

# ANNUAL REPORT 2015

**Aiming to be  
a forerunner in  
paving in  
northern Europe**



**An expert in  
versatile and  
complex  
infrastructure  
construction**

**Good service,  
high quality and  
location are  
key in building  
construction**



**Lemminkäinen**

## Contents

CORPORATE GOVERNANCE	]	Board of Directors	12
Corporate Governance Statement	1	Executive Team	15
Remuneration	8	Risk management	17

## 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 Helsinki Ltd. and the Finnish Financial Supervisory Authority, and we adhere to the Finnish Corporate Governance Code for Stock Exchange companies that came into effect on 1 January 2016 (the Corporate Governance Code) and substituted the Finnish Corporate Governance Code for listed companies (the Corporate Governance Code 2010). This Corporate Governance Statement is prepared in accordance with the Corporate Governance Code 2010. The Corporate Governance Code and the Corporate Governance Code 2010 are publicly available, e.g. on the Securities Market Association website [www.cgfinland.fi](http://www.cgfinland.fi).

Simultaneously with this statement, Lemminkäinen has published the Board of Directors' report for the financial period 1 January–31 December 2015.

### 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 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.

### General Meeting of Shareholders

Lemminkäinen's Annual General Meeting (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.

All members of the company's Board of Directors, the President and CEO, the Group Executive Team members and the auditor are 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.

**2015** Lemminkäinen Corporation's 2015 Annual General Meeting was held in Helsinki on 25 March 2015. 53 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 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 values, Group's strategy and policies, as well as monitors their implementation and timeliness. 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.

**2015** At the Annual General Meeting held on 25 March 2015, the following were elected as members of the Board of Directors: Berndt Brunow, Noora Forstén, Finn Johnsson, Juhani Mäkinen, Heppu Pentti, Kristina Pentti-von Walzel and Heikki Rätty. At its organisational meeting on 25 March 2015, the Board appointed from among its members Berndt Brunow as Chairman and Juhani Mäkinen as Vice Chairman. The Board of Directors convened 11 times in 2015.

### Members of the Board of Directors

Member	Independent of the company	Independent of major shareholders	Board of Directors	Audit Committee	Nomination Committee	HR Committee
Berndt Brunow, born 1950, B.Sc. (Econ.)	Yes	Yes	Chair (11/11)		Chair (2/2)	Chair (5/5)
Juhani Mäkinen, born 1956, Counsellor of Law	Yes	Yes	Vice (11/11)	Member (4/4)		
Noora Forstén, born 1981, Secondary School Graduate, entrepreneur	Yes	No	Member (11/11)		Member (2/2)	Member (5/5)
Finn Johnsson, born 1946, M.Sc. (Econ.)	Yes	Yes	Member (10/11)			
Heppu Pentti <sup>1)</sup> , born 1979, Secondary School Graduate, entrepreneur	Yes	No	Member (9/9)			
Kristina Pentti-von Walzel, born 1978, M.Sc. (Econ.), B.Sc. (Pol.Sc.), Director, Libera	Yes	No	Member (11/11)	Member (3/4)	Member (2/2)	Member (4/5)
Heikki Rätty, born 1953, M.Sc. (Econ.), Managing Director, Helectron Oy Ab	Yes	Yes	Member (11/11)	Chair (4/4)		

<sup>1)</sup> As of 25 March 2015  
Chair=Chairman, Vice=Vice Chairman  
Attendance rate in brackets

### Board committees

The Board of Directors has three committees: the Audit Committee, Nomination Committee, and HR Committee. The Board of Directors appoints the chairman and members for each committee from among its members. These committees assist the Board of Directors

Each member's attendance is shown in the table below.

The Board's focus areas in 2015 included the continuation to improve Lemminkäinen's profitability and to strengthen its balance sheet and financing position. The most important agenda topics discussed included the preparation of the reviewed strategy for 2016–2019, the streamlining of the business portfolio as well as the preparation of common policies.

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.

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 financial 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 the 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.

**2015** The Audit Committee convened four times in 2015. 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 strengthening of the Group's balance sheet and financing position, Internal Audit's reports as well as risk management.

#### **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 Chairman and two to 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.

**2015** The Nomination Committee convened twice in 2015. 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 the Board of Directors' and its Committees' members. The AGM approved the Nomination Committee's proposal, which was presented at the AGM on 25 March 2015.

#### **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 Chairman and two to 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.

**2015** The HR Committee convened five times in 2015. 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 2016, and who falls within the scope of the management incentive scheme. The Committee also discussed long-term incentives for 2016–2018 and the results of the employee satisfaction survey. The Committee made remuneration recommendations, which were approved by the Board of Directors.

#### **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 management and planning of the Group's business in practice. 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 that 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 the President and CEO of Lemminkäinen Corporation.

#### **Executive Team**

Lemminkäinen's Group Executive

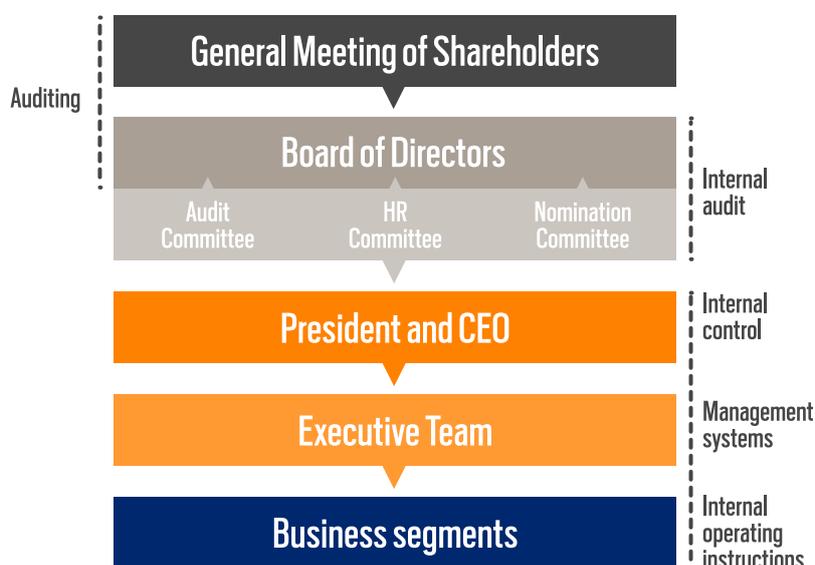
Team consists of the parent company's President and CEO and other members appointed by the Board of Directors. The President and CEO acts as the Chairman of the Executive Team and appoints its secretary.

The Executive Team meets regularly, at least once a month and supports the President and CEO in, for example, the preparation and execution of strategy, 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.

**2015** In 2015, 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 Robert Blumberg (Paving),

Harri Kailasalo (Infra projects), Pauli Mäkelä (Building construction, Finland), Tania Jarrett (HR) and Ilkka Salonen, CFO. The Head of Group Communications and Marketing acted as the secretary of the Executive Team. Executive Vice President, Russian operations, Maaret Heiskari served as a member of the Executive Team until 30 June 2015.

The Executive Team held fourteen meetings in 2015. The Executive Team's key topics during 2015 were the strengthening of the company's balance sheet and capital structure, the improvement of the company's profitability as well as the reviewed strategy and operating models related to it.



**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 management and supervisors are responsible for internal control within their own areas of responsibility.

Business areas', business segments' and Group level

financial reports and business reviews are a key measure to control and monitor the functions' efficiency and appropriateness. In addition, the Investment Board that convenes once a week decides on the Group's investments, project start-ups and tenders according to the defined approval limits.

### Risk management

Risk management is an essential part of leading 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. If 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 risk management 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 accurate and sufficient information available for leading the company and that the financial reports published by the company give a true view of the company's performance 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 (internal accounting) and Taxes function, the Group Accounting (external accounting and Group consolidation) function, Group Treasury as well as segment-specific business controlling functions. The basic processes of financial administration in Sweden and Finland 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, financial position 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 accounting principles used in internal and external accounting are consistent. 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.

### 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 Group's performance and financial position during 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 Board of Directors' report.

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, cash flow, operating capital, investments, order book, operative key figures as well as a description of the most business-critical events and risks. 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 provides guidance for Group companies in drawing up their quarterly external accounting Group reports. In addition to Group guidance, the Group Accounting and the Group Controlling functions 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 the segments' profit units 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.

Group Treasury provides reporting instructions for internal and external accounting related to financial transactions. In addition, the function monitors the accuracy of the reporting. Based on the rolling and short-term cash flow forecast, Group Treasury ensures that the company has sufficient liquidity and adequate financial instruments. Group Treasury also supports the entire financial organisation in treasury-related reporting and reporting reconciliation.

The Internal Audit function assesses processes associated with financial reporting. In 2015, the Internal Audit unit examined procedures related to management reporting and the project reporting process as well as procedures related to the risk management of financial reporting.

#### **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 or the financial reports published by the company would not give materially correct information and assessment about the company's performance 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 monitors the project forecast and any changes in it, 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.

**2015** The internal audits focused on fraud investigations, assessment of decision-making procedures, risk management process and business process controls as well as assessment of development project, among other areas.

#### **Insider administration**

Lemminkäinen observes Nasdaq 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 firm of authorised public accountants. 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 records, the Financial Statements, the Board of Directors'

Report and the administration for each financial year. The auditor reports regularly 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 financial performance 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.

**2015** PricewaterhouseCoopers Oy, a firm of authorised public accountants, is Lemminkäinen's auditor. Kim Karhu, Authorised Public Accountant, was the chief auditor until the Annual General Meeting held on 25 March 2015 after which Markku Katajisto, Authorised Public Accountant, became the chief auditor. Lemminkäinen invited bids from firms of authorised public accountants in 2010.

In 2015, Lemminkäinen's audit fees totalled EUR 383,783 (416,302) and consultancy fees EUR 174,500 (600,553).

## 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.

**2015** The 2015 Annual General Meeting decided that the

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

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 (1,000).

Travel expenses were reimbursed as invoiced.

### Fees – Board of Directors, EUR per annum

Member	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
Berndt Brunow	120,000	120,000
Juhani Mäkinen	36,000	36,000
Noora Forstén	36,000	36,000
Finn Johnsson	36,000	36,000
Heppu Pentti <sup>1)</sup>	30,832	12,000
Kristina Pentti-von Walzel	36,000	36,000
Heikki Rätty	36,000	36,000
<b>Total</b>	<b>330,832</b>	<b>312,000</b>

<sup>1)</sup> As of 25 March 2015 Heppu Pentti has been a member of the Group's Board of Directors. During 2014 and until April 2015 he was a member of the Board of Directors of two subsidiaries.

### Meeting fees – Board of Directors, EUR per annum

Member	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
Berndt Brunow	5,500	10,000
Juhani Mäkinen	7,500	12,500
Noora Forstén	5,500	10,000
Finn Johnsson	15,000	28,500
Heppu Pentti <sup>1)</sup>	4,500	13,000
Kristina Pentti-von Walzel	7,000	
Heikki Rätty	9,500	16,000
<b>Total</b>	<b>54,500</b>	<b>90,000</b>

<sup>1)</sup> As of 25 March 2015

### 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 remuneration policy approved by the Board of Directors states that Lemminkäinen's management consists of the President and CEO, the Group Executive Team, the members of the business segment management teams and the Group's other key personnel on the basis of the significance of their responsibilities. According to the remuneration policy, the remuneration of the management 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 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. These seek to support the achievement of the company's 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 the nature and commercial value of their position.

**2015** In 2015, the size of the performance bonus for the President and CEO and the Group Executive Team was based on the Group's operating profit and other financial targets as well as the achievement of targets associated with the improvement of efficiency or other development-related targets. Performance bonuses for the Executive Vice Presidents of business segments who are members of the Group Executive Team were also based on each segment's operating profit. 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 plans

#### The 2013–2015 share-based 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.

**2015** About 35 people fell within the scope of the plan during the 2015 earning period.

The performance-based reward was based on Lemminkäinen Group's equity ratio and its return on capital employed. The reward for the earning period 2015 will be paid out in 2016 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.

#### **The 2016–2018 share-based incentive plan**

At the end of 2015, Lemminkäinen Corporation's Board of Directors decided to introduce a new share-based incentive plan for key personnel. The plan aims to combine the objectives of the shareholders and key personnel in order to increase the value of the company, while committing the participants of the plan to the company and increasing their ownership in the company.

The plan consists of three earning periods: the calendar years 2016, 2017 and 2018. At the beginning of each earning period, the company's Board of Directors decides on the plan's earning criteria, the targets to be set, the number of shares to be allocated and the plan's participants. The potential reward for each earning period will be paid in four instalments, each of them 25 per cent of the total reward. The reward payment will take place during the four years following the earning period. If a participant's employment or service contract ends during the earning or payment period, they will not, as a rule, be entitled to any unpaid rewards.

The reward will be paid as a combination of shares and cash. The aim is that the cash portion will cover any taxes and tax-related costs arising from the reward. In paying rewards, Lemminkäinen Corporation may, at its discretion, use one or more of the following: new issued shares, the company's own existing shares, shares purchased from the market or cash.

Approximately 110 people fall within the scope of the plan during the 2016 earning period. In 2016, the reward is based on Lemminkäinen Group's return on capital employed (ROCE).

A reward paid through this plan may correspond to the value of a maximum of 1,200,000 Lemminkäinen Corporation shares (including the monetary portion).

The Board of Directors recommends that the President and CEO and members of the Group Executive Team retain ownership of 50 per cent of the shares they receive through the plan until the value of their holding corresponds to their six months' salary. They should maintain this holding during the validity of employment or service.

#### **Other long-term incentives**

An agreement has been made on a performance bonus payable to the President and CEO, the Executive Team and separately specified key personnel for 2016–2018. The aim of the bonus is to ensure the continuity and profitability of the business over the long term. The bonus, if any, will be paid in 2016 and 2018, and it is equivalent to a maximum of 15 months' cash salary. The criteria for the payment of the bonus include the Group's financing arrangements succeeding as planned.

#### **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 upon reaching 63 years of age.

#### **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.

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

	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
EUR per annum		
Monetary salary <sup>1)</sup>	1,464,294	2,276,414
Benefits	81,162	111,198
Performance-based incentives	127,063	222,329
Pension schemes	298,017	496,557
<b>Total</b>	<b>1,970,535</b>	<b>3,106,498</b>
Share-based incentive (shares, no.)	11,066	2,269

<sup>1)</sup> Includes compensation related to redundancy

**Remuneration and fees – President and CEO**

	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014 <sup>1)</sup>
EUR per annum		
Monetary salary	496,462	1,568,570 <sup>2)</sup>
Benefits	19,801	20,010
Performance-based incentives	42,762	85,608
Pension schemes	120,200	261,789
<b>Total</b>	<b>679,224</b>	<b>1,935,977</b>
Share-based incentive (shares, no.)	6,782	267

<sup>1)</sup> As of 1 August 2014, Casimir Lindholm has served as the President and CEO. The Chairman of the Board of Directors, Berndt Brunow, acted as the interim President and CEO from 2 April to 31 July 2014, after Timo Kohtamäki left the company on 2 April 2014.

<sup>2)</sup> Includes compensation related to redundancy.

## 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

**Heppu Pentti**

b. 1979, Upper Secondary School Graduate

Member of the Board since 2015

Independent of the Company and non-independent of 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 on our website at [www.lemminkainen.com/investors](http://www.lemminkainen.com/investors)

## 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.

During 2013–2014 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.

**Robert Blumberg**

b. 1974, M.Sc. (Eng.), MBA

Executive Vice President, responsible for paving, mineral aggregates, earthworks and sustainability. Member of the Executive Team since 2015, Group employee since 2015.

Blumberg has previously worked in international management positions in Valmet Automotive Inc. as well as Metso Paper.

**Tania Jarrett**

b. 1963, Master of Arts

Executive Vice President, responsible for HR in Lemminkäinen Group as well as Paving and infra projects business segments. Member of the Executive Team since 2014, group employee since 2014.

Jarrett has previously worked in both international and country-specific HR management roles for Microsoft Mobile and Nokia.

**Harri Kailasalo**

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

Executive Vice President, responsible for infrastructure construction projects and procurement. 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 Executive Team can be found on our website at [www.lemminkainen.com/investors](http://www.lemminkainen.com/investors)

## Risks and uncertainties

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 results, including the continuity of the operations under changing conditions.

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. We assess liquidity monthly by taking cash flow and risk forecasts into account. 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 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.

### Most significant 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. Our business operations are sensitive to new construction cycles in Finland in particular. We manage these kinds of risks structurally by distributing our business operations throughout Scandinavia, the Baltic countries and Russia.

Change management, successful recruitment and skilled and motivated personnel play a key role in ensuring that operations are in line with the targets set, yield results and comply with business-related laws and regulations and good business practices. The business segments

develop their operating models to increase agility, cost efficiency and operational consistency.

In Russia, the weakened economic situation, the exchange rate fluctuations of the rouble and the prolonged political uncertainty or the significant escalation in the sanctions between the EU and Russia could have a negative effect on our business operations. Furthermore, the political culture, legislation, its interpretation and procedures of the authorities in Russia compared to Finland, in addition to 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. We have improved the efficiency of housing sales in Russia, and in order to maintain a moderate risk level in Russia, we will not start new development projects in building construction in Russia for the time being.

Legislative and political changes can affect market development 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

In the residential and commercial development and construction projects, we are exposed to sales and price risks due to the market situation continuing to be challenging and due to the 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 whether to start new development and construction projects. We only start new housing construction if a sufficient number of units have been reserved in advance. The number of unsold completed apartments is kept to a minimum. Commercial

development projects are usually sold to property investors in the early stages of construction, thereby reducing sales risks.

Lemminkäinen's financial performance depends on successful permit, contract and project management, which involves risks related to, for instance, project pricing, use of resources, project planning and scheduling, ability to procure raw materials at competitive prices, cost control, change management as well as handling of claims for damages. In addition, project-related legal proceedings may have a negative effect on our financial performance. We are continually developing our contractual expertise and project management practices during the tender and execution stage. In addition, we are renewing project tracking systems and steering models.

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 largely depends on the world market price of oil. We manage the bitumen price risk with contractual terms and derivatives.

Furthermore, changes in the weather may cause fluctuations in our income. Weather conditions influence especially the lengths of the Paving segment's paving and mineral aggregates businesses working seasons, which may have an effect on the company's profit and its timing.

As our business operations 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 impairment risk of tangible and intangible assets and to financial risks, mainly funding, liquidity, foreign exchange rate, interest rate and credit risks. Management of financial risks is based on Lemminkäinen's treasury policy, which

defines the operating principles and division of responsibility in financial risk management and funding activities. External events may also impact negatively with regard to the availability of funding, its costs and/or repayment plans.

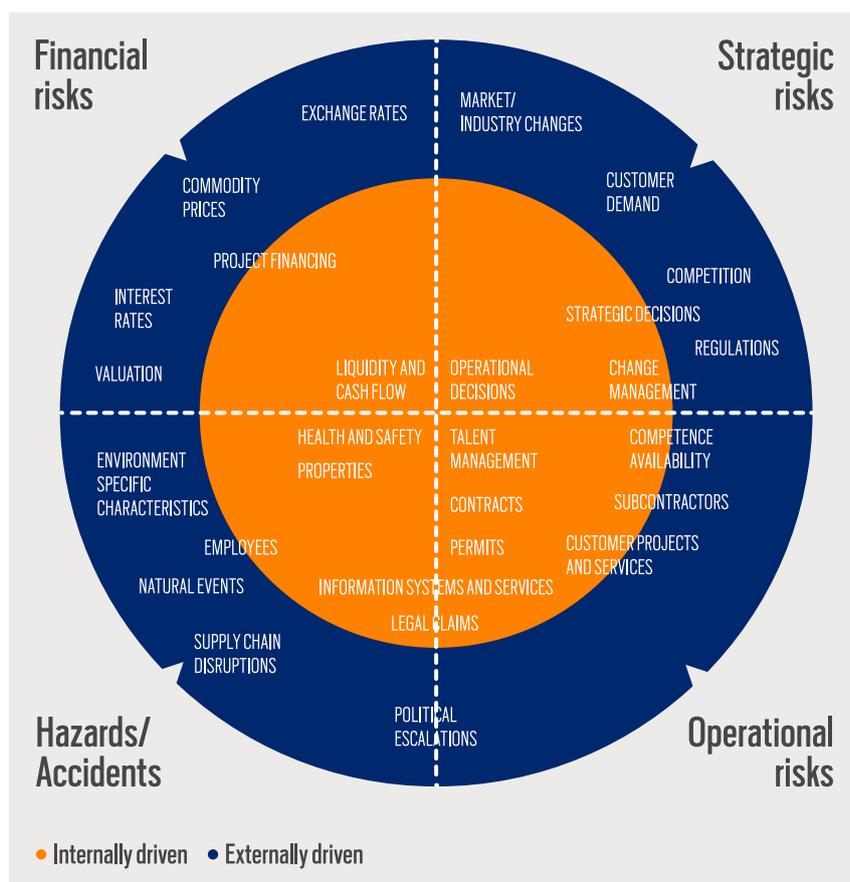
We seek to ensure the availability of funding, optimise the use of liquid assets in funding its business operations and to minimise interest and other finance costs. Lemminkäinen protects itself from currency exchange risks primarily through operative means. If necessary, transaction risks are hedged with the aid of foreign currency loans and currency derivatives. In 2015, approximately 34% of our net sales were generated in functional currencies other than the euro, the major currencies being the Norwegian, Swedish and Danish kronas as well as the Russian rouble. We do not hedge translation risk. The translation difference risk of our shareholders' equity is mainly related to the Russian business operations.

### Accident risks

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. 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 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

A one-off risk is 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 our website at [www.lemminkainen.com/investors](http://www.lemminkainen.com/investors).

essential risks in the Interim Reports and the Financial Statements Bulletin that can be found on our website at [www.lemminkainen.com/investors](http://www.lemminkainen.com/investors).

More information about financial risks and their management can be found in [the consolidated financial statements](#).

### More information about risks and risk management

We publish an up-to-date assessment of the most