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# Corporate Governance Statement

Lemminkäinen Corporation is a Finnish public listed company whose administration complies with current legislation, such as the Finnish Companies Act, the Accounting Act and the Finnish Securities Markets Act, and the company's Articles of Association. We also observe the rules, regulations and guidelines of NASDAQ OMX Helsinki Ltd and the Finnish Financial Supervisory Authority, and we adhere to the Finnish Corporate Governance Code. The Corporate Governance Code is publicly available, e.g. on the Securities Market Association website [www.cgfinland.fi](http://www.cgfinland.fi).

## 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 and CEO. The Board of Directors and the President and CEO are responsible for the management of the Group. The Group Executive Team and other management personnel assist the President and 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 no later than three weeks prior to the meeting. 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 and 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 and 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.

**2014** Lemminkäinen Corporation's 2014 Annual General Meeting was held in Helsinki on 9 April 2014. Ninety-two shareholders attended the meeting, either in person or through an authorised representative, representing about 65.7 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 and 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 and 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. The Group's General Counsel acts as the secretary of the Board of Directors.

**2014** At the Annual General Meeting held on 9 April 2014, the following were elected as members of the Board of Directors: Berndt Brunow, Noora Forstén, Finn Johnsson, Juhani Mäkinen, Kristina Pentti-von Walzel and Heikki Rätty. At its organisational meeting on 9 April 2014, the Board appointed from among its members Berndt Brunow as Chairman and Juhani Mäkinen as Vice Chairman. The Board of Directors convened 20 times in 2014. Each member's attendance is shown in the table below.

The Board's focus areas in 2014 included improving Lemminkäinen's profitability clearly and strengthening

its balance sheet and financial position. The most important agenda topics discussed included changes related to the President and CEO and the Group Executive Team, the clarification of the business portfolio, changes in the reporting structure and the operating model, the rights offering, the bond, the hybrid bond and the divestment of the technical building services business.

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

## Members of the Board of Directors

Members	Independent of the company	Independent of major shareholders	Board of Directors	Audit Committee	Nomination Committee	HR Committee
Berndt Brunow <sup>1)</sup> , born 1950, B.Sc. (Econ.)	Yes	Yes	Chair (20/20)		Chair (2/2) <sup>1)</sup>	Chair <sup>1)</sup> (5/5)
Juhani Mäkinen, born 1956, Counsellor of Law	Yes	Yes	Vice (19/20)	Member (6/6)		
Noora Forstén, born 1981, Secondary School Graduate, entrepreneur	Yes	No	Member (20/20)		Member (2/2)	Member (5/5)
Finn Johnsson, born 1946, M.Sc. (Econ.)	Yes	Yes	Member (19/20)			
Kristina Pentti-von Walzel, born 1978, M.Sc. (Econ.), B.Sc. (Pol.Sc.), Director, Libera	Yes	No	Member (20/20)	Member (6/6)	Member (2/2)	Member (5/5)
Heikki Rätty, born 1953, M.Sc. (Econ.), Managing Director, Helectron Oy Ab	Yes	Yes	Member (20/20)	Chair (6/6)		

Chair=Chairman, Vice=Vice Chairman

Attendance rate in brackets

<sup>1)</sup> Did not participate in the committee work when acting as interim President & CEO from 2 April to 31 July 2014

## 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 unit. 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.

**2014** The Audit Committee convened six times in 2014. 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 the Group's financial arrangements, balance sheet structure, and progress in the Group's efficiency improvement programme. The committee also discussed measures aimed at the improvement of financial reporting.

#### **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 on their remuneration.

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 and CEO and other members of the company's management may not be members of the Committee.

**2014** The Nomination Committee convened twice in 2014. 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 on the remuneration of Board and Committee members. The AGM approved the Nomination Committee's proposal, which was presented at the AGM on 9 April 2014.

During the period from 2 April to 31 July 2014, the company deviated from Recommendation 29 (Members of the nomination committee) of the Finnish Corporate Governance Code in that during this period the Chairman of the Board of Directors Berndt Brunow, acting as the Chairman of the Committee, served as interim President and

CEO. Berndt Brunow did not participate in the committee work during this period.

#### **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 and CEO and other members of the company's management may not be members of the Committee.

**2014** The HR Committee convened five times in 2014. 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, the elements and earning criteria of short- and long-term incentives in 2015, and who falls within the scope of the management incentive scheme in 2014 and 2015. The Committee also discussed long-term incentives for 2015–2018. The Committee drew up a list of remuneration recommendations, which was approved by the Board of Directors.

During the period from 2 April to 31 July 2014, the company deviated from Recommendation 32 (Members of the remuneration committee) of the Finnish Corporate Governance Code in that during this period the Chairman of the Board of Directors Berndt Brunow, acting as the Chairman of the Committee, served as interim President and CEO. Berndt Brunow did not participate in the committee work during this period.

#### **Management President and CEO**

The President and 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 and 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 and 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.

As of 1 August 2014, Casimir Lindholm, M.Sc. (Econ.), MBA (born 1971), has served as President and CEO of Lemminkäinen Corporation. From 2 April to 31 July 2014, he served as the company's deputy CEO. The Chairman of the Board of Directors, Berndt Brunow, acted as the company's interim President and CEO from 2 April to 31 July 2014, after Timo Kohtamäki left the company on 2 April 2014.

During the period from 2 April to 31 July 2014, the company deviated from Recommendation 36 (Managing director and chairman of the board) of the Finnish Corporate Governance Code in that during this period the Chairman of the Board of Directors served as interim President and CEO. The underlying reason for the deviation was the fact that, as the former President and CEO left the company, the company would have been without a President and CEO until the appointment of the actual President and CEO.

#### **Executive Team**

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

The Executive Team meets regularly, at least once a month and supports the President and 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 and CEO in ensuring information flow and smooth internal cooperation.

**2014** There were several changes in Lemminkäinen's Executive Team in 2014. At the end of the review period, Casimir Lindholm served as Lemminkäinen's President and CEO and the Chairman of the Executive Team. The other members of the Executive Team were Executive Vice Presidents Harri Kailasalo (Infrastructure construction), Pauli Mäkelä (Building construction, Finland) and Maaret Heiskari (Russian operations), Ilkka Salonen, CFO, and Tania Jarrett, Executive Vice President, HR. The Group's Head of Group Communications and Marketing acted as the secretary of the Executive Team. The table below contains more detailed information on the members of the Executive Team and their positions in 2014.

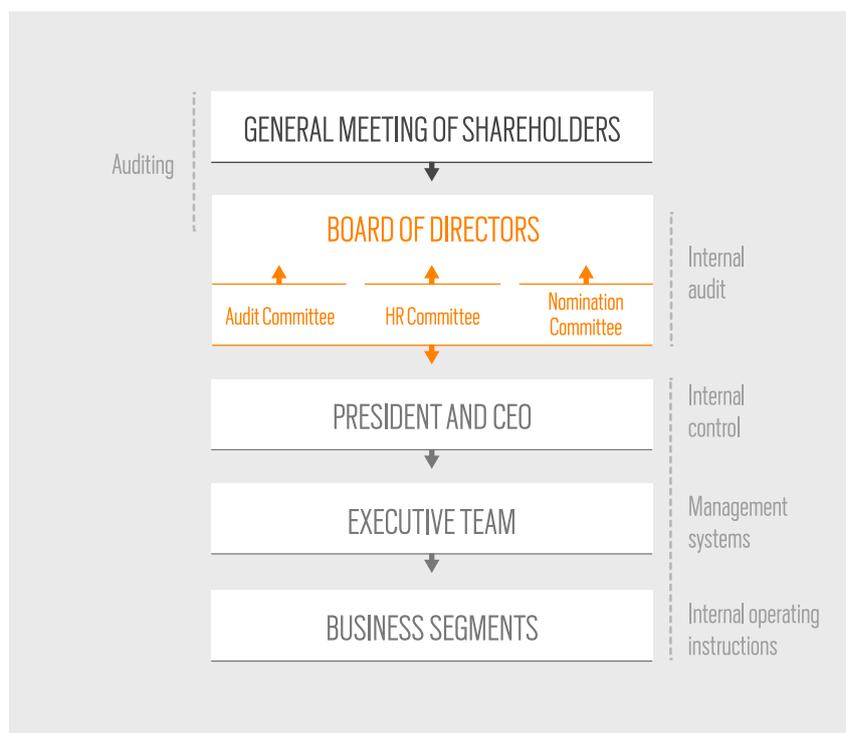
	Position	Executive Team member who held the position in 2014
<b>The members of the Executive Team, as of 1 January 2015</b>	President and CEO and Chairman of the Executive Team	Casimir Lindholm, as of 1 August 2014 Berndt Brunow, interim President and CEO, 2 April–31 July 2014 Timo Kohtamäki, until 2 April 2014
	Chief Financial Officer	Ilkka Salonen, as of 8 April 2014 (from 8 April to 30 June 2014, Salonen acted as interim CFO) Robert Öhman, until 7 April 2014
	Executive Vice President, HR	Tania Jarrett, as of 1 November 2014 Tiina Mellas, until 19 June 2014
	Executive Vice President, Infrastructure construction (as of 1 January 2015 Executive Vice President, Infra projects)	Harri Kailasalo
	Executive Vice President, Building construction, Finland	Pauli Mäkelä, as of 1 November 2014 Casimir Lindholm, until 31 July 2014 (from 1 August to 31 October 2014 Lindholm acted as interim EVP)
	Executive Vice President, Russian operations	Maaret Heiskari
	Executive Vice President, Paving (as of 1 January 2015)	Robert Blumberg, as of 1 January 2015
<b>Members who have left the Executive Team</b>	Executive Vice President, Scandinavia <sup>1)</sup>	Timo Vikström, until 30 July 2014
	Executive Vice President, Technical building services <sup>1)</sup>	Marcus Karsten, until 13 June 2014
	Chief Strategy Officer <sup>2)</sup>	Tiina Mikander, until 1 November 2014
	Executive Vice President, Procurement <sup>2)</sup>	Jouni Pekonen, until 9 June 2014

1) Due to the reporting structure that was changed on 1 August 2014, the Scandinavia business segment was integrated into the Infrastructure construction business segment. On 13 June 2014, the technical building services business was divested in its entirety to Are Oy.

2) President and CEO Casimir Lindholm is responsible for Lemminkäinen's strategy and Executive Vice President, Infrastructure construction Harri Kailasalo is responsible for procurement.

The Executive Team held eighteen meetings in 2014. The Executive Team's key topics during 2014 were the improvement of the company's profitability and efficiency (the Deliver 2014 cost-saving programme), the strengthening of the balance sheet and the capital structure (the EUR 100 million efficiency

programme), and the improvement of long-term competitiveness (the reviewed strategy and new organisation).



## 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 and 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 efficiency of internal control and risk management.

The President and 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 and 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 at the business area, business segment and Group level. In addition, the Group set up an Investment Board in 2014. The Investment Board convenes twice a month to discuss and prioritise the Group's most important projects and investments while ensuring that the Group's resources are allocated as well as possible.

### Risk management

Risk management is an essential part of Lemminkäinen's business operations. Risk management seeks to ensure that the Group's strategic and operational targets are achieved with the best possible result and by increasing shareholder value.

Risk management is based on the risk management policy approved by the Board of Directors. The Board also supervises the implementation of risk management. Where necessary, the Board assesses and updates the Group's specified risk levels and decision-making authorisations. The President and CEO may tighten, but not loosen, these specifications set by the Board. 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 and CEO is responsible for the implementation of risk management. Members of the Group Executive Team are responsible for the execution of the policy in their respective areas of responsibility. Personnel receive training in systematic and effective risk management, including 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.

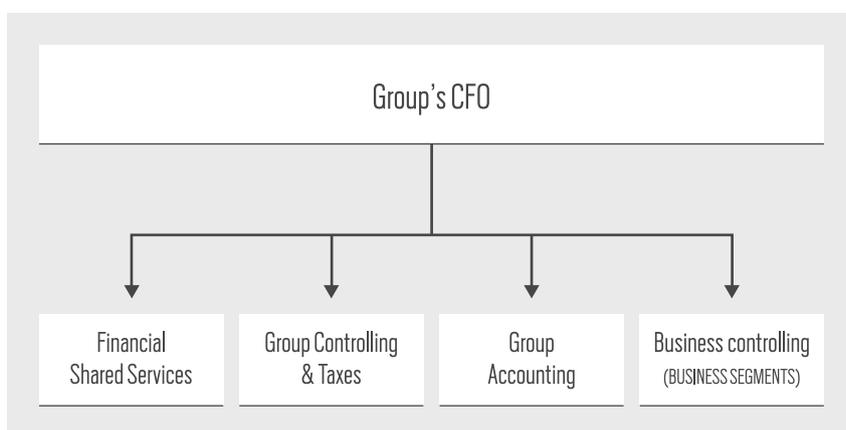
### The main features of internal control and risk management systems associated with the financial reporting process

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 structure and management of Lemminkäinen's financial reporting process

Lemminkäinen's financial administration is organised into the Financial Shared Services function, the Group Controlling (Management accounting) and Taxes function, the Group Accounting (Group consolidation) function and segment-specific business controlling functions. In financial administration in Sweden (excluding Rekab) and Finland, the basic processes are handled in the Financial Shared Services, whereas other 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 company 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.

In Finland and Sweden (excluding Rekab), a single financial administration system is used in all financial

reporting, and other foreign companies use local systems. The SAP business management system was implemented in Finland in 2013 and in Sweden in 2014.

### 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, capital employed, investments, order book, 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 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.

Group Accounting (the Group accounting function) provides guidance for Group companies in drawing up their quarterly external accounting Group reports. In addition to Group guidance, the Group 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, assesses processes associated with financial reporting. In 2014, the internal audit unit examined procedures related to management reporting and the project reporting process as well as internal controls and authorisations associated with financial administration processes and systems. In addition, the internal audit unit assessed procedures related to the financial reporting of the subsidiaries.

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

One of the tasks of risk management is to identify and proactively deal with threats associated with the accuracy of financial reporting, the realisation of which could 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 and assessment about the company's business development and financial position. The Group's CFO is responsible for risk management 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 SAP 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 and 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.

**2014** The internal audits of 2014 focused on malpractice reports, construction project management, development project assessment 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 and 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.

**2014** PricewaterhouseCoopers Oy, a firm of authorised public accountants, is Lemminkäinen's auditor. Kim Karhu has been chief auditor since 2011. In 2010, Lemminkäinen invited bids from firms of authorised public accountants.

In 2014, Lemminkäinen paid its auditor EUR 457,843 (657,373) in auditing fees and EUR 595,472 (358,217) in consultancy fees. The increase in consultancy fees is due to the rights offering and other financial arrangements Lemminkäinen carried out.

# 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.

**2014** The 2014 Annual General Meeting decided that the Chairman of the Board is paid a fee of EUR 10,000 per month (2013: EUR 10,000) and Board members each receive EUR 3,000 per month (3,000). Members

of the Board also received an attendance fee of EUR 500 per meeting (500).

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

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

Travel expenses were reimbursed as invoiced.

The Chairman of the Board of Directors, Berndt Brunow, acted as the company's interim President and CEO from 2 April to 31 July 2014, after President and CEO Timo Kohtamäki left the company on 2 April 2014.

Fees – Board of Directors	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
EUR per annum		
Board of Directors		
Berndt Brunow	120,000	120,000
Juhani Mäkinen	36,000	36,000
Noora Forstén	36,000	36,000
Finn Johnsson <sup>1)</sup>	36,000	26,143
Mikael Mäkinen <sup>2)</sup>		9,857
Kristina Pentti-von Walzel	36,000	36,000
Heikki Rätty	36,000	36,000
<b>Total</b>	<b>300,000</b>	<b>300,000</b>

<sup>1)</sup> From 9 April 2013

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

Meeting fees – Board of Directors	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
EUR per annum		
Board of Directors		
Berndt Brunow	10,000	6,500
Juhani Mäkinen	12,500	8,500
Noora Forstén	10,000	6,500
Finn Johnsson 1)	28,500	13,500
Mikael Mäkinen 2)		2,000
Kristina Pentti-von Walzel	13,000	9,000
Heikki Rätty	16,000	11,500
Total	90,000	57,500

1) From 9 April 2013

2) Until 9 April 2013

## 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.

The scope of the management remuneration policy adopted by the Board of Directors encompasses, in addition to the President and CEO and the Group Executive Team, the business segment management teams and the Group's other key personnel. According to the remuneration policy, 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.

The content of the benefits defined in the management remuneration policy varies from country to country. The benefits available to the President and CEO and the Group Executive Team include the use of a company car and mobile phone, the meal benefit, and extended insurance coverage for accidents and travel during their leisure time. The meal benefit is generally available to persons whose employment started before 1 January 2012. For the President and CEO and the Group Executive Team, total remuneration therefore consists of both a basic salary and benefits (excluding the meal benefit).

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 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.

**2014** In 2014, 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 capital employed. Achievements were monitored every six months. The maximum performance bonus payable to the President and CEO was 80 per cent of the 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 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 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 Corporation 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 two-year commitment period. 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.

**2014** About 50 people fell within the scope of the plan during the 2014 earning period.

The performance-based reward was based on Lemminkäinen Group's operating profit and its return on investment. The reward for the earning period 2014 will be paid out in 2015 partly in company shares and partly in cash. The cash portion will cover any deferred 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 end of the earning period. The company's President and CEO and the members of the Group Executive Team must retain ownership of half of all the shares they receive through the plan for two years after the end of the commitment period.

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. The conditional reward will be paid by the end of April 2016, partly in shares and partly in cash.

#### **Pension plan**

As of 1 January 2010, additional 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 and 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 12 months' salary in accordance with his or her salary rate at the time of termination. In Timo Kohtamäki's contract of service, the severance payment was equivalent to 18 months' salary.

**Remuneration and fees – Executive Team members  
(Excluding the President and CEO)**

	1 Jan–31 Dec 2014	1 Jan–31 Dec 2013
EUR per annum		
Monetary salary*	2,276,414	1,565,226
Benefits	111,198	98,223
Performance-based incentives	222,329	0
Pension schemes	496,557	586,030
<b>Total</b>	<b>3,106,498</b>	<b>2,249,479</b>
Share-based incentive (shares, no.)	2,269	0

\*Includes compensations related to redundancy

**Remuneration and fees – President and CEO**

<b>Timo Kohtamäki</b>	1 Jan–2 Apr 2014	1 Jan–31 Dec 2013
EUR per annum		
Monetary salary*	1,239,570	486,720
Benefits	11,721	24,627
Performance-based incentives	0	0
Pension schemes	329,633	337,000
<b>Total</b>	<b>1,580,924</b>	<b>848,347</b>
Share-based incentive (shares, no.)	0	0

\*Includes compensations related to redundancy

<b>Berndt Brunow</b>	3 Apr–31 Jul 2014
EUR per annum	
Monetary salary*	124,000
Benefits	2,164
Performance-based incentives	0
Pension schemes	0
<b>Total</b>	<b>126,164</b>
Share-based incentive (shares, no.)	0

\*Excluding Chairman of the Board fee and meeting fees

<b>Casimir Lindholm</b>	1 Aug–31 Dec 2014
EUR per annum	
Monetary salary	205,000
Benefits	6,125
Performance-based incentives	85,608
Pension schemes	75,175
<b>Total</b>	<b>371,908</b>
Share-based incentive (shares, no.)	267

## Board of Directors



**Berndt Brunow**

b. 1950, B.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

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 Nomination Committee, the HR Committee and the Audit Committee

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



**Heikki Rätty**

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

Member of the Board since 2009

Chairman of the Audit Committee

Independent of the company and its major shareholders

More detailed information about Board members can be found at:

[www.lemminkainen.com/Lemminkainen/Investors/Corporate-Governance/Board-of-Directors/Board-of-Directors/](http://www.lemminkainen.com/Lemminkainen/Investors/Corporate-Governance/Board-of-Directors/Board-of-Directors/)

## Executive Team



### **Casimir Lindholm**

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

President and CEO since 2014, member of the Executive Team since 2013, Group employee since 2013.

Since 2013, Lindholm worked as Executive Vice President, responsible for building construction in Finland. Before joining Lemminkäinen, Lindholm worked at Eltel Networks as President Fixed Telecom and as CEO of Eltel Networks in Sweden.



### **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.



### **Tania Jarrett**

b. 1963, Master of Arts

Executive Vice President, HR, Lemminkäinen Group, member of the Executive Team since 2014, Group employee Since 2014.

Before joining Lemminkäinen, Jarrett worked at Microsoft Mobile Oy as a HR Director.



**Harri Kailasalo**

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

Executive Vice President, responsible for infrastructure construction in Finland, Scandinavia and the Baltic countries as well as environmental leadership, procurement 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.



**Pauli Mäkelä**

b. 1954, M.Sc. (Eng.)

Executive Vice President, responsible for building construction in Finland, member of the Executive Team since 2014, Group employee since 1982.

Mäkelä has had a long career at Lemminkäinen and held a variety of executive positions both at Oy Alfred A. Palmberg AB and Lemminkäinen Corporation.



**Ilkka Salonen**

b. 1965, M.Sc. (Econ.)

Chief Financial Officer, responsible for finance, risk management, investor relations and ICT, member of the Executive Team since 2014, Group employee since 2014.

Before joining Lemminkäinen, Salonen held executive positions in finance at several companies, most recently as Chief Financial Officer at Neste Oil.

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

[www.lemminkainen.com/Lemminkainen/Investors/Corporate-Governance/Group-management/Executive-Team/](http://www.lemminkainen.com/Lemminkainen/Investors/Corporate-Governance/Group-management/Executive-Team/)

# Risk management

Risk management is an essential part of Lemminkäinen's business operations; it ensures that the most significant strategic, operative, financial and accident risks are identified, analysed, assessed and managed proactively. Risk management aims to ensure the achievement of the Group's strategic and operational targets with the best possible result as well as to secure the continuity of the operations under changing conditions, too.

Our risk management is based on the risk management policy approved by the Board of Directors. 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 planning.

The Group's President and CEO is responsible for the implementation of risk management. Members of the Group Executive Team are responsible for the execution of risk management in their respective areas of responsibility. The Group Executive Team monitors the implementation of risk management regularly. Every Lemminkäinen employee is responsible for identifying any risks related to their own work and for bringing them to the attention of their supervisor.

We train our personnel to implement risk management systematically and effectively. We provide our personnel with training in legal and contractual matters. The Group also has detailed guidelines for different areas, such as competition law and insider issues. We monitor compliance with these guidelines as part of line operations and management.

## Lemminkäinen's major risks

### Strategic risks

Uncertainty in the global economy and financial markets may have a negative effect on Lemminkäinen's operations, performance, financial position and sources of capital. Lemminkäinen's business operations are sensitive to new construction cycles in Finland in particular. We manage the risk structurally by distributing our business operations throughout Scandinavia, the Baltic countries and Russia. However, ongoing changes in the organisation and management may affect our ability to implement our strategy in the changing operating environment.

In Russia, the weakened economic situation, the prolonged political uncertainty or the significant escalation

in the sanctions between the EU and Russia could, in the worst case scenario, lead to a standstill in housing sales, changes in the infrastructure market that are unfavourable to us, and/or the interruption of or withdrawal from our ongoing projects. Furthermore, the political culture, legislation, its interpretation and regulatory practices in Russia compared to Finland as well as the uncertainty of the legal system, administrative procedures and interpretation of law enforcement mechanisms as well as changes in them may result in significant risks for us. In order to manage the risks, we have increased the efficiency of our housing sales.

Legislative changes can affect market development and customer behaviour and, consequently, the profitability of our business operations. We continuously monitor and analyse our operating environment, invest in the maintenance and implementation of our Code of Conduct and Corporate Governance, and provide guidelines and training to our employees.

### Operative risks

Lemminkäinen's financial performance depends largely on successful contract and project management, which, among other things, includes the correct pricing of the project, reasonable use of resources, careful planning and scheduling, ability to procure raw materials at competitive prices, cost control, appropriate change management as well as efficient and timely handling of claims for damages. We are continually developing our contractual expertise and project management practices during the tender and execution stage. We are renewing project tracking systems and steering models, and we are paying more attention to the personnel's competence development.

Residential and commercial development and construction projects involve sales and price risks, as we have full responsibility over the entire project, starting with plot acquisition. Our target is to actively manage and monitor the risk related to the capital tied up in unsold completed apartments and other assets. We take market changes and risks into account when assessing the profitability of new development and construction projects. We only start new residential projects if a sufficient number of units have been reserved in advance, taking into consideration the area in question, and we keep the number of unsold completed apartments at a minimum. When undertaking commercial development, we usually sell the business premises to property investors in the early stages of construction, thereby reducing sales risks.

Fluctuations in the price of raw materials may have an impact on financial performance. Lemminkäinen's biggest individual outsourced raw material is bitumen, and its price is based on the world market price of oil. We manage the bitumen price risk with contractual terms and oil derivatives. Unexpected changes in the weather may also cause fluctuations in our income from road construction and paving.

As our business operations and operating environment develop, we also need new kinds of expertise. The success of our development and business projects is greatly affected by the availability and commitment of competent personnel. In addition, Lemminkäinen's turnaround requires change management expertise. We manage these risks by supporting supervisory work and providing training as well as by investing in the competence development of current employees and in increasing their work motivation, whenever possible.

### Financial risks

In its business operations, Lemminkäinen is exposed to financial risks, such as liquidity, foreign exchange rate and interest rate risks, and impairment of tangible and intangible assets. Management of financial risks is based on the treasury policy, which defines the operating principles, and division of responsibility in financial risk management and funding activities as well as the company's risk appetite. Lemminkäinen protects itself from currency exchange risks primarily through operative means. If necessary, transaction risks are hedged with the aid of foreign currency loans and currency derivatives. The company does not hedge translation risk. In 2014, approximately 40% of Lemminkäinen's net sales were generated in functional currencies other than the euro, the major currencies being the Russian rouble and the Norwegian, Swedish and Danish kronas.

### Accident risks

The majority of our environmental impact stems from our production facilities, construction, and transportation. We regularly monitor our environmental impact and constantly seek to reduce it by, for example, enhancing our production methods and optimising transportation. Our guidelines, compliance with our management systems

and personnel training help us to manage our environmental risks.

We manage risks associated with occupational safety by providing regular training for our personnel and by investing in the reporting of safety observations. Lemminkäinen's Board of Directors, the Group Executive Team and the business segment management teams regularly monitor the development of occupational safety.

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 involves risks, which we manage through careful planning and training.

### Legal proceedings

One-off risks are posed by the legal proceedings concerning damages related to the asphalt cartel as well as charges for an alleged environmental offence related to the amounts of recycled asphalt used in asphalt mass production. More information about the legal proceedings and related claims can be found in the [Board of Directors' report](#) and on the company's website.

## More information about risks and risk management

Lemminkäinen also publishes its assessment of the most essential risks in its interim reports that can be found on the company's website at

[www.lemminkainen.com/Lemminkainen/Investors/Releases-and-publications/Interim-Reports-and-Financial-Statements-Bulletins/](http://www.lemminkainen.com/Lemminkainen/Investors/Releases-and-publications/Interim-Reports-and-Financial-Statements-Bulletins/).

More information on the asphalt cartel and the related damages can be found on the company's website at

[www.lemminkainen.com/Lemminkainen/Investors/Lemminkainen-as-an-investment/Asphalt-cartel-issue/](http://www.lemminkainen.com/Lemminkainen/Investors/Lemminkainen-as-an-investment/Asphalt-cartel-issue/).

More information about Lemminkäinen's financial risks and management can be found on the company's website at

[www.lemminkainen.com/Lemminkainen/Investors/Credit-facilities/Financial-risks/](http://www.lemminkainen.com/Lemminkainen/Investors/Credit-facilities/Financial-risks/).