nordea Bank Finland Plc. The agreement meets the requirements set for liquidity providing at NASDAQ OMX Helsinki Ltd.

At the end of the review period, the market capitalisation of Lemminkäinen's shares stood at EUR 298.2 million (280.6). The price of Lemminkäinen Corporation's share on the NASDAQ OMX Helsinki was EUR 14.28 (18.72) at the beginning of the period and EUR 15.20 (14.28) at the end. In addition to the NASDAQ OMX Helsinki, Lemminkäinen's share is also traded on alternative markets. A total of 2,076,080 shares (1,056,039) were traded during the review period. During the review period, alternative markets accounted for 15% (6%) of Lemminkäinen's total share turnover. (Source: Fidessa Fragmentation Index)

AUTHORISATIONS OF THE BOARD OF DIRECTORS

On 9 April 2013, the General Meeting resolved, in accordance with the Board of Directors' proposal, to authorise the Board of Directors to resolve on a share issue and/or an issue of special rights entitling to shares referred to in Chapter 10, Section 1 of the Finnish Limited Liability Companies Act in one or several instalments, either against payment or without payment. The number of shares to be issued, including the shares to be received based on special rights, shall not exceed 3,900,000 shares. The maximum number corresponds to approximately 20 per cent of all the current shares of the company. The Board of Directors may decide to issue either new shares or own shares possibly held by the company.

The authorisation entitles the Board of Directors to resolve on all terms and conditions of the share issue and the issue of special rights entitling to shares, including the right to derogate from the pre-emptive right of the shareholders. The authorisation may be used for the financing or execution of any acquisitions or other business arrangements, to strengthen the balance sheet and financial position of the company or for other purposes as determined by the Board of Directors. The authorisation is in force for a period of 18 months from the resolution of the General Meeting. The authorisation had not been exercised by the end of the review period.

TREASURY SHARES

Lemminkäinen owns 34,915 of its own shares. 34,406 contingent shares were returned to the company in early 2013.

SHAREHOLDERS

On 31 December 2013, the company had 4,705 shareholders (4,781). Holders of nominee-registered shares and non-Finnish shareholders held 13 (14) per cent of all Lemminkäinen Corporation shares and voting rights. Information on company ownership and division by segment and scale, major shareholders, and share ownership of Executive Board members and the Board of Directors is available on the company's website, www.lemminkainen.com/Investors.

SHAREHOLDER AGREEMENTS

The company is not aware of any agreements between shareholders that would have a significant bearing on the use of ownership rights or voting behaviour at general meetings of shareholders.

FLAGGING NOTIFICATIONS

The company did not receive any flagging notifications during the review period.

RESOLUTIONS OF THE AGM AND ADMINISTRATION

On 9 April 2013, Lemminkäinen Corporation's Annual General Meeting adopted the company's financial statements for 2012 and granted the members of the Board of Directors and the President & CEO discharge from liability. The General Meeting resolved, in accordance with the Board of Directors' proposal, to pay a dividend of EUR 0.60 per share for a total of EUR 11,769,156. The record date for payment of the dividend was 12 April 2013, and the dividend was paid on 19 April 2013.

The General Meeting confirmed that the Board of Directors will have six members. Berndt Brunow, Noora Forstén, Finn Johnsson, Juhani Mäkinen, Kristina Pentti-von Walzel and Heikki Räty were elected to the Board of Directors. PricewaterhouseCoopers Oy, a firm of authorised public accountants, was elected to serve as the company's auditors, with Kim Karhu, Authorised Public Accountant, as chief auditor.

Lemminkäinen Corporation's Board of Directors held its organisation meeting on 9 April 2013. Berndt Brunow will continue as Chairman of the Board of Directors and Juhani Mäkinen as Vice Chairman. The Board of Directors elected Heikki Räty as the Chairman of the Audit Committee, with Juhani Mäkinen and Kristina Pentti-von Walzel serving as members. Berndt Brunow was elected as Chairman of the Nomination Committee, with Noora Forstén and Kristina Pentti-von Walzel serving as members. Berndt Brunow was elected as Chairman of the HR Committee, with Noora Forstén and Kristina Pentti-von Walzel serving as members.

LEGAL PROCEEDINGS

On 28 November 2013, the District Court of Helsinki gave its decisions in 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's share consists of damages ordered only to Lemminkäinen, Lemminkäinen's share of the damages ordered to it and other asphalt industry companies to be paid jointly and severally, as well as interest and legal expenses related to the damages.

Lemminkäinen estimates that some of the other defendants, who were ordered to pay damages jointly and severally by the District Court, will not be able to pay their shares. Therefore Lemminkäinen will pay approximately EUR 10 million worth damages and costs related to the damages that were ruled against other defendants.

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 will carefully study the decisions of the District Court. After this, the company will decide whether there are qualified grounds for submitting an appeal of the decisions with the Court of Appeals. Lemminkäinen and other parties have until 31 March 2014 to submit possible appeals to the Court of Appeals. The company will announce its decision separately once it has been made.

More information on the asphalt cartel and damages related to it can be found on the company's website at www.lemminkainen.com/investors.

RISKS AND UNCERTAINTIES

Risk management is an essential part of Lemminkäinen's business operations. Risk management seeks to ensure that strategic and operational targets are achieved and business operations are secured in a changing environment.

Fluctuations in economic trends cause uncertainty in Lemminkäinen's operating environment and make it more difficult to forecast future changes. New construction is sensitive to economic cycles and therefore poses a risk. This risk is managed both structurally and operationally.

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 the units have been reserved in advance. The number of unsold residential units will be kept as low as possible. 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.

Lemminkäinen's residential development and construction in Russia involves the risk related to the development of the exchange rate of the rouble, oil price development and economic growth in Russia. A downward trend in these factors may influence the purchasing power of consumers and consequently the demand for new apartments. The risk is managed by continuously monitoring and analysing the operating environment. In addition, the company aims at acquiring plots in central locations in the centre of St Petersburg where the value of apartments is more resistant to economic fluctuations.

Project-specific risks generally involve the management of costs and project implementation. Lemminkäinen is continually developing its contractual expertise and project management practices during the tender and implementation stage. Project monitoring systems and steering models have been renewed and more attention has been paid to competence development of the personnel.

Climate change and unusual weather phenomena also pose a risk in the construction industry. Unusual or harsh weather can weaken the profitability of our operations by interrupting or delaying projects. The company seeks to improve the management of the impact of seasonality by increasing the flexibility of the personnel structure, by increasing outsourcing and by optimising fleet maintenance schedules.

Lemminkäinen uses large amounts of oil-based products in asphalt production. The price of bitumen is tied to the global price of oil. Lemminkäinen manages the bitumen price risk with oil derivatives and contractual terms. The company uses over 300,000 tonnes of bitumen annually, of which more than a half is hedged using the above-mentioned methods.

Lemminkäinen seeks to protect itself from currency exchange risks primarily through operative means and, if necessary, with the aid of foreign currency loans and currency derivatives. In 2013, about 67% of Lemminkäinen's net sales derived from countries whose functional currency is the Euro. Other major currencies are the Swedish, Norwegian and Danish Crowns and the Russian Rouble.

Another risk is posed by the above-mentioned legal proceedings concerning damages related to the asphalt cartel, should the parties decide to file an appeal of the District Court decisions with the Court of Appeals.

More information about Lemminkäinen's risks, including a more detailed description of the company's risk management, is presented in the Annual Report and on the website. A more detailed account of the financial risks is also provided in the notes to the annual financial statements.

OUTLOOK

In **Finland**, the increase in the total volume of construction is estimated to be delayed until 2015. Domestic migration to urban growth centres and low interest rates will maintain demand for housing. At the same time, increased difficulty in obtaining mortgages and even longer sales times of old apartments will weaken the demand. The focus of demand is on small apartments in city centres. Commercial construction projects also concentrate on urban growth centres – and even there the occupancy rates of commercial premises have declined.

The total volume of infrastructure construction is restricted by the slow economic growth, the insufficient availability of state and municipal funding for infrastructure construction and the decline in new building construction. However, there is a reasonable amount of specialised contracting projects available in infrastructure construction, and the construction of underground city-centre premises continues.

The demand for contracting in technical building services is impaired by the decreasing building construction. Project start-ups will be delayed and, as competition intensifies, the margin level of contracting will be lower than before. The market situation for the upkeep and maintenance of technical building systems is expected to remain stable.

In **Norway, Sweden and Denmark**, multi-year, state-funded traffic infrastructure development plans are currently underway, and these three countries are also investing heavily in the development of energy production. The private sector's investments in infrastructure construction are also estimated to continue increasing. Large-scale road projects are being planned around urban growth centres, which will increase demand for specialised contracting in infrastructure construction in different parts of Scandinavia.

In **Russia**, domestic migration, the growing middle class and the increased availability of consumer mortgages are still supporting demand for comfort-class apartments.

Efforts to develop infrastructure in Russia are also increasing, and, for example, numerous projects to expand and repair road networks are currently underway.

In the **Baltic countries**, growth trends in infrastructure construction over the next few years will be determined by the availability of financing. Ongoing road construction and basic improvement projects will keep demand for infrastructure construction at a reasonable level this year, at least in Latvia and Lithuania. The launch of the Rail Baltica traffic project would boost the infrastructure construction market situation in all of the Baltic countries.

Financials › Board of Directors' report › Board of Directors' proposal for the distribution of profit

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The distributable shareholders' equity shown on the balance sheet of the parent company, Lemminkäinen Corporation, amounts to EUR 109,260,176.77, consisting of EUR 116,339,972.89 in retained earnings from previous years and EUR -68,388,713.00 in profit for the financial year.

The Board of Directors will propose to the AGM that the company will not pay a dividend for the financial year ended 31 December 2013, and thus retained earnings would stand at EUR 47,951,259.89.

Financials › Board of Directors' report › Profit guidance for 2014

PROFIT GUIDANCE FOR 2014

Lemminkäinen estimates that its 2014 net sales will be slightly lower than in 2013 but its operating profit will improve clearly on 2013 (excluding non-recurring items). In 2013 the net sales were EUR 2,218 million and operating profit excluding non-recurring items was EUR -5 million.

Helsinki, 7 February 2014

LEMMINKÄINEN CORPORATION

Board of Directors

CONSOLIDATED INCOME STATEMENT (IFRS)

EUR 1,000	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Net sales	1 2	2,218,162	2,267,645
Other operating income	7	16,374	18,225
Change in inventories of finished goods and work in progress		50,063	16,118
Production for own use		1,526	1,920
Use of materials and services		1,633,525	1,482,620
Employee benefit expenses	8	448,985	449,986
Depreciation	9	45,329	40,983
Other operating expenses	10	249,700	280,946
Share of the profit of associates and joint ventures	11	562	1,064
Operating profit		-90,852	50,437
Finance income	12	18,346	11,256
Finance costs	12	45,015	32,619
Profit before income taxes		-117,521	29,073
Income taxes	13	24,023	-8,682
Profit from continuing operations		-93,498	20,392
Profit from discontinued operations	5		23,680
Profit for the financial year		-93,498	44,072
Profit for the financial year attributable to			
Equity holders of the parent company		-93,723	43,914
Non-controlling interests		225	158
Basic earnings per share attributable to equity holders of the parent company			
From continuing operations	14	-5.06	0.83
From discontinued operations	14		1.21
From profit for the year	14	-5.06	2.04
Diluted earnings per share attributable to equity holders of the parent company			
From continuing operations	14	-5.06	0.83
From discontinued operations	14		1.20
From profit for the year	14	-5.06	2.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

EUR 1,000	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Profit for the financial year		-93,498	44,072
Items that will not be reclassified to profit or loss			
Defined benefit pension obligations	15 26	2,404	254
Items that may be reclassified subsequently to profit or loss			
Translation difference		-7,675	3,148
Cash flow hedge	15 26	378	503
Change in fair value of available-for-sale financial assets	15 26	-15	15
Other comprehensive income, total		-4,909	3,921
Comprehensive income for the financial year		-98,407	47,992
Comprehensive income for the financial year			
Equity holders of the parent company		-98,632	47,834
Non-controlling interests		225	158

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

EUR 1,000	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Non-current assets			
Property, plant and equipment	17	201,111	200,466
Goodwill	18	80,100	77,043
Other intangible assets	18	29,234	26,671
Holdings in associates and joint ventures	11	8,831	9,706
Available-for-sale financial assets	19	3,764	5,971
Deferred tax assets	13	38,540	23,475
Other non-current receivables	20	904	456
		362,484	343,789
Current assets			
Inventories	21	504,385	494,388
Trade and other receivables	22	391,174	363,129
Income tax receivables		3,529	8,273
Available-for-sale financial assets	23	30,010	59,020
Cash and cash equivalents	24	51,072	34,926
		980,170	959,736
TOTAL ASSETS		1,342,654	1,303,525
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	26	34,043	34,043
Share premium account	26	5,675	5,675
Hedging reserve	26	-59	-436
Fair value reserve	26		15
Invested non-restricted equity fund	26	63,763	63,607
Hybrid bond	26	69,095	69,095
Translation difference		-3,143	4,532
Retained earnings		247,807	220,948
Profit for the financial year		-93,723	43,914
		323,457	441,391
Non-controlling interests		582	373
Total equity		324,038	441,764
Non-current liabilities			
Interest-bearing liabilities	27	61,348	138,842
Deferred tax liabilities	13	13,168	25,171
Pension obligations	28	867	5,216
Provisions	30	19,935	13,238
Other non-current liabilities	31	3,033	7,625
		98,351	190,091
Current liabilities			
Interest-bearing liabilities	27	346,277	232,361
Provisions	30	7,229	9,104
Trade and other payables	31	564,851	427,847
Income tax liabilities		1,906	2,358
		920,264	671,669
Total liabilities		1,018,615	861,761
TOTAL EQUITY AND LIABILITIES		1,342,654	1,303,525

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

EUR 1,000	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Cash flows from operating activities			
Profit before taxes		-117,521	29,073
Adjustments	34		
Depreciation and impairment		45,329	40,983
Share of the profit of associates and joint ventures		-562	-1,064
Finance income and costs		26,669	21,363
Other adjustments		-10,042	-4,308
Cash flow before change in working capital		-56,127	86,048
Change in working capital			
Increase (-)/decrease(+) in trade and other receivables		-54,459	38,774
Increase (-)/decrease(+) in inventories		-18,589	-52,438
Increase (+)/decrease(-) in current liabilities		156,225	8,843
Cash flow from operations before financial items and taxes		27,050	81,227
Interest paid		-18,177	-18,414
Other finance costs paid		-18,346	-14,435
Dividends received		361	694
Interest received		1,285	1,669
Other finance income received		16,304	9,668
Income tax paid		-202	-2,657
Cash flows from operating activities		8,275	57,751
Cash flows from investing activities			
Purchases of property, plant and equipment		-26,025	-61,450
Proceeds from sale of property, plant and equipment		15,814	35,500
Purchases of intangible assets		-15,563	-12,819
Proceeds from sale of intangible assets		569	771
Investments in other assets		-92,010	-59,104
Proceeds from sale of other investments		124,587	152
Acquired subsidiary shares less cash and cash equivalents at time of purchase		-11,849	-1,928
Disposed subsidiary shares less cash and cash equivalents at time of sale		-2,265	55,356
Purchases of shares in associates and joint ventures			167
Cash flows from investing activities		-6,742	-43,355
Cash flows from financing activities			
Increase (-)/decrease(+) of long-term loan receivables		-185	4,397
Proceeds from short-term borrowings		490,682	247,015
Repayments of short-term borrowings		-456,614	-250,474
Proceeds from long-term borrowings		301,271	235,097
Repayments of long-term borrowings		-291,437	-291,726
Hybrid bond			69,095
Repayments of finance lease liabilities		-14,678	-13,566
Dividends paid		-11,744	-10,003
Cash flows from financing activities		17,296	-10,164
Increse (+) / decrease (–) in cash and cash equivalents		18,829	4,232
Cash and cash equivalents at beginning of financial year	24	34,926	30,395
Translation difference of cash and cash equivalents		-2,683	298
Cash and cash equivalents at end of financial year		51,072	34,926

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

EUR 1,000	Note	Share capital	Share premium account	Hedging reserve	Fair value reserve	Invested non-restricted equity fund	Hybrid bond	Translation difference	Retained earnings	Parent company shareholders' equity	Non-controlling interest	Total equity
Equity 1 Jan 2012		34,043	5,675	-940		63,220		1,385	245,311	348,693	1,708	350,401
Change in IAS 19-standard									-3,204	-3,204		-3,204
Change in 10-year liability provision									-6,097	-6,097		-6,097
Adjusted shareholders' equity 1 Jan 2012		34,043	5,675	-940		63,220		1,385	236,011	339,393	1,708	341,100
Profit for the financial year									43,914	43,914	158	44,072
Items that will not be reclassified to profit or loss												
Pension obligations									254	254		254
Items that may be reclassified subsequently to profit or loss												
Translation difference								3,148		3,148		3,148
Cash flow hedge				503						503		503
Change in fair value of available-for-sale financial assets					15					15		15
Comprehensive income for the financial year				503	15			3,148	44,168	47,834	158	47,992
Recognition of share-based payments						387			624	1,011		1,011
Contingent shares returned to the company									-251	-251		-251
Direct entries, acquisition of non-controlling interest									-3,222	-3,222		-3,222
Change in non-controlling interest											-1,233	-1,233
Hybrid bond interest									-2,643	-2,643		-2,643
Dividends paid	16								-9,825	-9,825	-261	-10,085
Transactions with owners, total						387			-15,317	-14,930	-1,493	-16,423
Hybrid bond							69,095			69,095		69,095
Equity 31 Dec 2012		34,043	5,675	-436	15	63,607	69,095	4,532	264,861	441,391	373	441,764

EUR 1,000	Note	Share capital	Share premium account	Hedging reserve	Fair value reserve	Invested non-restricted equity fund	Hybrid bond	Translation difference	Retained earnings	Parent company share-holders' equity	Non-controlling interest	Total equity
Equity 1 Jan 2013		34,043	5,675	-436	15	63,607	69,095	4,532	264,861	441,391	373	441,764
Profit for the financial year									-93,723	-93,723	225	-93,498
Items that will not be reclassified to profit or loss												
Pension obligations									2,404	2,404		2,404
Items that may be reclassified subsequently to profit or loss												
Translation difference								-7,675		-7,675		-7,675
Cash flow hedge				378						378		378
Change in fair value of available-for-sale financial assets					-15					-15		-15
Comprehensive income for the financial year				378	-15			-7 675	-91,319	-98,632	225	-98,407
Share-based incentive schemes						156			-808	-651		-651
Contingent shares returned to the company									-800	-800		-800
Direct entries, acquisition of non-controlling interest									-270	-270		-270
Change in non-controlling interest											-16	-16
Option to redeem shares from non-controlling interest									-535	-535		-535
Hybrid bond interest									-5,285	-5,285		-5,285
Dividend distribution	16								-11,762	-11,762		-11,762
Transactions with owners, total						156			-19,459	-19,303	-16	-19,318
Equity 31 Dec 2013		34,043	5,675	-59		63,763	69,095	-3,143	154,084	323,457	582	324,038

ACCOUNTING PRINCIPLES APPLIED IN THE IFRS CONSOLIDATED FINANCIAL STATEMENTS, 31 DECEMBER 2013

BASIC INFORMATION ON THE COMPANY

Lemminkäinen Corporation is a public limited company established under the laws of Finland and domiciled in Helsinki. The Company's registered address is Salmisaarenaukio 2, 00180, Helsinki, Finland. Lemminkäinen Corporation is the parent company of the Group and together with its subsidiaries comprises the Lemminkäinen Group (later "the Group" or "the Company"). The Group produces building and infrastructure construction services as well technical building services mainly in Finland and other Nordic countries as well as in Russia and the Baltics.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the IAS and IFRS standards as well as the SIC and IFRIC interpretations that were in force on 31 December 2013 have been observed in their preparation. The term 'International Financial Reporting Standards' refers to standards and their interpretations authorised for use in the European Union in accordance with the procedure prescribed in EU Regulation (EC) No. 1606/2002 as well as in the Finnish Accounting Act and the provisions laid down pursuant to the Act. The notes to the consolidated financial statements are also in accordance with Finnish accounting and community legislation supplemental to the IFRS regulations.

The financial statements have been prepared in euros and are presented in thousands of euros in the annual report. Transactions are treated on the basis of original acquisition costs, with the exception of financial instruments.

The Board of Directors approved the publication of the consolidated financial statements on 6 February 2014. Copies of the Lemminkäinen Corporation's and the consolidated financial statements will be available on the Company's website at www.lemminkainen.com from week 11 of 2014 onwards. Printed copies of the consolidated financial statements can be ordered via e-mail info@lemminkainen.com, from week 12/2014 onwards.

PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include Lemminkäinen Corporation and those subsidiaries in which the parent company directly or indirectly controls over 50 per cent of the voting rights conferred by the shares or otherwise have the right to control the company's financial or business principles. Intra-group shareholdings are eliminated by means of the acquisition method. The acquisition price comprises the consideration paid, the non-controlling interest in the acquiree, and the fair value of the previously held interest. The consideration paid is measured as the fair value of the assets given, liabilities assumed, and equity instruments issued by the Group. Any contingent consideration is measured at fair value at the time of acquisition and is included in the consideration paid. It is classified as either a liability or equity. Any contingent consideration classified as a liability is fair valued on the reporting date of each reporting period, and the resulting gains or losses are recognised through profit or loss. A contingent consideration classified as equity is not re-measured. Non-controlling interest in the acquiree is recognised on an acquisition-by-acquisition basis at either fair value or the amount corresponding to the share of the net assets of the acquiree held by non-controlling interests. The amount by which the sum of the consideration paid, the non-controlling interest in the acquiree, and the fair value of the previously held interest exceed the fair value of the acquired net assets is recognised as goodwill on the balance sheet. If the total amount of consideration, the non-controlling interest in the acquiree, and the previously held interest is smaller than the fair value of the acquired subsidiary's net assets, the difference is recognised in the statement of comprehensive income. Direct acquisition costs are recognised as other operating expenses in the income statement.

The treatment of transactions with non-controlling interests is the same as that of transactions with the Group's shareholders. When shares are acquired from non-controlling interests, the difference between the consideration paid and the carrying amount of the acquired net assets in the subsidiary is recognised in equity. Gains or losses from the sale of shares to non-controlling interests are also recognised in equity. When control or significant influence is lost, the remaining holding, if any, is measured at fair value and the change in the carrying amount is recognised through profit or loss. This fair value serves as the original carrying amount when the remaining holding is subsequently treated as an associate, a joint venture, or financial assets. In addition, the amounts concerning said company that were previously recognised in other comprehensive income are treated as if the Group had directly surrendered the related assets and liabilities. This means that amounts previously recognised in other comprehensive income items are recycled to profit or loss.

The goodwill included in the consolidated financial statements is recognised on the balance sheet in the currency of the acquiring company, and the goodwill arising from acquisitions is recognised in the functional currency of the foreign unit. Subsidiaries acquired during the accounting period are included in the consolidated financial statements from the moment of the Group gaining control, and divested subsidiaries up until the time that the control is lost.

Intra-group transactions; unrealised internal margins; and internal receivables, liabilities, and dividend payments are eliminated on consolidation. The distribution of profit for the financial year to the shareholders of the parent company and to the non-controlling interests is presented in the income statement. On the balance sheet, the non-controlling interest is included in the total equity of the Group.

Associates and joint ventures

Investments in associates (generally 20—50 per cent of the voting rights or otherwise significant influence over the company's affairs) and joint ventures (joint control with other parties) are included in the consolidated financial statements using the equity method. In such cases, the Group's share of the profit of the associate or joint venture corresponding to its ownership stake is included in the consolidated income statements. Correspondingly, the Group's share of the equity in the associate or joint venture, including the goodwill arising from its acquisition, is recorded as the value of the Group's holding in the Company on the consolidated balance sheet. If Lemminkäinen's share of the losses of an associate or joint venture exceeds the investment's carrying amount, the investment is assigned a value of zero on the balance sheet and the excess is disregarded, unless the Group has obligations related to the associate or joint venture.

Unrealised gains arising in connection with business and fixed asset transactions between the Group and associates or joint ventures are eliminated in proportion to the holding. The eliminated gain is recognised through profit or loss as it is realised.

Shares of the profits of associates and joint ventures are included in operating profit since they belong to the operations of reporting business segments.

OPERATING SEGMENTS

The Group comprises the following operating segments: Building Construction, Infrastructure Construction, Technical Building Services and International Operations.

Reported segment information is based on internal segment reporting to the chief operating decision maker. Lemminkäinen Group's chief operating decision maker is the President and CEO of Lemminkäinen Corporation. Internal segment reporting to the management covers net sales, depreciation, operating profit, and as assets fixed assets, inventories, and trade receivables. The figures reported to the management are accurate to the nearest EUR 1,000.

Reportable segment information is prepared according to the accounting principles applied for the consolidated financial statements with the exception of discontinued operations, which are not specified in the segment information.

Intra-group transactions are priced at market prices. The cost plus method, wherein the price of a product or service is determined by the addition of an appropriate profit mark-up to the costs incurred, is the main transfer pricing method applied.

PRESENTATION OF THE FINANCIAL STATEMENTS

The Group presents two separate income statements: the consolidated income statement and the consolidated statement of comprehensive income. The former includes the components of profit and loss and the latter starts with the profit for the financial period and presents the equity changes that are unrelated to the shareholders. The consolidated statement of changes in equity itemises the transactions with shareholders.

FOREIGN CURRENCY ITEMS

The consolidated financial statements are presented in euros, which is also the functional and presentation currency of the Group's parent company. The figures relating to the profit and financial position of Group companies are initially recognised in the functional currency of their operating environment. Every Group company's functional currency is the primary currency of the economic environment in which the entity/company operates. Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Receivables and liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the balance sheet date. Exchange rate differences resulting from operating activities are recorded as adjustments to the corresponding items above the operating profit. Exchange rate gains and losses related to financing are recognised as finance income and costs.

Income statements of Group companies outside the Euro area are translated into euros in line with the average exchange rates for the accounting period. All balance sheet items, with the exception of the profit or loss for the accounting period, are translated into euros at the exchange rates prevailing on the balance sheet date. The translation differences resulting from the translation of the income statement and balance sheet at different exchange rates and from the elimination of the acquisition cost of subsidiaries outside the euro area are recognised in equity and the changes presented in the statement of comprehensive income. When foreign subsidiaries are divested, the translation difference accrued in equity is recognised through profit and loss as part of gains or losses.

Goodwill arising from the acquisition of subsidiaries outside the euro area as well as fair value adjustments to the carrying amounts of the assets and liabilities of the foreign subsidiaries are treated as assets and liabilities of the foreign subsidiaries in question and are translated into euros at the exchange rates prevailing on the balance sheet date.

FINANCIAL ASSETS

Financial assets are recognised on the settlement date. The Group classifies financial assets on initial recognition into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables. The category is determined in accordance with the purpose for which the financial asset has been acquired. Financial assets are derecognised once the Group has lost the contractual right to their cash flows or when it has substantially transferred their risks and rewards to a party outside the Group.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include all derivative contracts that do not meet the hedge accounting criteria. These derivative contracts include interest rate, foreign exchange and commodity derivatives. Derivatives are carried at fair values based on market prices and generally accepted valuation models. Changes in the fair values are recognised according to the nature of the derivative, either in the Group's financial items or in other operating income or expenses.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets other than derivative contracts, that are specifically designated as such or that are not classified in any other category. The Group's available-for-sale financial assets include property, housing-company and other shares, as well as short-term money-market investments. Available-for-sale financial assets are measured at fair value. Changes in the fair values are recognised in equity and presented in other comprehensive income. If a fair value cannot be reliably measured, the asset is recognised at cost less impairment, if any. The dividends from equity instruments included in available-for-sale financial assets and the interest from fixed-income instruments are recognised under financial items.

When financial assets classified as available-for-sale are sold or impairment is recognised, accumulated fair value changes recognised in equity are reclassified in profit or loss either under other operating income or expenses if the asset is an equity instrument, or under financial items if the asset is other than an equity instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, and are not quoted in an active market. Loans and receivables of the Group also include trade and other receivables on the balance sheet. Loans and receivables are initially recognised at fair value added with transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank-account balances and liquid money-market investments with original maturities of three months or less.

Impairment of financial assets

On every reporting date, the Group assesses whether there is any objective evidence of impairment of the value of a financial asset or a group of financial assets. If there is objective evidence of impairment, the amount recoverable from the financial asset, which is the fair value of the asset, is estimated and the impairment loss is recognised wherever the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the income statement. For example, when a debtor is in significant financial difficulties, any probable bankruptcy, delinquent payments, or payments that are more than 90 days overdue constitute evidence of possible impairment of the receivables.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised on the settlement date at fair value less transaction costs. Subsequently, all financial liabilities except derivative instruments are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss include all derivative contracts that do not meet the hedge accounting criteria. These derivative contracts include interest rate, foreign exchange and commodity derivatives. Derivatives are carried at fair values based on market prices and generally accepted valuation models. Changes in the fair values are recognised according to the nature of the derivative, either in the Group's financial items or in other operating income or expenses.

Fees paid on the establishment of loan facilities are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The Group has non-current and current financial liabilities, and they may be interest-bearing or non-interest-bearing. Financial liabilities are derecognised once the Group's obligations in relation to liability is discharged, cancelled or expired.

CAPITALISATION OF BORROWING COSTS

The company capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Qualifying assets

A qualifying asset is one that takes a substantial period of time to complete for its intended purpose. A qualifying asset may be a fixed or movable asset, an inventory item or an intangible asset.

Costs of borrowing for the purpose of acquisition of an asset

When interest bearing borrowings are made expressly for the purpose of financing a qualifying asset, the capitalised borrowing costs are the allocated financing expenses arising from the actual borrowings less the finance income received from the temporary investment of such borrowings. After an asset has been completed, the unpaid amount of the borrowings for the project is transferred to general borrowings.

General borrowings

The Group's borrowings are always considered the primary form of financing, even if the cash flow is sufficient to cover the cost of a qualifying asset. When general borrowings are used to finance a qualifying asset, the amount of the capitalised borrowing costs is determined through the application of a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of those borrowing costs applicable to the company's borrowings outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Prepayments

In calculating the amount of a project's borrowing costs, project-related prepayments received from the customer are included in the net position arising from the contract. If inclusion of the borrowing costs leads to a situation in which the net position of the project is positive for the entire construction period, the borrowing costs are not capitalised at all. If the net financing position of the project changes from positive to negative during the construction period, the borrowing costs are capitalised in respect of the periods during which the net position is negative.

Commencement and cessation of capitalisation

Capitalisation commences when the company first incurs expenditures for a qualifying asset giving rise to borrowing costs, and when it undertakes activities that are necessary for preparation of the asset for its intended use or for sale. Capitalisation is suspended when effective production is halted. Capitalisation ceases when all activities necessary to complete the asset for its intended use or sale have been carried out.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are initially recognised at fair value on the balance sheet on the date a derivative contract is entered into and subsequently re-measured at their fair value on each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group applies cash flow hedge accounting for certain variable-rate loans. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risks management objectives and strategy. The effectiveness of the hedging relationship is assessed at inception and then at regular intervals at least on every reporting day. The gain or loss relating to the effective portion of the eligible derivatives are deferred in hedging reserve of equity and presented in other comprehensive income. The ineffective portion is recognised under financial items in the income statement. The cumulative change in fair value is transferred from equity and recognised in the income statement for the periods in which the hedged item affects the result.

When a hedging instrument expires or is sold, or the hedge no longer meets the criteria for hedge accounting, the hedge accounting is ceased. Any cumulative gain or loss from the hedging instrument remains in equity until the forecasted transaction is ultimately recognised in the income statement. If the forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within financial items.

Derivatives that are not eligible for hedge accounting are classified as current assets or liabilities. Changes in the fair value of these derivatives are recognised according to the nature of the derivative, either in other operating income and expenses or in the financial items.

REVENUE RECOGNITION

Recognition of revenue from construction projects

Percentage of completion

When recognising revenue from construction projects, the Company applies the percentage-of-completion method if the project in question possesses the characteristics of construction contract and the project's outcome can be estimated reliably. Construction contracts from which revenue is recognised with percentage-of-completion method are specifically negotiated for the construction of an asset or a combination of assets. In the case of real estate construction, the buyer must also be able to decide on the primary structural or functional characteristics of the project before or during construction, in order for the real estate construction project to be recognised using the percentage-of-completion method. If the project's outcome cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and costs are expensed in the period in which they incur.

The percentage of completion of a project is calculated as the ratio of actually incurred costs to estimated total costs. If it is likely that the total costs needed for completion of a project on the order book will exceed the total revenue receivable from the project, the anticipated loss is immediately recognised in its entirety as an expense.

When the costs incurred and recognised profits are greater than billing based on the project's progress, the difference is presented under the balance sheet item 'trade and other receivables' as project income receivables. If the costs incurred and recognised profits are less than the billing based on the project's progress, the difference is presented in the balance sheet item 'accounts payable and other current liabilities' as received advance payments or project expense liabilities.

In commercial building construction, the amount and probability of lease liability commitment is estimated as a project progresses. Provision is made, when there is a buyer for the property and the management estimates that it is probable that the company will have to fulfil lease liability commitments.

There are long-term construction projects from which revenue is recognised with percentage-of-completion method in all segments of the company.

Completed contract method

Revenue from building construction projects, where the buyer does not have a contractual right to specify major structural elements of the building is recognised on completion in connection with delivery and in accordance with revenue recognition principles of the sale of manufactured goods. Projects from which revenue is recognised on completion are mostly Building Construction and International Operations segments' own housing and commercial building developments.

Recognition of revenue from services

Revenue recognition from services is based on the percentage-of-completion on the reporting date. The same revenue recognition principles are applied as for recognition of construction projects under the percentage-of-completion method. Service business exists in all segments of the company.

Recognition of revenue from the sale of manufactured goods

The company recognises revenue from the sale of manufactured goods at the time when the significant risks and rewards associated with product ownership are transferred to the buyer and the company no longer has any authority or control over the product. As a rule, this means the time when the product is handed over to the customer in accordance with the agreed terms and conditions of delivery. The fair value of revenue received, adjusted for indirect taxes, discounts given and exchange rate differences on foreign currency sales, is presented in the income statement as net sales. There are sales of manufactured goods mostly in infrastructure and international operations segments.

Recognition of life-cycle projects

In life-cycle projects, the operator – that is, the service provider – builds or improves the infrastructure used for service provision and provides operation services for said infrastructure. The Company recognises revenue from construction and improvement services as well as from operation services on the basis of the percentage of completion.

Recognition of interest and dividends

Interest income is recognised over the period of the borrowing using the effective interest rate method. Dividends are recognised when the right to receive payment is established.

NON-CURRENT ASSETS

Property, plant and equipment

Property, plant and equipment are recognised on the balance sheet at cost less depreciation and impairment. Property, plant and equipment are depreciated over their estimated useful economic lives. Land has indefinite useful economic life and is therefore not subject to depreciation. Estimated useful economic lives of property, plant and equipment are as follows:

- Buildings and structures 10–40 years
- Machinery and equipment 4–10 years
- Mineral aggregate deposits depreciation based on material depletion
- Other property, plant and equipment 10 years

An asset is subject to depreciation when it is available for use. Depreciation is charged over the period from the asset's introduction to use until the end of its useful economic life. The residual value and economic life of assets are reviewed in connection with the preparation of each annual financial statements and, if necessary, these are adjusted to reflect any changes that may have occurred I n the economic benefit expected. When all depreciation charges according to plan have been made, the residual value of the asset is zero. Depreciation of property, plant and equipment ceases when it is classified as held for sale.

Normal maintenance and repair costs are expensed as incurred. Significant improvements or additional investments are capitalised and depreciated over the remaining useful economic life of the asset to which they pertain, provided that it is likely that the company will derive future economic benefit from the asset. Gains on the sale of property, plant and equipment are presented in other operating income, and losses in other operating expenses. The Group expenses the interest costs of the acquisitions of property, plant and equipment, unless the project meets the requirements for capitalisation of borrowing costs, in which case they are capitalised as part of the acquisition cost.

Intangible assets

Amortisation of an intangible asset is recorded from the moment the asset is available for use. Amortisations are recorded until the end of the asset's useful economic life. When all amortisations according to plan are made, the residual value of the asset is zero.

Goodwill

Goodwill is the amount by which the acquisition cost exceeds the Group's interest in the net fair value of its identifiable assets, liabilities and contingent liabilities at the time of acquisition. Possible non-controlling interest is measured either at fair value, or a value equal to the non-controlling owners' proportions of the identifiable net assets of the acquiree. The valuation principle is determined separately for each acquisition.

Goodwill is not amortised. Instead, it is regularly tested for impairment. In the impairment testing, goodwill is allocated to cash-generating units. Goodwill is recognised on the financial statements at cost less impairment, if any, which is expensed on the income statement.

Other intangible assets

Other intangible assets include IT software licence fees as well as other licence fees and patents, including their advance payments. Other intangible assets are recorded at cost in the balance sheet and are depreciated over their useful economic lives. The estimated useful lives of intangible assets are:

- IT software licence fees 5 years
- Other intangible assets 5–10 years

Other amortised costs

Intangible assets include amortised costs that are not related to property, plant and equipment and have economic effects lasting longer than one year. Other amortised costs create future economic benefits over their useful economic lives. The benefits can be either income or cost savings.

Research and development expenditure

Research expenditure is expensed as incurred. Development expenditure is recognised on the balance sheet when the intangible asset satisfies all the following criteria:

- research and development phases can be separated from each other
- it is technically feasible and it can be used or sold
- it will be completed and either used or sold
- it can be demonstrated that the asset will generate probable future economic benefit and that the company has the adequate resources to use or sell the intangible asset
- its development expenditure can be reliably measured

If the development expenditure does not satisfy all the above capitalisation criteria, it is expensed as incurred.

Grants received

Government grants received from a public-sector source are recognised as income on the income statement at the same time that corresponding costs are expensed. Investment grants are deducted from the value of the asset in question.

Impairment

The carrying amounts of assets are assessed on each reporting date to determinate whether there are indications of impairment. If indications of impairment are found, the recoverable amount for the asset in question is assessed. The recoverable amount for an asset is either its fair value less costs to sell or, if higher, its value in use. In the measurement of value in use, expected future cash flows are discounted to their present value with discount rates that reflect the country's average capital costs before taxes. The Weighted Average Cost of Capital (WACC) is used as the discount factor. WACC takes into account the risk-free interest rate, the liquidity premium, the expected market rate of return, the industry's beta value, country risk and the debt interest rate, including the interest rate margin. These components are weighted according to the fixed, average target capital structure of the sector. If it is not possible to calculate the recoverable cash flows for an individual asset, the recoverable amount for the cash-generating unit to which the asset belongs is determined. An impairment loss is recognised on the income statement if the carrying amount exceeds the recoverable amount.

Goodwill is tested for impairment annually and whenever it may be concluded that there is a need to do so. Goodwill is allocated to cash-generating units in a consistent manner. In the impairment tests, the recoverable amount from the business of a cash-generating unit is derived from value-in-use calculations using cash flow forecasts based on comprehensive profitability plans confirmed by the management for a specific period as well as other justifiable estimates of the future outlook for the cash-generating unit and its business sector.

Impairment losses related to assets other than goodwill are reversed if the estimates used for determination of the recoverable amount of the asset have changed. The biggest permitted reversal equals the carrying amount of the asset less depreciation if impairment was not recognised in earlier years.

LEASING AGREEMENTS WHEREIN THE GROUP IS THE LESSEE

Leasing agreements that pertain to property, plant and equipment in which a substantial proportion of the risks and rewards of ownership are transferred to the Group are classified as finance leases. Finance leases are presented as assets in the balance sheet at a value equal to the fair value of the leased item on the date of the lease's commencement or, if lower, the present value of the minimum lease payments. Corresponding liability is presented in current and non-current borrowings.

Assets leased under finance leases are depreciated over the useful economic life of the asset class or a shorter period as the life of the lease elapses. Possible impairment losses are recognised as reductions of the asset in question. Annual lease payments are divided into finance costs and debt amortisation instalments over the life of the lease so that the same interest rate is applied to the outstanding debt in every accounting period.

Leasing agreements in which the risks and rewards of ownership are retained by the lessor are treated as operating leases. Payments under operating leases are treated as lease expenses, and they are recognised on the income statement in equal instalments over the life of the lease. If the lease agreement is not expected to yield future benefits, the minimum lease payments under the contract are immediately recognised as costs.

INVENTORIES

Inventories are measured at the lower of acquisition cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of selling are not included in the valuation of inventories at cost. Finance costs are included in the valuation of inventories at cost only when the particular project meets the requirements set for capitalisation of borrowing costs. The cost of materials and supplies is assigned by using the FIFO (first-in, first-out) principle. Net realisable value is the estimated selling price in ordinary business operations less the estimated expenditure on product completion and sales. The carrying amounts of separate items in inventories are not decreased when the completed products in which the items belong to are expected to be sold at a price equalling or exceeding the combined acquisition costs of the separate items.

TREATMENT OF OWN BUILDING DEVELOPMENTS

Expenditure committed to own building developments is capitalised on the balance sheet as inventories. Liabilities and prepayments related to real estates under construction are included in current liabilities. The share of loans obtained that corresponds to the unsold proportion of flats that are still under construction as well as the proportion of loans for completed but unsold flats is included in current interest-bearing liabilities.

EMPLOYEE BENEFITS

Pension obligations

The pension schemes of Lemminkäinen's Group companies are generally defined contribution plans. Defined contribution plan related payments are made to pension insurance companies, after which the Group has no other payment obligations. Payments in respect of defined contribution plans are expensed on the income statement in the accounting period in which they accrue. Other pension plans than defined contribution plans are defined benefit plans. The Company has defined benefit plans in Norway and Finland. In the case of a defined benefit plan, a pension liability is recognised to the extent that the plan gives rise to a pension obligation. If a defined benefit plan gives rise to a pension surplus, it is recognised in prepayments and accrued income on the balance sheet.

The pension costs of a defined benefit plan are measured by the projected unit credit method. The amount of pension liability is calculated by deducting the fair value of the assets belonging to the pension scheme from the present value of the future pension obligations. The defined benefit pension costs consist of employee service based expenses and are booked to employee benefit expenses for the duration of the employee service. Net interests from defined benefit plans are booked to finance income or costs. The actuarial gains and losses are recognised through the statement of comprehensive income as a change in pension obligation or asset.

The Finnish group companies' pension liability is determined by calculating the present values of estimated future cash flows, using Eurozone high investment grade companies' bond interest rates as discount rates. In Norway, where no deep markets for mentioned bonds exist, the discount rate is determined by Norwegian government bonds' market returns. The bonds used in determining the discount rates are in the same currency as pension benefits to be paid. The chosen discount rate reflects the estimated average moment of payment of the benefits.

Market values are primarily used for defining the fair value of plan assets. If a market value is not available, the fair value is estimated by discounting the expected future cash flows using the same discount rate that is used for defining the pension liability.

Remuneration schemes

Share-based rewards are expensed over their vesting and commitment periods. Matching shares are expensed over their commitment periods. The expenses of other management remuneration are recognised in the income statement as personnel expenses as they arise.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is made when the Group has a legal or constructive obligation based on some past event and it is likely that exemption from responsibility would either require a payment or would result in a loss, and that the amount of liability can be reliably measured. Provisions have not been discounted because of the minor effect of the discounting.

Warranty provisions cover after completion repair costs arising from warranty obligations. Warranty provisions are calculated on the basis of the level of warranty expenses actually incurred in earlier accounting periods and are recognised when income from a project is recognised on the income statement. If the Group will receive reimbursement from a subcontractor or material supplier on the basis of an agreement in respect of anticipated expenses, the future compensation is recognised when its receipt is, in practice, beyond doubt.

Provision is made for onerous contracts when the amount of expenditure required by the agreement to fulfil the obligations exceeds the benefits that may be derived from it. The provisions made for onerous contracts do not include the losses from construction contracts.

Landscaping provision is made in respect of those sites where landscaping is a contractual obligation. The amount of the provision is based on the use of ground materials.

10-year liability provision arising from residential and commercial construction is determined by considering the class of 10-year liabilities as a whole. In this case, the likelihood of future economic loss for one project may be small, although the entire class of these obligations is considered to cause an outflow of resources from the company.

Lease liability commitment arises, when the company has a contractual obligation to obtain tenants for premises not yet leased in a commercial real estate under construction. The amount and probability of lease liability commitment is estimated as the project progresses. Provision is made, when there is a buyer for the property and the management estimates that it is probable that the company will have to fulfil lease liability commitments.

The company recognises a provision for legal proceedings when it estimates that an outflow of financial resources is likely and the amount of the outflow can be reliably estimated.

Contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of an uncertain future event that is not wholly within the control of the Group. In addition, a present obligation whose settlement is not likely to require and outflow of financial resources and an obligation whose amount cannot be measured with sufficient reliability are deemed contingent liabilities. No provision is made for contingent liability and it is presented in the notes of the financial statement.

INCOME TAXES

Taxes calculated on the basis of the taxable profit or loss of Group companies for the accounting period, adjustments to taxes for earlier accounting periods, and change in the deferred tax liability and assets are recognised as income taxes on the consolidated income statement. The tax effect associated with items recognised directly in equity is recognised correspondingly in equity.

The change in deferred tax is calculated from the temporary differences between taxation and accounting, with either the tax rate in force on the balance sheet date or a known tax rate that will come into force at a later date. However, a deferred tax liability is not recognised in respect of a temporary difference that arises from the initial recognition of an asset or liability (other than from a business combination) and affects neither accounting income nor taxable profit at the time of transaction. A deferred tax asset is recognised only to the extent that it is likely that there will be future taxable profit against which the temporary difference may be utilised. The most significant temporary differences arise from accelerated depreciations for tax purposes, the revenue recognition practice for construction projects, internal gains from sales of fixed assets, finance leases, provisions, unused tax losses, measurements of fair value made in connection with acquisitions, and pension obligations.

Carry-forward tax losses are treated as a tax asset to the extent that it is likely that the company will be able to utilise them in the near future. Deferred tax is not recognised in respect of non-tax-deductible goodwill. A deferred tax liability is only recognised in respect of the undistributed profits of subsidiaries if payment of the tax is expected to be realised in the foreseeable future.

DISTRIBUTION OF DIVIDENDS

The proposed dividend by the Board of Directors to the annual general meeting is not recognised as a deduction of distributable equity until it has been approved by the annual general meeting.

HYBRID BOND

A hybrid bond is recognised in shareholders’ equity after equity belonging to shareholders. The bond holders do not have any rights equivalent to ordinary shareholders, and the bond does not dilute shareholders' ownership in the company. The company has no contractual obligation to repay the loan capital or the interest on the loan. The hybrid bond is initially recognised at fair value less transaction cost and subsequently the bond is measured at cost. If interest is paid to the hybrid bond, it is recognised directly into retained earnings.

TREASURY SHARES

Where the parent company of the group or any Group company purchases the parent company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company’s equity holders until the shares are cancelled. Where such ordinary shares are subsequently sold or reissued, any consideration received is included in the equity attributable to the Company’s equity holders. No gain or loss is recognised in the income statement from purchasing, selling, issuance or cancellation of company’s equity instrument.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent company, less hybrid bond interest calculated on accrual basis and adjusted with tax effect, by the weighted average number of ordinary shares in issue during the year. Treasury shares held by the company and outstanding ordinary shares that are contingently returnable are excluded from the weighted average number of ordinary shares in issue. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all dilutive potential ordinary shares.

MANAGEMENT JUDGEMENT AND ESTIMATES

The use of judgement and estimates

When preparing the financial statements, the company's management have to make accounting estimates and assumptions about the future, as well as judgement-based decisions on the application of the accounting principles. These estimates and decisions affect the reported amounts of assets, liabilities, income and expenses for the accounting period as well as the recognition of contingent items. The estimates and assumptions are based on historical knowledge and other justifiable assumptions which are considered to be reasonable at the time of preparing the financial statements. It is possible that actuals differ from the estimates used in the financial statements.

The company's management have had to make judgements when determining the economic lives of property, plant and equipment and intangible assets, and when classifying leases into finance and other leases. The estimates and forward-looking assumptions made on the balance sheet date mainly pertain to revenue recognition in accordance with the percentage-of-completion method, the recognition of provisions, the valuation of assets belonging to acquired companies and their realisability, the formulae used to calculate employee benefits, the forecasts and assumptions used in impairment tests, and the setting off of deferred tax assets against future taxable profit. Information on key aspects of the financial statements for which management judgement and estimates have been necessary is presented below.

Economic lives of property, plant and equipment and intangible assets

The management makes estimates and judgements when considering and defining the useful economic lives and depreciation methods for productive assets. The factors considered in the estimation of useful economic lives include the purpose of a productive asset, the effects of wear, maintenance and repair stemming from use of the asset, the duration of the asset's technical usability, limitations or obligations arising from leasing or other agreements, and the magnitude of any residual value.

Capitalisation of borrowing costs

The Company's management makes estimates when assessing whether a project fulfils the criteria of a qualifying asset.

Leasing agreements where the Group is the lessee

The management have had to make judgements when classifying leasing agreements as either finance or operating leases. The classification of leasing agreements is made in accordance with generally accepted standards for the definition of finance leases, and it is based on the actual content of the agreement. According to the definition of a finance lease, essentially all of the economic risks and rewards of ownership are transferred to the lessee. The classification is always made at the lease's inception. The provisions of a leasing contract can be amended by agreement with the lessor, in which case the classification may have to be revised. A change that takes place in an estimation criterion – such as a change in the present value of minimum lease payments relative to the fair value of the leased asset – does not constitute grounds for reclassification.

Recognition of revenue from construction projects

When recognising revenue from construction projects, the company observes the percentage of-completion method if the project in question possesses the characteristics of construction contract and the project's outcome can be estimated reliably. Costs actually incurred include only those costs that correspond to work already carried out. Management estimates are necessary for reliable determination of the total costs that will be incurred for completion of a project. All project costs are itemised and measured as accurately as possible to facilitate comparison with earlier values. If the management assess a project to be onerous (i.e. total costs exceed total income), the loss is immediately expensed. If the management are unable to make a reliable determination of the total revenue from a construction project, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and costs are expensed in the period in which they incur.

Recognition of provisions

The management estimates, based on its best knowledge, whether it is likely that the settlement of a present obligation will result in an outflow of resources embodying economic benefits from the Group. If such a condition exists and a reliable estimate as to the amount and the timing of the obligation can be made, then it is recognised as a provision in the financial statements.

Acquisition cost

Valuation of an acquired subsidiary's shares at cost is based on the fair value of its identifiable assets and liabilities. When measuring fair value, the management use estimates based on their experience and, if necessary, the assistance of experts specialising in the balance sheet items in question. The estimates and assumptions made in accordance with the management's views are sufficiently accurate to ensure the correctness of cash flows associated with balance sheet items.

Employee benefits

In the calculation of obligations related to employee benefits, the factors requiring management estimates include the expected returns on the assets of defined-benefit pension plans, the discount rate used for calculation of pension liabilities and pension expenses for the accounting period, the future development of salary levels, the rising level of pensions, durations of employee service, and the trend of inflation.

The assumed outcome of the share-based incentive plan at the balance sheet date is based on management's estimates of the achievement of the earning criteria. The Board of Directors decides on the distribution of shares to key personnel.

Impairment testing

The carrying amounts of assets are tested for impairment, whenever deemed necessary. In addition, goodwill is tested for impairment annually. Goodwill is allocated to cash-generating units in a consistent manner. In impairment tests, the amount recoverable from a cash-generating unit's business is based on value-in-use calculations. The cash flow forecasts used for these calculations are based on profitability plans approved by the business's management for a certain period and on other justifiable estimates of the prospects for the business sector and the cash-generating unit. In connection with impairment tests, the management must estimate whether the fair value of an asset has decreased during the accounting period, whether significant adverse changes have occurred in the operating environment, whether it is necessary to change the discount rate applied in value-in-use calculations, and whether the carrying amount of a company's net assets is higher than its fair value. On the basis of these and possibly other indicators both within and outside the company, the management must continuously assess whether there is any need to perform additional impairment tests on asset items between the annual tests. A more detailed description of the estimates and assumptions concerning goodwill impairment testing is given in the notes to the financial statements.

Taxes

Management estimate pertains to the principles for recognition of deferred tax assets. The most common tax-deductible temporary difference between accounting and taxation are tax losses. The management must judge whether there will be sufficient taxable profit in the future for the purpose of making use of remaining tax losses. A deferred tax asset arising from unused tax losses is recognised only to the extent that future taxable profit, against which the unused tax losses may be utilised, is expected to be generated.

NEW STANDARDS AND INTERPRETATIONS

New standards and interpretations applied by the Company in 2013

The change of IAS 19 Employee Benefits –standard removed the "corridor approach" used by the company. According to standard all actuarial gains and losses are recognised though comprehensive income as a change of pension liabilities and deferred income. Retrospective service cost is recognised immediately in personnel expenses as a part of pension expense. Defining the expected return was abandoned, and started to use discount rate also in determining the return of assets. The changes will affect the company's own capital and the amount of the pension obligation because unrecognized actuarial gains and losses are recognized in pension obligations and unrecognized past service costs are recognized retroactively to the relevant equity item. Impacts of the change are presented in note 1 of the consolidated financial statements.

The following new interpretations and standards applied by the company in 2013 have no essential impact on the consolidated financial statements: IAS 1 (amendment), IAS 12 (amendment), IFRS 7 (amendment), IFRS 13 Fair Value Measurements and IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

Standards and interpretations applied by the company after 2013

The following new interpretations and standards applied by the company in 2014 have no essential impact on the consolidated financial statements: IAS 27 (amendment), IAS 28 (amendment), IAS 32 (amendment), IAS 36 (amendment), IAS 39 (amendment, not yet endorsed by the EU), IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities, IFRIC 21 Levies (not yet endorsed by the EU).

The following new interpretations and standards applied by the company in 2015 or later have no essential impact on the consolidated financial statements: IAS 19 (amendment, not yet endorsed by the EU), IFRS 9 (classification and valuation, not yet endorsed by the EU).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

1 ADJUSTMENTS CONCERNING EARLIER FINANCIAL YEARS

As a consequence of the changes in IAS 19 -standard, the pension obligations in the company's opening balance sheet for 2012 increased by EUR 4.4 million and shareholders' equity decreased by EUR 3.2 million.

As a consequence of the change in the accounting principle concerning 10-year liability provisions, non-current provisions incresed by EUR 7.0 million, current provisions increased by EUR 1.0 million and shareholders' equity decreased by EUR 6.1 million in the 2012 opening balance.

Impact of the adjustments on comparison year's income statement and balance sheet items

1 Jan–31 Dec 2012 EUR 1,000	Income statement before adjustments	Adjustments	Adjusted income statement
Operating profit	50,114	323	50,437
Profit before income tax	29,028	46	29,073
Profit for the financial year	44,034	38	44,072

31 Dec 2012 EUR 1,000	Balance sheet before adjustments	Adjustments	Adjusted balance sheet
Deferred tax asset	20,364	3,111	23,475
Total assets	1,300,414	3,111	1,303,525
Retained earnings	229,994	-9,046	220,948
Profit for the financial year	43,875	38	43,914
Total equity	450,772	-9,008	441,764
Pension obligations	1,171	4,045	5,216
Non-current provisions	6,198	7,040	13,238
Non-current liabilities	179,007	11,085	190,091
Current provisions	8,069	1,035	9,104
Current liabilities	670,634	1,035	671,669
Total equity and liabilities	1,300,414	3,111	1,303,525

Impact of the changes in accounting principles on comparison year's segment reporting figures

Lemminkäinen has changed its accounting principles concerning operating segments from the beginning of 2013. From now on, income statement items in the Company's segment reporting comply with the consolidated financial statement's accounting principles with the exception of the impact of the items classified as discontinued operations. The comparison periods' figures have been adjusted to comply with the new accounting principle.

1 Jan–31 Dec 2012 EUR 1,000	International Operations	Building Construction	Infrastructure Construction	Technical Building Services	Other operations	Eliminations	Segments total
Net sales before adjustment	934,323	682,397	591,140	230,028	37,834	-122,117	2,353,605
Adjustment	-31,118						-31,118
Adjusted net sales	903,205	682,397	591,140	230,028	37,834	-122,117	2,322,487
Depreciation and impairment before adjustment	18,737	381	20,994	731	4,361		45,204
Adjustment	-880	72	-1,700	100	-500		-2,908
Adjusted depreciation and impairment	17,857	453	19,294	831	3,861		42,296
Operating profit before adjustment	16,618	19,554	43,515	3,197	-8,289		74,595
Adjustment	-1,600	-2,661	3,730	150	630		249
Adjusted operating profit	15,018	16,893	47,245	3,347	-7,659		74,844

2 OPERATING SEGMENTS

Lemminkäinen Group's businesss is organised into four operating segments: International Operations, Building Construction, Infrastructure Construction and Technical Building Services. Income statement items in segment reporting comply with the consolidated financial statement's accounting principles with the exception of the impact of the items classified as discontinued operations. Segments' assets include fixed assets, inventories as well as trade and other receivables.

International Operations

The business segment contains all Lemminkäinen's business funtions outside Finland.

Building Construction

The business segment offers residential and non-residential construction, renovation, property development and life cycle projects.

Infrastructure Construction

The business segment offers paving and mineral aggregates; civil, foundation and rock engineering; as well as road, street and rail network construction and maintenance.

Technical Building Services

The business segment provides istallation and maintenance services for technical building systems.

Unallocated items

Unallocated items of other operations on the consolidated income statement include expenses that are not allocated to the operating segments. Unallocated assets of other operations include mainly financial assets.

Operating segments

1 Jan–31 Dec 2013 EUR 1,000	International Operations	Building Construction	Infrastructure Construction	Technical Building Services	Other operations	Eliminations	Segments total	Reconciling items	Group total, IFRS
Net sales	930,946	592,903	533,384	221,910	35,875	-96,856	2,218,162		2,218,162
Depreciation and impairment	18,929	348	19,658	743	5,651		45,329		45,329
Operating profit	-22,031	5,003	8,532	-1,557	-80,799		-90,852		-90,852

1 Jan–31 Dec 2012 EUR 1,000	International Operations	Building Construction	Infrastructure Construction	Technical Building Services	Other operations	Eliminations	Segments total	Reconciling items	Group total, IFRS
Net sales	903,205	682,397	591,140	230,028	37,834	-122 117	2,322,487	-54,842	2,267,645
Depreciation and impairment	17,857	453	19,294	831	3,861		42,296	-1,313	40,983
Operating profit	15,018	16,893	47,245	3,347	-7,659		74,844	-24,407	50,437

EUR 1,000	31 Dec 2013	31 Dec 2012
Assets by operating segment		
International Operations	494,330	335,927
Building Construction	454,619	275,771
Infrastructure Construction	191,745	120,536
Technical Building Services	61,766	30,368
Other operations	47,835	39,878
Segments total	1,250,295	802,480
Assets not allocated to segments and group eliminations, total	92,359	501,045
Group total, IFRS	1,342,654	1,303,525

3 INFORMATION BY MARKET AREA

1 Jan–31 Dec 2013 EUR 1,000	Finland	Scandinavia	Russia	Baltic States	Other countries	Total
Net sales	1,289,184	603,982	164,399	145,340	15,258	2,218,162
Assets	863,982	261,493	159,617	52,931	4,630	1,342,654
Investments	41,892	22,668	2,374	4,151	158	71,243

1 Jan–31 Dec 2012 EUR 1,000	Finland	Scandinavia	Russia	Baltic States	Other countries	Total
Net sales	1,370,391	570,441	145,759	135,052	46,001	2,267,645
Assets	874,544	237,386	117,007	46,668	27,920	1,303,525
Investments	33,637	25,312	1,703	2,841	981	64,475

Income from market areas is determined by customer location and the carrying amount of assets based on their geographic location.

4 ACQUISITIONS

2013

The company acquired the city of Tampere's asphalt paving business on 2 January 2013. The goodwill recognised from the acquisition comprises of a strengthening the market position in the Pirkanmaa area.

The company acquired the entire share capital of Biomaa Oy on 2 January 2013. Biomaa Oy specialises in mass stabilisation and the treatment of contaminated soil. The goodwill recognized from the acquisition comprises of special expertise in contaminated soil treatment. The acquisition involves a contingent consideration. Biomaa Oy was merged to Lemminkäinen Infra Oy on 1 May 2013.

The company acquired on 2 January 2013, with a single deed, the entire share capitals of three companies: Maanrakennus Katupojat Oy, Bergqvist Oy and Kuljetus Oy Wilkman. The acquirees engage in earthwork contracting, regional development, energy network construction and transport as well as the winter and summer maintenance of roads in Southern Finland. A negative goodwill of EUR 0.1 million was recognized from the acquisition. The acquired companies were merged to Lemminkäinen Infra Oy on 1 May 2013.

The company acquired 80 per cent of the share capital of a Danish company FD-Entreprise ApS on 2 May 2013. FD-Entreprise specialises in the milling of asphalt and concrete road surfaces and operates primarily in eastern Denmark. The goodwill recognized from the acquisition comprises of expanding the company's market area. The acquisition doubles Lemminkäinen's market share in road milling in Denmark and expand the company's market area to cover the entire country. The acquisition involves an option to redeem shares from non-controlling shareholders which is recognised as a liability in the balance sheet.

The company acquired 75 per cent of the share capital of Swedish Landvetterkrossen AB (former Vest Kross AB) on 12 July 2013. Landvetterkrossen AB is a supplier of mineral aggregates. The acquisition involves an option to redeem shares from non-controlling shareholders which has not been recognised as a liability in the balance sheet.

The company acquired the entire share capital of LEC Consultancy JLT on 24 July 2013. The company is domiciled in the United Arab Emirates. The goodwill recognized from the acquisition comprises of special expertise of the company's personnel.

In the year 2013 the recognised fair values of the acquired business operations after merging are presented in the table below.

EUR 1,000	Fair values recognised after merging 2013
Assets	
Property, plant and equipment	9,081
Intangible assets	2,867
Available-for-sale financial assets	559
Inventories	885
Current receivables	5,394
Cash and cash equivalents	2,252
Assets, total	21,038
Liabilities	
Deferred tax liabilities	153
Interest-bearing liabilities	5,860
Other liabilities	5,304
Liabilities, total	11,317
Non-controlling interests	-16
Net assets	9,737
Consideration paid in cash	10,116
Consideration recognised as liability	4,873
Total consideration	14,989
Goodwill	5,252
Goodwill recognised in balance sheet	5,396
Negative goodwill recognized during the accounting period	-144
Consideration paid in cash	-8,384
Cash of acquired subsidiaries	2,247
Impact on cash flow	-6,137
Expensed acquisition expenditure	287

On the consolidation of the acquired business operations, EUR 13.8 million has been recognised in net sales and EUR 0.2 million in operating profit. Full-year net sales of the acquired business operations in 2013 amounted to about EUR 15.1 million and operating profit to about EUR -0.5 million. If the acquirees had been consolidated as from the beginning of the year, consolidated net sales would have been EUR 2,219.5 million and operating profit EUR -91.5 million.

2012

On 5 April 2012 the entire share capital of Commercial Tower North Inc. was acquired. The company specializes in wireless communication related services. The goodwill recognized from this acquisition comprises of an expansion of market area as well as production cost savings.

On 2 July 2012 the entire share capital of Kivinikkarit Oy was acquired. The company specializes in municipal infrastructure contracting. The acquisition of Kivinikkarit Oy strengthens Lemminkäinen's position in concrete and natural stone contracting in Southern Finland. The goodwill recognized from this acquisition comprises of increase in market share and cost savings in purchase, logistics and production functions. Kivinikkarit Oy was merged to Lemminkäinen Infra Oy on 30 November 2012.

On 31 July 2012 the entire share capital of Wisepro Oy was acquired. The company specializes in weather forecasting technologies for technical building services industry. Wisepro Oy was merged to Lemminkäinen Talotekniikka Oy on 31 December 2012.

On 31 August 2012 the entire share capital of Maanrakennusliike Helander Oy was acquired. The company specializes in earthwork construction. The goodwill recognized from the acquisition comprises of cost savings in purchase, logistics and production functions.

In the year 2012 the recognised fair values of the acquired business operations after merging are presented in the table below.

EUR 1,000	Fair values recognised after merging 2012
Assets	
Property, plant and equipment	1,102
Intangible assets	229
Available-for-sale financial assets	58
Inventories	91
Current receivables	653
Cash and cash equivalents	48
Assets, total	2,181
Liabilities	
Deferred tax liabilities	276
Interest-bearing liabilities	117
Other liabilities	1,164
Liabilities, total	1,557
Net assets	624
Consideration paid in cash	1,575
Consideration recognised as liability	347
Total consideration	1,922
Goodwill recognised in balance sheet	1,298
Consideration paid in cash	-1,575
Cash of acquired subsidiaries	48
Impact on cash flow	-1,527
Expensed acquisition expenditure	22

On the consolidation of the acquired business operations, EUR 3.5 million has been recognised in net sales and EUR 0.2 million in operating profit. Full-year net sales of the acquired business operations in 2012 amounted to about EUR 5.0 million and operating profit to about EUR 0.3 million. If the acquirees had been consolidated as from the beginning of the year, consolidated net sales would have been EUR 2,269.1 million and operating profit EUR 50.5 million.

5 DISCONTINUED OPERATIONS

2013

At the end of 2013 the company did not have any discontinued operations or assets classified as held-for-sale.

2012

On 28 September 2012, Lemminkäinen sold all its shares in Lemminkäinen Rakennustuotteet Oy. The company specialised in concrete business. The transaction price was EUR 54.3 million, from which the company recognised a gain on sale of EUR 17.3 million before taxes in the second half of 2012. In addition, in April 2012, the Group sold its sports construction business, which was part of the Infrastructure Construction segment, as well as the technical building and property services business in the Uusikaupunki area, which was part of the Technical Building Services segment.

The Lemminkäinen Rakennustuotteet Oy transaction included a separate reacquisition agreement on an asset, which meant that the ownership of the asset was not transferred and gains on sale were not recognised for the asset. The asset was recognised at the original carrying amount, which was lower than the acquisition cost. The company recognised the difference between the carrying amount of the asset and its value in taxation as a deferred tax asset in profit and loss.

The effect of discontinued operations in 2012 was as follows:

EUR 1,000	1 Jan–31 Dec 2012
The profit of the discontinued operations	
Income	55,120
Expenses	47,793
Profit before taxes	7,327
Taxes	-1,623
Profit for the financial period	5,704
Pre-tax gain on sale from the sale of the concrete business	17,122
Taxes	854
Gain on sale after taxes	17,976
Profit for the period from discontinued operations	23,680
Cash flows from discontinued operations	
Cash flow from business operations	14,882
Cash flow from investments	-1,732
Cash flow from financing	-13,179
Cash flows, total	-29

EUR 1,000	2012
The impact of the sales to Group's financial position at the moment of the sale	
Property, plant and equipment	13,978
Goodwill	10,657
Intangible assets	648
Available-for-sale financial assets	9
Deferred tax assets	31
Inventories	9,179
Receivables	8,738
Cash and cash equivalents	34
Deferred tax liabilities	-1,141
Accouts payable and other liabilities	-10,086
Assets and liabilities, total	32,048
Cash considerations received	55,356
Adjustment of re-acquired assets to initial book value	4,411
Transaction costs	1,775

6 INFORMATION ON CONSTRUCTION PROJECTS

EUR 1,000	31 Dec 2013	31 Dec 2012
Percentage-of-completion method		
Revenue recognised by the percentage-of-completion method	1,903,636	1,940,288
Incurred costs and recognised net profits (less booked losses) of work in progress projects	1,250,393	924,809
Gross project-related receivables from clients	67,165	62,851
Gross project-related liabilities to clients	61,192	46,503

Service concession arrangements

Lemminkäinen currently has two major ongoing life-cycle projects, which are located in Kuopio and Oulu.

Kuopio

Lemminkäinen PPP Oy (the service provider), signed the agreement with Kiinteistö Oy Kuopion koulutilat (the financier) on 14 December 2009. The project comprises of new construction and renovation works for four schools and one day-care center. The service provider is responsible for building management and maintenance for a period of 25 years. The total value of the project is EUR 93.5 million.

The financier owns the current buildings and land. The service provider will renovate the properties and construct new buildings as set out in the contract agreements made with the financier. The City of Kuopio will gain possession of the buildings after handover. Lemmikäinen PPP Oy will manage the buildings for a period of around 25 years pursuant to the service agreement. Kuopio will serve as the contract agreement client for the sites it financed and as the representative of the financier. The contracts are fixed-price and are tied to the cost of construction index and reference rate. The financier will pay the contract prices in installments as set out in the contract agreements. The service provider shall not have the right to use any of the properties or to organise supplementary use.

The City of Kuopio shall have the right to terminate the agreement with a six-month period of notice, subject to certain additional terms and conditions concerning the service provider. The City of Kuopio shall have the right to terminate the agreement after the 10th and 20th years of the agreement, that is, in 2021 and 2031. The service provider shall have the right to terminate the agreement with a six-month period of notice, if the financier or the City of Kuopio neglect their payment obligations for 90 days.

The construction phase is ready for all of the buildings belonging to the project. The investment phase warranty periods for the two first sites to be completed (Martti Ahtisaari school and Puijonsarvi School) have already expired and the warranty period guarantees have been returned. The warranty periods for Rajala school and Puijonlaakso day-care center will continue until 2014 and for Pohjantie school until 2015. The investment phase of the project has proceeded according schedule, as well as cost and quality objectives.

The building maintanance and upkeep period (the service period) is in progress for all of the sites. The services have been provided according to plan and no service or usability deductions have been made.

Oulu

Lemminkäinen PPP Oy (the service provider), signed the agreement with the City of Oulu (the subscriber) on 1 June 2012. The project includes the new construction of Oulun Kastelli community center, dismantling of the Tenavalinna day care center and arranging temporary spaces. The service provider is responsible for building management and maintenance for a period of 25 years. The total value of the project is EUR 86 million.

The City of Oulu owns the current buildings and land. The service provider will construct the new buildings as set out in the contract agreement made with the subscriber. The City of Oulu will gain possession of the buildings after handover. Lemmikäinen PPP Oy will manage the buildings for a period of around 25 years pursuant to the service agreement. The city of Oulu itself will serve as the contract subscriber for the sites it also finances. The contracts are fixed-price and are tied to the cost of construction index and reference rate. The subscriber will pay the contract prices in installments as set out in the contract agreements. The service provider has the right to arrange supplementary use of the properties according to terms pre-agreed terms as well as the right to charge fees for the supplementary use. The company has not recognised an intangible asset for the right for supplementary use because of the uncertainty related to its usability.

The City of Oulu shall have the right to terminate the agreement with a six-month period of notice, subject to certain additional terms and conditions. The service provider shall have the right to terminate the agreement with a six-month period of notice, if the City of Oulu neglect their payment obligations for 90 days

The construction phase of the Kastelli community center began in the late spring of 2012. All construction work must be completed by the autumn of 2014, when the service period begins. The project has mostly proceeded according to schedule, as well as quality and cost objectives. However, the accumulated costs for the construction work have exceeded the target level and the calculated profit margin for the investment phase must have been cut down.

7 OTHER OPERATING INCOME

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Gains on sale of property, plant and equipment	5,278	4,494
Rental income	1,363	1,012
Gains from hedging purchases and sales *	1,552	803
Grants and compensation on damages received	235	5,230
Negative goodwill	144	
Gains on sale of available-for-sale financial assets	1,356	2,179
Gain on settlement of defined benefit plans	1,933	
Others	4,514	4,506
	16,374	18,225

* Gains from hedging purchases and sales includes realised gains and changes in fair values of commodity derivatives which are used for hedging bitumen purchases and currency derivatives which are used for hedging purchases and sales.

8 PERSONNEL AND EMPLOYEE BENEFIT EXPENSES

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Personnel expenses		
Wages and salaries	371,877	373,063
Share-based payments	950	517
Pension expenses, defined contribution plans	48,376	47,214
Pension expenses, defined benefit plans	1,383	819
Other personnel-related expenses	26,399	28,373
	448,985	449,986
The salaries and fees of the Group Companies' managing directors and Board of Directors	3,626	3,683

Defined benefit pension expenses are explained in more detail in the note 28 and share-based payments in the note 29 and related party transactions in the note 38.

	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Personnel on average		
Salaried staff	2,953	3,007
Hourly paid workers	4,870	5,173
	7,823	8,180
Personnel by business segment		
International Operations	2,953	3,057
Building Construction	1,391	1,425
Infrastructure Construction	1,518	1,751
Technical Building Services	1,658	1,631
Parent company	303	316
	7,823	8,180

Number of employees includes the personnel of discontinued operations for the time they were employees of Lemminkäinen Group.

Financials › Notes to the consolidated financial statements (IFRS) › 9 Depreciation, amortisation and impairment

9 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Depreciation of property, plant and equipment		
Buildings and structures	1,011	948
Machinery and equipment	22,051	21,303
Leased assets	12,738	12,071
Other tangible assets	2,000	1,286
	37,800	35,609
Amortisation of intangible assets		
Intangible rights	3,986	1,828
Other capitalised expenditure	3,543	3,546
	7,529	5,375
Depreciation and amortisation total	45,329	40,983

Financials › Notes to the consolidated financial statements (IFRS) › 10 Other operating expenses

10 OTHER OPERATING EXPENSES

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Loss on the sale of property, plant and equipment and intangible assets	341	94
Voluntary personnel expenses	13,431	12,411
Rental expenses	35,514	41,299
Direct acquisition costs	287	22
Losses from hedging purchases and sales *	2,520	1,731
Damages-related legal proceedings **	65,587	
Other expenses	132,020	225,388
	249,700	280,946

* Losses from hedging purchases and sales includes realised losses and changes in fair values of commodity derivatives which are used for hedging bitumen purchases and currency derivatives which are used for hedging purchases and sales.

** Damages-related legal proceedings include EUR 49.3 million of compensation for damages which, in its decisions on 28 November 2013, the District Court ordered Lemminkäinen to pay. The amount consists of damages ordered to only Lemminkäinen, Lemminkäinen's share of the damages ordered to be paid jointly and severally as well as expenses related to the damages. As, according to the Company's estimate, some of the other defendants that have been ordered to pay damages jointly and severally will not be able pay the shares ordered to them by the District Court, Lemminkäinen will pay shares of damages and related expenses ordered to these defendants in the amount of approximately EUR 10.4 million which is also included in the damages-related legal proceedings item. In addition, the item includes a EUR 5.9 million provision related to the claims for damages pending a main proceeding, with 14 municipalities as plaintiffs.

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Rewards paid in Finland to the audit firm nominated by the AGM		
Audit fees	206	260
Tax councelling	14	13
Other consulting	171	311
	390	584

11 ASSOCIATES AND JOINT VENTURES

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Share of the profits of associates and joint ventures		
Share of the profits	839	1,170
Share of the losses	-277	-106
	562	1,064

EUR 1,000	31 Dec 2013	31 Dec 2012
Shares in associates and joint ventures 1 Jan	9,706	9,291
Translation difference	-1,100	426
Increases	524	1,081
Decreases	-299	-1,092
Shares in associates and joint ventures 31 Dec	8,831	9,706

The main associates and joint ventures (information presented in full)

EUR 1,000	Group's ownership, %	Assets	Liabilities	Net sales	Profit for the financial year
2013					
Associates					
Finavo Oy, Finland	47.5	842	823	4,981	-2
Joint ventures					
Genvej A/S, Denmark	50.0	626	73	428	15
Martin Haraldstad AS, Norway	50.0	8,067	1,584	7,153	648
Nordasfalt AS, Norway	50.0	18,694	11,595	36,920	842
Ullensaker Asfalt ANS, Norway	50.0	2,593	524	7,957	-439
2012					
Associates					
Finavo Oy, Finland	47.5	521	520	5,339	1
Joint ventures					
Genvej A/S, Denmark	50.0	719	118	722	140
Martin Haraldstad AS, Norway	50.0	9,674	2,499	7,811	1,063
Nordasfalt AS, Norway	50.0	20,123	12,317	45,022	1,284
Ullensaker Asfalt ANS, Norway	50.0	3,289	466	8,682	-288

12 FINANCE INCOME AND COSTS

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Finance income		
Interest income from loans and receivables	1,177	1,275
Interest income from available-for-sale financial assets	147	60
Dividend income from available-for-sale financial assets	62	245
Foreign exchange rate gains	16,285	9,658
Gains on the change in fair value of interest rate derivatives	575	
Other finance income	101	17
Total finance income	18,346	11,256
Finance costs		
Interest expenses for financial liabilities recognised at amortised cost	18,024	18,404
Foreign exchange rate losses	21,654	11,585
Losses on the change in fair value of interest rate derivatives	63	196
Other finance costs	5,275	2,434
Total finance costs	45,015	32,619
Finance income and costs, total	-26,669	-21,363

Exchange rate differences recognised in the income statement

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Exchange rate differences on sales	1,271	726
Exchange rate differences on purchases	-3,306	-741
Exchange rate differences on hedging purchases and sales	-273	
Exchange rate differences on financial items	-5,369	-1,927
Exchange rates differences, total	-7,677	-1,943

13 TAXES

Income taxes

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Income taxes on normal business operations	-2,826	-3,914
Income taxes in respect of previous years	-1,338	98
Deferred taxes	28,187	-4,866
	24,023	-8,682
Reconciliation of taxes on the income statement and taxes calculated at the Finnish tax rate		
Profit before taxes	-117,521	29,073
Taxes calculated on the above at the Finnish tax rate	28,793	-7,123
Differing tax rates of foreign subsidiaries	1,631	504
Tax-exempt income in income statement	1,275	1,031
Non-deductible expenses in income statement	-2,570	-3,177
Deductible non-income statement items	200	976
Taxable non-income statement items	-2	-386
Use of unrecognised tax losses	77	123
Tax losses for the financial year for which no deferred tax asset was recognised	-7	-723
Effect of change in the corporate tax rate	-4,460	
Other items	423	-4
Taxes for the previous financial year	-1,338	98
Taxes on the income statement, total	24,023	-8,682

Deferred taxes

EUR 1,000	1 Jan 2013	Translation difference	Recognised in income statement	Recognised in other comprehensive income	Transactions with owners of the parent company	Acquisitions, divestments and mergers	31 Dec 2013
Deferred tax asset							
Tax losses	19,350	-1,914	20,280			0	37,715
Pension benefits	1,447	-164	-22	-913			348
Provisions	3,350	-275	3,192				6,267
Financial instruments	142		-1,715	-127	1,715		15
Property, plant and equipment	1,776	0	27				1,803
Intangible assets	22						22
Temporary difference from revenue recognition of projects	1,755	-496	4,615				5,874
Other temporary differences	734	13	842			-653	936
Deferred tax asset, gross	28,576	-2,836	27,219	-1,040	1,715	-653	52,981
Offsetting	-5,100	950	-10,417	127			-14,440
Deferred tax asset, net	23,475	-1,886	16,802	-913	1,715	-653	38,540

EUR 1,000	1 Jan 2013	Translation difference	Recognised in income statement	Recognised in other comprehensive income	Transactions with owners of the parent company	Acquisitions, divestments and mergers	31 Dec 2013
Deferred tax liabilities							
Property, plant and equipment and intangible assets	4,288	-258	-647			642	4,025
Available-for-sale financial assets	5			-5			
Financial instruments	441						441
Accelerated depreciations	13,560	-207	-2,397				10,956
Temporary difference from revenue recognition of projects	8,806	-1,003	1,923				9,727
Other temporary differences	3,172	-312	154			-552	2,461
Deferred tax liabilities, gross	30,271	-1,780	-967	-5		90	27,609
Offsetting	-5,100	950	-10,417	127			-14,440
Deferred tax liabilities, net	25,171	-830	-11,384	122		90	13,168

EUR 1,000	1 Jan 2012	Translation difference	Recognised in income statement *	Recognised in other comprehensive income	Transactions with owners of the parent company	Acquisitions, divestments and mergers	31 Dec 2012
Deferred tax asset							
Tax losses	17,698	448	1,209			-5	19,350
Pension benefits	2,133	37	-723				1,447
Provisions	3,928	133	-711				3,350
Financial instruments	305			-163			142
Property, plant and equipment	805	0	971				1,776
Intangible assets	7		16				22
Temporary difference from revenue recognition of projects	888	10	856				1,755
Other temporary differences	1,254	-70	-423			-26	734
Deferred tax asset, gross	27,017	558	1,195	-163		-31	28,576
Offsetting	-4,422	-112	-566				-5,100
Deferred tax asset, net	22,595	446	629	-163		-31	23,475

EUR 1,000	1 Jan 2012	Translation difference	Recognised in income statement *	Recognised in other comprehensive income	Transactions with owners of the parent company	Acquisitions, divestments and mergers	31 Dec 2012
Deferred tax liabilities							
Property, plant and equipment and intangible assets	4,210	364	-529			243	4,288
Available-for-sale financial assets				5			5
Financial instruments			1,298		-858		441
Accelerated depreciations	12,488	177	1,618			-724	13,560
Temporary difference from revenue recognition of projects	8,363	194	249				8,806
Other temporary differences	1,088	-176	2,451			-191	3,172
Deferred tax liabilities, gross	26,149	560	5,087	5	-858	-672	30,271
Offsetting	-4,422	-112	-566				-5,100
Deferred tax liabilities, net	21,727	448	4,521	5	-858	-672	25,171

* Includes the changes in deferred tax of discountined operations booked to income taxes.

The company has recorded the deferred tax asset from tax losses to the amount it considers, based on its profit forecasts, to be utilizable in the future. The amount of tax losses has increased especially due to non-recurring items, which are not expected to reoccur in the future. In 2013, the amount of tax losses in Finland was increased by the damages that the District Court ordered Lemminkäinen to pay related to the asphalt cartel. At the end of 2013, tax losses in the group's Finnish companies totaled EUR 19.5 million (EUR 5.5 mill) and they can be carried forward for 10 years. The amount of tax losses in the group's Norwegian companies at the end of 2013 stood at EUR 14.6 million (EUR 9.3 mill.), and they can be carried forward indefinitely.

No deferred tax liability is recognised in respect of the undistributed profits of foreign subsidiaries because the funds are permanently invested in operations abroad.

14 EARNINGS PER SHARE

	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Weighted average number of shares, shares	**19,650,176**	19,649,386
Contingent shares, shares	**-35,869**	-83,436
Treasury shares, shares	**-34,915**	-509
Weighted average number of shares in issue, shares	**19,579,392**	19,565,441
Dilution effect of the contingent shares, shares (shares that meet the terms of the arrangement)		49,030
Dilution effect of the share-based incentive plan, shares		46,505
Diluted weighted average number of shares, shares	**19,579,392**	19,660,976
Profit for the year attributable to the ordinary equity holders, EUR 1,000	**-93,723**	43,914
Interest of the hybrid bond calculated on accrual basis less tax, EUR 1,000	**-5,285**	-4,000
Profit for the year for the purpose of calculating earnings per share, EUR 1,000	**-99,008**	39,913
Basic earnings per share, EUR	**-5.06**	2.04
Diluted earnings per share, EUR	**-5.06**	2.03

15 OTHER COMPREHENSIVE INCOME ITEMS

EUR 1,000	Before taxes	Taxes	After taxes
2013			
Translation difference	-7,675		-7,675
Cash flow hedges	504	-127	378
Change in fair value of available-for-sale financial assets	-20	5	-15
Defined benefit pension obligations	3,318	-913	2,404
	-3,874	-1,035	-4,909
2012			
Translation difference	3,148		3,148
Cash flow hedges	666	-163	503
Change in fair value of available-for-sale financial assets	20	-5	15
Defined benefit pension obligations	256	-2	254
	4,091	-170	3,921

16 DIVIDENDS PAID AND PROPOSED

	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Dividend paid during the financial year		
Per share for the previous year, EUR	0.60	0.50
In total for the previous year, EUR 1,000	11,762	9,825
Proposed for approval by the AGM		
Per share for the financial year, EUR	0.00	0.60
In total for the financial year, EUR 1,000	0	11,790

17 PROPERTY, PLANT AND EQUIPMENT

EUR 1,000	Land	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost, 1 Jan 2013	12,908	37,254	339,822	42,671	4,542	437,197
Translation difference	-156	-428	-10,813	-1,486	1	-12,883
Increases	1,099	782	35,185	2,909	6,256	46,231
Increases from acquired businesses	1	20	9,212	3		9,236
Disposals	-82	-247	-24,620	-2,448		-27,397
Transfers between items	-71	1,803	3,953	366	-6,051	
Acquisition cost, 31 Dec 2013	13,698	39,182	352,739	42,016	4,748	452,383
Accumulated depreciation, 1 Jan 2013		-26,180	-190 743	-19,807		-236,730
Translation difference		233	5,978	685		6,896
Accumulated depreciation on increases			-177			-177
Accumulated depreciation on decreases		245	15,045	1,248		16,539
Transfers between items		-1,554	1,922	-368		
Depreciation for the financial year		-1,011	-34,789	-2,000		-37,800
Accumulated depreciation, 31 Dec 2013		-28,266	-202,764	-20,242		-251,272
Carrying amount, 31 Dec 2013	13,698	10,916	149,975	21,773	4,748	201,111
Carrying amount, 1 Jan 2013	12,908	11,074	149,079	22,864	4,542	200,466

EUR 1,000	Land	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost, 1 Jan 2012	13,604	49,631	350,912	44,051	5,817	464,014
Translation difference	57	241	3,572	704	-7	4,567
Increases	278	2,307	40,836	2,177	2,387	47,984
Increases from acquired businesses			974	124		1,098
Disposals	-472	-2,405	-29,564	-4,218	-837	-37,496
Discontinued operations	-553	-10,928	-30,666	-690	-122	-42,959
Transfers between items	-4	-1,593	3,759	523	-2,696	-12
Acquisition cost, 31 Dec 2012	12,908	37,254	339,822	42,671	4,542	437,197
Accumulated depreciation, 1 Jan 2012		-33,532	-202,555	-20,745		-256 832
Translation difference		-85	-1,753	-263		-2,101
Accumulated depreciation on decreases		660	26,923	2,460		30,043
Accumulated deprociation on discontinued operations		6,535	21,982	463		28,980
Accumulated depreciation on decreases		1,538	-1,119	-419		
Depreciation for the financial year from continuing operations		-948	-33,374	-1,286		-35,609
Depreciation for the financial year from discontinued operations		-348	-848	-17		-1,213
Accumulated depreciation, 31 Dec 2012		-26,180	-190,743	-19,807		-236,730
Carrying amount, 31 Dec 2012	12,908	11,074	149,079	22,864	4,542	200,466
Carrying amount, 1 Jan 2012	13,604	16,099	148,357	23,305	5,817	207,182

The Group has no capitalised interest expenses in fixed assets.

EUR 1,000	31 Dec 2013	31 Dec 2012
Assets acquired under finance lease agreement are included in machinery and equipment as follows:		
Acquisition cost, 1 Jan	106,685	100,725
Translation difference	-3,387	909
Increases	16,492	11,718
Disposals	-10,031	-6,666
Acquisition cost, 31 Dec	109,759	106,685
Accumulated depreciation, 31 Dec	-52,320	-49,997
Carrying amount, 31 Dec	57,439	56,689

18 INTANGIBLE ASSETS

EUR 1,000	Goodwill	Intangible rights	Other capitalised expenditure	Advance payments	Total
Acquisition cost, 1 Jan 2013	77,116	11,653	18,053	10,934	117,757
Translation difference	-2,006	-18	-795		-2,819
Increases		660	425	7,810	8,895
Increases from acquired businesses	5,396	2,173	678		8,247
Disposals	-526	-378		-1,144	-2,048
Transfers between items		9,689		-9,689	
Acquisition cost, 31 Dec 2013	79,980	23,779	18,362	7,911	130,033
Accumulated amortisation and impairment, 1 Jan 2013	-73	-5,536	-8,433		-14,043
Translation difference	193	6	399		598
Accumulated amortisation on increases			-50		-50
Accumulated amortisation on disposals		324			324
Amortisation for the financial year from continuing operations		-3,986	-3,543		-7,529
Accumulated amortisation and impairment, 31 Dec 2013	120	-9,192	-11,627		-20,699
Carrying amount 31 Dec 2013	80,100	14,588	6,735	7,911	109,334
Carrying amount 1 Jan 2013	77,043	6,117	9,620	10,934	103,714

EUR 1,000	Goodwill	Intangible rights	Other capitalised expenditure	Advance payments	Total
Acquisition cost, 1 Jan 2012	85,766	10,099	18,041	3,202	117,108
Translation difference	704	1	343		1,047
Increases		3,352	831	11,532	15,715
Increases from acquired businesses	1,304	229			1,532
Disposals		-2,949	-408	-1,974	-5,331
Discontinued operations	-10,657	-865	-805		-12,327
Transfers between items		1,786	51	-1,826	12
Acquisition cost, 31 Dec 2012	77,116	11,653	18,053	10,934	117,757
Accumulated amortisation and impairment, 1 Jan 2012	-73	-7,114	-5,516		-12,703
Translation difference		13	-121		-108
Accumulated depreciation on increases		-12			-12
Accumulated amortisation on disposals		2,825	408		3,233
Accumulated amortisation on discontinued operations		626	396		1,022
Amortisation for the financial year from continuing operations		-1,828	-3,546		-5,375
Amortisation for the financial year from discontinued operations		-46	-54		-100
Accumulated amortisation and impairment, 31 Dec 2012	-73	-5,536	-8,433		-14,043
Carrying amount 31 Dec 2012	77,043	6,117	9,620	10,934	103,714
Carrying amount 1 Jan 2012	85,693	2,985	12,526	3,202	104,405

At the end of 2013, other capitalised expenditure included EUR 9.2 million (EUR 0.0 mill.) and advance payments EUR 5.5 million (EUR 7.5 mill.) of capitalised computer software development costs.

Goodwill

At the date of acquisition goodwill is allocated to cash-generating units, or groups of cash-generating units, that is expected to benefit from synergies arising from the business combination.

Goodwill by segment

EUR 1,000	Finland	Other Nordic countries	Eastern Europe and the Baltic states	Other countries	Market areas, total	Common to segment *	Total
31 Dec 2013							
International Operations		17,066	1,909	139	19,114	23,469	42,583
Building Construction	6,196				6,196		6,196
Infrastructure Construction	6,158				6,158		6,158
Technical Building Services	25,164				25,164		25,164
	37,518	17,066	1,909	139	56,632	23,469	80,100

EUR 1,000	Finland	Other Nordic countries	Eastern Europe and the Baltic states	Other countries	Market areas, total	Common to segment *	Total
31 Dec 2012							
International Operations		16,349	2,309	501	19,159	24,270	43,429
Building Construction	6,084				6,084		6,084
Infrastructure Construction	2,366				2,366		2,366
Technical Building Services	25,164				25,164		25,164
	33,614	16,349	2,309	501	52,773	24,270	77,043

* The goodwill reported in the "Common to segment" column has arisen from the asphalt business acquisitions in Denmark and Norway. It is allocated to the International Operations' Baltic Rim region paving and mineral aggregates cash generating unit. This goodwill has been tested for impairment at the level of the whole International Operations' Baltic Rim region paving and mineral aggregates cash generating unit. In addition, the goodwill allocated to each business area has been tested separately for each country.

Goodwill impairment tests

Goodwill is tested for impairment annually and whenever there are indications of possible impairment. The tests are carried out as value-in-use calculations of individual businesses in accordance with the smallest cash-generating unit principle. In impairment testing the discounted present value of the recoverable cash flows of each cash-generating unit is compared with the carrying amount of the unit in question. If the present value is lower than the carrying amount, the difference is recognised through profit or loss as an expense in the current year.

In 2013, the impairment tests were carried out during the third quarter of the year. The tests showed that the current values of the future cash flows exceed the book values in all business units. Therefore, there was no need for impairment of goodwill in 2013.

Forecasts and key assumptions used in goodwill impairment testing

Cash flow calculations of the cash generating units are prepared for a planning period covering the next 5 years in accordance with the management's estimates. These estimates are based on past experience. Cash flow forecasts beyond that planning period are based on the cautious assumption of 1 percent annual growth. This was lower than European Central Bank's inflation rate forecast over the medium term, in effect at the time of impairment testing.

The Weighted Average Cost of Capital (WACC), calculated for each individual unit, is used as the discount factor. WACC takes into account the risk-free interest rate, the liquidity premium, the expected market rate of return, the industry's beta value, country risk and the debt interest rate, including the interest rate margin. These components are weighted according to the fixed, average target capital structure of the sector. Pre-tax WACC is determined seperately for each tested unit.

The business segment specific weighted averages of the key assumptions used in the value-in-use calculations are presented in the table below *

EUR 1,000	International Operations	Building Construction	Infrastructure Construction	Technical Building Services
2013				
Discount rate, % (before taxes)	8.3	6.7	7.1	7.1
Average growth rate of net sales, % **	13.4	5.1	2.2	3.5
Long-term average growth rate, %	1.0	1.0	1.0	1.0
2012				
Discount rate, % (before taxes)	7.1	6.9	7.4	6.7
Average growth rate of net sales, %	4.1	0.4	1.9	3.0
Long-term average growth rate, %	1.0	1.0	1.0	1.0

* The figures should not be regarded as forecasts for the entire business segment since the averages are calculated only for the cash-generating unit to which the goodwill has been allocated. When calculating the average, the differences in the size of the cash-generating units are taken into account by weighting the figures according to the net sales of the units.

** The change in the International Operation's average growth rate of net sales is mainly due to building construction business in Russia.

Sensitivity analysis

In connection with the impairment tests, sensitivity analyses are made to determine how possible changes in key assumptions of the unit-specific impairment tests would affect the results of those tests. The key assumptions affecting the present value of cash flows are the development of market and competitive conditions, the scope and profitability of the tested business, and the discount factor. In the sensitivity analyses the calculation variables affecting these assumptions are varied and the effects of the changes on the margin between the carrying value and present value of the cash flows are examined.

Sensitivity analysis showed that reasonable and ordinary variation to key counting assumptions common to Lemminkäinen's business areas would not cause a need for a significant impairment. Most of The Group's recognised goodwill belongs to the International Operations segment arising from the acquisitions of the Nordic paving units and to the Technical Building Services segment. Margins between the current values of cash flows and the book values are wide in the Baltic Sea area paving and mineral affregates as well as the Technical Building Services. Of the tested cash generating units, most sensitive for changes is the Infrastructure segment's mineral affregates unit. There is risk for an impairment of goodwill less than EUR 0.9 million for this unit. Additional tests for impairment are carried out if the sensitivity tests or possible changes in the future expectations merit them. Long term predictability of the Lemminkäinen's business units is reasonably good and the risk for the impairment of goodwill is small.

Figures describing the goodwill impairment risk of units subject to impairment testing by business segment are presented below.

	International Operations	Building Construction	Infrastructure Construction	Technical Building Services
2013				
Goodwill allocated to the business sector, total	42,583	6,196	6,158	25,164
Ratio of present value to carrying amount *	3.79	1.50	3.81	1.96
Goodwill impairment if annual growth over the				
long term were 1 percentage point lower	0	0	879	0
long term were 2 percentage points lower	0	0	879	0
Goodwill impairment if the dicount rate				
were half a percentage point higher	0	0	879	0
were one percentage point higher	0	0	879	0

	International Operations	Building Construction	Infrastructure Construction	Technical Building Services
2012				
Goodwill allocated to the business sector, total	43,429	6,084	2,366	25,164
Ratio of present value to carrying amount *	3.40	1.90	1.60	4.30
Goodwill impairment if annual growth over the				
long term were 1 percentage point lower	0	0	879	0
long term were 2 percentage points lower	0	0	879	0
Goodwill impairment if the dicount rate				
were half a percentage point higher	0	0	879	0
were one percentage point higher	0	0	879	0

* Net-sales-weighted average of the business sector's cash-generating units subject to impairment testing. Ratio less than 1 would result in impairment.

19 NON-CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR 1,000	31 Dec 2013	31 Dec 2012
Balance sheet value, 1 Jan	5,971	5,992
Translation difference	0	0
Additions	4	131
Disposals	-2,211	-152
Balance sheet value, 31 Dec	3,764	5,971

Available-for-sale financial assets include several unquoted shares. The value of one single investment is not significant in relation to all other investments. The fair value of unquoted shares cannot be reliably determined, thus they are presented at cost less impairment.

20 NON-CURRENT RECEIVABLES

EUR 1,000	31 Dec 2013	31 Dec 2012
Non-current receivables		
Interest-bearing		
Loan receivables	19	19
Non-interest-bearing		
Trade receivables	259	436
Other receivables	625	
	884	436
Non-current receivables, total	904	456

21 INVENTORIES

EUR 1,000	31 Dec 2013	31 Dec 2012
Materials and supplies	38,304	46,099
Building plots and real estate	126,362	159,949
Housing under construction	171,350	90,645
Commercial property under construction	11,072	46,780
Other work in progress	33,496	21,387
Advance payments	13,985	5,170
Completed apartments	55,393	81,276
Completed commercial property	21,588	6,075
Products and goods	32,834	37,005
	504,385	494,388

Collateral notes for uncompleted properties included in inventories are used as collateral security for the debts of companies included in inventories to the value of EUR 119.3 million (EUR 73.1 mill.).

In 2013, the company recognised inventory impairment losses of EUR 19.3 million, of which EUR 14.7 million was related to the company's Building Construction segment's commercial buildings. The impairments of commercial buildings in the inventory are a result of the slowdown in commercial markets outside the Helsinki metropolitan area.

22 CURRENT RECEIVABLES

EUR 1,000	31 Dec 2013	31 Dec 2012
Interest-bearing		
Loan receivables	1,279	22
Non-interest-bearing		
Trade receivables	214,893	193,708
Project income receivables	98,611	90,725
Accrued interest	99	60
Personnel expenses	2,947	3,881
Other prepayments and accrued income	35,597	20,127
Derivative assets	1,881	499
Receivables from real estate companies under construction	7,506	11,449
Other receivables	28,361	42,657
	389,894	363,107
Current receivables, total	391,174	363,129

A total of EUR 5.3 million (EUR 2.8 mill.) of trade receivables were impaired and recognised as credit losses in 2013.

23 CURRENT AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR 1,000	31 Dec 2013	31 Dec 2012
Balance sheet value, 1 Jan	59,020	
Additions		59,020
Decreases	-29,011	
Balance sheet value, 31 Dec	30,010	59,020

Available-for-sale financial assets include short term investments in bank deposits.

24 CASH AND CASH EQUIVALENTS

EUR 1,000	31 Dec 2013	31 Dec 2012
Cash in hand and at banks	51,072	34,926

Cash and cash equivalents includes cash in hand and liquid deposits with solvent banks with original maturities of three months or less.

25 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

EUR 1,000	Financial assets / liabilities recognised at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Derivatives subject to hedge accounting	Carrying amount	Fair value
31 Dec 2013							
Non-current financial assets							
Available-for-sale financial assets			3,764			3,764	3,764
Other non-current receivables		904				904	857
Current financial assets							
Trade and other receivables		389,293				389,293	389,293
Derivative assets	1,881					1,881	1,881
Available-for-sale financial assets			30,010			30,010	30,010
Cash and cash equivalents		51,072				51,072	51,072
Financial assets total	1,881	441,268	33,774			476,923	476,876
Non-current financial liabilities							
Interest-bearing liabilities				61,348		61,348	61,305
Other non-current liabilities				3,033		3,033	3,033
Current financial liabilities							
Interest-bearing liabilities				346 277		346 277	347,115
Trade payables and other financial liabilities *				386,608		386,608	386,608
Derivative liabilities	2,006				74	2,079	2,079
Financial liabilities total	2,006			797,267	74	799,346	800,140

EUR 1,000	Financial assets / liabilities recognised at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Derivatives subject to hedge accounting	Carrying amount	Fair value
31 Dec 2012							
Non-current financial assets							
Available-for-sale financial assets			5,971			5,971	5,971
Other non-current receivables		456				456	456
Current financial assets							
Trade and other receivables		362,630				362,630	362,630
Derivative assets	499					499	499
Available-for-sale financial assets			59,020			59,020	59,020
Cash and cash equivalents		34,926				34,926	34,926
Financial assets total	499	398,011	64,991			463,501	463,501
Non-current financial liabilities							
Interest-bearing liabilities				138,842		138,842	138,545
Other non-current liabilities				7,625		7,625	7,625
Current financial liabilities							
Interest-bearing liabilities				232,361		232,361	232,361
Trade payables and other financial liabilities *				295,917		295 917	295,917
Derivative liabilities	1,804				578	2,382	2,382
Financial liabilities total	1,804			674,745	578	677,127	676,830

* Trade payables and other financial liabilities do not include statutory obligations or prepayments received, as these are not classified as financial liabilities under IFRS.

Fair value measurement

Other non-current receivables includes trade receivables and other interest-free receivables. Fair values are based on future cash flows discounted using risk free market yields plus appropriate credit spreads. The used discount rates vary between 0.6 and 4.8 per cent. The carrying amount of current trade and other receivables is equal to their fair value due to their short maturity.

The fair value of non-current liabilities is based on future cash flows discounted using a market yield plus appropriate credit spread for the Group at the reporting date. The used discount rates vary between 2.3 and 3.2 per cent (2.1–2.5%). The fair value of the bond included in interest-bearing current liabilities is based on the market price, and the fair value of other current liabilities is assumed to be close to their fair value due to their short maturity.

A fair value hierarchy of financial assets and liabilities recognised at fair value

The Group has categorised financial instruments recognised at fair value by using a three-level fair value hierarchy. Financial instruments within Level 1 of the hierarchy are traded in active markets hence prices are obtained directly from the efficient markets. Fair values of instruments within Level 2 are based on observable market inputs and generally accepted valuation methods. Fair values within Level 3 are not based on observable market data but on quotations provided by brokers and market valuation reports.

EUR 1,000	Level 2	Level 3	Total
31 Dec 2013			
Available-for-sale financial assets			
Equity instruments		3,764	3,764
Money market investments	30,010		30,010
Derivative instruments			
Derivative assets	1,858	23	1,881
Derivative liabilities	862	1,217	2,079

EUR 1,000	Level 2	Level 3	Total
31 Dec 2012			
Available-for-sale financial assets			
Equity instruments		5,971	5,971
Money market investments	59,020		59,020
Derivative instruments			
Derivative assets	230	270	499
Derivative liabilities	1,550	832	2,382

Level 3 reconciliation statement

The table below presents the changes in Level 3 financial instruments for the financial year.

EUR 1,000	Financial instruments recognised at fair value through profit or loss	Financial instruments recognised at fair value through other comprehensive income
Opening balance 1 Jan 2013	-563	5,971
Additions		4
Disposals		-2,211
Gains and losses recognised in profit or loss, total	-631	
Fair values 31 Dec 2013	-1,194	3,764
Gains and losses on level 3 financial instruments held at the end of the accounting period		
In other operating income and expenses	-1,194	

EUR 1,000	Financial instruments recognised at fair value through profit or loss	Financial instruments recognised at fair value through other comprehensive income
Opening balance 1 Jan 2012	159	5,992
Additions		131
Disposals		-152
Gains and losses recognised in profit or loss, total	-722	
Fair values 31 Dec 2012	-563	5,971

Financials › Notes to the consolidated financial statements (IFRS) › 26 Shareholders' equity

26 SHAREHOLDERS' EQUITY

Shares and share capital

Lemminkäinen Corporation has one share class. On 31 December 2013, the Company had a total of 19,650,176 shares. All issued shares are fully paid up. The Company held 34,915 treasury shares.

Share premium account

Share premiums are recognised in the share premium account.

Invested non-restricted equity fund

The invested non-restricted equity fund includes the subscription prices of shares to the extent that they are not entered into share capital on the basis of a separate decision.

Hybrid bond eligible for equity classification

Shareholders' equity includes EUR 70 million Hybrid bond issued 2012. The bond has no maturity date but the company has the right to redeem it after four years of the issue date. The bond is unsecured and in a lower priority than the company's other debt obligations. A holder of Hybrid bond notes does not possess any of the rights of a shareholder, and the bond does not dilute shareholders' holdings in the company. Bond's annual coupon rate is 10%.

Translation differences

The translation differences include the differences arising from the translation of the financial statements of foreign entities. During the past years the Group has hedged the net investment in foreign entities and hedging gains and losses from hedge instruments are also included in the translation differences, provided they qualified for hedge accounting. Group has not applied the hedge accounting for hedging the net investment in foreing entities during the reporting period.

Revaluation reserve

Revaluation reserve includes fair value changes of available-for-sale financial assets.

Hedging reserve

Hedging reserve includes the effective portion of the fair value changes of interest rate derivatives designated for hedge accounting. Cash flow hedging is applied for hedging interest rate risk. During the period a fair value change of interest rate derivatives EUR 0.5 milllion (EUR 0.7 mill.) before deferred taxes has been recognised in other comprehensive income. An amount of EUR -0.5 million (EUR -0.9 mill.) has been recognised in interest expences in profit and loss during the financial year arising from cash flow hedging.

27 INTEREST-BEARING LIABILITIES

EUR 1,000	31 Dec 2013	31 Dec 2012
Non-current		
Borrowings from financial institutions	15,136	13,620
Pension loans	1,956	21,503
Finance lease liabilities	43,542	43,809
Bonds		59,836
Other non-current liabilities	715	73
	61,348	138,842
Current		
Borrowings from financial institutions	9,016	35,726
Pension loans	19,555	22,759
Finance lease liabilities	14,254	13,940
Bonds	59,931	
Chequing accounts	17,261	5,663
Commercial papers	150,205	86,847
Liabilities of housing companies under construction	73,115	67,310
Other current liabilities	2,939	117
	346,277	232,361

Most of the liabilities are denominated in the debtors functional currency. The 2012 borrowings from financial institutions include Norwegian krone denominated loans drawn down by the parent company, corresponding to EUR 20.4 milloin.

Finance lease liabilities

EUR 1,000	31 Dec 2013	31 Dec 2012
Finance lease liabilities and interest on them is due as follows		
In one year or earlier	15,958	15,673
Over one year, but less than five years	39,028	39,613
Over five years	7,462	7,801
	62,448	63,087
Maturity of present value of minimum leases		
In one year or earlier	14,254	13,940
Over one year, but less than five years	36,283	36,402
Over five years	7,259	7,408
	57,796	57,749
Accumulated future finance costs from finance lease liabilities	4,652	5,338

28 PENSION OBLIGATIONS

The company has in its operating countries several defined contribution pension plans which are subject to local regulation and practices. The company's one most significant pension plan is the Finnish Emplyees Pensions Act (TyEL), in which the benefits are determined directly on the basis of the level of the beneficiary's earnings level. TyEL pension plan is mainly arranged through pension insurance companies and it is treated as a defined contribution plan.

At the end of 2013, the company had defined benefit pension plans in Finland and Norway. All plans at the year-end 2013 were final salary defined benefit plans, and they supplement the statutory pensions or enable retirement before the statutory retirement age. In Norway, some of the company's defined benefit plans were converted to defined contribution plans during 2013 and all of the plans' obligations, EUR 12.4 million, were settled. In addition, the company recognised a curtailment gain of EUR 1.9 million, which was booked to other operating income. Three persons left the Finnish plan, which was treated as a partial settlement of the obligation, and it had no effect on the company's income statement.

EUR 1,000	31 Dec 2013 (forecast)	31 Dec 2013	31 Dec 2012
Recognised in the balance sheet			
Present value of funded obligations	595	969	19,032
Fair value of plan assets	-109	-102	-13,816
Total amount recognised in the balance sheet	486	867	5,216
of which in Finland	429	490	384
of which in Norway	57	376	4,832

Estimated amount of defined benefit plan payments in Lemminkäinen Group during 2014 is EUR 0.1 million. Estimates and forecasts may vary from actual figures.

EUR 1,000	Present value of obligation	Fair value of plan assets	Total
1 Jan 2013	19,032	-13,816	5,216
Current service cost	1,383		1,383
Net interest	393	-226	167
Settlements	-12,434	12,434	
Curtailments	-1,933		-1,933
	-12,591	12,208	-383
Remeasurements			
Return on plan assets		27	27
Change in demographic assumptions	1,101		1,101
Gain/loss from change in financial assumptions	-4,479	586	-3,892
Experience gains/losses	-554		-554
	-3,931	614	-3,318
Exchange differences	-1,158	824	-334
Employer contributions		-314	-314
Benefit payments	-382	382	
31 Dec 2013	969	-102	867

EUR 1,000	Present value of obligation	Fair value of plan assets	Total
1 Jan 2012	19,694	-13,528	6,165
Current service cost	1,337		1,337
Net interest	618		618
Settlements	-951	951	
Curtailments	-240		-240
	764	951	1,715
Remeasurements			
Return on plan assets		-473	-473
Gain/loss from change in financial assumptions	-77	293	216
	-77	-179	-256
Exchange differences	1,029	-704	325
Employer contributions		-1,804	-1,804
Benefit payments	-541	541	
Business combinations and disposals	-1,836	906	-929
31 Dec 2012	19,032	-13,816	5,216

The company's defined benefit pension obligations do not include minimum funding requirements.

	31 Dec 2013 Finland	31 Dec 2013 Norway	31 Dec 2012 Finland	31 Dec 2012 Norway
Actuarial assumptions				
Discount rate, %	3.3	4.1	3.5	3.3
Inflation rate, %	2.0	1.8	2.0	1.8
Expected rate of salary increases, %	1,0	3.3	3.5	3.8
Future pension increases, %	2.1	0.6	2.1	0.5

	Finland	Norway
Life expectancy of plan members in 2013		
Male age 65 (current life expectancy), years	19.0	20.6
Female age 65 (current life expectancy), years	24.7	23.5
Male age 45 (at age 65), years	20.6	22.8
Female age 45 (at age 65), years	26.4	26.0

Defined benefit plans' assets consist entirely of qualifying insurance policies and are fair valued on the accounting date. These assets do not include investments to Lemminkäinen or to real estate or other assets used by the company. The expected return on the plan assets is an estimate of a life insurance company's future long term total rebate.

Plan participants at the end of period	31 Dec 2013	31 Dec 2012
Active	12	583
Inactive not in pay status / Deferred	9	15
Inactive in pay status / Pensioners	95	178
Total number of participants	116	776

The effect of a 0.5 percentage point change in the most significant actuarial assumptions to the amount of defined benefit pension obligations is presented in the tables below.

	31 Dec 2013 Finland	31 Dec 2013 Norway
0.5% increase in the principal assumption will impact the liability as follows		
Discount rate	-4,49%	-3,32%
Inflation rate	4,98%	-
Expected rate of salary increases	0,17%	0,01%
0.5% decrease in the principal assumption will impact the liability as follows		
Discount rate	4,30%	3,32%
Inflation rate	-4,74%	-
Expected rate of salary increases	-0,17%	-0,01%

The above analyses are based on a 0.5 percentage point change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit pension obligation the same method has been applied as when measuring the defined benefit pension obligation recognized in the balance sheet.

	2013	2012	2011	2010	2009
Plan assets and liabilities for the past five years					
Defined benefit obligation	969	19,032	21,674	21,776	15,941
Fair value of plan assets	-102	-13,816	-13,376	-15,961	-12,553
	867	5,216	8,298	5,815	3,388

Financials › Notes to the consolidated financial statements (IFRS) › 29 Share-based payments

29 SHARE-BASED PAYMENTS

Performance-based reward

Years 2010–2012

Lemminkäinen had a share-based incentive plan comprising three one-year earning periods: the calendar years 2010, 2011 and 2012. The Board of Directors decided on the earning criteria for each period as well as on the targets to be established at the beginning of each earning period. In 2012, the earning criteria for long-term incentives were the targets set for the Group's equity ratio and return on investment. The reward was paid partly in company shares and partly in cash. The proportion paid in cash covered the taxes and tax-related costs arising from the reward. The shares may not be transferred during the commitment period which ends two years after the earning period ends.

Years 2013–2015

At the end of 2012, the Board of Directors of Lemminkäinen Corporation decided on a new share-based incentive plan for the Group's key personnel. The plan includes three one-year earning periods, calendar years 2013, 2014 and 2015. The company's Board of Directors will decide on the earning criteria and the targets to be set at the beginning of each earning period. The potential performance-based reward for an earning period will be paid out in company shares and cash. The proportion to be paid in cash will cover the 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

As part of the plan the above mentioned key personnel has the opportunity to receive conditional reward, ie matching shares, on the basis of their share ownership and continued 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 30.6.2013. The number and date are set by the Board of Directors. In this case, the key person will be granted, as a reward, 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.

Information concerning share-based incentive plan is presented below:

		Performance-based reward		
	Conditional reward	Earning period 2013	Earning period 2012	Earning period 2011
Grant date	6 Feb 2013	7 Feb 2013	9 Feb 2012	10 Jan 2011
Earning period start date	1 Jan 2013	1 Jan 2013	1 Jan 2012	1 Jan 2011
Earning period end date	31 Dec 2015	31 Dec 2013	31 Dec 2012	31 Dec 2011
Commitment period end date	30 Apr 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
Remaining contractual life, years	2.3	2.0	1.0	0.0
Vesting conditions	share ownership requirement	EBIT, ROI	equity ratio, ROI	equity ratio, ROI
Payment method	cash & equity	cash & equity	cash & equity	cash & equity
Share price at grant date, EUR	15.80	15.85	20.20	25.35
Fair value of share at grant date, EUR *	15.03	15.26	19.70	24.65
Amount of granted shares during period, maximum		205,591	75,076	53,176
Changes in number of granted shares, maximum		-3,449	2,433	6,244
Number of granted shares at the end of period, maximum		202,142	77,509	59,420
Number of shares earned at the end of period **	16,036	0	42,630	15,709
Number of plan participants at end of period	15	43	40	29
Assumed fulfilment of earning criteria, %		0.0	60.0	15.0
Estimated number of shares returned prior to the end of commitment period, %	10.0	10.0	10.0	10.0

* The fair value of share at grant date is the share's grant date value less estimated dividend payments during the earning period.

** Number of shares earned in 2013 is an estimate.

According to management estimates no shares were earned, and therefore no expenses were recognised in earning period 2013. The accured expenses from the share based incentive plans recognised in the income statement in 2013 were a total of EUR 1.0 million (EUR 0.5 million). The liability recognised in the balance sheet in respect of share-based incentive plan at the end of 2013 was EUR 0.9 million (EUR 0.8 mill.). The company estimates that expenses to be recognised in 2014 from incentive plans realised before 2014 will be approximately EUR 0.5 million. Actual amount may differ from the estimated amount.

30 PROVISIONS

EUR 1,000	Warranty provisions	10 year liability provisions	Landscaping provisions	Lease commit-ment provisions	Litigation provisions	Other provisions	Total 31 Dec 2013	Total 31 Dec 2012
Provisions, 1 Jan	9,312	8,075	2,852	1,953		150	22,341	21,794
Translation differences	-228		-263			-1	-492	454
Increases in provisions	4,069	1,782	710	1,917	5,900	705	15,083	10,272
Expensed provisions	-6,067	-1,200	-104	-2,394			-9,764	-10,179
Purchases and sales of subsidiaries	3					-6	-4	
Provisions 31 Dec 2013	7,089	8,657	3,196	1,476	5,900	847	27,164	
Provisions 31 Dec 2012	9,312	8,075	2,852	1,953		150		22,341

EUR 1,000	Warranty provisions	10 year liability provisions	Landscaping provisions	Lease commit-ment provisions	Litigation provisions	Other provisions	Total 31 Dec 2013	Total 31 Dec 2012
Provisions categorised as								
Long-term	1,547	7,316	3,196	1,476	5,900	500	19,935	13,238
Short-term	5,541	1,341				347	7,229	9,104
	7,089	8,657	3,196	1,476	5,900	847	27,164	22,341

Warranty provisions cover after completion repair costs arising from warranty obligations. Provisions related to housing construction are expected to be used within one year after the provision is made. Warranty provisions related to other construction projects are mainly used in 1-2 years after the provision is made.

10 year liability provision related to housing and commercial contruction is determined as a whole for all the projects including such liabilities.

Landscaping provisions are related to a site's landscaping obligations. The expected time for using landscaping provisions depends on the use of the site, because in most cases the landscaping work starts after the use of the site ceases.

Lease liability commitment arises, when the company has a contractual obligation to obtain tenants for premises not yet leased in a commercial real estate under construction. Provisions for lease commitments are expected to be used in 1—3 years after the provision is made.

Litigation provision is recognised for the asphalt cartel related claims for damages pending in the District Court of Helsinki, with 14 municipalities as plaintiffs. The court proceedings of these actions are expected to start in the District Court during 2014 at the earliest, and are expected to last 1—3 years. The amount of provision is estimated on the basis of the decisions given by Helsinki district court on 28th November 2013.

31 TRADE AND OTHER PAYABLES

EUR 1,000	31 Dec 2013	31 Dec 2012
Non-current		
Other non-current liabilities	3,033	7,625
Trade payables and other current liabilities		
Advance payments received	140,989	102,782
Liabilities to owners of housing under construction	13,427	12,947
Trade payables	139,780	110,931
Project expense liabilities	42,659	32,963
VAT	35,175	26,765
Accrued interest	1,180	1,334
Accrued personnel expenses	83,121	88,314
Other accrued liabilities	16,927	18,282
Derivative liabilities	2,079	2,382
Other current liabilities *	89,515	31,147
	564,851	427,847
Non-current and current trade payables and other liabilities, total	567,884	435,472

* Other current liabilities at the end of 2013 include EUR 59.7 million of payables associated with the asphal cartel related legal proceedings.

32 FINANCIAL RISK MANAGEMENT

In its business operations, Lemminkäinen Group is exposed to financial risks, mainly interest rate, foreign exchange rate, funding, liquidity and credit risks. The aim of the Group's financial risk management is to reduce uncertainty concerning the possible impacts that changes in fair values on the financial markets could have on the Group's result, cash flow and value. The management of financial risks is based on principles approved by the Board of Directors. The treasury policy defines the principles and division of responsibilities with regard to financial activities and the management of financial risk. The policy is reviewed and if necessary updated at least annually.

Execution of the treasury policy is the responsibility of the Group Treasury, which is mainly responsible for the management of financial risks and handles the Group's treasury activities on a centralised basis. The Group's treasury policy defines the division of responsibilities between the Group Treasury and business units in each subarea. The Group companies are responsible for providing the Group Treasury with up-to-date and accurate information on treasury-related matters concerning their business operations. The Group Treasury serves as an internal bank and co-ordinates, directs and supports the Group companies in treasury matters such that the Group's financial needs are met and its financial risks are managed effectively in line with the treasury policy.

Interest rate risk

The aim of Lemminkäinen Group's interest rate risk management is to minimise changes affecting the result, cash flows and value of the Group due to interest rate fluctuations. The Group Treasury manages and monitors the interest rate position. The Group's interest rate risk primarily comprises fixed-rate and variable-rate loan and leasing agreements, interest-bearing financial receivables and interest rate derivatives. Interest rate changes affect items in the income statement and balance sheet.

The interest rate risk is decreased by setting the Group's average period of interest rate fixation to the same as the interest rate sensitivity of its business. The interest rate sensitivity position of the Group's business is estimated to be about 15 months. The treasury policy thus defines the Group's average period of interest rate fixation as 12–18 months. The Group aims to keep 40–65 per cent of its liabilities per currency hedged.

The Group can have both variable- and fixed-rate long-term borrowings. The ratio of fixed- and variable-rate borrowings can be changed by using interest rate derivatives. In 2013, the Group has used interest rate swaps for managing interest rate risks. Part of the interest rate swaps are used for hedge accounting and a hedging result of those derivatives will have impact on interest expenses until the year 2014. There was no ineffectiveness to be recorded from hedge accounting during the financial year.

Interest rate fluctuations in 2013 did not have any unusual effect on the Group's business, but a significant rise in the level of interest rates may have a detrimental effect on the demand for housing.

Sensitivity analysis of interest rate risk

The following assumptions are made when calculating the sensitivity caused by a change in the level of interest rates:
-the interest rate change is assumed to be 1 percentage point
-the position includes variable-rate financial liabilities, variable-rate financial receivables and interest rate derivatives
-all factors other than the change in interest rates remain constant
-taxes have not been taken into account when calculating sensitivity

EUR 1,000	Interest rate risk position	Impact on profit or loss (+1%)	Impact on profit or loss (-1%)	Impact on other comprehensive income (+1 %)	Impact on other comprehensive income (-1%)
31 Dec 2013					
Variable-rate liabilities	-172,028	-1,720	1,720		
Variable-rate receivables	81,845	818	-818		
Interest rate derivatives	47,180	1,606	-1,699	9	-9
	-43,003	704	-798	9	-9

EUR 1,000	Interest rate risk position	Impact on profit or loss (+1%)	Impact on profit or loss (-1%)	Impact on other comprehensive income (+1 %)	Impact on other comprehensive income (-1 %)
31 Dec 2012					
Variable-rate liabilities	-180,210	-1,802	1,802		
Variable-rate receivables	34,926	349	-349		
Interest rate derivatives	61,460	2,051	-2,189	116	-119
	-83,825	598	-736	116	-119

Foreign exchange rate risk

The aim of foreign exchange rate risk management is to reduce uncertainty concerning the possible impacts that changes in exchange rates could have on the future values of cash flows, business receivables and liabilities, and other balance sheet items. Exchange rate risk mainly consists of transaction risk and translation risk.

Translation risk consists of foreign exchange rate differences arising from the translation of the income statements and balance sheets of foreign group companies into the Group's functional currency. In practice, the Group's reportable translation risk is caused by equity investments in foreign entities and their retained earnings, the effects of which are recorded under translation differences in shareholders' equity. Lemminkäinen Group has foreign net investments in several currencies. In accordance with the treasury policy, Lemminkäinen Group protects itself from translation risks primarily by keeping equity investments in foreign entities at an appropriately low level, and thus does not use financial instruments to hedge the translation risks.

Transaction risk consists of cash flows in foreign currencies from operational and financial activities. The Group seeks to hedge business currency risks primarily by operative means. The remaining transaction risk is hedged by using instruments such as foreign currency loans and foreign currency derivatives. The group companies are responsible for identifying, reporting, forecasting and hedging their transaction risk positions internally. The Group Treasury is responsible for hedging the Group's risk positions as external transactions in accordance with the treasury policy. The general rule is that the major net positions forecasted for the 12 months following the review date are hedged, with a hedging ratio ranging from 25—100 per cent and emphasising the first six months.

The key currencies in which the Group was exposed to transaction risk in 2013 were Swedish krona and Russian rouble (in 2012 US-dollar and Russian rouble). These transaction risk positions were mainly due to sales, procurements, receivables and liabilities. In 2013 the Group did not apply hedge accounting to transaction risk hedging.

Sensitivity analysis of transaction risk

The following assumptions have been made when calculating the sensitivity caused by changes in exchange rates:
– the exchange rate change is assumed to be +/–10%
– the position includes financial assets and liabilities denominated in roubles and kronas (in 2012 denominated in dollars and roubles)
– the position does not include forecasted future cash flows
– taxes are excluded in sensitivity analysis

EUR 1,000	Transaction position	+/- 10% impact on profit or loss
31 Dec 2013		
EUR/SEK	-2,432	+221 / -270
EUR/RUB	-6,432	+585 / -715

EUR 1,000	Transaction position	+/- 10% impact on profit or loss
31 Dec 2012		
EUR/USD	6,160	-560 / +684
EUR/RUB	22,813	-2,074 / +2,535

Funding and liquidity risk

The Group seeks to optimise the use of liquid assets in funding its business operations and to minimise interest and other finance costs. The Group Treasury is responsible for managing the Group's overall liquidity and ensuring that adequate credit lines and a sufficient number of different funding sources are available. It also ensures that the maturity profile of the Group's loans and credit facilities is spread sufficiently evenly over coming years as set out in the treasury policy. At the end of the accounting period, the maturity schedule of the Group's interest-bearing liabilities was front-loaded. The primary reasons for this are the EUR 60 million bond that matures in October 2014, and the maturing pension loans with instalment plans. Current interest-bearing liabilities also include borrowings of housing companies under construction, totalling EUR 73.1 million. These borrowings will be transferred to the buyers of the co-op shares when the units are handed over. Regarding unsold housing units, the Group will bear the liability by paying financial consideration for the units in question. The Group's available financing sources and liquid assets are sufficient to cover the obligations arising from current interest-bearing liabilities.

According to the treasury policy, the Group's liquidity reserve shall at all times match the Group's total liquidity requirement, and it must be accessible within five banking days without any additional charges being incurred. The Group's total liquidity requirement consists of the liquidity requirement of day-to-day operations, risk premium needs and the strategic liquidity requirement. The Group's liquidity management is based on monthly forecasts of funding requirements and daily cash flow forecasting. The Group's excess liquidity is managed by means of internal transactions and cash pools.

Due to the nature of the Group's business operations, seasonal borrowing is of great importance. The effect of seasonal variation on short-term liquidity is controlled by using a commercial paper programme, committed credit limits and bank overdraft facilities. The total amount of the Group's commercial paper programme is EUR 300 million (EUR 300 mill.), of which EUR 150.2 million (EUR 86.8 mill.) was in use at 31 December 2013. In March 2013, Lemminkäinen agreed on financial arrangements totalling EUR 255 million. Arrangements comprised a EUR 185 million, three-year syndicated revolving credit facility and a EUR 70 million, two year syndicated term facility. The credit facilities are binding and unsecured. Arrangements replaced EUR 160 million bilateral credit facilities which were originally set to mature in December 2013. In December, Lemminkäinen terminated the EUR 70 million credit facility mentioned above. At the end of the year, the Group had unused committed credit facilities amounting to EUR 175.0 million (EUR 139.6 mill.) and overdraft limits amounting to EUR 44.0 million (54.1). The amount of liquid assets at 31 December 2013 was EUR 81.1 million (EUR 93.9 mill.).

Contractual cash flows of financial liabilities and derivative instruments

EUR 1,000	2014	2015	2016	2017	2018	2019-	Total
31 Dec 2013							
Interest-bearing liabilities	352,436	18,912	23,433	8,972	5,656	7,535	416,945
Interest rate derivatives	346	247	248	247	118		1,206
Forward foreign exchange contracts							
Cash flows payable	106,015						106,015
Cash flows receivable	-106,552						-106,552
Commodity derivatives							
Cash flows payable	593	97	321				1,011
Cash flows receivable	-14	-9					-23
Other financial liabilities	245,861	2,279	535				248,675
Trade payables	139,568						139,568
Financial guarantees given	17,413		1,519			254	19,186
	755,664	21,526	26,056	9,219	5,774	7,790	826,029

EUR 1,000	2013	2014	2015	2016	2017	2018-	Total
31 Dec 2012							
Interest-bearing liabilities	239,393	107,025	13,160	11,027	6,673	8,022	385,300
Interest rate derivatives	915	374	274	275	274	141	2,252
Forward foreign exchange contracts							
Cash flows payable	93,428						93,428
Cash flows receivable	-92,930						-92,930
Commodity derivatives							
Cash flows payable	421	161	162	134			878
Cash flows receivable	-272						-272
Other financial liabilities	183,653	6,245	1,380				191,278
Trade payables	110,931						110,931
Financial guarantees given	11,190					254	11,444
	546,729	113,805	14,975	11,437	6,948	8,416	702,309

Credit risk

Credit risks arise when a counterparty is unable to meet its contractual obligations, casusing the other party to suffer a financial loss. Lemminkäinen has defined a credit policy for customer receivables that aims to boost profitable sales by identifying credit risks in advance and controlling them. Most of the Group's business is based on established and trustworthy customer relationships and on contractual terms generally observed in the industry. The credit policy sets the minimum requirements concerning trade credit and collections for Lemminkäinen Group. The Group's credit control function defines credit risks and the business units are responsible for managing them.

The Group is exposed to credit risk through the Group's trade receivables and receivables associated with deposits and receivables. The maximum amount of credit risk is the combined total of the balance sheet values of the aforementioned items. The amounts and due dates of the Group's trade receivables are presented in the table below. The Group does not have any significant credit risk concentrations as trade receivables are distributed among many different customers in a number of market areas. The business unit that made the contract actively monitors the receivables situation. If the business units renegotiate the terms of the receivables, they must do so in accordance with the requirements of the Group's credit policy. The risk of credit losses can be reduced by means of guarantees, mainly bank guarantees and bank deposits. Lemminkäinen's credit losses have been minimal in relation to the scale of its operations. The main risks are associated with business in Russia. As a general rule, construction projects in Russia are only undertaken against receipt of advance payments. If, in exceptional situations, a credit risk is taken, the amount permitted is always proportional to the expected margin on the project in question. Receiveables transferred for legally enforceable collection are recognised as credit losses.

The Group Treasury is responsible for the management of the Group's counterparty and credit risks related to cash, financial investments and financial transactions. The Group is exposed to counterparty risk when investing liquid assets and using derivative instruments. Liquid assets are invested in short-term bank deposits, certificates of deposit issued by solvent partner banks, and commercial papers issued by corporations with a good credit rating. The treasury policy specifies the approved counterparties and their criteria. At the end of 2013, the counterparty risk was considered to be low.

Ageing analysis of trade receivables

EUR 1,000	31 Dec 2013	31 Dec 2012
Not due	171,464	155,374
Past due 1–30 days	19,698	25,260
Past due 31–60 days	8,023	4,203
Past due 61–90 days	7,070	2,071
Past due over 90 days	10,516	7,236
	216,771	194,144

Commodity price risk

The Group's paving operations are exposed to bitumen price risk. The price of bitumen is determined by the world market price of oil. The Group protects itself against the bitumen price risk with fixed purchase prices, price clauses in sales agreements and derivatives for which hedge accounting is not applied. By the closing date, the group companies had used bitumen derivatives to hedge, in total, 58,933 MT (40,000 MT) of bitumen purchases.

Management of capital and the capital structure

Capital means the equity and interest-bearing liabilities shown on Lemminkäinen's consolidated balance sheet. Lemminkäinen Group's capital management ensures cost-effectively that all of the Group's business sectors maintain their business viability at a competitive level in all cyclical conditions, that risk-carrying capacity is adequate, for example, in construction contracts, and that the Company is able to pay a good dividend and service its borrowings.

The amount of the Group's interest-bearing liabilities is affected by factors such as scale of operations, seasonal changes in production, acquisitions, and investments in or the sale of production equipment, buildings and land. The Company continuously monitors especially the amount of debt, the ratio of net debt to EBITDA, and the equity ratio.

Some of the Group's financial arrangements include two financial covenants, the ratio of net debt to EBITDA and the equity ratio, which are monitored quarterly and calculated as an average of four previous quarters. In March 2013, Lemminkäinen and the other contracting parties agreed that potential damages related to the claimed asphalt cartel will be ignored in the calculation model of financial covenants. Furthermore, before the end of the financial period, the company reached an agreement with other parties on changes in the net debt to EBITDA covenant terms for Q4/2013 and Q1/2014.

The Group's equity includes a EUR 70 million Hybrid bond which was issued in 2012. The Hybrid bond is classified as equity instrument but the bond holders do not have any rights of a shareholders, and the bond does not dilute shareholders' ownership in the company. The Hybrid bond is unsecured and junior to all other borrowings of the company. The bond has no maturity date but company has the right to redeem it at it's own discretion after four years of the issuance date.

The Company also follows the development of equity by means of the return on investment. A long-term average in excess of 18 per cent is regarded as a good return. The return on investment in 2013 was -9.4 per cent (10.8%).

EUR 1,000	31 Dec 2013	31 Dec 2012
Interest-bearing liabilities	407,626	371,203
Liquid assets	81,081	93,946
Interest-bearing net debt	326,544	277,257
Equity, total	324,038	441,764
Equity ratio, %	27.3	37.2
Gearing, %	100.8	62.8
Return on investment, %	-9.4	10.8

33 DERIVATIVE FINANCIAL INSTRUMENTS

EUR 1,000	Nominal value	Fair value positive	Fair value negative	Fair value net
31 Dec 2013				
Foreign exchange derivatives	106,009	1,640	-726	914
Interest rate derivatives	47,180	216	-180	36
Commodity derivatives	24,407	23	-1,217	-1,194
	177,597	1,879	-2,123	-244

EUR 1,000	Nominal value	Fair value positive	Fair value negative	Fair value net
31 Dec 2012				
Foreign exchange derivatives	93,698	105	-387	-282
Interest rate derivatives	61,460		-1,126	-1,126
Commodity derivatives	17,230	270	-832	-563
	172,388	375	-2,346	-1,971

The fair value of derivative instruments is the gain or loss arising from the settlement of the contract at the market price prevailing on the reporting date.

Hedge accounting has not been applied to all derivative instruments. Nevertheless, these derivative instruments have been utilised for hedging purposes. The derivatives are used in order to reduce business risks and to hedge balance-sheet items denominated in foreign currencies. Changes in the fair value of non-hedge accounted derivatives are recognised through profit or loss in accordance with their nature either in financial items or as other operating income and expenses.

Financial derivatives are subject to master netting- or similar arrangements which are enforceable in some circumstances. According to these arrangements above mentioned derivative assets and derivative liabilities could be settled on a net basis. Netting arrangements are enforceable according to typical negligence events or other events of default as the general terms for derivative transactions applies. These items are recognised on gross basis in the balance sheet. Net figures would have been EUR 0.8 million (EUR 0.2 mill.) smaller than the figures presented in the table.

34 ADJUSTMENTS TO CASH FLOWS

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Depreciation and impairment of goodwill	45,329	40,983
Share of the profits of associates and joint ventures	-562	-1,064
Finance income and costs recognised on accrual basis	26,669	21,363
Change in provisions	5,315	93
Change in pension obligations	-3,763	-3,218
Credit losses on trade receivables	5,331	2,752
Gains and losses on the sale of property, plant and equipment as well as other non-payment income and expenses	-17,724	-4,606
Translation differences	800	671
	61,394	56,974

35 OPERATING LEASE COMMITMENTS

The company corrects previously presented comparison period figure for minimum lease payments. As a consequence, the amount of the minimum leases of irrevocable lease contracts as well as the operating lease liabilities of the year 2012 decreased by EUR 13.2 million.

EUR 1,000	31 Dec 2013	31 Dec 2012
Minimum leases of irrevocable lease contracts within		
One year or less	12,337	11,884
Over one year, but less than five years	26,116	27,228
Over five years	6,005	10,027
	44,458	49,139
Minimum leases of irrevocable lease contracts include operating lease commitments due within		
One year or less	5,144	5,655
Over one year, but less than five years	5,978	8,160
Over five years	562	748
	11,684	14,564

Irrevocable lease commitments include mainly leases of real estates and machineries.

36 GUARANTEES AND COMMITMENTS

EUR 1,000	31 Dec 2013	31 Dec 2012
Pledged deposits		
For own commitments	17	19
Guarantees		
On behalf of associates and joint ventures	17,356	17,887
On behalf of consortiums and real estate companies	1,831	13,331
	19,186	31,217
Investment commitments	7,738	5,346

37 CONTINGENT LIABILITIES

In its decisions on 28 November 2013, the District Court of Helsinki ordered Lemminkäinen and other asphalt industry companies to pay damages related to the asphalt cartel to 35 plaintiffs. Lemminkäinen's share of the damages is EUR 49.3 million, which consists of damages ordered to only Lemminkäinen, Lemminkäinen's share of the damages ordered to be paid jointly and severally as well as expenses related to the damages. As, according to Lemminkäinen's estimate, some of the other defendants that have been ordered to pay damages jointly and severally will not be able pay the shares ordered to them by the District Court, Lemminkäinen will pay shares of damages and related expenses ordered to these defendants in the amount of approximately EUR 10.4 million.With regard to the court decisions, the company recorded EUR 59.7 million in expenses under its result in the 2013 financial statements. Most of the parties have applied for an extension to the appeal period, after which the appeal must be submitted by 31 March 2014.

In addition, the company has several other individual legal proceedings related to business operations, the outcome of which is uncertain. The company estimates that these legal proceedings will not have a material impact on the company's financial position.

38 RELATED-PARTY TRANSACTIONS

Lemminkäinen Group's related parties comprise associates and joint ventures as well as members of the key management personnel including close members of their families. Members of the key management personnel comprise the Board of Directors, the President and CEO, Executive Board and the internal audit manager.

Transactions with related parties

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Sales of goods and services		
To associates and joint ventures	2,948	3,903
To a company under the influence of a key management person's family member	125	200
	3,074	4,103
Purchases of goods and services		
From associates and joint ventures	11,275	14,429

EUR 1,000	31 Dec 2013	31 Dec 2012
Balance of purchases/sales of goods and services		
Trade receivables		
From associates and joint ventures	28	2,200
From a company under the influence of a key management person's family member	125	200
	153	2,400
Trade payables		
To associates and joint ventures	212	218

Related-party transactions with associates and joint ventures are mainly asphalt works and mineral aggregate deliveries. Related-party transaction with a company under the influence of a family member of a member of the key management personnel is a market-based sale of construction service. A list of investments in subsidiaries and associates and joint ventures is in note 39 and additional information on associates and joint ventures in note 11.

Remuneration of key management personnel

On the basis of a proposal submitted by the Remuneration Committee, the company's Board of Directors decides on the basic salary and fringe benefits as well as on both short-term and long-term remuneration of the President and CEO and of the Executive Board. The Board of Directors decides annually both short and long-term indicators for Management remuneration and the target values for the indicators which are designed to support achievement of the strategic goals. On the basis of the President and CEO's proposal, The Board decides on the amount of fees and whether the indicator-based goals have been reached.

According to management remuneration policy approved by the Board of Directors, the remuneration of the President and CEO, members of the Group's Executive Board, and other management personnel consists of a fixed basic salary, fringe benefits, other benefits, annual short-term incentives (performance-based pay) as well as long-term share based incentive plans and pension plans.

In 2013, The Company booked social security costs of EUR 0.8 million (EUR 0.7 mill.) from key management personnel's salaries, fees and other short-term employee benefits. The costs are not included in the figures presented in the table below. The table's figures are calculated on accrual basis and the performance and share-based rewards included in the figures are based on a year-end estimate.

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Short-term employee benefits	2,622	2,793
Post-employment benefits	835	752
Share-based payments	428	250
Other long term benefits	6	
	3,891	3,794

Short-term employee benefits

A fixed basic salary refers to a person's monthly salary, which is determined by the requirements of the position as well as the performance and experience of the person holding the position. In addition to the use of a company car and mobile phone and a meal benefit, management personnel have extended insurance cover for accidents and travel in their leisure time. The total salary covers fixed basic salary and fringe benefits.

The amount of the management's performance-related reward is earned by exceeding financial and operational profit targets specified at the beginning of the year. The Executive Board is divided into four performance-related reward groups which define the maximum performance-related reward percentage for each person. Defining a person's reward group is based on organization level as well as the requirements and operational influence of the position. In 2013 the level of performance-related reward of the Management was based on the profit before taxes and reaching other growth and development targets such as efficiency improvement of working capital. The performance-related rewards of the Presidents of business segments, who are members of the Group's Executive Board, are also based on the gross profits of each segment. Achieving performance-related reward targets were assessed semi-annually. The maximum performance-related reward payable to Lemminkäinen's President and CEO was 80 per cent of his annual cash salary. The corresponding percentage for the other members of the Group's Executive Board was 60 per cent of their annual cash salary.

Lemminkäinen Corporation's General Meeting elects each year the members to serve on the Company's Board of Directors and decides their fees. The fees are paid fully in cash. The term of office of the board members lasts until the end of the first Annual General Meeting held after their election. The members of Lemminkäinen's Board of Directors do not belong to the share-based incentive plan, and they are not employees of Lemminkäinen. The 2013 Annual General Meeting decided that the Chairman would be paid a fee of EUR 10,000 per month (EUR 10,000) and the board members would each receive a fee of EUR 3,000 per month (EUR 3,000). The board members also receive an attendance fee of EUR 500 per meeting (EUR 500). The chairman of the Audit Committee is paid an attendance fee of EUR 1,000 (EUR 1,000) and the members of the Audit Committee EUR 500 (EUR 500) for each meeting of the Committee. Board members living outside Finland receive an extra EUR 1,000 to their attendance fees.

Post-employment benefits

From the beginning of 2010 the additional pension plan of the President and CEO and the members of Executive Board is based on cash basis and earning a paid-up policy. The amount of payment is defined as percentages of the annual salary. The president and CEO is entitled to retire at the age of 60. Other members of the Executive Board are, according to the old policy, entitled to retire at the age of 60 or according to the policy valid since 15.9.2011 at the age of 63.

In 2013, the company incurred accrual based costs of EUR 88 thousand (EUR 99 thousand) from statutory pensions and EUR 249 thousand (EUR 196 thousand) from voluntary pensions of the CEO & President Timo Kohtamäki. The amount of the President & CEO's defined contribution pension benefit equals 40 per cent of his annual fixed salary. The company incurred no statutory or voluntary pension costs from the board members during the accounting or comparison period.

Other long term benefits

In 2013, EUR 6 thousand was recognised as expense in other long term benefits. These expenses arose from service year awards and anniversary gifts to related-party personnel. The awards and gifts comply with the group's HR practices. In 2012, no expenses were recognised in other long term benefits.

Termination benefits

The term of notice for the Lemminkäinen's President and CEO agreement is six months. If the company dismissed the agreement, the president and CEO is entitled to absolute severance pay eaqual to 18 months cash salary at the time of the agreement's termination. In 2013 and 2012, no termination benefits were booked.

Share-based payments

The share-based incentive plan for the Group's key personnel comprises of performance-based and conditional rewards.

Performance based reward comprises of three earning periods, which are calendar years 2013, 2014 and 2015. The company's Board of Directors decides on the earning criteria and the targets to be set at the beginning of each period. Performance based compensation targets for 2013 were not met, and therefore no reward is paid.

In addition to the performance-based reward, the key personnel also have the opportunity to receive a conditional reward based on share ownership and a continuation of their employment or service contract. The conditional reward seeks to encourage the Group’s key personnel to increase their holding in the company. The earning period for the conditional reward is the calendar years 2013–2015.

Share-based payments are described in more detail in the note 29.

39 SHARES AND HOLDINGS

Company	Consolidated shareholding, %	Parent company shareholding, %	Parent company shareholding, shares	Parent company shareholding, book value Finnish GAAP, EUR 1,000	Shareholding of other Group undertakings, book value Finnish GAAP, EUR 1,000
31 Dec 2013					
Group undertakings					
Lemminkäinen Talo Oy, Helsinki	100.0	100.0	2,183,663	73,922	
Lemminkäinen Infra Oy, Helsinki	100.0	100.0	1,338	36,711	
Lemminkäinen Talotekniikka Oy, Espoo	100.0	100.0	2,138,147	43,018	
Lemcon Networks Oy, Helsinki	100.0	100.0	392,000	2,383	
UAB Lemcon Vilnius, Lithuania	100.0	100.0		0	
UAB Lemminkainen Lietuva, Lithuania	99.9	99.9	3,747,989	3,529	
ZAO Lemruf, Russia	100.0	100.0	12	3	
Asfalt Remix AS, Norway	75.0				4,932
FD-Entreprise ApS, Denmark	80.0				1,523
ICM International Construction Management, Hungary	100.0				684
Landvetterkrossen AB, Sweden	75.0				1,693
LEC Consultancy JLT,United Arab Emirates	100.0				62
Lemcon Argentina S.R.L, Argentina	100.0				5
LEMCON Baumanagement GmbH, Germany	100.0				26
Lemcon HR Oy, Helsinki	100.0				60
Lemcon Network Services Ltd, UK	100.0				19
Lemcon Norge As, Norway	100.0				12
Lemcon Venezuela C.A., Venezuela	100.0				8
Lemminkäinen Co., Ltd, China	100.0				72
Lemminkäinen A/S, Denmark	100.0				18,972
Lemminkäinen Anlegg AS, Norway	90.1				3,663
Lemminkäinen Construction (India) Private Limited, India	100.0				853
Lemminkäinen Eesti AS, Estonia	91.7				5,391
Lemminkäinen Ehitus As, Estonia	100.0				3
Lemminkäinen Industri AS, Norway	100.0				236
Lemminkäinen International Oy, Helsinki	100.0				5
Lemminkäinen Norge AS, Norway	100.0				11,799
Lemminkäinen Polska Sp. Z.O.O, Poland	100.0				1,576
Lemminkäinen PPP Oy, Kuopio	100.0				3
Lemminkäinen Russia Oy, Helsinki	100.0				163
Lemminkäinen Sverige Ab, Sweden	100.0				12
OOO Lemminkäinen Invest , Russia	100.0				2,284
OOO Lemminkäinen Service, Russia	100.0				13
OOO Lemminkäinen Stroy, Russia	100.0				864
Oü Järva Paas, Estonia	47.7				3
Pasila Telecom Oy, Helsinki	100.0				8
Rekab Entreprenad Ab, Sweden	100.0				4,343
SIA Lemminkainen Latvija, Latvia	100.0				1,835
Tekmen SPB, Russia	100.0				287
Tolarock Oy, Kajaani	100.0				3,048
ZAO Lemminkäinen Dor Stroi, Russia	100.0				544
ZAO Lemminkäinen Rus, Russia	100.0				29,923
Total				159,565	94,925

Joint venture undertakings			
Genvej A/S, Denmark	50.0		201
Martin Haraldstad AS, Norway	50.0		735
Nordasfalt AS, Norway	50.0		568
Ullensaker Asfalt ANS, Norway	50.0		538
Total			2,042
Associate undertakings			
Finavo Oy, Helsinki	47.5		1
NHK Rakennus Oy, Helsinki	35.0		622
Vuokatin Betoni Oy, Sotkamo	33.1		13
Total			637
Other shares and holdings			
Housing shares		327	
Property shares		793	1,065
Other shares and holdings		556	1,022
Total		1,676	2,087

PARENT COMPANY INCOME STATEMENT (FAS)

EUR 1,000	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Net sales	1	42,487	38,337
Production for own use		904	1,757
Other operating income	2	67	38,179
Materials and services	3	234	-76
Personnel expenses	4	21,721	21,981
Depreciation	5	6,845	4,421
Other operating expenses		27,611	24,184
Operating profit/loss		-12,953	27,764
Finance income and costs	6	-8,516	-3,727
Profit/loss before extraordinary items		-21,468	24,036
Extraordinary items	7	-64,381	19,400
Profit/loss before taxes		-85,849	43,436
Direct taxes	8	17,461	-1,455
Profit for the financial year		-68,389	41,981

PARENT COMPANY BALANCE SHEET (FAS)

EUR 1,000	Note	31 Dec 2013	31 Dec 2012
ASSETS			
Non-current assets	9		
Intangible assets		19,312	16,953
Tangible assets		15,337	15,920
Holdings in Group companies		159,565	159,565
Other investments		1,676	1,676
		195,891	194,115
Current assets	10		
Non-current receivables		1,700	1,700
Deferred tax asset		16,125	
Current receivables		327,405	320,951
Financial securities		30,010	59,020
Cash in hand and at banks		28,358	8,299
		403,598	389,971
		599,489	584,086
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	11		
Share capital		34,043	34,043
Share premium account		5,675	5,675
Fair value reserve		-59	-421
Invested non-restricted equity fund		61,309	61,309
Retained earnings		116,340	86,121
Profit for the financial year		-68,389	41,981
		148,919	228,707
Provisions	12		
Other provisions		5,900	
Liabilities	13		
Deferred tax liabilities	10		1,215
Non-current liabilities		81,050	176,598
Current liabilities		363,620	177,566
		444,670	355,379
		599,489	584,086

PARENT COMPANY CASH FLOW STATEMENT (FAS)

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Cash flow from business operations		
Profit/loss before extraordinary items	-21,468	24,036
Adjustments		
Depreciation according to plan	6,845	4,421
Finance income and costs	8,516	3,727
Other adjustments	-39	-38,921
Cash flow before change in working capital	-6,146	-6,737
Change in working capital		
Increase(-)/decrease(+) in current interest-free business receivables	-22,818	8,233
Increase(+)/decrease(-) in current interest-free liabilities	-2,148	626
Cash flow from operations before financial items and taxes	-31,112	2,123
Interest and other finance costs paid	-31,648	-24,562
Dividends received	55	241
Interest and other finance income received	26,345	19,610
Direct taxes paid	-8	70
Cash flow from business operations	-36,367	-2,518
Cash flow from investments		
Investments in tangible and intangible assets	-8,672	-16,829
Proceeds from sale of tangible and intangible assets	77	1,244
Acquired subsidiary shares		-5
Disposed subsidiary shares		42,633
Cash flow from investments	-8,594	27,042
Cash flow from financing		
Increase(-)/decrease(+) in non-current receivables		235
Group contributions received	19,400	22,900
Change in Group receivables/liabilities	-5,281	22,712
Short-term loans drawn	270,621	215,744
Repayments of short-term loans	-246,975	-246,249
Long-term loans drawn	300,000	300,916
Repayments of long-term loans	-290,000	-264,715
Dividends paid	-11,755	-9,820
Cash flow from financing	36,010	41,723
Increase(+)/decrease(-) in cash and cash equivalents	-8,951	66,247
Cash and cash equivalents at begining of financial year	67,320	1,073
Cash and cash equivalents at the end of financial year	58,368	67,320

PARENT COMPANY'S ACCOUNTING PRINCIPLES, 31 DEC 2013

Lemminkäinen Corporation's financial statements are prepared in accordance with Finnish accounting standards (FAS).

FOREIGN CURRENCY ITEMS

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Receivables and liabilities are translated at the exchange rates prevailing on the balance sheet date.

FINANCIAL SECURITIES

Financial securities are measured at fair value and the changes in fair values are recognised in fair value reserve in equity. Fair values are calculated by discounting future cash flows to present value. When financial securities are sold, accumulated fair value changes are transferred from fair value reserve to financial items in the income statement.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The derivatives are used in order to reduce business risks and to hedge balance sheet items denominated in foreign currencies. Derivative financial instruments are measured at fair value.

Foreign exchange derivatives are used to hedge against changes in forecasted foreign currency-denominated cash flows and changes in value of receivables and liabilities in foreign currencies. The company has used foreign exchange forward contracts which are re-measured at the balance sheet date by using the foreign exchange forward rates prevailing on the balance sheet date.

Interest rate derivatives are used to hedge against changes affecting the result, balance sheet and cash flows due to interest rate fluctuations. The company has used interest rate swaps which are re-measured by discounting the contractual future cash flows to the present value.

The Company has applied cash flow hedge accounting to some variable-rate loans. The change in fair value of the interest rate swap agreements used as hedging instrument is recognised in the fair value reserve in equity as the hedging relationship is effective. The ineffective portion of the change in fair value is recognised in financial items in the income statement. Changes in fair value accumulated in equity are transferred from equity and recognised in financial items for the accounting period in which the hedged item affects the result.

Fair value changes from derivative financial instruments which are not used for hedge accounting are recognised in financial items in the income statement. Fair value changes are presented on section 6 of the notes to the financial statements.

VALUATION AND DEPRECIATION OF FIXED ASSETS

Fixed assets are shown on the balance sheet at their original acquisition costs less planned depreciation over their expected economic lifetimes. In addition, the values of some land, buildings and shareholdings include revaluations, against which no depreciation is charged. The depreciation periods are as follows:

- Buildings and structures 10–40 years
- Machinery and equipment 4–10 years
- Other fixed assets 4–10 years

PENSION LIABILITY

The pension security of employees, inclusive of additional benefits, is covered by policies taken out from a pension insurance company.

RESEARCH AND DEVELOPMENT EXPENSES

R&D expenditure is expensed in the year during which it occurs.

DIRECT TAXES

Taxes calculated on the basis of the result for the financial year, adjustments to the taxes of earlier financial years, and the change in the deferred tax liability and asset are recorded as direct taxes on the income statement.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (FAS)

Financials › Notes to the parent company financial statements (FAS) › 1 Net sales by market area

1 NET SALES BY MARKET AREA

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Finland	42,419	38,337
Nordic countries	68	
	42,487	38,337

Financials › Notes to the parent company financial statements (FAS) › 2 Other operating income

2 OTHER OPERATING INCOME

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Gain on sale of fixed assets	55	38,158
Others	12	21
	67	38,179

Financials › Notes to the parent company financial statements (FAS) › 3 Materials and services

3 MATERIALS AND SERVICES

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Materials and supplies	196	
External services	38	-76
	234	-76

Financials › Notes to the parent company financial statements (FAS) › 4 Personnel, management and board members

4 PERSONNEL, MANAGEMENT AND BOARD MEMBERS

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Personnel expenses		
Salaries, wages and emoluments	16,956	17,383
Pension expenses	3,920	3,941
Other staff costs	845	656
	21,721	21,981
Management salaries and emoluments		
Board members and the President and CEO	844	926
Average number of employees		
Salaried employees	303	316
Pension commitments concerning Board members and the President and CEO		
The retirement age of the President and CEO of Lemminkäinen Corporation is 60 years.		

Financials › Notes to the parent company financial statements (FAS) › 5 Depreciation

5 DEPRECIATION

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Intangible rights	3,502	1,409
Other capitalised expenditure	2,445	2,419
Buildings	770	436
Machinery and equipment	67	95
Other tangible assets	62	62
	6,845	4,421

Financials › Notes to the parent company financial statements (FAS) › 6 Finance income and costs

6 FINANCE INCOME AND COSTS

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Dividend income		
From others	55	242
Other interest and finance income		
From Group companies	15,524	14,441
From others	16,952	6,823
	32,477	21,264
Interest expenses and other finance costs		
To Group companies	-1,378	-1,452
To others	-39,669	-23,781
	-41,047	-25,233
Net finance income/costs	-8,516	-3,727
Finance income and costs include:		
Exchange gains and losses (net)	-6,105	-2,145
Change in fair value of currency derivatives (net)	1,197	452
Change in fair value of interest rate derivatives (net)	517	-357
Gains and losses from hedge accounting (net)	-503	-858

Financials › Notes to the parent company financial statements (FAS) › 7 Extraordinary items

7 EXTRAORDINARY ITEMS

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Extraordinary incomes, Group contributions	1,206	19,400
Extraordinary expenses, damages relate to legal proceedings	-65,587	
	-64,381	19,400

Financials › Notes to the parent company financial statements (FAS) › 8 Direct taxes

8 DIRECT TAXES

EUR 1,000	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
Income taxes in respect of previous years	-1	-97
Change in the deferred tax liability	17,461	-1,358
	17,461	-1,455

9 NON-CURRENT ASSETS

EUR 1,000	31 Dec 2013	31 Dec 2012
Intangible assets		
Intangible rights	11,400	4,718
Other capitalised expenditure	532	2,978
Advance payments	7,380	9,258
	19,312	16,953
Tangible assets		
Land and water	6,034	6,034
Buildings	8,539	9,354
Machinery and equipment	130	197
Other intangible assets	273	335
Advance payments and work in progress	361	
	15,337	15,920
Investments		
Holdings in Group companies	159,565	159,565
Other shares and holdings	1,676	1,676
	161,241	161,241
Intangible assets		
Intangible rights		
Acquisition cost 1 Jan	7,912	3,663
Increases	10,189	4,444
Decreases	-81	-195
Acquisition cost 31 Dec	18,019	7,912
Accumulated depreciation 31 Dec	-6,619	-3,194
Book value 31 Dec	11,400	4,718
Other capitalised expenditure		
Acquisition cost 1 Jan	7,713	7,212
Increases		549
Decreases		-49
Acquisition cost 31 Dec	7,713	7,713
Accumulated depreciation 31 Dec	-7,180	-4,735
Book value 31 Dec	532	2,978
Advance payments		
Acquisition cost 1 Jan	9,258	2,526
Increases	7,810	8,903
Decreases	-9,689	-2,171
Acquisition cost 31 Dec	7,380	9,258
Tangible assets		
Land and water		
Acquisition cost 1 Jan	2,947	3,173
Decreases		-227
Acquisition cost 31 Dec	2,947	2,947
Revaluations	3,087	3,087
Book value 31 Dec	6,034	6,034

Buildings		
Acquisition cost 1 Jan	18,608	14,351
Increases		4,461
Decreases	-42	-204
Acquisition cost 31 Dec	18,566	18,608
Accumulated depreciation 31 Dec	-12,360	-11,632
Revaluations	2,333	2,378
Book value 31 Dec	8,539	9,354
Machinery and equipment		
Acquisition cost 1 Jan	957	1,008
Decreases	-9	-51
Acquisition cost 31 Dec	947	957
Accumulated depreciation 31 Dec	-817	-760
Book value 31 Dec	130	197
Other tangible assets		
Acquisition cost 1 Jan	1,323	1,358
Decreases		-35
Acquisition cost 31 Dec	1,323	1,323
Accumulated depreciation 31 Dec	-1,050	-989
Book value 31 Dec	273	335
Advance payments and construction in progress		
Acquisition cost 1 Jan		5
Increases	361	298
Decreases		-303
Acquisition cost 31 Dec	361	
Investments		
Holdings in Group companies		
Acquisition cost 1 Jan	159,565	165,999
Increaes		6
Decreases		-6,439
Acquisition cost 31 Dec	159,565	159,565
Other shares		
Acquisition cost 1 Jan	1,600	1,690
Decreases		-90
Acquisition cost 31 Dec	1,600	1,600
Revaluations	76	76
Book value 31 Dec	1,676	1,676
Revaluations		
Land		
Value 1 Jan	3,087	3,087
Value 31 Dec	3,087	3,087
Buildings		
Value 1 Jan	2,378	2,378
Decreases	-45	
Value 31 Dec	2,333	2,378

Shares		
Value 1 Jan	76	76
Value 31 Dec	76	76

10 CURRENT ASSETS

EUR 1,000	31 Dec 2013	31 Dec 2012
Non-current receivables		
Loan receivables from Group companies	1,700	1,700
Deferred tax asset		
From accruals and temporary differences	21,099	
Impact of change in tax rate	-3,875	
	17,224	
Deferred tax liability		
From revaluations	1,347	1,358
Other temporary differences		-143
Change in tax rate	-247	
	1,099	1,215
Deferred tax asset (+) and liability (-), total	16,125	-1,215
Current receivables		
Receivables from parties outside the Group		
Trade receivables	258	357
Loan receivables	413	
Other receivables	3,444	7,944
Accrued receivables	1,577	1,396
	5,692	9,697
Receivables from Group companies		
Trade receivables	4,350	6
Trade receivables	302,932	309,007
Accrued receivables	14,431	2,242
	321,713	311,255
Current receivables, total	327,405	320,951
Items included in accrued receivables		
Accrued interest	11	60
Taxes	5	3
Deferred personnel expenses	344	375
Others	1,218	958
	1,577	1,396

11 SHAREHOLDERS' EQUITY

EUR 1,000	31 Dec 2013	31 Dec 2012
Share capital 1 Jan	34,043	34,043
Share capital 31 Dec	34,043	34,043
Share premium account 1 Jan	5,675	5,675
Share premium account 31 Dec	5,675	5,675
Invested non-restricted equity fund 1 Jan	61,309	60,997
Increases		312
Invested non-restricted equity fund 31 Dec	61,309	61,309
Fair value reserve 1 Jan	-421	-940
Change in fair value of hedging instruments	504	666
Change in fair value of financial securities	-20	20
Transfer to deferred tax liability	-122	-168
Fair value reserve 31 Dec	-59	-421
Retained earnings 1 Jan	128,102	96,154
Dividends paid	-11,762	-9,825
Transfer from revaluations reserve		-209
Retained earnings 31 Dec	116,340	86,121
Profit for the financial year	-68,389	41,981
Shareholders' equity, total	148,919	228,707
Distributable funds 31 dec	109,260	189,411

12 PROVISIONS

EUR 1,000	31 Dec 2013	31 Dec 2012
Litigation provision	5,900	

Financials › Notes to the parent company financial statements (FAS) › 13 Liabilities

13 LIABILITIES

EUR 1,000	31 Dec 2013	31 Dec 2012
Non-current liabilities		
Loans from financial institutions	10,000	26,164
Pension loans	1,956	21,503
Bonds		59,836
Hybrid bond	69,095	69,095
	81,050	176,598
Current liabilities		
Loans from credit institutions	5,751	15,267
Pension loans	19,555	22,759
Bonds	59,931	
Commercial papers	150,205	86,847
Trade payables	1,530	1,448
Trade payables to Group companies	184	
Accrued liabilities to Group companies	165	307
Other liabilities to Group companies	52,980	38,543
Other liabilities	66,755	3,051
Accrued liabilities	6,563	9,343
	363,620	177,566
Items included in accrued liabilities		
Accrued interests	2,925	3,100
Accrued personnel expenses	3,013	5,111
Others	625	1,132
	6,563	9,343

Financials › Notes to the parent company financial statements (FAS) › 14 Guarantees and commitments

14 GUARANTEES AND COMMITMENTS

EUR 1,000	31 Dec 2013	31 Dec 2012
Guarantees		
On behalf of Group companies	438,185	371,118
On behalf of associates and joint ventures	17,356	17,887
On behalf of consortiums and real estate companies	1,831	13,331
	457,371	402,335
In addition, Lemminkäinen Corporation has set one guarantee without maximum amount on behalf of its subsidiary.		
Lease liabilities		
Payable next year	7,906	7,181
Payable in subsequent years	19,127	21,820
	27,034	29,001
Derivative contracts		
Forward foreign exchange contracts		
Nominal value	113,435	110,470
Fair value	852	-372
Interest rate swap contracts		
Nominal value	45,751	57,174
Fair value	41	-1,023

FINANCIAL INDICATORS (IFRS)

EUR million	2013	2012	2011	2010 *	2009
Net sales	2,218.2	2,267.6	2,183.9	1,829.6	1,965.5
Operations outside Finland	929.0	897.3	780.3	543.5	527.6
% of net sales	41.9	39.6	35.7	29.7	26.8
Operating profit	-90.9	50.4	44.0	29.6	23.2
% of net sales	-4.1	2.2	2.0	1.6	1.2
Profit before taxes	-117.5	29.1	25.0	7.6	-10.2
% of net sales	-5.3	1.3	1.1	0.4	-0.5
Profit for the financial year attributable to the equity holders of the parent company	-93.7	43.9	34.7	0.3	-26.2
% of net sales	-4.2	1.9	1.6	0.0	-1.3
Non-current assets	362.5	343.8	351.0	315.1	301.6
Inventories	504.4	494.4	448.5	376.0	374.7
Financial assets	475.8	465.3	443.3	370.9	375.2
Equity	324.0	441.8	348.7	325.2	267.4
Non-controlling interest	0.6	0.4	1.7	5.1	23.2
Interest-bearing liabilities	407.6	371.2	431.6	375.5	399.1
Interest-free liabilities	611.0	490.6	460.7	356.2	361.7
Balance sheet total	1,342.7	1,303.5	1,242.8	1,062.0	1,051.5
Return on equity, %	-24.4	11.1	10.5	0.4	-7.6
Return on investment, %	-9.4	10.8	10.8	7.0	5.5
Equity ratio, %	27.3	37.2	30.8	35.0	30.7
Gearing, %	100.8	62.8	114.5	105.7	111.7
Interest-bearing net liabilities	326.5	277.3	401.2	349.2	324.7
Gross investments	71.2	64.5	84.0	59.6	41.5
% of net sales	3.2	2.8	3.8	3.3	2.1
Order book Dec 12.	1,821.3	1,443.9	1,400.4	1,226.4	1,064.5
Personnel on average	7,823	8,180	8,421	8,314	8,626

The effects of changes in accounting principles to the financial indicators have been adjusted for the period when the new accounting principle became applicable as well as for the preceding accounting period. Correspondingly, discontinued operations have been adjusted from the income statement items for the accounting period in which they are classified as discontinued operations, as well as for the preceding accounting period.

* The figures include the assets held for sale and related liabilities.

SHARE-RELATED FINANCIAL INDICATORS (IFRS)

	2013	2012	2011	2010	2009
Basic earnings per share (EPS), EUR	-5.06	2.04	1.77	0.02	-1.54
Diluted earnings per share (EPS), EUR	-5.06	2.03	1.77	0.02	-1.54
Equity per share, EUR	16.52	22.56	17.75	16.55	15.71
Dividend per share, EUR	0.00 *	0.60	0.50	0.50	0.00
Dividend per earnings, %	0.0	26.9	28.3	over hundred	0.0
Effective dividend yield, %	0.0	4.2	2.7	1.9	0.0
Price per earnings (P/E)	-3.0	7.0	10.6	1,664.4	-15.7
Share price, EUR					
average	15.57	16.48	22.86	24.73	21.38
lowest	13.74	13.95	17.08	21.21	13.30
highest	16.97	20.50	27.37	30.00	30.30
at end of financial year	15.20	14.28	18.72	26.00	24.20
Market capitalisation at year end, EUR mill.	298.2	280.6	367.8	510.8	411.9
Share trading (NASDAQ OMX Helsinki), 1,000 shares	1,758	992	3,367	4,172	1,918
% of shares issued	9.0	5.1	17.1	21.8	11.3
Weighted average number of shares, 1,000	19,579	19,565	19,645	19,124	17,021
Number of shares at end of period, 1,000	19,650	19,650	19,645	19,645	17,021
Number of treasury shares	34,915	509			

The effects of changes in accounting principles to the financial indicators have been adjusted for the period when the new accounting principle became applicable as well as for the preceding accounting period. Correspondingly, discontinued operations have been adjusted from the income statement items for the accounting period in which they are classified as discontinued operations, as well as for the preceding accounting period.

* Board of Directors' proposal to the AGM

CALCULATION OF KEY RATIOS

RETURN ON INVESTMENT, %

$$\frac{\text{Profit before income taxes + finance costs}}{\text{Total equity (average) + interest-bearing liabilities (average)}} \times 100$$

RETURN ON EQUITY, %

$$\frac{\text{Profit for the financial period}}{\text{Total equity (average)}} \times 100$$

EQUITY RATIO, %

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

GEARING, %

$$\frac{\text{Interest-bearing liabilities – cash and other liquid assets}}{\text{Total equity}} \times 100$$

INTEREST-BEARING NET DEBT

Interest-bearing debt – cash and other liquid assets

PERSONNEL ON AVERAGE

$$\frac{\text{Total number of personnel at the end of each month}}{\text{Number of months}}$$

BASIC EARNINGS PER SHARE

$$\frac{\text{Profit for the financial year attributable to owners of the parent – accrual basis interest of the hybrid bond adjusted with tax effect}}{\text{Weighted average number of ordinary shares in issue}}$$

DILUTED EARNINGS PER SHARE

$$\frac{\text{Profit for the financial year attributable to owners of the parent – accrual basis interest of the hybrid bond adjusted with tax effect}}{\text{Weighted average number of ordinary shares in issue + dilutive potential ordinary shares}}$$

EQUITY PER SHARE

$$\frac{\text{Equity attributable to owners of the parent company}}{\text{Weighted average number of ordinary shares in issue}}$$

DIVIDEND PER SHARE

$$\frac{\text{Dividend for the financial period}}{\text{Total number of shares – treasury shares}}$$

DIVIDEND PER EARNINGS, %

$$\frac{\text{Dividend for the financial period}}{\text{Profit for the financial year attributable to owners of the parent}} \times 100$$

EFFECTIVE DIVIDEND YIELD, %

$$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}} \times 100$$

PRICE PER EARNINGS (P/E)

$$\frac{\text{Share price at the end of the period}}{\text{Basic earnings per share}}$$

ADJUSTED AVERAGE SHARE PRICE

$$\frac{\text{Total turnover of shares in euros}}{\text{Adjusted number of shares traded during the period}}$$

MARKET CAPITALISATION

Number of shares in issue x share price at the end of the period

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The distributable shareholders' equity shown on the balance sheet of the parent company, Lemminkäinen Corporation, amounts to EUR 109,260,176.77, consisting of EUR 116,339,972.89 in retained earnings from previous years and EUR -68,388,713.00 in profit for the financial year.

The Board of Directors will propose to the AGM that the company will not pay a dividend for the financial year ended 31 December 2013, and thus retained earnings would stand at EUR 47,951,259.89.

Helsinki, 6 February 2014

Berndt Brunow

Juhani Mäkinen

Noora Forstén

Finn Johnsson

Kristina Pentti-von Walzel

Heikki Räty

Timo Kohtamäki
President & CEO

AUDITOR'S REPORT

(Translation from the Finnish Original)

TO THE ANNUAL GENERAL MEETING OF LEMMINKÄINEN OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Lemminkäinen Oyj for the year ended 31 December, 2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 21 February 2014

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kim Karhu
Authorised Public Accountant

Shares and shareholders

Lemminkäinen´s share and share capital

Lemminkäinen Corporation´s share (LEM1S) is listed on NASDAQ OMX Helsinki. The Company has one series of shares. Each share carries one vote at a general meeting of shareholders and confers an equal right to a dividend. On 31 December 2013, the Company had 19,650,176 shares. The Company's share capital is EUR 34,042,500.

Share price and turnover

The price of Lemminkäinen Corporation's share on NASDAQ OMX Helsinki was EUR 14.28 (18.72) at the beginning of the year and EUR 15.20 (14.28) at the end. The highest share price quoted was EUR 16.97 in February and the lowest EUR 13.74 in August. The average price in 2013 was EUR 15.57 (16.48). At the end of 2013, the market capitalisation of Lemminkäinen's shares stood at EUR 298.2 million (280.6).

In addition to NASDAQ OMX Helsinki Lemmikäinen's shares are also traded on alternative markets. Lemminkäinen´s share turnover during the period totalled 2,076,080 (1,056,039) shares. Alternative markets accounted for 15 (6) per cent of Lemminkäinen´s total share turnover. (Source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com.)

In 2013, Lemminkäinen had a Liquidity Providing (LP) agreement with Nordea Bank Finland Plc. According to the agreement, Nordea Bank Finland Plc must quote both bid and offer prices for Lemminkäinen Corporation's share such that the prices do not deviate from each other by more than 4 per cent, calculated on the bid price. The agreement was terminated at the end of year 2013.

Shareholders

At the end of the financial year, the company had 4,705 shareholders (4,781). Holders of nominee-registered shares and non-Finnish shareholders held 13 (14) per cent of all Lemminkäinen Corporation shares and voting rights.

Flagging notifications

Lemminkäinen did not received any flagging notifications during the year 2013.

Treasury shares

Lemminkäinen owns 34,915 of its own shares, which have been returned to the company as part of its share-based incentive scheme.

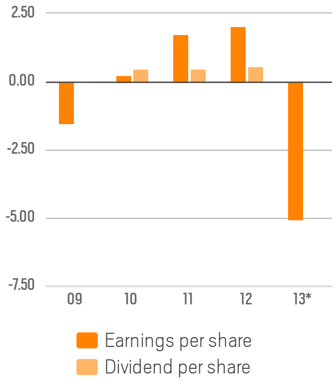
Management and Board of Director's shareholdings

	No. of shares on 31 December 2013	No. of shares on 31 December 2012
Board of Directors	2,616,333	2,616,533
The President & CEO	17,475	8,754
Group management excluding the President&CEO	22,653	98,438
Management and Board of Directors shareholdings, total	2,656,461	2,723,725
% of all shares	14	14

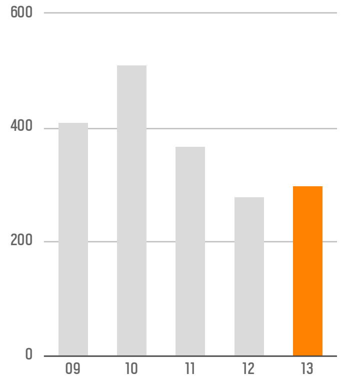
Lemminkäinen's share (LEM1S)

Listing:	NASDAQ OMX Helsinki
Listing date:	1 June, 1995
Trading currency:	EUR
Segment:	Mid cap
Sector:	Industrials
Trading code:	LEM1S
ISIN code:	FI0009900336
Reuters ID:	LEM1S.HE
Bloomberg ID:	LEM1S FH

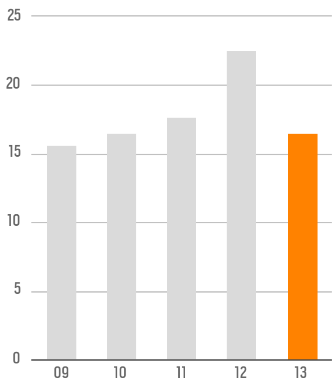
EARNINGS PER SHARE, DIVIDEND PER SHARE, EUR



MARKET CAPITALISATION, EUR million



EQUITY PER SHARE, EUR



Information for shareholders and investors

2014 AGM

Lemminkäinen Corporation's 2014 Annual General Meeting will be held at 3 p.m on Wednesday, 9 April 2013, at the Finlandia Hall, Mannerheimintie 13, Helsinki, Finland. Each shareholder who is recorded on 26 March 2013 in the Company's shareholder register (maintained by Euroclear Finland Ltd) has the right to participate in the General Meeting. A shareholder whose shares are registered in his/her personal Finnish bookentry account is registered in the Company's shareholder register.

Registration

Shareholders must register for the AGM no later than 4.00 p.m. on 4 April 2014 either:

- online at www.lemminkainen.com
- by email to pirjo.favorin@lemminkainen.com
- by phone +358 2071 53378
- by mail to Lemminkäinen Corporation, Pirjo Favorin, P.O. Box 169, 00181 Helsinki, Finland

When registering, shareholders should provide their name, personal identification number, address and telephone number, as well as the name and personal identification number of any assistant. Notices of intention to attend must be received before the registration deadline. Any instruments of proxy must also be submitted with the registration. The Notification of Annual General Meeting can be read in full on the Company's website at www.lemminkainen.com.

Dividend policy

In accordance with Lemminkäinen's dividend policy, the company seeks to pay its shareholders a dividend of at least 40 per cent of the profit for the financial year.

Dividend for the year 2013

Lemminkäinen's Board of Directors will propose to the AGM that no dividend for the 2013 financial year will be paid.

Financial reporting 2014

7 Feb 2014	2013 Financial statements bulletin
week 11	Annual Report 2013
30 April 2014	Interim Report, 1 January – 31 March 2014
30 July 2014	Interim Report, 1 January – 30 June 2014
29 October 2014	Interim Report, 1 January – 30 September 2014

Publication orders

The Company publishes its financial reports, stock exchange releases and press releases in both Finnish and English. All releases can be ordered directly to email at Lemminkäinen's website, http://www.lemminkainen.com/Lemminkainen/Investor/Releases-and-publications.

A copy of the annual report is available on the company website www.lemminkainen.com or can be ordered by email from info@lemminkainen.com.

Investor relations

Lemminkäinen's investor relations seek to support the correct valuation of the Company's share by providing capital markets with current information on the Company's business, strategy and financial position. The information must be objective and simultaneously disclosed to all market participants. The Company answers questions from analysts and investors by phone and email, as well as by holding meetings with investors. Lemminkäinen refrains from contact with representatives during the three-week period prior to the publication of the financial statements and interim reports.

Investment research

According to the information available to the Company, analysts in the service of at least the following banks and brokerage firms have made investment analyses of Lemminkäinen in 2013: Carnegie Securities, Evli Bank, Inderes Oy, Pareto Securities and Pohjola Bank. Contact information for these analysts is provided on Lemminkäinen's website at www.lemminkainen.com/investors.

Contact information

Lemminkäinen Corporation
Investor Relations
P.O. Box 169, 00180 Helsinki, Finland
investor@lemminkainen.com

Ms. Katri Sundström
Vice President, Investor Relations
Tel. +358 2071 54813 / +358 400 976 333
katri.sundstrom@lemminkainen.com

Largest shareholders as per 31 Dec 2013

		Number of shares	% of all shares
1.	Pnt Group Oy	3,673,956	18.7
2.	Noora Forstén	1,966,073	10.0
3.	Heikki Pentti Estate	1,906,976	9.7
4.	Olavi Pentti	1,709,473	8.7
5.	Varma	823,727	4.2
6.	Kristina Pentti-von Walzel	635,660	3.2
7.	Eva Pentti-Kortman	635,660	3.2
8.	Timo Pentti	635,660	3.2
9.	Mandatum Life	423,036	2.1
10.	Wipunen varainhallinta Oy	280,000	1.4
11.	Mariatorp Oy (controlled by Niklas Herlin)	275,000	1.4
12.	Ilmarinen Mutual Pension Insurance Company	270,369	1.4
13.	Etera Mutual Pension Insurance Company	213,217	1.1
14.	Fennia Life Insurance Company Ltd	187,180	1.0
15.	Laakkonen Mikko Kalervo	160,601	0.9
	15 largest total	**13,796,588**	**70.2**
	Other owners	3,415,707	17.4
	Nominee registered total	2,437,881	12.4
	All shares total	**19,650,176**	**100.0**