Lemminkäinen

Annual Report 2011

Encounters:

New homes through customer dialogue

Customers' needs and expectations guide the planning of Lemminkäinen's construction projects. Our customers can influence our solutions to ensure that the end result best suits their own individual needs.

Anri Mäkinen and Juuso Helokangas are buying one of Lemminkäinen's brand-new homes in the new residential district of Jätkäsaari. The Jätkäsaari construction project is visible testimony to the important role Lemminkäinen plays in developing Helsinki's residential environment. The company is also building apartments and high-end business premises in Töölönlahti, downtown Helsinki, and Kahvikortteli – a new residential area in Vuosaari, eastern Helsinki that will noticeably shape the district's ambience.

Anri and Juuso had already decided to buy an apartment in Espoo, but changed their minds when they found a suitably sized apartment in a more appealing location – a walking-distance to the city centre. Jaana Jaatinen from Lemminkäinen's housing sales is not surprised by the couple's decision. Jätkäsaari is a diamond and is sure to have great appeal.

In addition to the apartment's excellent location, Anri and Juuso were attracted to the ease of living in a brand-new home and the chance to have a say in its design. The best solutions are customer-oriented – even at the planning stage. When planning a new location, Lemminkäinen's design team first runs through both their own previous experiences and their customers' wishes and expectations. A timetable for alterations is drawn up so that future residents can have as much of a say as possible in choice of solutions. Anri and Juuso were, for example, able to choose the materials used in their home. They went through their ideas with Lemminkäinen's alteration engineers, and were able to visit the construction site as soon as it was safe to do so.

Even though Anri and Juuso have yet to move in, the new district's sense of community has already been a positive surprise. Future residents have already met and formed a Facebook group to plan communal spaces and the housing cooperative's activities.

Although Lemminkäinen builds and sells a lot of apartments, a new project is always exciting for sales personnel and the rest of the project team. Every project provides experiences for the next one, and designs are continually updated.

Anri Mäkinen and Juuso Helokangas (left), Jaana Jaatinen from Lemminkäinen (right).

The best solutions are **customer-oriented** – even at the planning stage.

JÄTKÄSAARI, SAUKONPAASI

Lemminkäinen is building seven housing cooperatives with a total of 430 apartments in Saukonpaasi in the Jätkäsaari seaside district of Helsinki. The Saukonpaasi site has a total floor area of 38,000 square metres.

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LEMMINKÄINEN AS A CONSTRUCTOR IN 2011

BUILDING CONSTRUCTION	INFRASTRUCTURE CONSTRUCTION	TECHNICAL BUILDING SERVICES
		
38%	50%	12%
19%	75%	6%

SHARE OF NET SALES

SHARE OF OPERATING PROFIT

We at Lemminkäinen know that there is a better way to build, whether it be construction, renovation or maintenance of apartments, office premises, tunnels, bridges, or entire towns.

We want to further develop responsible construction practices at every location and at every stage. This means better expertise, higher quality and customer-oriented, environmentally sound solutions.

We are a leading expert in building construction, infrastructure construction and technical building services in Finland. We are seeking growth from Russian residential construction and Nordic infrastructure construction in particular.

Our net sales totalled EUR 2.3 billion in 2011. The Group employed about 8,400 people, of whom approximately 30 per cent work outside Finland.

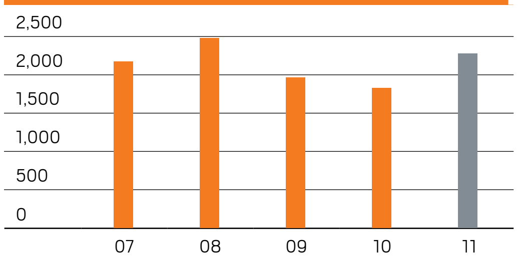
Lemminkäinen Corporation's share is listed on NASDAQ OMX Helsinki Ltd.

Lemminkäinen in figures

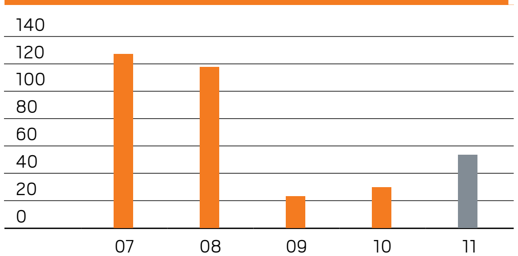
GROUP KEY FIGURES	2011	2010	Change, %
Net sales, EUR million	**2,274.1**	1,829.6	24
of which operations outside Finland, EUR million	**780.3**	543.5	44
Operating profit, EUR million	**53.5**	29.6	81
Result for the financial year, EUR million	**35.6**	1.2	over hundred
Operating profit %	**2.4**	1.6	
Return on investment, %	**10.8**	7.0	
Return on equity, %	**10.5**	0.4	
Equity ratio, %	**30.8**	35.0	
Earnings/share, EUR	**1.77**	0.02	over hundred
Dividend/share, EUR	**0.50** [1]	0.50	
Gross investments, EUR million	**84.0**	59.6	41
Order book, EUR million	**1,400.4**	1,226.4	14
Personnel on average	**8,421**	8,314	1
Accident frequency: No. of accidents / million working hours	**36.1**	36.1	

[1] Board of Directors' proposal to AGM

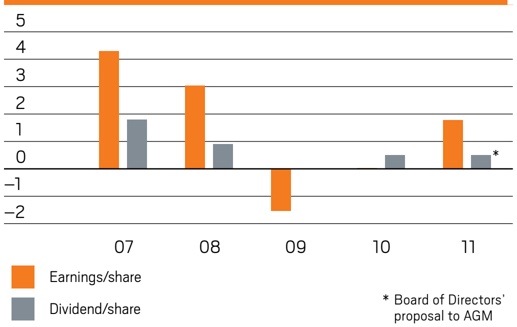
NET SALES, EUR MILLION



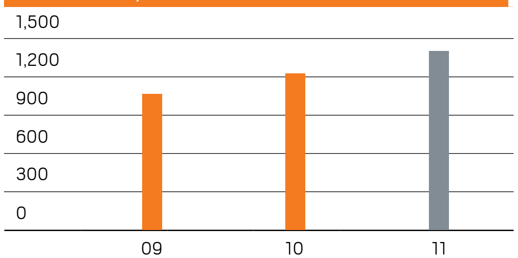
OPERATING PROFIT, EUR MILLION



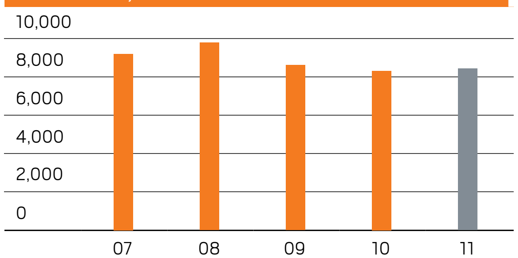
EARNINGS PER SHARE, DIVIDEND PER SHARE, EUR



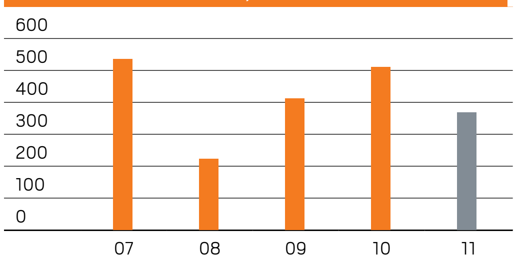
ORDER BOOK, EUR MILLION



PERSONNEL, ON AVERAGE



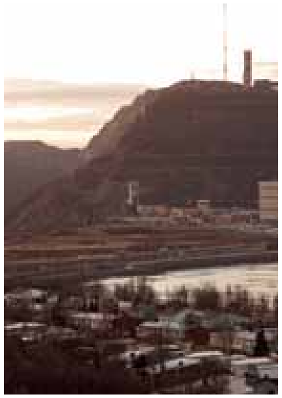
MARKET CAPITALIZATION, EUR MILLION



Encounters:

Kiruna Mine is not compromising on safety

When large-scale quarrying projects are carried out, safety and staying on schedule are decisive factors. The best result is achieved through sticking to agreed principles and forging mutual trust between client and supplier. The office balcony offers magnificient views over the mine area.



IRON ORE MINE, KIRUNA, SWEDEN

Since 2010, Lemminkäinen has built almost ten kilometres of maintenance and mining tunnels at LKAB's iron ore mine in Kiruna, Sweden. About 110 people are working in Kiruna for Lemminkäinen and its subcontractors.

Ulf Gräsvik from LKAB (left),
Kari Korhonen from Lemminkäinen (right).

Shared operating principles are the key to seamless cooperation and a **high-quality** end result.

Since 2010, Lemminkäinen has been building maintenance and mining tunnels at LKAB's iron ore mine in Kiruna, Sweden. Ulf Gräsvik, LKAB's project director, says that Lemminkäinen was chosen as a partner on the basis of its expert personnel, good resources, and competitive pricing. Previous successful quarrying projects also demonstrated Lemminkäinen's ability to carry out demanding rock engineering contracts.

Scheduling plays a key role in the success of a major project such as the one in Kiruna. Kari Korhonen, the regional director of Lemminkäinen's rock engineering works in Sweden, also emphasises that high-quality results and staying on schedule are a matter of pride for Lemminkäinen.

Safety is also vital on a mining construction site, as people may be working at depths of up to 1,360 metres. And safety is indeed top of the list for both Ulf Gräsvik and Kari Korhonen. Environmental perspectives are another major issue for consideration at the Kiruna Mine. In order to ensure that the client's operations are comprehensively environmentally friendly, it's also important for contractors to work with the environment in mind. For example, Lemminkäinen monitors equipment emissions in Kiruna. Up-to-date equipment also helps to reduce environmental effects.

During large-scale projects, the professional skills of both the client's and contractor's personnel play an important role. Kari Korhonen says that Lemminkäinen also seeks to ensure the professional skill of its employees – and thereby the quality of its end results – by fostering long careers with the company.

A shared understanding of a project's operating principles is the key to a high-quality end result and seamless cooperation between client and contractors. Both LKAB and Lemminkäinen are satisfied with their cooperation. The customers' expectations have been met, and promises have been kept. What has been agreed upon above ground has also been carried out below ground.

2011 in brief

31.1. Divestment of the roofing business

Agreed on the previous year, we completed the sale of our roofing business to the Nordic equity fund Axcel when the Finnish Competition Authority accepted the deal.

14.3. Corporate responsibility reporting

We published our first description of Lemminkäinen corporate responsibility activities complying with the Global Reporting Iniative's (GRI) G3 guidelines, while scoring 69 out of 100 in the Carbon Disclosure Project on 21 October.

10.2. Residential construction in St Petersburg

We agreed on a contract to build around 2,000 apartments and business and office facilities on the Vasily island in St Petersburg. It is our goal to start building around a thousand apartments per year in St Petersburg within the next few years.

12.5. Electrification project at the Kevitsa mine

We won a EUR 9-million electrification contract from Kevitsa Mining AB for the Kevitsa nickel and copper concentrate mine in Sodankylä, Finland. The customer is a subsidiary of the Canadian mining company First Quantum Minerals Ltd. This project included building and process electrification of production facilities, and instrumentation installations. The order represented a follow-up to our previous earthworks and concrete structure projects at the Kevitsa mine.

2.3. Infrastructure construction in the Nordic countries

On 2 March, we received an order for the excavation of underground mine tunnels and ore, worth around EUR 15 million, in the Svartliden Mine in Sweden. On 22 March, we won Norwegian state paving contracts worth EUR 26 million. On 16 June, we won a significant, EUR 43-million construction project for a new diversion channel in Timrå, Sweden. Furthermore, we won a EUR 19-million project for the construction of Sunnhordland Kraftlag's Eikemo hydropower plant on 29 June.

31.5. Norwegian acquisition

We acquired the entire capital stock of Mesta Industri AS from Mesta Group, owned by the Norwegian state. This acquisition represents an important step in strengthening our position in the Nordic infrastructure construction market – one of our areas for growth. Lemminkäinen has been in the infrastructure business in Norway since 2001. After the acquisition, we are one of the country's largest paving contractors.

1.6. Office buildings in Helsinki's Töölönlahti

Over a two-year period, Lemminkäinen will construct three office buildings in the Töölönlahti area in Helsinki, two of which will also house apartments. The client is Etera Mutual Pension Insurance Company. Lemminkäinen's projects will total over EUR 100 million in value. Over the next two years the Töölönlahti area will be one of the largest and most prominent sites in Finland with regard to office building construction.

1.7. Residential construction in Finland

We kicked off construction on around 1,200 units within our own residential development in Finland. As an example, Lemminkäinen will construct altogether seven housing co-operatives in Helsinki's Jätkäsaari, with a total of 430 apartments.

17.8. Kokkola Housing Fair

Our apartment building exhibit, named Albatrossi, was one of the draws of the housing fair in Kokkola. Over half the fair's visitors, around 65,000 people, visited the building over the course of the month-long fair. New ideas for urban living, created in co-operation with designers Paola Suhonen and Sikke Sumari, added to the attractiveness of Lemminkäinen's apartment building.

10.10. Further specification of strategy

In accordance with our specified strategy, we will give particular focus to improving the profitability and competitiveness of our domestic operations. Growth is being sought from operations outside Finland. International Operations will be our fourth business sector, starting from 1 January 2012.

10.10. Efficiency programme

The efficiency programme was launched in order to improve profitability and competitiveness. This programme is expected to generate annual savings of EUR 50 million. Codetermination talks were initiated as part of the efficiency programme on 18 October, resulting in the decision to cut a maximum of 300 man-years.

12.10. Personnel survey

In autumn 2011, we conducted our second Group-wide personnel survey. The reply rate was 49 per cent (52). The results have been discussed on both the Group and business sector levels. We will develop our operations in 2012 based on these results.

READ MORE AT WWW.LEMMINKAINEN.COM

The way we work

As a major player in the construction industry, we strive to consider both the direct and indirect effects of our operations on the surrounding community. Continuous, open dialogue with stakeholders is a fundamental aspect of responsible operations and management.

We base our operations on our values – respect and trust, constructive collaboration, and sustainable growth and development. Our vision is The best way to build – we want to develop more responsible, higher-quality construction in cooperation with our customers. Our Code of Conduct is based on international regulations such as the UN's Declaration of Human Rights and the Global Compact together with the ILO's employment rights and principles, the OECD's operational guidelines for multinational companies, and International Chamber of Commerce (ICC) recommendations.

RESPONSIBILITY – THE HEART OF OUR STRATEGY

Expectations concerning responsible operations, such as energy-efficient construction and preventing the grey economy, are great on the construction industry. In order to meet these expectations, we've made corporate responsibility a fundamental part of our operations. We want to be recognised as a responsible player in the construction industry.

Our CEO is responsible for corporate responsibility. Corporate responsibility is steered by the responsibility steering team, whose chairman is a member of the Group's Executive Board. The steering team's other members represent our business operations and key support functions.

The Group's Executive Board and Lemminkäinen's Board of Directors discuss key corporate responsibility principles and reporting. The communications function is responsible for reporting.

We use management systems that meet the following international standards: ISO 9001:2008 (quality), ISO 14001:2004 (environment) and OHSAS 18001:2007 (occupational health and safety). Our head office was granted membership of the WWF's Green Office network in 2010.

CODE OF CONDUCT

Our Code of Conduct covers all of our operations and defines the way we all work. It also acts as a set of guidelines for our partners. Supplements to the Code include competition law regulations, insider and representation guidelines, and our sponsorship principles.

Everyone at Lemminkäinen must adhere the Group's internal guidelines in addition to current legislation. Supervisors are responsible for ensuring that employees familiarise themselves with and adhere to these guidelines. According to the 2011 personnel survey, 57 per cent of our employees know what to do if they spot non-compliant behaviour. In 2011, we launched an online training programme in competition law. The training is open to all Lemminkäinen employees working in Finland. 101 people had taken part in the programme by the end of 2011.

We acknowledge our employees' freedom to organise and their right to join professional unions and make collective labour agreements. We do not employ child labour, nor do we deal with subcontractors or suppliers who do. We are restrained in our support of political parties and non-profit organisations. In 2011, we supported political activities to a total of EUR 6,150. We do not condone bribery, nor do we enter into business relationships that could lead to conflicts of interest. You can read our Code of Conduct at: www.lemminkainen.com.

REPORTING PRINCIPLES

This annual report covers the period 1 Jan–31 Dec 2011 and includes corporate responsibility reporting for the second time. In March 2010, we published our first annual report based on the Global Reporting Initiative's (GRI) G3 v3.0 recommendations. Corporate responsibility is reported annually. The annual report is directed to shareholders, investors, analysts, media, customers, partners and personnel.

For the 2010 annual report, the corporate responsibility steering team defined Lemminkäinen's most material responsibility themes. These were updated in autumn 2011. The materiality assessment steers our reporting – the themes highlighted in the assessment have become our main reporting themes. The materiality matrix is presented on page 9.

The majority of our financial responsibility figures have been obtained via the consolidated financial statements. These have been prepared in accordance with International Financial Reporting Standards (IFRS), to comply with EU-approved IAS and IFRS standards and the SIC and IFRIC interpretations in effect on 31 December 2011. Segment reporting is based on management reporting, as per IFRS 8, and therefore deviates in part from the consolidated accounting principles. The adjusted comparison figures for 2010 are presented in brackets.

The personnel and remuneration data has been obtained during financial reporting and is also published in the financial statements. This information covers the entire Group. The data on Finnish employees is supplemented with information from our SAP HR data system, which was introduced at the beginning of 2011. The new system provides a broader and more comprehensive range of personnel data, and we will continue to develop it during 2012. Our 2011 environmental reports only cover operations in Finland.

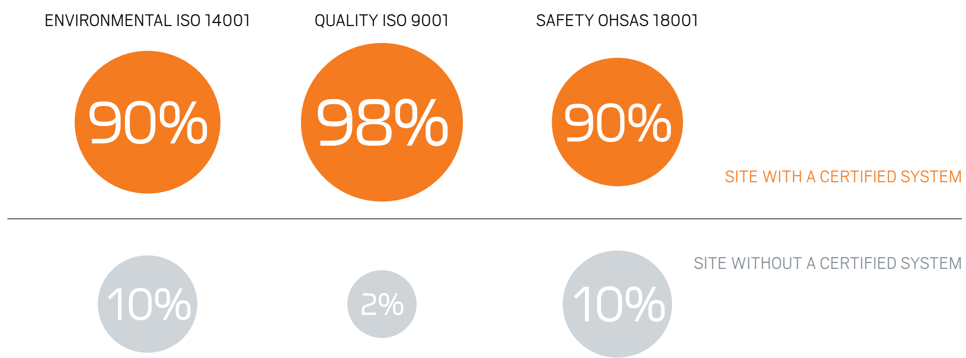
Environmental data has been collected using questionnaires. In 2011, we expanded our reporting to include additional indicators, such as the environmental impact of transportation. The divested roofing material factory has been removed from the 2010 figures. Figures have not been adjusted in proportion to production volumes.

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

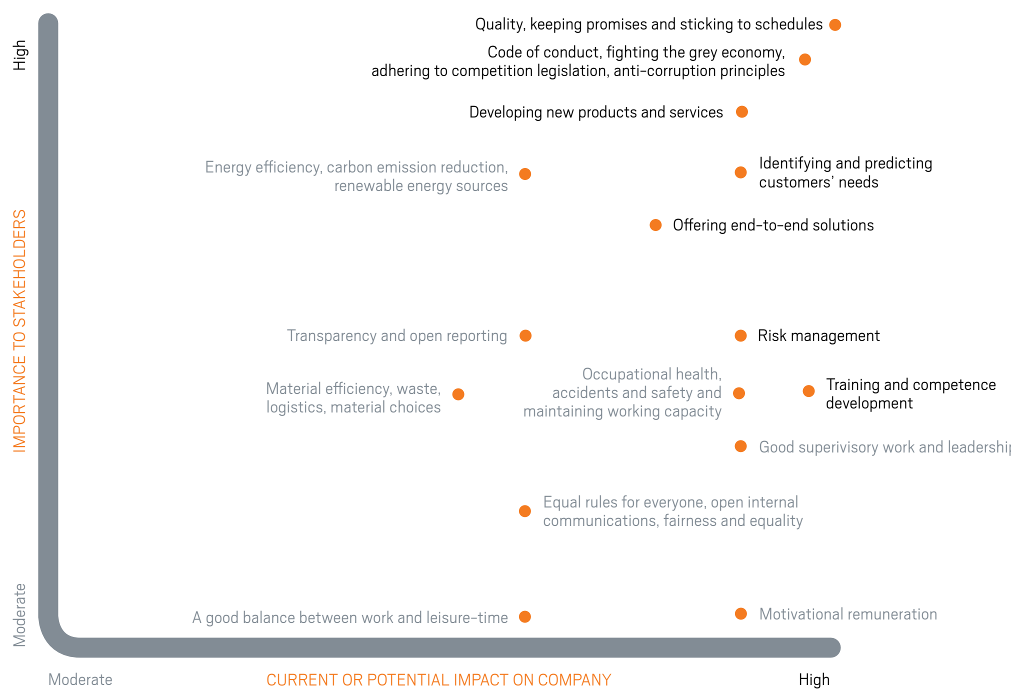
The CR reporting in Finnish has been assured by an independent third party, PricewaterhouseCoopers Oy, and congruence between the Finnish and English versions has been checked. Independent assurance report is published on page 59.

Comparisons with GRI recommendations and the UN's Global Compact can be found on pages 60–65. A full GRI table and further information about Lemminkäinen and our corporate responsibility activities are available on our website: www.lemminkainen.com.

MANAGEMENT SYSTEMS IN FINLAND AT LEMMINKÄINEN SITES



MATERIALITY MATRIX



Review by the President & CEO

We want to be a reliable and responsible construction partner that offers services and solutions designed to meet customer needs, and better quality and eco-efficiency at every stage of each project.

DEAR SHAREHOLDER,

The process to renew Lemminkäinen's operations has progressed in line with the strategy devised in 2009. Our objective is to build a more competitive, international Lemminkäinen. The first results of our work were seen last year.

Our financial performance for 2011 serves as evidence of improved competitiveness. In infrastructure construction, we recorded profitable growth in all key markets. Growth was driven by high demand in mining operations and tunnel projects, and by the acquisition of Mesta Industri, which made us the leading paving company in Norway. The housing market was steady throughout the year in Finland and in Russia. In St Petersburg, we strengthened our plot reserve, with the objective of attaining similar residential construction volumes to those we have in Finland. In technical building services, we made good progress with the development of customer-oriented maintenance and servicing.

Better competitiveness bolstered our performance: net sales were up by 24 per cent to EUR 2.3 billion, pre-tax profit quadrupled to EUR 34.6 million, and earnings per share were EUR 1.77. Our order book was strong at EUR 1.4 billion. These figures offer a solid foundation for a good performance in 2012, despite the market uncertainty seen early in the year.

We will not settle for the profit level achieved in 2011. We will shift our operational focus to more profitable operations, such as own residential development and maintenance and servicing in the technical building services segment. In our opinion, international operations offer good growth opportunities. We will also pay special attention to project management and cash flow. At the year-end, we initiated a programme designed to cut costs by EUR 50 million and thereby improve our efficiency and boost our competitiveness. The new procurement model will generate the majority of these savings.

Key priority areas in development work include energy and eco-efficiency, more effective use of IT systems in construction, and service development. All of these have a direct impact on building quality, efficiency and sustainability. In human resources, we will pay special attention to key competence development and supervisory work. Investments in human resource development directly contribute to customer satisfaction, operational efficiency and enhanced competitiveness.

Our vision is expressed in our slogan **The best way to build.** We want to be a reliable and responsible construction partner that offers services and solutions designed to meet customer needs, and better quality and eco-efficiency at every stage of each project. Better construction solutions translate into added value for customers and profitable growth for us, which in turn enables human resource and corporate development. Pursuing these efforts also creates shareholder value.

I would like to thank our shareholders for their confidence in Lemminkäinen's ability to renew itself. I would also like to thank our personnel for their dedicated efforts toward creating better construction solutions in a changing business environment. We will continue to do our very best to benefit our customers and shareholders.

Timo Kohtamäki
President and CEO

Operating environment

The Eurozone debt crisis is clouding the outlook for the European construction industry. There is, however, quite a reasonable outlook for two of Lemminkäinen's growth areas – Russia and the Nordic countries. Large-scale traffic route projects are being implemented in the Nordic countries, and considerable investments are also being made in the energy supply and mining industries. Fewer building construction projects are expected to start up in Finland but in Russia the amount is growing.

The European financial crisis is rocking the world economy and also clouding the outlook for the construction industry, as construction volumes run in tandem with national economies.

The outlook for the Finnish economy darkened rapidly in late 2011, and economic research institutes lowered their economic forecasts.

Downturns reduce both householders' eagerness to enter the housing market and companies' willingness to make investments. On the other hand, migration is maintaining demand for housing. The possibilities of the public sector are more limited than in 2008–2009 when, for example, construction was used to revive demand in Finland. In the municipal sector, there is a deepening divide between growth centres and declining areas. In Finland, this can already be seen in, for example, a reduction in infrastructure construction in the weakest areas.

Low interest rates, migration and reasonable employement will back up the construction and housing market. On the other hand, the unstable economy will slow down real estate investing and finding tenants for business premises.

There are also favourable signs. In Sweden, Norway and Denmark, considerable investments have been made in multi-year projects for traffic routes and water and sewerage networks. In the private sector, investments in the energy supply and mining industries will probably continue for several years.

In the long term, several global trends will generate new requirements for construction. Urbanisation will increase the appeal of underground construction, the number of single-person households is rising, and aging populations will generate new needs for living and services. Stricter energy and environmental regulations will increase demand for new technologies. The outlook for renovations is likewise good.

FINLAND – GROWTH CENTRES INVESTING

Finland generates almost two-thirds of Lemminkäinen's net sales. Some economic research organisations have forecast a decline in Finland's export-led economy in 2012.

Regional variations in economic wellbeing are evident in construction. Growth centres – and the businesses that operate in them – are continuing to invest in construction. Outside growth centres residential, office and infrastructure construction are in decline.

According to the Confederation of Finnish Construction Industries RT, construction grew by about four per cent in 2011, although growth is expected to remain around the zero mark in 2012. Building construction grew briskly in 2011, while civil engineering contracted. Construction will remain brisk in early 2012, but is expected to slow towards the end of the year.

In 2011, the new start-ups in building construction remained at the same level as in the previous year – about 38 million cubic metres. It is expected that this figure will fall to 35.5 million cubic metres in 2012. The number of residential start-ups fell to about 32,000 in 2011 (33,700). The fall was largely due to a reduction in subsidised residential production. This decline is estimated to continue in 2012, to about 28,000 residences.

Infrastructure construction continued to contract, falling about four per cent in 2011. The growth outlook in infrastructure is, however, quite good in certain areas. The Finnish mining industry, for example, has launched – or is in the process of planning – a total of over 40 mining projects. According to the Research Institute of the Finnish Economy, net sales in the mining industry will increase almost threefold by the middle of the decade (to EUR 2.5 billion), and the number of employees will double up to 5,500 people.

SWEDEN – BUILDING ROUTES AND NETWORKS

Nordic economies are in moderately good shape – a good thing for Lemminkäinen, as we are rapidly growing in the Nordic countries.

According to Sweden's Ministry of Finance, the country's economy grew at a rate of four per cent during 2011. Sweden's industrial base and public sector economy have remained in good shape, and unemployment has been low. However, according to the Ministry, growth will slow to about one per cent in 2012.

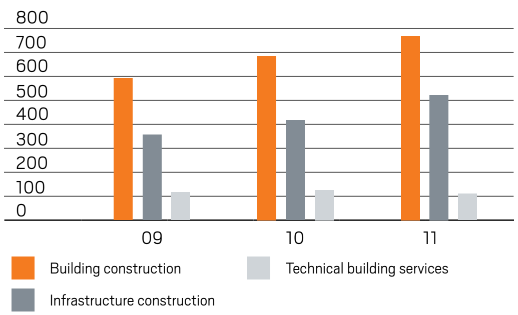
In Sweden, the need for construction is driven by several factors, such as strengthening growth centres and the deficit in residential production left by the previous recession. The lifting of rent control and the popularity of privately financed residential construction are also boosting demand.

The outlook is also bright for renovation. During the 2009 recession, the Swedish government encouraged renovation through tax deductions, which in turn boosted professional renovation.

The outlook is also promising for infrastructure construction in particular. The KTH Royal Institute of Technology has estimated that over EUR 3 billion needs to be spent on highway and railway renovation alone. The government has published a EUR 50 billion investment programme to improve the country's infrastructure in 2011–2021.

Similar renovation programmes have also been launched at power stations and waterworks. The in-

LEMMINKÄINEN'S ORDER BOOK BY BUSINESS SECTOR, EUR MILLION



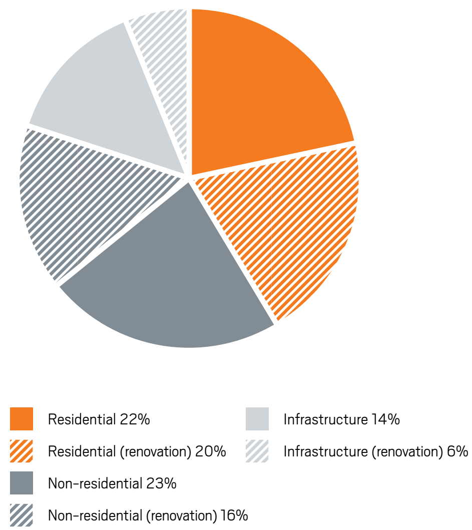
dustry has announced that it will invest about EUR 30 billion in 2008–2018. The mining industry has also launched major projects with more on the table.

NORWAY – REPAIRING BAD ROADS

Like the Swedish economy, the Norwegian economy is in relatively good shape compared to many euro-zone countries. According to advance information from Statistics Norway, the economy grew by 1.6 per cent in 2011. The research institute also expects the growth rate to increase to 2.0 per cent in 2012.

In Norway, the greatest growth in 2011 was seen in residential construction, which is largely driven by population growth. Infrastructure projects are important for Lemminkäinen. The renovation projects that Norway launched as part of its economic recovery programme ended in 2010, and this led to an unusual decrease in infrastructure projects. In 2011, the growth rate of infrastructure construction rose to five per cent and is expected to accelerate to up to 9 per cent during 2012. This growth is being driven by substantial investments in roads, energy projects, and major water and sewerage network projects. There are also some major rail projects underway, such as the metro and tramway projects in Oslo and Bergen.

TOTAL VOLUME OF CONSTRUCTION IN FINLAND



Source: Euroconstruct 11/2011

DENMARK – BUILDING RAILWAYS

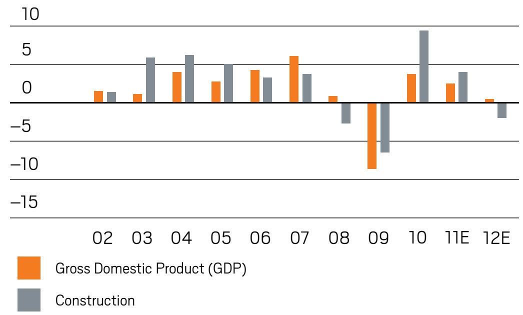
There is greater economic uncertainty in Denmark than in Sweden and Norway. Unemployment, a rise in interest rates, and the recession may push house prices down.

The brightest ray of light in the construction industry is in infrastructure construction, Lemminkäinen's focus area in Denmark. The government is investing in both highways and railways. The length of the Copenhagen metro will double once work is completed in 2018.

RUSSIA – GROWTH IN THE HOUSING MARKET

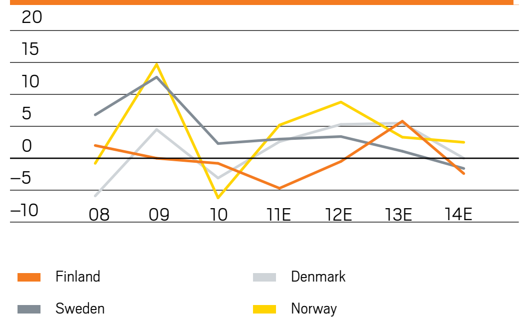
In addition to the Nordic countries, Russia is also one of Lemminkäinen's key growth areas. According to the OECD's December estimate, the Russian economy grew by four per cent in 2011 and will maintain this rate for the next two years. However, the fluctuations in raw material prices caused by the financial crisis could quickly reverse economic trends.

GROSS DOMESTIC PRODUCT AND CONSTRUCTION IN FINLAND, CHANGE IN VOLUME %



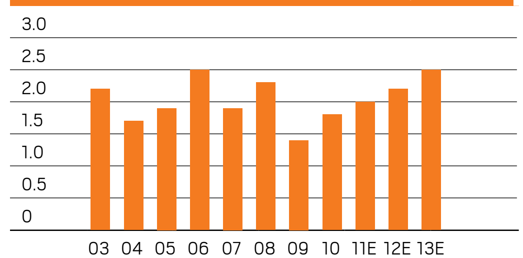
Source: Statistics Finland, RT

DEVELOPMENT OF INFRASTRUCTURE CONSTRUCTION IN THE NORDIC COUNTRIES, %



Source: Euroconstruct, December 2011

SALES OF RESIDENCES IN ST PETERSBURG, MILLION M³



Source: Consulting agency Peterburgskaya nedvigimost

Russia is almost debt free, and has even seen a surplus in its national budget. Unemployment is at 6.4 per cent, but only 2 per cent in Lemminkäinen's important city, St Petersburg.

In recent years, construction has been the fastest growing sector of the Russian economy. For example, about half of the investments in the national economy in 2010 were in construction.

Residential construction accounts for just over half of Russia's construction market, which is worth about EUR 140 billion, in St Petersburg 3 billion. The price of new and old apartments in St Petersburg rose by eight per cent in early 2011.

Internal migration to major cities is putting increasing pressure on the government to increase residential construction. The government wants to increase apartment sizes, and a rise in living standards is making this goal realistic.

THE BALTIC COUNTRIES – RECOVERING

The economies of all the Baltic countries experienced a sharp downswing in 2009. The turn for the better began almost at the same rate. In 2011, the Latvian economy grew by slightly more than three per cent, while growth in Estonia and Lithuania was around the six per cent mark.

Growth is forecast to be around 3–5 per cent over the coming years. The European financial crisis could, however, be strongly reflected in these countries' economies.

The construction market experienced a deep recession in 2009–2010, and recovery has been slow. However, in 2011 the number of road construction and renovation projects exceeded that of the previous year. In Estonia, demand for infrastuctrure construction grew faster than in other Baltic countries. Investments in transport form the largest subsector of the construction industry in Estonia.

READ MORE AT WWW.LEMMINKAINEN.COM/INVESTORS

LEMMINKÄINEN – ANSWERING MEGATRENDS

Last year, Lemminkäinen identified the megatrends that we believe will have the most impact on our operations by 2015. The major challenges facing the construction industry come from urbanisation, aging populations, and a rise in energy and environmental challenges – but these are also opportunities for us. Answering megatrends requires innovation, new types of cooperation networks, a customer-oriented approach, and strategic agility. Good service in particular is becoming increasingly important.

Urbanisation fuels renovation

As populations become increasingly centred on towns and cities, there is a growing need for public transport, cycle routes, and pedestrian routes. This gives rise to new types of infrastructure solutions. Successful solutions require a broad variety of cooperation with, for example, the construction industry, IT companies, and transport operators.

Urbanisation also creates an increased need to improve existing properties in city centres. When evaluating renovation requirements, the functionality of the area as a whole is becoming more important than individual buildings.

In the future, city construction will increasingly move below ground and above existing networks, such as roads and railways. This will create a denser city structure and improve ecological efficiency, and services will be in even easier reach. However, these trends require a new kind of expertise from both constructors and city planners – and potentially from political decision-makers, too.

Aging population needs new services

As populations age, construction will focus on solutions that promote safety, accessibility, and wellbeing. The construction of business premises will also be increasingly geared towards solutions that support health, coping at work, and a pleasant working environment.

Aging populations also challenge the construction industry to enhance its own working environment. A wave of retirements will put the industry into even greater competition with other industries.

Globalisation increases competition

Globalisation increases competition and the free movement of labour. The globalisation of Finnish construction companies is continuing, but new kinds of competitors are likewise entering the Finnish market.

Construction companies must remain competitive, by maintaining both their cost-effectiveness and quality standards. Customers must be offered innovative solutions that exceed their expectations.

New energy and environmental solutions required

Construction and buildings account for about 40 per cent of all energy consumption. Finland has created a vision for an energy-smart built environment in 2017, and its goal is to have the world's best built environment. Energy efficiency is a key target across the globe. Even Russia, whose livelihood is energy production, imposed new energy regulations on housing in 2009.

Achieving this target will require energy efficiency, low emissions, and high-quality construction. At the same time, an even broader variety of expertise is being demanded from the construction industry in, for example, everyday information technology and awareness of social and cultural developments. Technical building systems are accounting for an increasing proportion of construction costs, as technology plays a central role in fulfilling the needs of both customers and the environment.

Customers and both public and private sector companies expect the construction industry to provide more new business models that include lifecycle responsibility, for instance. Customers also expect end-to-end service, which supports Lemminkäinen's strategy of increased internal cooperation. Tendering larger entities is less work for customers and makes it easier for construction companies to plan their work. Responsibility for maintenance further widens the perspective of construction companies.

*Source: Euroconstruct December 2011

		BUILDING CONSTRUCTION	INFRASTRUCTURE CONSTRUCTION	TECHNICAL BUILDING SERVICES
LEMMINKÄINEN AS A CONSTRUCTOR	OPERATIONS	Residential construction, commercial and office construction, industrial construction, renovation, property development, life-cycle projects	Paving and mineral aggregates, foundation and geotechnical engineering, rock engineering, the construction of road, street and railway networks, maintenance, concrete products and concrete construction.	Installation and maintenance of technical building and property systems, telecom network construction.
	SPECIAL KNOW-HOW	Real estate development, property development, renovation	Demanding foundation, rock and concrete construction work, deep stabilisation, foundation reinforcement, specialised sheet piling, and anchoring and reinforcing dams and abutment walls. A long history of product and production technology R&D in paving, for example, Lemminkäinen's own central laboratory.	Maintenance and upkeep of technical building systems. Turnkey and negotiated contracts. Refrigeration and sprinkler systems.
	MAIN MARKET AREAS	Finland, Sweden and Russia	Nordic countries, Baltic countries and Russia	Finland
	STRATEGIC ROLE	Investing capital in our own production generates profit in favourable economic climates.	Steady result in all economic climates.	Maintenance and upkeep services generate uninterrupted cash flow.
	STRENGTHS	Local presence, life-cycle models, building information modelling (BIM). Reputation for reliability and higher-than-average quality in St Petersburg.	An infrastructure expert that can also handle major projects.	Life-cycle expertise and energy-efficient solutions, nationwide coverage with a local presence, expertise and experience in implementing demanding projects.
	GROWTH DRIVERS	Residential construction in Finland: Population growth, urbanisation, rising rental rates, low interest rates. In Russia: development of consumer credit schemes, a growing and wealthier middle class. Construction of business premises: development of growth centres, a need for new and energy-efficient premises in growth centres.	Deteriorating road networks, growth in the mining industry, more efficient land use, growth in the energy supply sector, governments' increased investments in infrastructure development.	Generalisation of technical building systems, demands on energy efficiency in residential construction.
	CUSTOMERS	Consumers, property investors, public administration, property owner-users, housing cooperatives, industrial companies	Public administration, industry, property owners, other construction firms	Public administration, real estate developers, owners and users, building managers, housing cooperatives, construction firms
MARKET SITUATION	MARKET POSITION	One of the largest building constructors in Finland. One of the largest foreign residential constructors in St Petersburg.	The largest infrastructure constructor in Finland. The second largest paving contractor and a major infrastructure constructor in the Nordic countries.	One of the three largest players in Finland.
	COMPETITORS	YIT, NCC, Skanska, SRV and Peab. Several local construction firms in Sweden and in St Petersburg.	NCC, Skanska, Peab, YIT, Destia, Kalliorakennus-yhtiöt, Veidekke, Strabag	YIT, ARE, several smaller companies
	MARKET SIZE*	Finland: residential construction (new) EUR 6.1 billion, residential construction (renovation) EUR 5.6 billion, non-residential construction (new) EUR 6.4 billion, non-residential construction (renovation) EUR 4.4 billion. St Petersburg: residential construction (new) EUR 2.8 billion. Sweden: residential construction (new) EUR 6.8 billion, non-residential construction (renovation) EUR 12.4 billion.	Infrastructure construction (incl. renovation) Finland: EUR 5.3 billion All Nordic countries: EUR 30.2 billion Baltic countries: EUR 3.5 billion	Finland: EUR 4.3 billion

Towards the best way to build

Our vision, The best way to build, applies to everything we do: we create conditions that make living, working and travelling easy, safe and healthy. The achievement of our vision requires the constant development of our operations. Profitable growth creates the preconditions for this.

Lemminkäinen is undergoing renewal into a unified, profitably growing construction firm. We are developing our business operations, while bolstering our financial position, streamlining our structure and harmonising our operating practices. Using this approach, we are seeking average annual net sales growth of 10 per cent, a return on investment of over 18 per cent and an equity ratio of at least 35 per cent. Another goal is steady distribution of dividends in which a minimum of 40 per cent of the financial year's profit is distributed to shareholders as dividends.

THE MAIN GOAL: IMPROVING PROFITABILITY

Lemminkäinen's current strategy, extending to 2013, was reviewed at the mid-point of the strategy period.

To start off, we determined the global megatrends that are significant to Lemminkäinen (see p. 14 in the annual report) through a participation-inducing process. After this, we specified the competitive strategies of our business operations. We assessed such matters as changes in the operating environment and competitive field, our own range of services and products, the historical financial development of business operations, and our expertise and competencies.

We also conducted an assessment of the realisation of this strategy. Our profitability development had been affected by such factors as the slower-than-expected recovery from the 2008–2009 recession in our Finnish and Baltic business operations. On the other hand, we have made fast progress in Scandinavian infrastructure construction. In Russia, we have bolstered our reserve of plots, and will have the capacity to start building 1,000 residential units per year in 2013. Renovation operations have also seen steady growth. Our operations are primarily concentrated in project development in growth centres and the repurposing of buildings. The construction activities of our one unified Lemminkäinen are particularly focused on the improvement of quality and internal efficiency in support services and acquisitions, for instance.

On the basis of the strategy review, we confirmed our previous financial goals and estimated they can be achieved by the end of the strategy period. The company's main objectives for 2012–2013 are still to pursue profitable growth and bolster solvency. We will shift the focus of business operations to more profitable segments. These include own residential development and maintenance and servicing for technical building systems. Growth is being sought from operations outside Finland.

STRATEGY IS IMPLEMENTED THROUGH STRATEGIC PROGRAMMES

In order to achieve our goals, we will focus on five strategic themes. These are profitable growth, customer experience, best solutions, the development of management skills and supervisor work, and efficient operations. We will manage the implementation of our strategy by means of strategic programmes and projects.

Profitable growth

A strong market position creates great preconditions for the development of profitability. We want to retain our leading market position in our home market, comprising the other Nordic countries, Russia and the Baltic countries, in addition to Finland. This requires continuous development and growth of operations both organically and through acquisitions.

In June 2011, we completed the acquisition of Mesta Industri A/S, previously owned by the state of Norway. Owing to this acquisition, we became one of the largest paving contractors in Norway. The integration of Mesta operations with Lemminkäinen has proceeded as planned. In rock engineering, we continued the development of Nordic resource base, while also expanding our operations to Norway, where we secured an extensive hydropower plant project. We bolstered our reserve of plots with regard to residential construction in Finland and St Petersburg. We signed a contract that will enable us to build 2,000 residential units in Vasily island in central St Petersburg. Construction will commence this year. We also kicked off the construction of 400 residential units in the centre of St Petersburg.

In 2012, we will especially concentrate on improving profitability and competitiveness in our Finnish operations. Moreover, our goal is to enhance the use of capital. In Building Construction, the aim is to increase the share of real estate development. Maintenance and up keep services for technical building systems will also be bolstered. We will increasingly seek growth from international operations: residential construction in St Petersburg and infrastructure construction in Norway, Denmark and Sweden. On 1 January 2012, we founded a fourth business sector, International Operations, information on which can be found page 20 in the annual report.

Customer experience

We want to focus our sales activities and resources increasingly on customers and projects that enable us to provide the most added value for our customers. Customer relationship management also improves the predictability and efficiency of operations.

In 2011, we set clear, Group-wide goals for customer relationship management, while drafting a road map. We invested in key customer relationships and the improved co-operation of our various business sectors at the customer interface. In the Technical Building Services business sector, we packaged the premier products of maintenance and upkeep services into distinctive product family in, for instance, energy maintenance, electrical safety services and work safety assessments. In residential construction, we developed more customer-oriented site design. We also focused on developing the brand, sales and marketing. In St Petersburg we commenced co-operation with banks in order to improve the opportunities for homebuyers to be granted credit.

In 2012, we will continue the specification and implementation of commercial processes. We seek profitable growth through improved management of key customer relationships. We will seek to better utilise Lemminkäinen's entire range of expertise in order to obtain a competitive advantage in extensive projects.

Best solutions

We focus development on areas that are essential to profitable growth: the utilisation of IT in construction, environmental and energy efficiency and services development. We will complement our expertise with a network comprising the best operators in the sector.

In 2011, we enhanced the development and productisation of maintenance and upkeep services related to technical building services. In February, we were granted a patent for a solution for raising apartment buildings. We set new environmental targets for the current strategy period and created a road map for the achievement of these targets. The enhancement programme for material efficiency, initiated in 2010, continued. By enhancing material efficiency we

Technical Building Services, maintenance and upkeep services **50%**

The objective is to raise the service business share of the sector's net sales to approx. 50 per cent.

Building Construction, real estate development **50%**

The objective is to increase the share of real estate development to over 50 per cent of the sector's net sales.

Infrastructure Construction, Nordic countries

€ 100 million

The objective is to increase net sales from infrastructure construction in Norway, Denmark and Sweden by a total of about EUR 100 million in 2012–2013.

Residential construction in Russia

1,000 pcs

The objective is 1,000 residential start-ups annually.

are able not only to reduce adverse environmental effects but also to increase the efficiency of production. Building information modelling was developed in connection with the design of new projects including the one in Töölönlahti, in the centre of Helsinki.

We are constantly investing in the efficiency of our operations and the transfer of best practices within Lemminkäinen. The revised operating models of our business sectors improve the flexible use and mobility of labour and expertise. Moreover, we are constantly developing construction quality while striving to enhance the efficiency of production.

We are developing our special expertise in, for instance, energy-efficient solutions and the construction of demanding urban projects. We boast diverse expertise with regard to the repurposing of premises, the improvement of energy-efficiency in old buildings, and underground construction, for instance.

Improvement of management skills and supervisor work

The development of the competence of management and the organisation is the precondition for the success of our strategic programmes. We want the best people in the construction business to be employed by us. We are always developing the expertise of our personnel and HR processes, while also supporting supervisors in the implementation of Lemminkäinen's modernisation.

We implemented an extensive, participation-inducing strategy process in 2011. In order to improve the implementation and monitoring of our strategic programmes we took into use a new tool for project portfolio management.

We concentrated on supporting supervisor work throughout these revisions, while also improved communications with supervisors. In occupational health care, we implemented the so-called early-support model in which supervisors are provided with information and support for the preventive handling of occupational health risks. We also focused on preventive occupational health work. We developed our rewarding schemes to better correspond with our strategic goals.

In 2012, we intend to particularly concentrate on the development of the managing model and change management. This will support the development of future managers and key performers. We will bolster supervisor skills. Furthermore, we will improve our em-

Optimisation of working capital

€ 100 million

The objective is to reduce net working capital by approx. EUR 100 million.

Lemminkäinen's efficiency programme

€ 50 million

The goal is annual cost-savings of EUR 50 million. Procurements will yield about EUR 30 million of these savings.

ployer image both internally and externally in order to ensure the acquisition of skilled employees.

Efficient operations

The development of key processes and operating systems enhances operational efficiency and harmonisation of operations. Efficient operations improve our competitiveness and the profitability of our operations.

At the start of 2011, we switched to a more centralised operating model in HR, financial administration, IT, as well as communications and marketing. We concentrated our procurement activities in one organisation, determining purchasing categories and the persons responsible for them. We commenced the development of a unified management information system for the Group's financial administration activities.

In order to bolster the balance sheet, we initiated a working capital optimisation programme in the spring of 2011, the objective of which is to reduce the amount of net working capital by around EUR 100 million by the end of 2013. Methods include the enhancement of the efficiency of own processes, for instance.

In the autumn we launched an efficiency programme. We seek annual cost savings of EUR 50 million from 2014 onwards. As part of this programme, we held employee negotiations, as a result of which we will cut a maximum of 300 man-years during 2012. We are seeking an additional boost from, for instance, acquisitions, more flexible use of resources, and better utilisation of best practices.

An efficient Lemminkäinen that works in unison makes it easier for our customers to deal with us.

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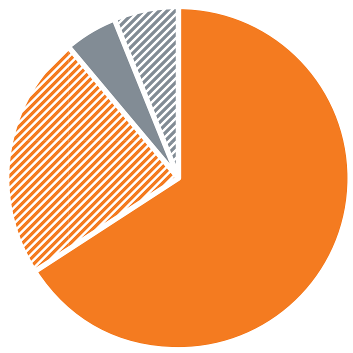
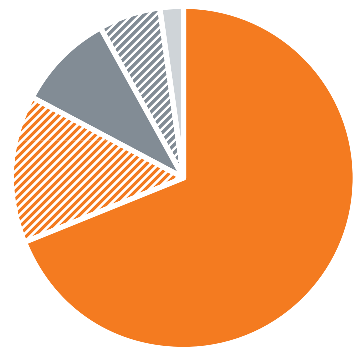
NET SALES BY MARKET AREA



PERSONNEL BY MARKET AREA, ON AVERAGE



	2011	2010
Investments by area, EUR million		
Finland	43.1	32.9
Other Nordic Countries	36.4	19.4
Russia and Eastern-Europe	2.0	1.7
Other countries	2.5	5.6
Total	84.0	59.6
Personnel expenses by area, EUR million		
Finland	336.4	324.0
Other Nordic Countries	87.4	64.9
Russia and Eastern-Europe	11.9	7.6
Other countries	20.8	19.2
Total	456.5	415.8

GROWTH FROM OPERATIONS OUTSIDE FINLAND

In addition to Finland, Lemminkäinen's main market areas comprise Russia, the other Nordic countries, and the Baltic countries. Additionally, we are realising projects in 30 countries. In 2011, operations outside Finland accounted for 34 per cent of our net sales and employed 2,590 people.

For us, the greatest prospects for profitable growth of our business lie outside Finland. To accelerate growth, we initiated a fourth business sector at the beginning of this year, International Operations. This business sector change aims to take better account of these growth markets in operational management and development. Our goal is to increase the share of International Operations to approximately 40 per cent of net sales in the next few years.

We are one of the leading paving contractors in Norway and Denmark. In Norway, we have strengthened our market position through acquisitions in the fields of paving and rock engineering services. We see particularly good growth opportunities in rock engineering in the coming years. We are participating in infrastructure construction in various ways in Sweden, where we are particularly known for rock engineering. The market outlook and growth potential seem positive for rock engineering, paving and foundation and civil engineering.

In Sweden, we are a middle-sized, local building constructor. Best now as a renovator, our subsidiary Rekab AB also engages in housing production. In recent years, its operations have been expanded from the eastern coast to other growth centres.

We aim to become at least as large a provider of residential construction in Russia as in Finland. We have systematically increased our building site reserves in St Petersburg. Our aim is to begin the construction of 1,000 new apartments as early as 2013.

In addition to residential construction, we provide services for Finnish and other western companies in Russia, as a supplier for their property investments. We believe that the market for these services will grow in the coming years. A project associated with this is our Kaluga industrial park, located near Moscow, whose development is underway.

If necessary, we speed up our growth through acquisitions. On the other hand, we also divest international operations which do not reach our profitability targets or support our strategy. In late 2011, for example, we decided to close our branches in India and Egypt.

Risk management

Risk management is a fundamental aspect of our business management. Our risk management seeks to increase shareholder value and ensure that we achieve our strategic and operative targets.

We define risks as either internal or external factors that, if they were realised, would hamper our ability to achieve our strategic and financial objectives. We evaluate the significance of a risk using a combination of the likelihood of the event occurring and its effect.

At Lemminkäinen, risk management is a continual and comprehensive process. It's part of our everyday work and management processes.

RESPONSIBILITY

Our risk management is based on the risk management policies approved by the Board of Directors in 2011. The Board also supervises the implementation of our risk management. The Board defines the Group's risk-taking capacity and willingness to take risks, both as part of its strategy and annual planning processes and through its decisions. The Board's Audit Committee monitors the sufficiency and effectiveness of the Group's risk management in accordance with the annual Action Plan.

The President & CEO is responsible for the implementation of risk management. The CFO holds primary responsibility for managing financial risks with support from our business sectors' management. The executive responsible for risk management coordinates policies and processes, and reports risks to the President & CEO, the Executive Board and the Board of Directors. He also works with units and functions to develop risk management guidelines and procedures. The heads of our business sectors, units and functions are responsible for executing risk management in their own organisations. Every employee is responsible for identifying any risks relating to their own work and bringing them to the attention of their supervisor.

LEMMINKÄINEN'S MAJOR RISKS

Strategic risks

Operating environment risks

Fluctuations in the world economy, megatrends in our operating environment, and changes in political and technological factors affect demand for Lemminkäinen's products and services and the company's cost level. When planning our operations, we actively monitor – and attempt to forecast – changes in our operating environment, thereby minimising any associated risks. You can read about our operating environment on page 12.

Market risks

Operations in Finland generate 66 per cent of Lemminkäinen's net sales, and about half of our business functions are dependent on building construction in Finland. Although construction in Finland grew in 2011, growth is expected to halt or even decline in 2012. The cyclical sensitivity of new construction poses the most significant market risk to our operations. We manage this risk by structural and operational means.

The more stable demand for infrastructure construction in the Nordic countries balances out fluctuating volumes in new domestic construction, as do maintenance and upkeep,

In our own development of residential and business locations, we manage the sales and price risks stemming from unstable demand by only beginning construction once a sufficient number of advance reservations have been made. In addition, we seek to sell business premises to property investors in the initial phase of construction at the latest. Changes in the market and, for example, a rapid rise in interest rates can quickly increase market risks.

We use bitumen in our asphalt production and, as the price of bitumen is tied to the global price of oil, we use oil derivatives and contracts to manage this price risk.

Operative risks

Project risks

Project risks may be associated with, for example, costs and implementation management. These are controlled through systematic project management at both the tender and implementation stage. The occasional unsuccessful project does not, however, significantly affect our financial position.

Climate change, and unusual or harsh weather can weaken the profitability of our operations by interrupting or delaying projects. Mild winters on the other hand extend our working season.

Organisational risks

We manage the risks associated with the growth and internationalisation of our organisation by maintaining awareness of political, cultural and legislative factors in our business countries, and by standardising our operating methods and reporting systems.

As our operations are labour-intensive, the availability of skilled personnel is essential for our growth. We seek to safeguard our organisation's expertise and effectiveness by avoiding uneven age structures and minimising personnel turnover. In 2011, we invested in developing the recruitment process, orientation, training, good managerial work, key performers, and fair and motivating remuneration.

Change management risks

In line with its strategy Lemminkäinen is overhauling

LEMMINKÄINEN'S RISK MAP

LEMMINKÄINEN

STRATEGIC RISKS

- Operating environment risks
- Market risks
- Technology risks
- Regulatory risks
- Merger & acquisition risks
- Reputation risks

OPERATIVE RISKS

- Project risks
- Contractual risks
- Organisational risks
- Change management risks
- IT risks
- Communications risks
- Stoppage risks
- Malpractice risks

FINANCIAL RISKS

- Funding and liquidity risks
- Interest rate risks
- Foreign exchange rate risks
- Tax risks
- Credit risks
- Financial reporting risks
- Capital structure risks

HAZARD RISKS

- Occupational safety risks
- Occupational health risks
- Personnel risks
- Environmental risks
- Security risks
- Natural disaster risks

itself by becoming an even more unified construction company. As part of this change, the structure of the Group and the operating model of the business functions were changed. At the beginning of 2011, support services, HR, legal affairs, finance, IT as well as communications and marketing changed over to a more centralised operating model. Procurements are also being centralised. In autumn 2011, we started up an efficiency programme to accelerate our profitability trend, and the programme involved personnel reductions. HR management and personnel's commitment pose challenges during the implementation of changes. Managers who are well-versed in change management and successful internal communications that support change play key roles in risk management. Accordingly, managerial training and communications were developed in 2011.

Financial risks

In the course of its operations, Lemminkäinen is exposed to financial risks, the major ones being interest rate, exchange rate, liquidity and credit and availability of funding. By managing financial risks, we seek to reduce the uncertainty that changes in financial markets may cause to our value, result and cash flow. Our management of financial risks is based on the treasury policy approved by the Board of Directors, which defines the operating principles and division of responsibility in risk management and funding activities.

Interest rate risk

Fluctuations in interest rates have an impact on Lemminkäinen's result and cash flows. We seek to minimise our interest rate sensitivity by setting the average interest rate fixing period of our liabilities to the same level as the predicted interest rate sensitivity of operations. We can take out both variable and fixed rate long term loans. In order to optimise our interest rate risk, the ratio of fixed to variable rate loans can also be changed using interest rate derivatives.

Foreign exchange rate risk

Exchange rate risks mainly arise in the form of translation and transaction risks. Translation risks occur through differences in currency exchange rates when the income statements and balance sheets of our foreign companies are translated into the Group's home currency. In accordance with our treasury policy, we primarily protect ourselves from translation risks by ensuring that all equity funds in foreign companies are kept sufficiently small.

Transaction risks arise in foreign currency denominated transactions from operating and financing activities. We seek to hedge our transaction risks of business operations primarily by operative means. The remaining transaction risk is hedged by using instruments such as foreign currency derivatives or foreign currency loans.

Funding and liquidity risks

In order to guarantee uninterrupted operations, we must ensure access to sufficient funding under all circumstances. We must cover the running of our day-to-day operations whilst ensuring adequate liquidity and the risk premium required to implement strategic projects. We seek to optimise the use of our liquid assets in funding business operations and to minimise interest and other financial costs.

Our Group Treasury is responsible for overall liquidity management and ensuring that we have adequate credit lines and a sufficient number of financing sources. The Treasury also ensures that our loans mature evenly over several years. Our liquidity risk management is based on monthly forecasts and daily cash flow planning.

Credit risk

We are exposed to credit risks through all of the Group's receivables – both trade receivables and those associated with financial intermediaries (cash, deposits, derivatives and equivalents). We manage our credit risk by retaining possession of buildings until we have received payment for their construction, and by minimising and spreading out our receivables.

Capital structure risks

Capital structure, capital invested in operations, and interest-bearing liabilities pose a risk to profitability. We employ effective capital management to ensure that our company remains operational and competitive whatever the economic climate. We also continually monitor our liabilities, equity ratio, and net debt to EBITDA ratio. This enables us to maintain a sufficient risk-taking capacity and effective loan-servicing ability, whilst also paying good dividends.

Accident risks

Our accident risks are mainly associated with the environment, working capacity, and occupational health, safety and wellbeing. The majority of our environmental effects stem from our production facilities, construction, and transportation. For more detailed information about environmental issues, see the Material and energy efficiency section of the annual report on page 40. You can read more about occupational safety in the Occupational health, safety and wellbeing section starting on page 54.

Litigations

Writs of summons filed at district court level by the Finnish state and a number of municipalities pose a risk. In 2009, the Supreme Administrative Court (SAC) ordered Finnish asphalt industry companies to pay an infringement fine for violations of the Act on Competition Restrictions.

At the end of 2011, 40 claims for damages brought by municipalities and the Finnish state (Finnish Transport Agency) were pending against Lemminkäinen and other asphalt industry companies in the District Court. The claimants contend that restrictions of competition have caused them damages. The total amount of damages sought from Lemminkäinen totals about EUR 117 million. After the Finnish Transport Agency changed its claim, the total amount of claims rose in January 2011 by approximately EUR 15 million. The claims presented in the statements of claim differ from each other as regards their amounts and grounds.

The ruling rendered by the SAC in 2009 as it stands does not mean that Lemminkäinen or the other asphalt industry companies actually caused any damages to the asphalt work clients. The ruling does not concern the individual contracts that the claimants cited in support of their claims. Nor does the ruling concern the pricing of individual contracts. The SAC has not investigated the contention that inflated prices have been charged for the contracts.

Lemminkäinen's initial position is that the claims for damages are without foundation. The claims will be processed in the order and schedule set by the District Court. Preparatory hearings started in January 2012. A more detailed schedule of the process and the dates of the rulings is not available at the present time.

No provisions have been made for the actions filed at the district court by the Finnish Road Administration and the said municipalities.

Lemminkäinen will provide information on the proceedings in its interim reports or in separate releases, as necessary.

MOST SIGNIFICANT RISKS

ACCORDING TO THE GROUP'S RISK ANALYSIS IN SPRING 2011, LEMMINKÄINEN'S MOST SIGNIFICANT RISKS ARE:

- Change management
- Working capacity risks
- Fluctuations in the world economy
- Availability of funding

Financial development 2011

In 2011, Lemminkäinen's net sales grew by 24 percent, and profitability improved markedly compared to the previous year. This growth was fuelled by infrastructure construction, where business flourished, especially in Denmark and Norway.

GROWTH AND PROFITABILITY

Infrastructure construction in good health

In 2011, growth was fuelled by Infrastructure Construction, where all business sectors flourished throughout the year. The paving operations in Norway and Denmark, special contracting, and concrete business were particular sources of growth. Through the acquisition of Mesta Industri, the net sales of our paving operations in Norway exceeded those of Finland for the first time. In Infrastructure Construction, net sales were boosted by the capital gains of approximately EUR 15 million created by the sale of the roofing business, and negative goodwill of approximately EUR 11 million recognised from the Mesta Industri acquisition. Our target is to increase net sales from Infrastructure Construction in Norway, Denmark and Sweden by a total of about EUR 100 million in 2012–2013.

Building Construction in Finland faces challenges

In Building Construction, our result was burdened by the weak profitability of competitive contracting. In 2011, we began the construction of a total of 1,612 (2,252) new residential units, of which 1,076 (1,004) were own development. 1,077 (418) residential units constructed as own development were completed. The rate of sales for residential units weakened somewhat towards the end of the year. In 2011, our own development accounted for approximately 30 per cent of all building construction production; our target is to increase this share to 50 per cent in future years.

Growth in residential construction in St Petersburg

In the spring, we announced an extensive residential construction project on Vasily Island in downtown St Petersburg. In total, this project is worth around EUR 400 million and includes about 2,000 residential units, plus commercial and office premises. A project for 150 residential units was completed in St Petersburg in 2011. Moreover, a new project covering approximately 400 units was launched, also on Vasily Island. In addition to infrastructure construction in the Nordic countries we believe that our greatest potential for growth lies in residential construction in the St Petersburg region. Our future target is to start-up approximately 1,000 residential units each year in St Petersburg.

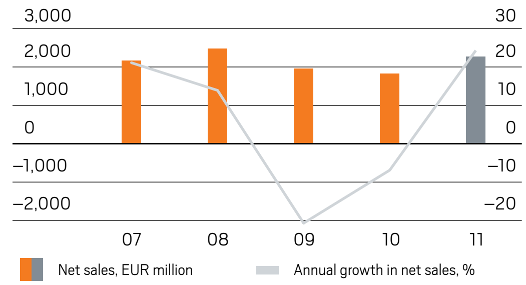
Profitability of Technical Building Services improved towards the end of the year

Technical Building Services have recovered relatively slowly from the 2008 recession: competition in this field has been intense. A rise in certain raw material and input prices has also burdened earnings trends in the sector. Due to the weakened market situation, we implemented several efficiency measures in our Technical Building Services sector. Towards the end of the year, more efficient sales and marketing operations, and the transfer of our operational focus to maintenance and upkeep services, began to impact on the sector's result. Our target is to raise the share of maintenance and upkeep services from its current 30 per cent to at least half of the entire business sector's net sales.

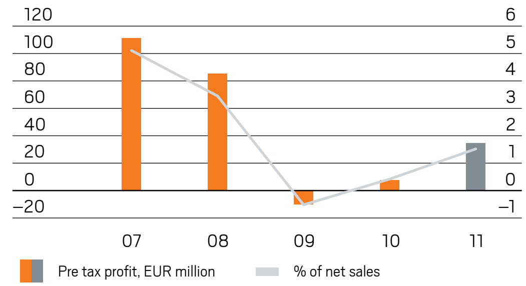
All-time high order book

Our order book was good throughout the year, reaching an all-time high of over EUR 1.7 billion in the sec-

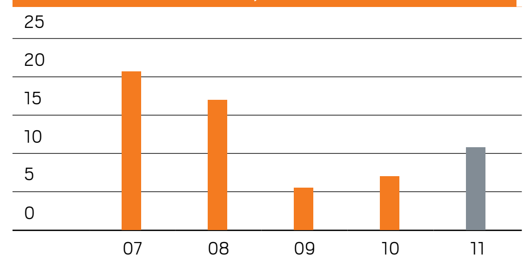
NET SALES AND GROWTH IN NET SALES



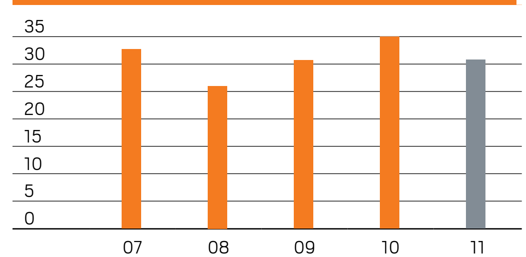
PRE TAX PROFIT



RETURN ON INVESTMENT, %



EQUITY RATIO, %



FINANCIAL TARGET	Target level	Actual in 2011	Actual in 2010
Return on investment	over 18 per cent at the end of the strategic period	10.8%	7.0%
Equity ratio	at least 35 per cent	30.8%	35.0%
Growth in net sales	10 per cent on average by the end of the strategic period	24%	–4%
Payment of dividend	at least 40 per cent of the result for the financial period	28% [1]	over 100%

[1] Board of Directors' proposal to AGM

ond quarter. This was particularly due to Nordic infrastructure construction, and in part the acquisition of Mesta Industri AS. In Finland, the order book grew thanks to active residential development and special contracting in infrastructure construction. At year end, our order book amounted to EUR 1.4 billion (1.2).

Efficiency programme to accelerate profitability improvement

In October, we launched an efficiency programme which is expected to generate annual cost savings of EUR 50 million after 2013. Of these savings, roughly 30 million will be generated through more efficient procurement, and 20 million by improving the efficiency of our own operations, processes, regional office network and organisational and management structures. We estimate that around EUR 20 million of these savings will already materialise in 2012.

FINANCING AND BALANCE SHEET

Our financing structure remained the same

Our interest-bearing debt was a little higher than the previous year, partly due to the growth in business volume. At the end of the year, around half of our interest-bearing debt was long-term. The structure and maturity profiles of our debt portfolio remained the same as in the previous year. After the financial restructuring of 2010, our net financing expenses have clearly fallen.

Cash reserves strengthened in preparation for uncertainty in financial markets

In the autumn of 2011, we prepared for lower availability of financing, strengthening our cash reserve by drawing down the credit lines at our disposal. This momentarily increased our liquid assets and interest-bearing debt. When the uncertainty abated, the funds were returned. At the end of the year our undrawn credit lines stood at EUR 140 million.

Year-on-year growth in the balance sheet

Strengthening of our cash reserve also showed in the momentary growth of our balance sheet during the third quarter. By the end of the year, our balance sheet total was EUR 1,243 million, i.e. approximately 17 per cent above the previous year. The key reasons for balance sheet growth were growth in our business volumes and increased emphasis on our own residential development. Our equity ratio of 30.8 per cent remained below our long-term target.

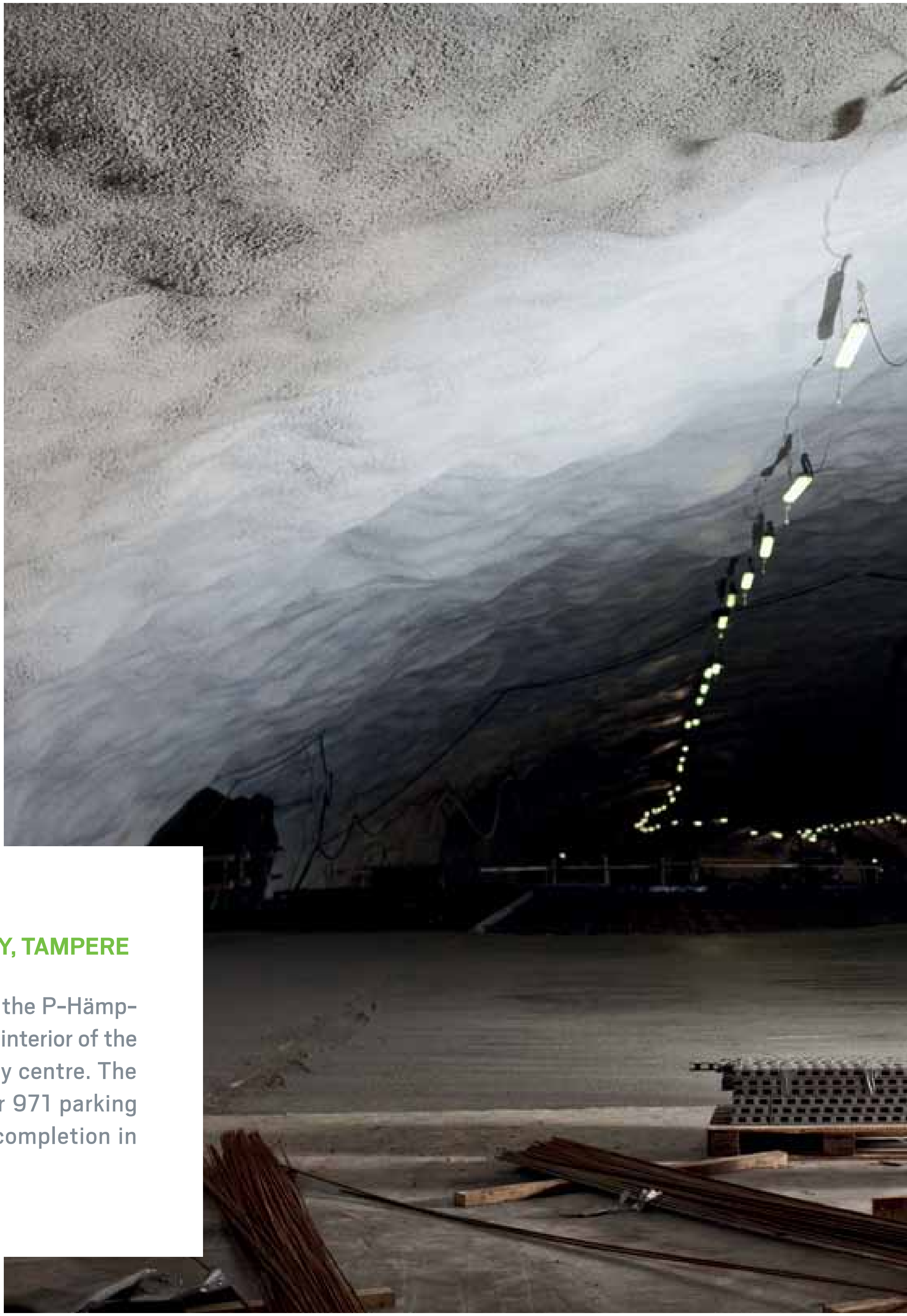
More efficient working capital management

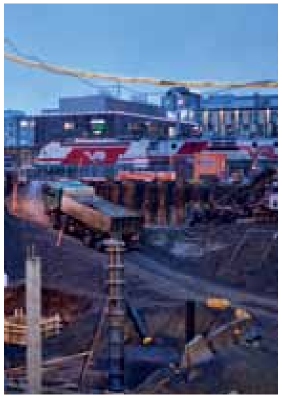
Growth in business volumes and the capital invested in own residential development increased our working capital in 2011. We have paid special attention to the management and optimisation of our working capital. By the end of 2013, we aim to reduce our net working capital by approximately EUR 100 million.

Encounters:

Focus on the surrounding environment in city-centre projects

Mutual trust as well as an honest and open way of working guarantee efficient operations on the P-Hämppi parking facility site. Lemminkäinen's innovative solutions and experience in working in city-centre environments help to ensure that life around the site continues as normally as possible.





P-HÄMPPI PARKING FACILITY, TAMPERE

Lemminkäinen continues with the P-Hämppi contract with furnishing the interior of the parking facility in Tampere city centre. The underground facility will offer 971 parking spaces and is scheduled for completion in November 2012.


Markku Hiltunen from Finnpark Oy (left),
Heikki Keränen from Lemminkäinen (right).

Lemminkäinen's **innovative** solutions make it easier to work in busy city centres.

Lemminkäinen is furnishing the interior of the new underground parking facility that's currently being built for Finnpark Oy in Tampere city centre. The P-Hämppi parking facility contract, which began in September 2011, includes some of our specialised infrastructure expertise, such as concrete and foundation construction, surfacing, and tensioning. We were also previously involved in the rock excavation and construction phases of the project.

Finnpark and Lemminkäinen have worked together before. Cooperation between our two companies began with the P-Frenckell parking facility, which was built in Tampere in 2001–2003. Finnpark Oy's Managing Director, Markku Hiltunen, says that, during the P-Frenckell project, Lemminkäinen proved itself to be a top professional in the implementation of city-centre projects.

Lemminkäinen's project manger, Heikki Keränen, says that working in major city centres places a special set of requirements on both implementation and planning, as the surrounding environment must be taken into consideration. Those living and working nearby must be kept up to date about what's happening onsite, surrounding properties must be able to operate as normally as possible, and traffic disruptions must be kept to a minimum. Hiltunen says that Lemminkäinen's innovative approach makes it easier to work on and around highly trafficked streets. The client's original plans were improved by keeping a nearby main street open to bus and other traffic. Technical solutions were designed to operate around the traffic. Finnpark and Lemminkäinen also arranged joint monthly briefings to ensure that those living and working nearby were kept informed.

According to Hiltunen, a successful contract requires not only technical expertise, but also good personal skills. When relations between all players on a site are good, it's easy to solve any potential problems that arise. Hiltunen also underlines the importance of partners having shared values. The key words at the P-Hämppi site are: trust, openness, and honesty. When working with a reliable contractor, clients don't need to worry about safety, even during the potentially most dangerous phases of construction.

Building Construction

Residential construction in Finland and building construction in Sweden increased the net sales of the Lemminkäinen Building Construction business sector. The result was heavily focused on Q4. Our goal is to increase the share of real estate development, and bolster the market share of residential construction.

Our Building Construction services include residential construction, commercial and office construction, industrial and logistics construction and renovation. We also provide property management services.

Our key customer groups are homebuyers, residential and other real estate investors, developers, and leaseholders and owner-users of commercial premises. In 2011, 81 per cent of the net sales came from Finland.

We are a locally known residential constructor and renovator in Sweden. The Swedish operations amounted to 12 per cent (10) of our net sales. The share of net sales generated in Russia, primarily from residential construction in St Petersburg, was 7 (7) per cent.

The Building Construction sector continued streamlining its organisational structure and management model in 2011. These revisions will assist us in developing into a more business-oriented organisation, while promoting the transfer of best practices within the business sector and enhancing efficiency.

Since the start of 2012, Building Construction operations outside Finland have been included in the new International Operations business sector.

TWOFOLD YEAR IN THE FINNISH MARKET

In 2011, the Finnish building construction market grew by around four per cent. The year was twofold in terms of economic trends. After the busy spring, the market stagnated, as the Eurozone debt crisis increased uncertainty.

However, the operating environment for construction remained relatively stable. The drop in consumers' confidence in their own economy in late 2011 was not manifested in housing sales, in which low interest rates and the migration into growth centres maintained demand for new housing.

Due to the uncertain economic situation, the businesses are reluctant to invest in growth which, in turn, dropped the demand for business premises. Underutilisation rates of office buildings were high. In commercial construction, retail business is moving to city centres. This caused a slight increase in the yield requirements for premises outside growth centres.

Difficulty in securing leaseholders and investor timidity slowed down the launch of new office and business building projects. The number of start-ups in industrial construction remained low.

RESIDENTAL CONSTRUCTION INCREASED THE NET SALES

The net sales of Building Construction saw year-on-year growth of 16 per cent, amounting to EUR 894.1 million (770.2). Net sales growth was generated primarily by housing development and public work and projects in Finland. Operating profit amounted to EUR 16.3 million (25.6). The earnings were particularly affected by weak profitability in competitive contracting and the rise in construction costs. The earnings in 2010 included also non-recurring capital gains from equipment sales.

The order book for Building Construction grew, amounting to EUR 768.5 million (683.9) at the end of 2011.

The net sales of operations outside Finland increased to EUR 173 million (194), representing a 19 per cent share of the business sector's entire net sales.

Significant additions to the order book were made particularly in Sweden and Russia.

In Sweden, the workload was good in both new construction and renovation. We turned a good profit, while also expanding our operations in the Malmö area.

WE BUILT OVER 1,000 RESIDENTIAL UNITS IN FINLAND

In the review period, Lemminkäinen kicked off the construction of 1,612 (2,252) new residential units in Finland. 1,076 (1,004) units were own development.

After a busy spring, the increasing uncertainty of the economic situation put the brakes on our own residential start-ups. Our residential unit sales remained relatively stable throughout the year, even though sales periods grew longer towards the end the year.

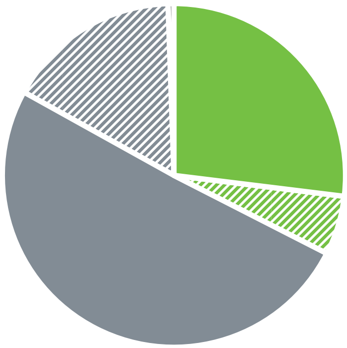
One of the focuses of our development activities is on innovative services and solutions. In February 2011, the European Patent Organisation EPO awarded Lemminkäinen a so-called 'European patent' for a method of increasing an apartment building's height. The patent awarded for this method will open new market opportunities for us, for example with regard to the utilisation of unused building rights. The retrofitting solution for elevators, patented earlier, has already been used at 60 sites.

POTENTIAL IN RUSSIA AND SWEDEN

We are seeking growth through residential construction in Russia – especially the St Petersburg area. We aim to start up the construction of about 1,000 residential units annually in the St Petersburg region.

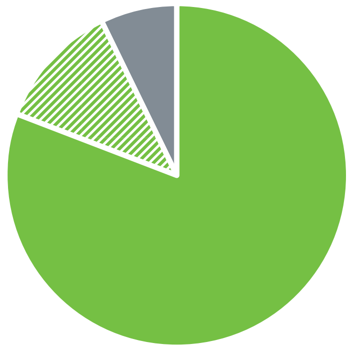
The prices of new and old apartments in St Petersburg rose by about eight per cent in 2011. The opportunities for Russian homebuyers to obtain mortgages, and their purchasing power, have improved substantially, which has increased demand for new housing.

NET SALES



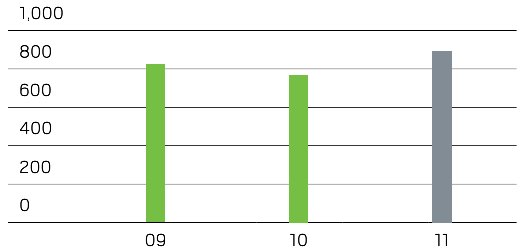
Own residential development 27%
Own commercial development 5%
Contracting services 51%
Renovation 16%
Property management 1%

NET SALES BY MARKET AREA

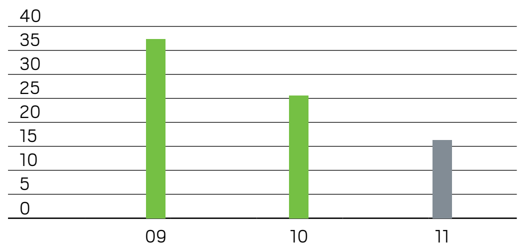


Finland 81%
Other Nordic countries 12%
Russia and Eastern Europe 7%

NET SALES, EUR MILLION



OPERATING PROFIT, EUR MILLION



As the standard of living increases, Russian homebuyers are starting to value spacious living arrangements, good location, high level of quality and furnishing, and comfort of use. The apartments we have built in St Petersburg represent markedly higher quality than traditional bulk construction in the area, in addition to occupying prime locations near the city centre.

The order book for Building Construction was also improved in Sweden where we primarily operate as a building residential constructor and renovator of public buildings. The outlook for the next few years is healthy.

FROM CONSTRUCTION TO SERVICE MODEL

Our goal is to increase the share of real estate development to 50 per cent of the business sector's net sales by the end of 2013. In 2011, the share of real estate development amounted to around 30 per cent of our net sales. The development of our residential construction in the past few years supports the achievement of this goal. As much as 70 per cent of residential construction kicked off by the company in 2011 comprised own development, whereas in 2010 and 2009 this figure was 50 per cent and 25 per cent, respectively.

Residential development is profitable but entails sales and price risks, since units under construction and unsold units tie up capital. These risks are managed, for instance, by waiting until there is a sufficient number of advance orders to start construction on new projects and units. We are developing our operations towards a service business approach. We want to create an operating model that takes better account of customer needs as early as the planning phase.

We are bolstering our building construction operations in the Helsinki Metropolitan Area and the most

It is our goal to increase the share of real estate development.

significant regional centres in Finland. We are also seeking growth from operations outside Finland, and particularly from residential construction in Russia.

In renovation, which is enjoying steady growth, we are concentrating especially on the Helsinki Metropolitan Area. Growth can be found in conventional basic renovation, as well as height-raising and elevator projects for apartment buildings.

In competitive contracting, we intend to enhance our profitability by concentrating on projects in which we can provide additional value to our customers. We have strong competence particularly in large commercial and office premises projects.

Outsourcing of services will continue in the property and business premises services market as companies concentrate on their core activities. The opening of the public sector and rapidly proliferating life cycle projects enlarge our potential market.

In addition to general economic circumstances, the construction market is steered by the increasingly individual needs of property owners and users.

Urbanisation, the aging of the population, and the increase in the number of one-person households increase the demand for apartment buildings. Central trade corporations are constantly seeking new business locations, while companies look for business premises that can be flexibly adjusted.

At the same time, location, good transport connections and the proximity of services are gaining significance as selection criteria. Ever stricter environmental and energy regulations increase the quality requirements for design and production.

Our nationwide network and knowledge of local markets enable us to acquire first-rate plots.

Our versatile and extensive land reserves provide us with a substantial competitive advantage that reinforces our market position, while providing us with the capacity for rapid initiation of construction projects.

THREE MAIN GOALS FOR YEAR 2012

OUR 2012 GOALS	WHY IT'S A GOAL	HOW WE WILL ACHIEVE IT
To shift the focus of our business onto real estate development and negotiated contracts.	When seeking to improve profitability in this business sector, real estate development and negotiated contracts have the greatest effect. It is a matter of managing the whole value chain.	Our projects will be developed with customer focus and we will secure an extensive range of plot reserves, which corresponds to the markets and our strategy. We'll enhance sales and renting risk management in our projects.
To enhance production management	Efficient production is the basis of profitable business.	We'll utilize the best practices of one unified organization; we are standardising our operating methods, training our personnel, and boosting the efficiency of our procurements.
Customer relationship management	Our profitability will improve when we focus our resources on those projects, in which we have the best competence and are able to create most benefit to our customers.	In customer relationship management, we'll be paying particular attention to our key customers and clear areas of responsibility. We will be monitoring trends in customer satisfaction using Net Promoter Score.

Infrastructure Construction

In 2011, the net sales and profitability of the Infrastructure Construction business sector saw marked growth. Development was especially strong in Norway and Denmark. In Finland too, net sales saw steady growth in almost all business areas. Investments in the energy sector and the mining boom are expected to continue unabated in 2012. The decrease in public investments reduces our potential for growth in Finland.

We are one of largest infrastructure constructors in the Baltic Sea region, with services including road, street and railway construction and basic road maintenance, as well as special contracting related to infrastructure construction. We also provide sports and urban environment construction services. Moreover, we are the leading domestic manufacturer of asphalt and mineral aggregates, and a notable manufacturer of concrete products.

Our most important customers include the Finnish Transport Agency and similar agencies in the other Nordic countries, cities and municipalities, construction companies, industry, and property owners.

2011 was a good year for the infrastructure construction business sector, responsible for half of the Group's net sales. The net sales, operating profit, and order book all experienced significant growth. Our net sales increased to EUR 1,178.8 million (932.9), while our operating profit increased to EUR 63.9 million (15.3) and our order book to EUR 521.8 million (416.6).

Business operations were successful with regard to products, as well as to contracts and services. The demand for contract construction and services was highest in the rock engineering sector, stimulated by mining operations, and in road and street network projects. Busy building construction activities also ensured a healthy demand for concrete products and mineral aggregates.

We strengthened our market position through both organic growth and acquisitions. Our net sales in infrastructure construction from operations outside Finland saw year-on-year growth of 60 per cent. The net sales and profitability of our Norwegian and Danish operations saw a marked improvement. Our operating activities in the Baltic countries also started turning a profit.

At the start of 2012, our infrastructure construction operations outside Finland were transferred under the new International Operations business sector. The objective of this reorganisation is to boost profitable growth in all of Lemminkäinen's international market and enhance the efficiency of our operations.

ANOTHER STRONG YEAR IN THE ROCK ENGINEERING

Even though our infrastructure business has seen rapid international growth, Finland is still clearly our largest individual market. We are the largest Finnish infrastructure constructor, providing our customers with services on a nationwide basis.

The Finnish State and the municipalities cut their allocations for basic road maintenance and street investments. The large municipalities, Finland's growth centres, are still continuing to invest in construction, but demand for infrastructure construction fell in municipalities with negative migration figures.

The State launched only a few large infrastructure projects in 2011. In addition to this, the State suspended the procurement process of the Kokkola-Ylivieska railway project in order to change the original contract model.

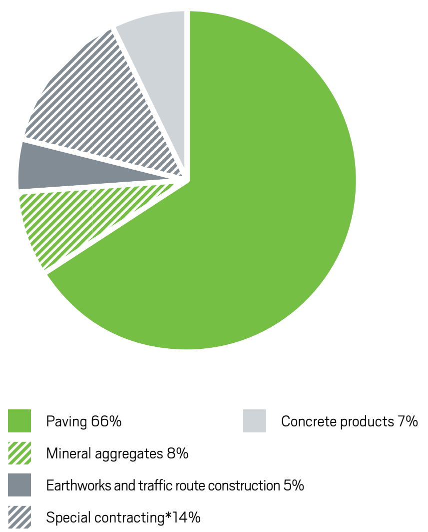
Despite the public sector challenges, our infrastructure business enjoyed a good year in Finland. As with year 2010, 2011 was a strong year for Lemminkäinen's rock engineering business. Regarding projects launched the previous year, construction continued apace on the P-Hämppi parking facility in Tampere and on the Töölönlahti parking facility in Helsinki. In connection with the latter, we are also building an air raid shelter, as well as maintenance facilities for Finlandia Hall and reception and maintenance facilities for the National Museum of Finland.

We completed the initial West Metro line project in Helsinki, started in 2009. This project comprised excavation in the Ruoholahti metro station and Salmisaari. We continued the construction of the West Metro line, undertaking the Koivusaari and Urheilu-puisto excavation projects. The technically challenging project comprises the excavation of Koivusaari station and the Katajaharju shaft, located west of Lauttasaari, and a two-kilometre metro tunnel from the Katajaharju shaft to the border of Espoo. The work commenced in June 2011, with excavation scheduled for completion by the start of 2013. The Urheilupuisto excavation project entails the construction of a metro station, a 160-metre road tunnel and a 1.9-kilometre metro tunnel. Work started in January 2012, and the project is scheduled for completion in September 2013.

As far as public infrastructure projects are concerned, the Koivusaari West Metro excavation project represented our largest order in Finland. The projects won in 2011 continue our company's traditions in metro construction, first started in the 1970s.

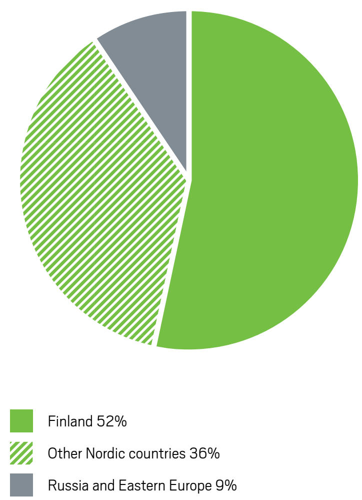
As the public sector has downsized investments, the share of private customers in infrastructure construction has gone up. In 2011, around one third of our net sales came from the private sector, especially owing to strong growth in the mining industry. We have several significant Group-wide projects under way – one of them being the Kevitsa mine project in Northern Finland which, at best, employed around 300 of Lemminkäinen's infrastruc-

NET SALES

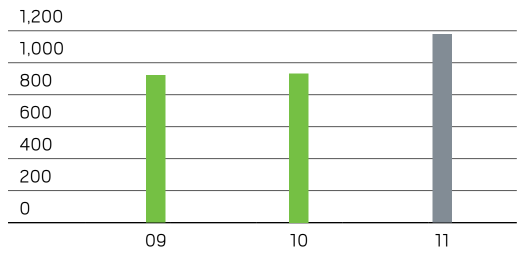


* Incl. rock, foundation and civil engineering

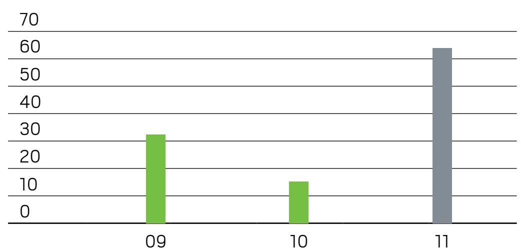
NET SALES BY MARKET AREA



NET SALES, EUR MILLION



OPERATING PROFIT, EUR MILLION



ture construction, building construction and technical building services professionals.

We also obtained significant new orders from the mining sector. For instance: a EUR 20-million follow-up project was initiated at the Pahtavaara gold mine, continuing a project launched three years before. The follow-up project commenced in early 2012 and will be completed in 2013. The new project includes an option for 2014.

The development in maintenance and servicing operations did not match our expectations of market growth derived from the need of cities and municipalities to outsource technical services and tasks. This development was slower than expected – in some cases even reversed as some cities forewent outsourcing in favour of incorporating their technical services.

GROWTH IN THE NORDIC COUNTRIES

About 50 per cent of Infrastructure Construction business sector's net sales came from outside Finland, with the share of these markets amounting over a half, EUR 285.4 million in order book. Our net sales grew and profitability improved particular in Norway and Denmark.

In Norway, we concluded the Mesta Industri AS acquisition in the early summer, and became the largest paving contractor in the country in 2011. For the first time, we were a larger paving contractor in Norway than in Finland, in terms of net sales. Traditionally, we have been a strong player in Norway's municipal and private-sector projects, but in 2011 we were able to markedly increase our share in the Norwegian State's road projects.

The Mesta integration has progressed in accordance with plans and set goals. We expect the acquisition also to provide us in future years with synergy benefits and benefits from economy of scale. This acquisition represents an important and successful step in strengthening our position in the Nordic infrastructure construction market – one of our strategic areas for growth.

In Denmark, the net sales and profitability of our paving operations increased. We won more new contracts than in previous years, while our production saw substantial growth. On the other hand, some multiyear projects came to an end. As with Sweden and Norway, Denmark is expected to invest in infrastructure construction in 2012.

Norway and Sweden are investing also in energy-sector, in which we enjoyed success with large hydropower plant projects. In spring 2011, we handed over two hydropower plant projects in Norway, worth around EUR 30 million. In the summer, we won a hydropower plant project in Kvinneherad, Western Norway, worth around EUR 19 million. This project includes the construction of a 5.5-km water transfer tunnel and seven water intakes. Work will be completed by mid-2013. In the summer, we also won a EUR 43-million project for the construction of a diversion channel for the Bergforsen Kraft AB power plant in Timrå, Sweden. The contract includes demanding civil and foundation engineering, concrete construction and rock and tunnel engineering.

The mining industry is an important engine of infrastructure construction in Sweden. We worked on mine excavation projects at the Svartliden and Kiruna mines, for example. Work will continue in Svartliden until spring 2013. The Kiruna projects are expected to be completed by autumn 2014. The foundation reinforcement project at Stockholm's Central Station, initiated in autumn 2010, continued apace. After four years break, we also returned to Sweden's paving operations market, concentrating on the Greater Stockholm area and Northern Sweden.

IMPROVEMENT IN BALTIC OPERATIONS

After several poor years, our operative result turned positive in the Baltic countries. Especially the activities in Estonia developed positively. Construction activity has picked up in the Baltic countries, although it has not yet reached the top figures from 2007. We received new orders from Estonia, Latvia and Lithuania, amounting to around EUR 48 million in total worth.

As the largest paving contractor in the Baltic region, Lemminkäinen will renovate approximately six kilometres of the E67 road leading from Tallinn to the Latvian border, at the Pärnu bypass. In addition, we will build a bridge spanning over 70 metres across the River Sauga.

The profitable growth of our **international** business operations is a key goal for us.

In Latvia, we will renovate a 26-kilometre stretch of the Riga ring road. The Riga ring road projects will be implemented in co-operation with our infrastructure construction units in the Baltic countries. In Lithuania, we will renovate a 2.5-kilometre stretch of Vilnius' southern bypass.

GROWTH AND INTERNATIONALISATION SET TO CONTINUE

The prospects for growth are good in Sweden, Norway and Denmark. Our order book for the current year is strong.

In Finland, the market situation in the rock engineering sector is likely to remain healthy owing to the mining industry and underground excavation projects in growth centres. A number of new rail and railway projects are expected to be launched in 2012. However, a decrease is anticipated in basic road maintenance due to the poor economic standing of municipalities and the State.

Our large power plant project in Sweden and Norway will continue into 2013. The energy sector is also anticipated to continue investing in these markets. Confirmed mine projects will keep our operations brisk in Sweden and Finland. In Finland, no growth is foreseen in the State's investments in transport infrastructure. Municipal investments are also forecast to decrease outside growth centres.

The changes in large projects that have been a long time in preparation engender uncertainty. The suspension of the procurement process of the Kokkola-Ylivieska railway project is one example of these kinds of changes, substantially complicating capacity planning. The anticipation of demand and the consequent adjustment of capacity are essential factors with regard to good profit performance. In 2011, we were successful in this regard.

The profitable growth of our international business operations in infrastructure construction is a key goal for us. In accordance with our goals, around half of our net sales in 2011 came from international operations. Our profitability also improved. In 2012 and 2013, our goal is to increase the net sales of our infrastructure construction business in the Nordic countries by total of EUR 100 million.

In domestic operations, we will concentrate on bolstering profitability, particularly by enhancing the efficiency of our development and operations. At the top of our development operations list are the utilisation of IT in construction, the improvement of environmental and energy efficiency, and the expansion of our service offering.

THREE MAIN GOALS FOR YEAR 2012

OUR 2012 GOALS	WHY IT'S A GOAL	HOW WE WILL ACHIEVE IT
To strengthen special contracting in the Nordic countries	Our unique expertise generates profitable growth.	We will be strengthening our expertise and resources in rock, foundation and engineering construction in the Nordic countries.
To harness internal synergies	Clarifying our offering will boost our competitiveness. Effectively harnessing our internal synergies will increase our competitive edge.	We are ensuring that standardised operating methods are introduced nationwide. We're providing local service in paving, mineral aggregates and civil engineering.
To improve productivity	The key to increased profitability lies in boosting the efficiency of production and our operations.	We will be making even better use of IT solutions, boosting the efficiency of our procurements, and improving our productivity using the LEAN method.

Technical Building Services

Demand for technical building services remained reasonable, but with the intensifying price competition caused by economic trends, profitability was no more than satisfactory. Growing number of technical building systems and new energy efficiency requirements for new construction are increasing the demand.

The Technical Building Services business sector is one of Finland's largest suppliers of technical building installation, maintenance and upkeep services. We have extensive expertise related to the special requirements of technical building systems, technical facility services and industry. We can offer our customers a service entity that covers the full life span of a real estate, from design to decades-long maintenance responsibilities.

Technical Building Service contracting comprises turnkey deliveries, installations and design system and project management services related to HVAC systems, fire protection and fire alarm systems, and refrigeration, telecommunications, security and automation technology.

Services consist of process and building electrification, installations of instrumentation and automation systems, data transmission networks, security systems, ventilation and extinguishing systems, and maintenance services.

In maintenance and upkeep services, we are responsible for basic and technical maintenance, on-call services, repair services and renovation; we also provide expert services in, for example, energy efficiency and electrical safety.

Our customers include the State, cities and municipalities, property developers, owners and users, property maintenance companies, housing cooperatives, construction companies, and the trade and services sector. Our network of regional offices covers the whole of Finland.

International operations are the responsibility of the subsidiary in St. Petersburg and Lemcon Networks, which focuses on telecommunication network construction and operates in North America, South America, South Africa and Russia. Lemcon Networks' most important customer continued to be Nokia Siemens Networks (NSN). In early 2012, these operations were transferred to the new International Operations business sector.

In Finland, the market situation in technical building services is fragmented. Populated with SMEs, the industry has thousands of players both in the electricity and HVAC sectors. Lemminkäinen's market share has remained at a steady 5–6 per cent. In non-urban areas, our market position is stronger than that of most of our competitors, thanks to our evenly distributed network of regional offices.

In 2011, we improved the efficiency of our internal practices and intensified co-operation with other businesses in the Group, particularly with Building Construction.

PRICE WARS FLARED UP IN THE INDUSTRY

In line with general economic trends in construction, the year was also one of contrasts for Technical Building Services.

Demand for technical building service projects and services increased, alongside new production, all through the first quarter and spring. Until the summer, reasonably active building construction also boosted demand for HVAC installations and services.

In the autumn, the bleak economic outlook was reflected in the caution exercised by customers which intensified competition. Projects were put on hold and requests for quotations thinned out. In addition, profit margins on competitive contracting weakened towards the year end. Profit margin levels were also impacted by occasionally strong fluctuations in material costs.

For its part, the reduction in contracting is being compensated for by the continuous increase in demand for building maintenance and upkeep services. This demand was accelerated by the renovation of older buildings to match current requirements, and increased use of technical building systems in new development.

The Technical Building Services sector is a late-cyclical sector, i.e. public sector budgets and the impact of economic trends on new construction are felt after a delay of around six months. Weakened consumer confidence and the gradual decline of new building development are expected to show in the industry's general situation by the late spring and summer of the year 2012.

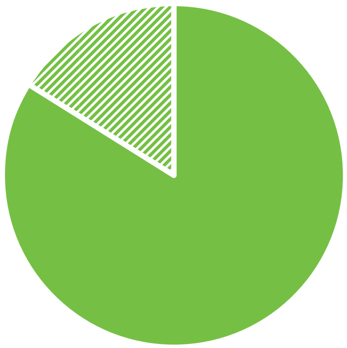
BETTER PROFITABILITY THROUGH IMPROVED EFFICIENCY

In 2011, Technical Building Services' net sales grew by 9%, amounting to EUR 293.9 million (269.1). Operations in Finland accounted for 83 per cent of the net sales. The business sector's operations outside Finland largely comprised construction of telecom networks in North and South America, Africa and Asia.

The sector's profit clearly improved during the second half, when our profitablity improvement measures began to take effect. Operating profit for the entire financial period grew by 16 per cent, amounting to EUR 5.2 million (4.5). Profitability developed favourably as the efficiency of sales and marketing operations improved, the operational focus transferred to maintenance and upkeep services, service products were productised, and procurement was centralised in cooperation within the entire Lemminkäinen. Process management and follow-up of contracted projects were also further developed.

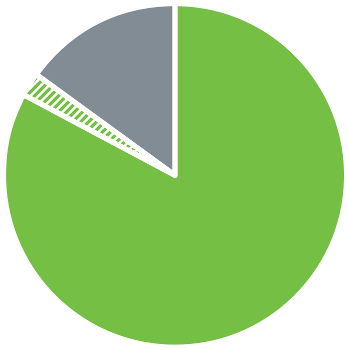
Weak profitability in contracting and the rise in raw material and input prices played a role in the earn-

NET SALES



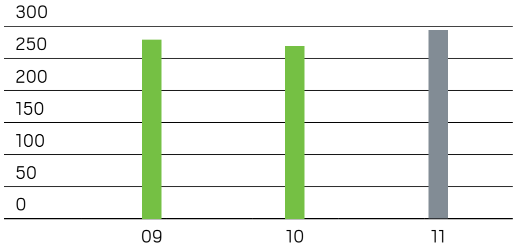
Contracting, maintenance and upkeep services 84%
Telecommunications network construction 16%

NET SALES BY MARKET AREA

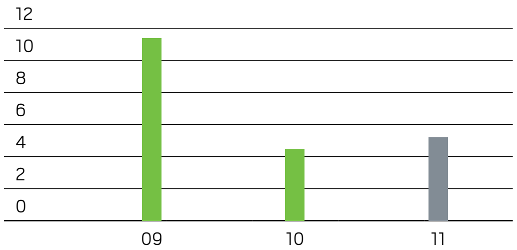


Finland 83%
Russia and Eastern Europe 2%
Other countries 15%

NET SALES, EUR MILLION



OPERATING PROFIT, EUR MILLION



ings trend early in the year. Contracting prices fell most steeply in electrical contracting, but we successfully improved our profit margins towards the year end. Material costs were directly affected by price fluctuations in oil and metals, for example. The telecom network business faced the challenge of managing operations distributed on four continents. Other difficulties were caused by legislative differences between the target countries, which complicated project management.

Maintenance and upkeep services' share of net sales was approximately 30 per cent. Our goal is to increase the share of services to 50 per cent of the business sector's net sales by the end of 2013.

At the end of 2011, the order book of Technical Building Services amounted to EUR 110.0 million (125.9).

LARGE CONTRACTS IN THE AUTUMN

In 2011, the business sector focused in particular on the streamlining of our own processes and functions, and on bringing servicing and maintenance operations closer to contracting. In the maintenance and upkeep services the focus was on service productisation and more active sales and marketing.

Joint projects with the Building Construction sector generate clear synergy benefits in new construction, maintenance and, in particular, life-cycle projects. Through cooperation, customers can be offered more comprehensive service entities. The new facilities of the fertilizer producer Yara in Siilinjärvi are a good example of this: all Lemminkäinen business sectors participated in the construction.

In 2011, the largest Technical Building Services contracts were the electrification contract of the Kevitsa mine in Sodankylä and the technical building service contract for Linnakiinteistö, a building under renovation in Turku Harbour. As Lemminkäi-nen's single largest electrification project, the Kevitsa contract is valued at around EUR 9 million. The value of the

Our goal is to increase **maintenance and upkeep service's** share of our net sales.

Linnakiinteistö technical building services contract, agreed during the third quarter of the year, is approximately EUR 7 million. Other major technical building services projects include the Westenergy waste incineration plant in Vaasa and the expansion of the Atria slaughterhouse in Kauhajoki, where we were in charge of the piping and electrification contracts.

The zero energy projects, which were started in 2010 in Järvenpää and Kuopio, were completed. We delivered and installed technology that uses collectors and panels to harness solar energy, in sheltered and student housing buildings.

Since early 2011, we have been in charge of maintaining technical building systems in the new Nevsky Centre shopping centre and its retail premises in St. Petersburg; the centre is owned by Stockmann, a Finnish retail company. Major projects in Finland include the maintenance and upkeep contract for the Mikkelä depot, owned by the City of Espoo, and the maintenance and upkeep contract extension for Tapiola General Mutual Insurance Company's headquarters in Espoo.

GROWTH OPPORTUNITIES

Requirements for new development sites include solutions that are more energy-efficient and environmentally friendly. With respect to older building stock, demand for piping and HVAC renovations is growing, increasing demand for technical housing services irrespective of economic cycles. On the other hand, the possibility of a slowdown in new construction is reducing demand, although this impact will be delayed. On the whole, we forecast that the market situation for technical building services will remain good in early 2012.

Building owners and users will focus on their own core business operations. At the same time, they will seek more comprehensive products and services that include life-cycle thinking, energy-efficiency and environmental aspects. In contracting, various technical building system subareas are often handled in separate competitive bidding processes. Demand for turnkey services, based, in practice, on a partnership with a single trusted partner, is rising in both maintenance and upkeep services and in contracting. This will clearly open up growth opportunities for Lemminkäinen. A response to such demand is our Green & Safe expert services, launched in January 2012. These services assess the energy efficiency, savings potential and safety of buildings.

Our skilful personnel can handle challenging project entities. With their solutions and professional skills, they can also meet continuously intensifying requirements for energy efficiency and environmental friendliness.

THREE MAIN GOALS FOR YEAR 2012

OUR 2012 GOALS	WHY IT'S A GOAL	HOW WE WILL ACHIEVE IT
Profitable growth in maintenance and upkeep	Service operations are more profitable than contracting and are not as sensitive to business cycles. Properties are increasingly being equipped with technical building systems and energy efficiency requirements are being placed on new construction – both of which increase demand for services.	We will be ensuring the nationwide availability of our services. We will be clarifying our offering through commercialisation and increased efficiency of sales.
Customer relationship management	Good customer relationship management is the key to new contracts. Demand for our extensive service range is increasing and market trends are changing. Good customer relationship management offers an easier way for us to identify all of our customers' needs.	We manage customer relationship in a way that encourages our customers to remain with us, by using our maintenance and upkeep services after completing a contract for them. We are partners who offer comprehensive services throughout a property's entire lifecycle, from the planning stage to years of maintenance.
Internal efficiency and profitability	Profitability and competitiveness require efficient internal operating methods.	We will be boosting the efficiency of our procurements, approving project margin guidelines, and ensuring a sufficient financial margin for our projects. We will only undertake profitable projects.

Material and energy efficiency

We are continually evaluating our environmental effects and risks. The environmental aspect is included in our decision making process.

We continually strive to reduce the environmental impacts of construction. We are aware of the environmental impacts of our operations and take them into account in our product and service offering. We believe that promoting responsibility in the construction industry is both an obligation and an opportunity for us.

Environmental considerations are becoming increasingly significant in our industry. This creates fresh challenges and new requirements – for energy and raw material efficiency, for example. Our customers are also demanding more ecologically efficient solutions. Environmental and energy efficiency is one of our developmental focal points.

ENVIRONMENTAL RESPONSIBILITY REPORTING AND MANAGEMENT

We are aware of our responsibilities and legal obligations – and our opportunities. Environmental responsibility forms part of our operations, management, and decision-making throughout the entire Group. Our Group's environmental activities are steered by the Environmental Protection Act, our Code of Conduct, environmental policies, the principles of the Global Compact, and our Group's environmental targets and benchmarks.

During 2011, we enhanced the monitoring and reporting of our environmental impacts. In 2010, we established an environment and safety steering team, which steers environmental and safety issues in all business sectors and shares good practices across business sector borders. In addition to business sector representatives, this steering team includes the Head of Environment and Safety, and occupational health and wellbeing representatives. The steering team reports to the head of responsibility issues, who is also a member of the Group's Executive Board. Development programmes are carried out in a variety of expert groups.

In 2011, we began updating the Lemminkäinen Group's environmental policy. The publication date for the updated version has been moved to 2012.

During 2011, we standardised our collection of environmental data and defined Group-wide environmental benchmarks and targets, which we'll be monitoring throughout the current strategic period, that is, until the end of 2013. Each business sector monitors both Group-level environmental targets and the benchmarks that are appropriate to its operations. Reporting covers our own production facilities.

2011 was the first year we participated in the Carbon Disclosure Project, which is supported by investors. Lemminkäinen scored 69/100 points, placing us in the Midrange category.

ENERGY AND MATERIAL EFFICIENCY IN OUR OPERATIONS

We continually monitor any environmental damage or anomalies that occur within the Group. To our knowledge, no serious environmental damage occurred in 2011.

During 2011, we defined a model for a Group-wide energy balance sheet that will enable us to identify our greatest sources of energy consumption. At Lemminkäinen, production facilities, transport and transportation consume the most energy.

The majority of the energy we use is generated using light fuel oils. Among our production facilities, six of our asphalt plants are powered by natural gas. In our paving production, we have lowered the temperature at which we manufacture asphalt, enabling us to reduce energy consumption. The temperature has been reduced by an average of five degrees.

Transport and transportation

We pay attention to the efficiency and optimisation of transportation. We have, for example, optimised transportation in Technical Building Systems and piloted the use of a positioning system in Infrastructure Construction.

In order to reduce the emissions caused by business trips, we have increased the number of video conference rooms. Emissions caused by business trips are reported as part of Lemminkäinen's Green Office reporting. They account for an estimated 1–2 per cent of the total emissions caused by our operations in Finland. The emissions limit for company vehicles has been set at 185g CO_2/km.

Materials – recycling and reuse

Every year, our operations generate a considerable volume of surplus material, the majority of which is recyclable. We seek to enhance the ecological efficiency and cost-effectiveness of our operations.

In late 2010, Lemminkäinen began a programme aimed at enhancing material efficiency. The programme requires our production facilities and construction sites to make thorough advance plans and undertake clear measures to reduce the volume of waste generated – and to increase the re-use rate of surplus recyclable materials in particular. In ideal situations, surplus materials can be used on the same site where they are generated. One such example is our current Sipoo logistics centre project, which is a PromisE site. You can read more about this project on page 47.

As natural gravel reserves diminish, the use of crushed rock is recommended as a substitute, in order to preserve the esker acquifiers that are vital to groundwater flow. According to environmental data on our mineral aggregates operations, about 80% of our current mineral aggregates production consists of

ENERGY CONSUMPTION	2011	2010	2009
Production facilities			
Direct energy consumption			
Light fuel oil, GWh	137	123	132
Heavy fuel oil, GWh	101	92	110
Natural gas, GWh	59	47*	50
Indirect energy consumption			
Electricity, GWh	26	23	29
District heating, GWh	1.7	1	1.6
Total, GWh	**324.7**	**286**	**322.6**

All of our direct energy sources are non-renewable.
* Corrected data for last year.

WASTE	2011	2010	2009
Production facilities			
Total volume of waste, t	32,200	28,100	26,800
Landfill / incineration, t	1,330	1,110	1,660
Re-used / recycled, t	30,700	26,800	25,020
Hazardous waste, t	170	210	136
Utilisation rate, %	95.3	95.3	93.3
Landfill rate, %	4.1	4.0	6.2
Hazardous waste rate, %	0.5	0.7	0.5

Landfill / incineration denotes waste that is not suitable for recycling or re-use.
Re-used / recycled waste are reported on in a block. By recycling, we mean using waste to manufacture new products, materials or substances, for either their original purpose or a new one. By re-use, we mean re-using either a product or part of a product for the same purpose as it wasoriginally intended.
By **hazardous waste**, we mean materials that require specialised processing at hazardous waste treatment facilities.
Our **utilisation rate** shows all materials that go for re-use or recycling (including those that we cannot use ourselves) as a percentage of total waste.
Our **landfill rate** shows all waste that ends up in landfills as a percentage of total waste.
Our **hazardous waste rate** shows all waste that is sent to hazardous waste treatment facilities as a percentage of total waste.

Reports do not include demolition waste and excavated materials.

WATER CONSUMPTION	2011
Water consumption, m^3	230,000

processed rock. In our asphalt production, we also use recycled asphalt, which saves natural minerals and bitumen. We also crush a variety of materials for re-use – asphalt pieces, recyclable concrete, and surplus blast rock.

In 2011, Lemminkäinen began to monitor water consumption by identifying operations that consume significant quantities of water. Our concrete, paving, crushing and rock engineering operations use considerable volumes of water. Water consumption at the Group's production facilities is monitored in accordance with the reporting obligations of our environmental permit.

Biodiversity

We make careful plans to safeguard biodiversity. The Environmental Protection Act defines the types of projects that require an environmental impact assessment. Mineral extractions are for example these types of project. Environmental impact assessments seek to predict and reduce any significant environmental impacts, and to take precautions when required. One EIA was completed at Lemminkäinen during 2011.

For projects that don't legally require an EIA, we conduct an environmental risk assessment. By evaluating the environmental impacts of a project, we seek to predict and reduce any significant environmental impacts, and to take precautions when required.

ENVIRONMENTAL EFFICIENCY IN THE BUILT ENVIRONMENT

The demand for environmentally more effective solutions are also a potential source of growth. In Finland, the emissions generated while a building is in use account for about 60 per cent of that building's total emissions during its lifecycle (source: the Confederation of Finnish Construction Industries, RT). We offer effective building solutions to our customers. For example, good maintenance and upkeep affect the energy consumption.

Energy-efficient construction

In November 2011, the Ministry of the Environment in Finland published its 2012 energy regulations for new buildings. The regulations seek to improve the energy-efficiency of new buildings by about 20 per cent (compared to current levels) and thereby reduce emissions. Investments in energy efficiency also reduce costs during a building's use, for example, if energy prices rise.

Boosting the energy efficiency of buildings is an essential aspect of Finland's national climate and energy strategy. In order to promote energy-efficient new construction, we have planned and built passive houses and low-energy buildings. When zoning allows, we also power buildings by harnessing geothermal, solar and wind energy, and using heat pumps. Other factors that affect energy consumption include zoning solutions, bedrock properties, and the availability of good transport connections. We consider energy efficiency in our apartments by, for example, using room-specific thermometers.

2011 saw the completion of an LEED-certified (Leadership in Energy and Environmental Design) office building in Seinäjoki, and we launched the construction of new office buildings adhering to LEED principles on two sites in Helsinki (Töölönlahti and Porkkalankatu). A BREEAM-certified (BRE Environmental Assessment Method) office building in Espoo was also completed, and work continued on a PromisE-certified logistics centre in Sipoo. The Pilke building, which Lemminkäinen built for Metsähallitus in Rovaniemi, North Finland, as an example of ecological construction, received Puuinfo's 2011 Wood Award. This annual award is given to a building, interior or structure that promotes high-quality Finnish wooden architecture, or uses wood in a way that advances construction techniques.

Technical building solutions

Technical building solutions play a significant role in improving a building's energy efficiency. In 2011, we developed our Green & Safe service package to improve the energy efficiency and safety of properties. Mild, cost-effective measures can generate energy savings of tens of per cent.

Our energy maintenance service package consists of an analysis of the potential savings to be made in a property's energy consumption and, if desired, a standing maintenance agreement that will guarantee not only basic maintenance but also comprehensive energy-use management.

Environmental perspectives in paving production

We consider environmental perspectives in our paving production. We are continually developing our asphalt production with attention to environmental perspectives. Compact asphalt prevents hazardous substances from draining into the soil, and low-temperature asphalt is also completely recyclable. In 2011, we also invested about EUR 1 million in asphalt recycling equipment.

COOPERATION WITH THE INDUSTRY'S BEST

We supplement our own environmental expertise with a network of the industry's best players, with whom we develop better construction practices. We proactively cooperate with, for example, the Confederation of Finnish Construction Industries (RT), the Confederation of Finnish Industries (EK), the Ministry of the Environment, Finland's environmental administration, Infra ry, the Green Building Council Finland, and educational institutions. We are also members of a working group aimed at improving indoor air and another that is dealing with amendments to the Land Use and Building Act.

OUR GOALS

GOAL FOR THE YEAR 2011	HOW WE SUCCEEDED	WHAT NEXT?
Updating our Group-wide environmental policies	Policy updates were begun in 2011	Policies are ratified in 2012
Modelling the Group's material and energy balance sheet	The Group's material and energy balance sheet has been defined	Utilising the accrued information, we will design and execute measures related to energy saving and optimisation, and develop our material efficiency.
GRI-compliant environmental reporting is expanded	In 2011, our report covers more detailed reporting of carbon dioxide emissions (scope 1 and 2 defined) and information about metrics EN29, EN14, EN8 and EC2.	In 2012 we will develop reporting of our project operations.

CALCULATED EMISSIONS	2011	2010	2009
Scope 1, t From energy consumed and own transportation	**84,900**	68,200*	76,300*
Scope 2, t From purchased electricity and district heating	**5,900**	5,100*)**	5,600
Total CO_2 emissions, t Scopes 1 + 2	**90,800**	73,300	81,900

The following CO_2 emissions coefficients have been used when calculating the emissions for these forms of energy: Light fuel oil 267 g/kWh; heavy fuel oil 284 g/kWh; natural gas 198 g/kWh; district heating 220 g/kWh; diesel 265 g/kWh; and petroleum 265 g/kWh (source: Motiva). Electricity, purchased 211 g/kWh (source: IEA, 5-year average 2005–2009).

* Corrected data for last year.
** Electricity, purchased 220 g/kWh (source: IEA, 5-year average 2004–2008).
The coefficient for purchased electricity is obtained annually from data published by the IEA.

We have defined CO_2 as the most significant greenhouse gas. These emissions are generated by both transportation and energy consumption in our own operations.
Scope 1 covers emissions from energy consumption at our production facilities, and also from vehicles and fuel cards owned by us.
Scope 2 covers the emissions generated during the production of electricity and district heating at our facilities.
Scope 3 – coverage is currently being defined.

In addition to CO_2, we also cause environmental loading through, for example, noise, dust, vibration and odour pollution, and SO_x, NO_x and small particle emissions.

TRAFFIC AND TRANSPORTATION	2011
Energy consumption, GWh	**28**

Transportation causes CO_2, SO_x, and NO_x emissions, and noise and dust pollution. CO_2 emissions are reported onas part of our EN 16 scale (scope 1). Traffic and transportation is a new benchmark, which was introduced in 2011.

Our reporting covers our own vehicles' fuel consumption in our domestic operations. Traffic and transportation includes all vehicles used on public highways.

We reduce the environmental impact of traffic and transportation by paying attention to the optimisation and efficiency of transportation, and servicing our vehicles regularly. We avoid idling, and choose machinery and equipment that is appropriate for its intended use. We take particular care to protect the ground under aprons and maintenance areas, in order to prevent oils, fuels and solvents from leaking into the soil and groundwater.

Customers

At the heart of our vision – The best way to build – is the customer. We promote responsible and reliable construction throughout the various phases of our work.

Our business comprises our own production, contracting, projects, services and material sales. We operate as contractors or subcontractors for building and infrastructure construction and technical building services. In addition, we implement project management contracts. We sell mineral aggregates, asphalt, concrete, paving stones, and coating materials for sports construction.

OUR KEY CUSTOMER GROUPS

Consumers. We sell the majority of our own residential production directly to consumers; only a fraction is sold through other channels. We have our own sales offices in 15 towns in Finland and a sales unit in St. Petersburg, Russia. In Sweden, we use agencies for product sales.

The factors influencing the decision to purchase an apartment vary in different countries. In Finland, the most significant factors influencing this decision are the location and uniqueness of the apartment, services, and the ease and safety of living. An increasing number of customers purchase apartments as an investment.

In Russia, the overall increase in wealth has increased people's desire to improve their living conditions. The deciding factors impacting on the purchasing decision in Russia are location, price, the price-quality ratio, and the apartment's level of finish. Another factor greatly impacting on the increased demand for apartments is the improved opportunities for obtaining loans. In Sweden, on the other hand, the abolishment of rent control has increased the attractiveness of owned dwellings.

In addition to apartments, we also sell paving stones, mineral aggregates and asphalt to consumers, either directly or through dealers.

The business premises we produce are purchased by **Property investors**. The key factors for them are good leaseholder profiles and long-term leases ensuring a healthy profit on the investment. A good location and an understanding of varying space requirements are the key factors for securing leaseholders. We also carry out projects for property investors and provide them with various types of services, including property and business premises services.

We provide the **owner-users of properties and premises** with various kinds of business and commercial premises, and infrastructure construction projects such as tunnels, parking facilities and warehouses. We also carry out sports construction and technical building services projects. Winning a bidding contest requires cost-effectiveness and understanding of customers' needs. A solid reputation and good references grant a competitive edge. Housing co-operatives and maintenance companies are the primary customers for our technical building services. We also carry out renovations for selected sites. Projects are carried out in increasingly demanding conditions, including city centres and elsewhere in constructed environments. Our industrial customers value special know-how and local services.

The public sector is an important infrastructure construction customer. We perform demanding foundation engineering work for buildings, construct tunnels, and implement various kinds of traffic infrastructure and paving projects. We also build schools and various kinds of public-administration facilities. In the current economic climate, the public sector has to prioritise projects, while the so-called sustainability gap is forcing a search for alternative implementation and funding models. In addition to price, the Finnish Public Procurement Act also allows quality factors, such as references from previous clients, to be assessed as part of the procurement decision.

Other construction firms. We also work as subcontractors for other construction firms insofar as technical building services and infrastructure construction are concerned. Furthermore, we sell construction materials, including coatings, concrete, concrete elements and staircases, mineral aggregates and asphalt to construction firms.

ADDED VALUE THROUGH CO-OPERATION

The best way to construct is generated in co-operation with our customers. Close co-operation with our customers ensures that our solutions meet their needs in terms of both flexibility and cost-effectiveness. We arrange seminars and functions to meet our customers, and also encounter them at trade fairs and other industry events. We inform them of developments in our operations through our customer magazine and newsletters. Our advertising focuses on making our range of products and services recognisable. We comply with the guidelines of the International Chamber of Commerce ICC in our advertising.

Customers are seeking comprehensive services in all construction markets, increasingly concentrating on their own core operations. Customers' procurement activities will become more professional, and they will primarily purchase expertise and services. This is forecast to increase the demand for building services solutions, as well as for maintenance and servicing. On the other hand, project size will increase, with risk

Our operations combine local knowledge with internationally renowned project expertise.

transferred to the shareholders. The turn-round period of projects will become a key competitive factor alongside price.

Various kinds of total cost and life cycle models will become increasingly common in public administration. In the life cycle model, construction companies or joint ventures are not only responsible for construction, but also for maintenance and servicing – sometimes for decades. Finding an approach that keeps total costs down throughout the life cycle of the building or route is a vital aspect in life cycle projects.

OUR COMPETITIVE EDGE

Our customers value our expertise, our versatile range of products and services, and our premium-quality work. We specialise in construction, innovate new solutions, and are able to manage major projects. Our operations combine local knowledge with internationally renowned project expertise. Our experts and special equipment can be flexibly transferred to demanding targets in Finland and the other Nordic countries.

Our strength is an ability to operate in highly demanding conditions, such as underground in city centres. We also utilise our specialised technical expertise in the product development of our equipment. We are increasingly carrying out projects that combine different aspects of our versatile expertise.

TOWARDS SYSTEMATIC CUSTOMER RELATIONSHIP MANAGEMENT

In 2010, we launched a development programme for customer relationship management, the objective of which is to support our operations in becoming more customer-oriented. In 2011, we particularly focused on the management of our key customer relationships. Moreover, we drafted a development map for customer relationship management at Lemminkäinen, extending all the way to 2015. In 2012, our primary development targets are the harmonisation of customer relationship processes, management of key customer relationships, and improved utilisation of customer information. We want to promote unified Lemminkäinen operating methods at the customer interface, believing this will provide us with profitable growth.

In the autumn of 2011, we conducted a survey based on the widely-used international Net Promoter Score (NPS) method as part of the development programme. The survey measured the likelihood of Finnish consumer, corporate and public-administration customers recommending Lemminkäinen. Compared to the leading companies in the construction sector and other sectors in Finland, our result was good but not excellent. We exceeded the average value of all companies as well as the average value of our foremost competitors. According to corporate and public-administration customers, we are one of the elite large construction firms. As far as consumers are concerned, there was great diffusion in the results, and our values failed to reach the overall average. Among consumers, the factors increasing recommendations are reliability and quality. Therefore, our goal is to further improve the accuracy of schedules, flawlessness of deliveries, and our ability to react in cases of reclamation. The improvement of customer satisfaction is one of our key development targets, and is monitored, for example, by means of the Group scorecard. In the autumn of 2012, we intend to conduct a net recommendation index survey in our other key markets alongside Finland.

Encounters:

Close cooperation and professional supervision

The Sipoo logistics centre project pays particular attention to environmental aspects and responsible operations in general. The large size of the location coupled with its automation installation work requires cooperation skills and a high level of expertise from contractors.

SOK'S LOGISTICS CENTRE, SIPOO

Lemminkäinen is the project management contractor for SOK's logistics centre project in Sipoo. SOK Kiinteistötoiminnot is the developer of the centre, which measures approximately one million cubic metres. SOK is a Finnish co-operative, which is a part of S Group.


Juha Äijälä from SOK Kiinteistötoiminnot (right), Kim Bono from Lemminkäinen (left).

Lemminkäinen has kept its promise of reliable and **responsible** operations.

The utility goods logistics centre currently under construction in Sipoo for Inex Partners Oy, a subsidiary of SOK, is one of Lemminkäinen's largest ongoing construction projects. According to Juha Äijälä, Director, SOK Kiinteistötoiminnot, the Sipoo centre is by no means a traditional logistics centre – it's more reminiscent of a factory than a warehouse.

Responsibility is a fundamental aspect of both SOK and Lemminkäinen's operations. In Sipoo, particular attention is paid to, for example, environmental perspectives. Äijälä says that environmental planning began before building design. In order to gain its PromisE environmental classification, environmental issues must be monitored throughout the project. Environmental data is also gathered from Lemminkäinen and other contractors on a regular basis.

During the Sipoo project, constructors' work plans must take equipment installations into account. Foreman Kim Bono from Lemminkäinen says that the integration of automation and traditional technical building systems has led to unique work plans. In addition to these equipment installations, two very snowy winters have posed challenges for constructors, as they had to keep clearing snow from the logistics centre's roof – which measures five and a half hectares. They have, however, kept on schedule in spite of these challenges, and SOK Kiinteistötominnot's Äijälä says that Lemminkäinen has kept its promise of reliable and responsible operations. In addition to operational reliability, Äijälä also praised Lemminkäinen for its good corporate culture.

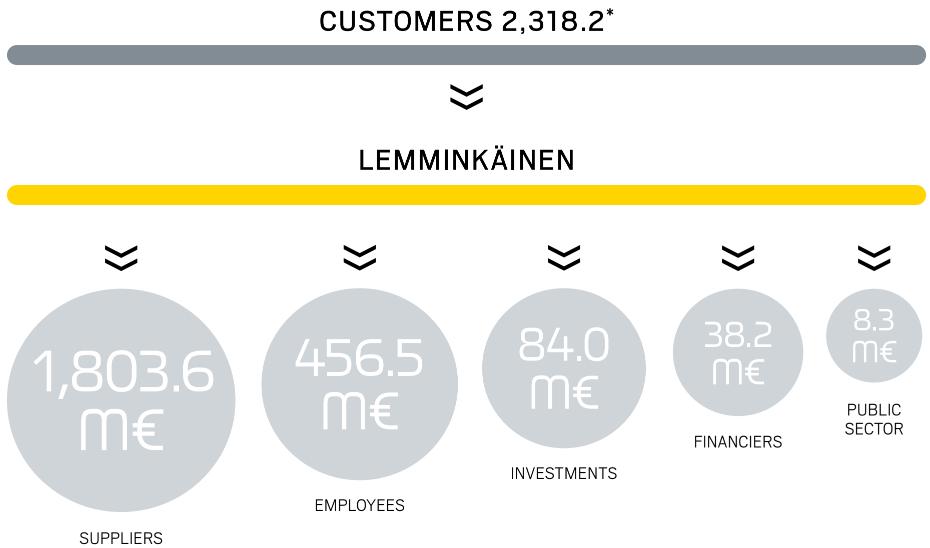
A building of this size – ten times the size of the Parliament House in Helsinki – places high professional demands on supervisors. Bono highlights the importance of fieldwork in particular. Instead of managing from onsite cabins, Lemminkäinen's supervisors try to get involved in the action.

There has been close cooperation and mutual trust between the client and contractors. Thanks to the smooth running of this project, Äijälä is open to future cooperation with Lemminkäinen.

Stakeholders

Our key stakeholders are: our customers, current and potential personnel, shareholders, investors and partners, and the media. In all stakeholder cooperation, we adhere to our Code of Conduct, as well as local and international commitments and legislation. Stakeholder relations are primarily handled by our business units. Contact with investors, analysts, national media, associations, authorities and other decision-makers are handled centrally through Group administration.

DISTRIBUTION OF ECONOMIC VALUE ADDED TO OUR STAKEHOLDER GROUPS



The figures presented are based on accrual accounting

* Income from customers include the income from products and services as well as other profits and financial yields, excluding unrealised profits.

We constantly develop our stakeholder relations and seek to engage in open and honest dialogue. We always seek to meet our stakeholders' expectations and respond to changes in our operating environment. The issues raised by stakeholders are used to determine our major corporate responsibility themes and thereby also guide our reporting.

Our customers are our number one stakeholder. We want to understand our customers' needs and, in line with our strategy, are developing our operations to be even more customer-oriented. In autumn 2011, we conducted our first Group-wide customer satisfaction survey. You can read more about our customers on page 44.

We want to be the preferred employer, and we invest in our personnel's well-being, competence development and training. Our personnel survey was conducted for the second time in 2011. You can read more about our personnel on pages 50–53.

As a publicly listed company, our communications must be open, reliable and correctly timed. Our dialogue with our shareholders is based on our principles of investor relations. In 2011, we conducted our first investment appeal survey, which was directed at investors and analysts.

We're developing and boosting the efficiency of our partnerships and procurement chains to improve quality and cost-effectiveness. You can read more about our procurement chain on page 58.

We engage in active dialogue with the media.

SUPPORT FOR NON-PROFIT ORGANISATIONS

When sponsoring organisations, we adhere to our Code of Conduct and complementary sponsorship principles. In accordance with our sponsorship principles, we prioritise sports and exercise for young people, as well as youth projects that support the acquisition of expertise and practical construction industry skills. Group management holds overall responsibility for nationwide sponsorship projects. When working with local associations and stakeholders, each business sector is responsible for those activities that are associated with its operations. In 2011, our support for non-profit organisations totalled EUR 187,000 (276,000). We sponsor mainly the Young Finland Association 'Nuori Suomi' and the Finnish National Skills Competition 'Taitaja' organised by Skills Finland.

In 2011, we received EUR 135,415 in financial assistance from the Finnish Government. This comprised subsidies received for development projects.

STAKEHOLDER	EXPECTATIONS	ACTIVITIES IN 2011
CUSTOMERS	High-quality, reliable products and services, delivery reliability, professional skills, responsible operations, understanding of customer needs, pricing, customer service, customer relationship management.	Face-to-face meetings, customer events, trade fairs, newsletters, online services.
PERSONNEL	Good management, the potential for development, openness and cooperation between organisations.	Developing supervisory and management skills, training and competence development, development discussions, personnel survey, development of remuneration, supporting well-being at work, open communications, such as personnel magazine, intranet, quarterly information meetings, supervisor communication.
OWNERS AND INVESTORS	Dividends, appreciation of holding, reliable information about the company and its outlook.	Meetings with investors and analysts, General Meeting of shareholders, press conferences, press and stock exchange releases, Investors section of the website.
PARTNERS	Income, growth, delivery reliability, development, networking.	Meetings and direct contact, supplier audits, procurement systems.
MEDIA	Reliable, sufficient and up-to-date information about the company's operations.	Press and stock exchange releases, press conferences, routine meetings and interviews, visits.
STUDENTS AND JOB APPLICANTS	Interesting and challenging tasks, a broad range of information about Lemminkäinen as an employer.	Summer jobs and trainee positions, opportunities for writing theses, visits to educational establishments, student and professional literature, trade fairs, employer image surveys.

Personnel, training and competence development

Lemminkäinen seeks to be the best employer and offers opportunities for personal development. We invest in promoting occupational wellbeing, competence development and supporting supervisory work in particular. Our goal is to ensure that every member of the Lemminkäinen team has all the skills required to implement our strategy in their everyday work.

Motivated personnel improve an organisation's productivity. Job satisfaction reduces absences due to sickness and personnel turnover. By nurturing good HR and management skills, we seek to ensure that our strategy is implemented and organisational changes go smoothly. Lemminkäinen's training programmes have also been customised to support the achievement of these targets.

In 2011, we began the introduction of a new HR management system in Finland. The new system will make personnel data more readily available and enable development discussions and training to be monitored more reliably. We will continue to develop the system during 2012.

COMPETENCE DEVELOPMENT

As part of the 2011 strategy process, our business sectors defined their most important areas of expertise with regard to success and creating a competitive edge. They were: the ability to develop workable solutions, profound expertise in projects and contracts, and having a better understanding of markets and customers than our competitors. Internal cooperation was also considered important.

In order to support competence development, we offer customised training to all personnel groups. In 2011, we launched the PAKKI training programme, which is targeted at waged employees and onsite personnel. 805 people took part in this programme during 2011. We use this training as a concentrated method of promoting occupational safety and developing skills that ensure top-quality results – in short, it provides mandatory competence training. Our PAKKI training programmes are also open to all of our subcontractors, which helps ensure that our partners' professional skills are up to date and our projects are implemented responsibly. In 2012, we'll be supplementing this basic training with the PAKKI 2 programme, which offers professional training leading to qualifications.

In 2011, we continued to run the LEKA Management Academy, which was established in 2009. 234 supervisors took LEKA training during the year, and a total of 635 supervisors have taken part to date. The programme has been very well received among supervisors. The networking opportunities offered by the training were considered particularly useful and are also considered to enhance cooperation between different functions. During LEKA training, supervisors also go through the Group's joint operational guidelines, such as the Code of Conduct, as they are responsible for passing this information on to employees.

We also offer supplementary courses to support LEKA Management Academy training. These supplementary courses, which include courses focusing on competition law and the early support model, form the VIILA training programme. You can read more about the early support model on page 54. We organised a total of 38 VIILA courses in 2011.

DEVELOPMENT DISCUSSIONS

Development discussions are a vital management tool. They help us to set personal and team goals, monitor the achievement of these goals, and evaluate the need for competence and career development.

At Lemminkäinen, we also employ the early support model in our development discussions. Supervisors must consider employees' wellbeing and ability to cope before any potential problems arise.

PERSONNEL SURVEY

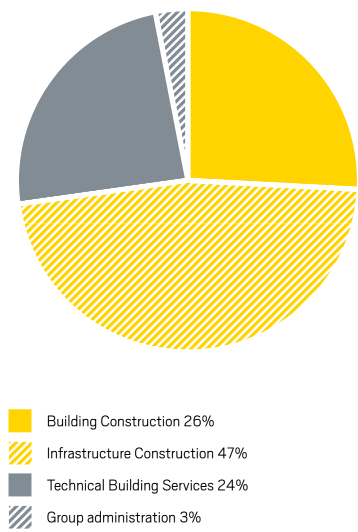
Every year, we conduct a personnel survey to measure job satisfaction and the practical implementation of our strategy. The results are compared to industry averages. The Group-wide response rate was 49 per cent in 2011. The response rate in some areas of the organisation was extremely low and did not therefore generate statistically reliable results. It appears that the low response rate was partly due to the method of collecting employees' responses, and this will be changed. The fall in responses could also indicate that personnel were dissatisfied with how we handled their responses to previous surveys. We will therefore be investing more time and energy in making good use of these results at all organisational levels.

On the basis of the personnel survey results, we'll be setting clear targets for our key areas of development – we'll be drawing up an action plan and actively monitoring its implementation. We'll also be able to systematically monitor the progress of our developmental measures.

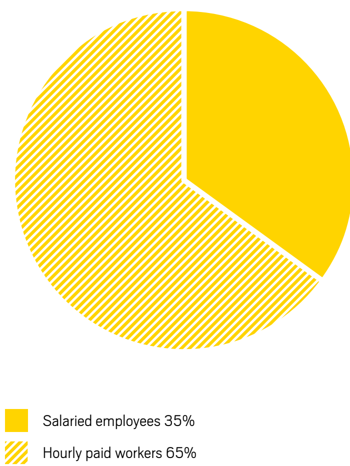
According to the 2011 personnel survey, employees liked their work and felt that Lemminkäinen operated in accordance with its values. Personnel's working capacity and occupational wellbeing were also at an excellent level.

The results did, however, reveal areas for development. Employees reported varying experiences of supervisors' management skills, and there were noticeable differences in the feedback received. Employees wished for more feedback from their supervisors: development discussions, for example, aren't carried out with everybody. Other areas for development were identified in the organising of work and the number of overlapping tasks. Communication between supervisors and employees is another area that requires more attention.

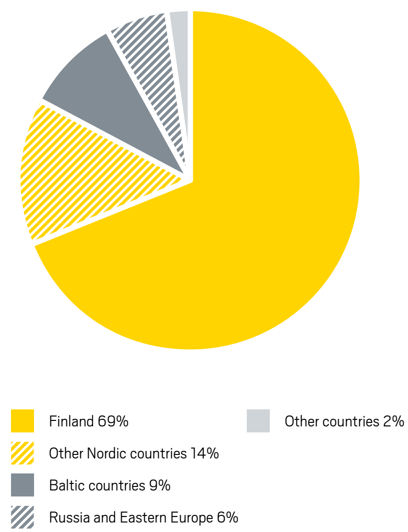
PERSONNEL BY BUSINESS SECTOR, ON AVERAGE



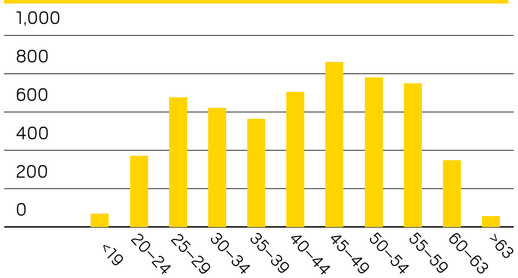
PERSONNEL BY EMPLOYMENT GROUP, ON AVERAGE



PERSONNEL BY MARKET AREA, ON AVERAGE

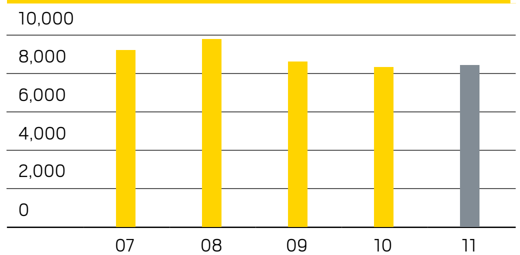


AGE DISTRIBUTION, FINLAND



Information on graph as on 31 December 2011, includes all employees.

PERSONNEL, ON AVERAGE



As part of the personnel survey, supervisors with at least five subordinates also receive a report on their management skills, and these results are used in supervisors' development discussions. The 2011 results for management skills did not differ from those in 2010. Lemminkäinen's supervisors achieved their units' targets and forged good relationships with employees. Feedback and employees' competence development were, however, identified as areas for development. A total of 360 supervisors (41 per cent of Lemminkäinen's supervisors) received a feedback report in 2011.

We used the results of the 2011 personnel survey to create an index for measuring the quality of our change management. This index will support Lemminkäinen's change management, and the results will be monitored by both the Group's Executive Board and the executive boards of each business sector.

REMUNERATION

In 2011, we focused on enhancing and standardising our remuneration practices, so as to support the implementation of our strategy and a 'one Lemminkäinen' approach. We also wanted to ensure that our remuneration practices are in line with our values. We will continue these developments in 2012.

In 2011, we began competence classification of our management and senior salaried positions, and this will also work towards standardising remuneration practices. We improved our salary statistics, which we can use to ensure that our remuneration practices are equal and unbiased. We also developed the content of our incentive scheme, and its processes and measures.

In addition to monetary rewards, Lemminkäinen also offers non-monetary benefits. We invest in, for example, healthcare and exercise. We seek to promote our personnel's wellbeing by offering opportunities for flexible working hours and working from home. You can read more about occupational health and wellbeing on page 54.

EQUALITY AT LEMMINKÄINEN

Lemminkäinen's principles of equality are based not only on legislation, but also on our own equality action plan, which seeks to promote unbiased treatment for all employees, a diverse personnel structure, standardised remuneration, and working conditions suitable for everyone.

The plan's implementation is monitored and evaluated at Group level by Lemminkäinen's codetermination advisory committee, and in each business sector by the relevant codetermination body. Regional state administrative agencies and the Ombudsman for Equality ensure that we adhere to legislation.

Equality and its implementation were also included in Lemminkäinen's personnel survey. 71 per cent of respondents considered Lemminkäinen to be an equal opportunities workplace. Our goal for 2012 is to create guidelines to prevent the harassment and ill treatment of personnel.

In 2012, we will draw up a policy for age management. We want our managers to pay attention to the varying needs of employees of different ages. Preventing age discrimination is part of our age management programme.

Downscaling, labour legislation and notice periods

In autumn 2011, Lemminkäinen launched codetermination negotiations that resulted in the decision to make reductions totalling a maximum of 300 man-years. The reductions will be implemented through terminations, retirements, and the termination of temporary contracts. The personnel negotiations were part of an extensive efficiency programme, and the majority of terminations affected operations in Finland. Personnel reductions in other countries will be implemented in accordance with the appropriate legislation and practices. The reductions will be implemented by the end of 2012.

Lemminkäinen's downscaling measures adhere to the negotiation periods laid down in legislation and employment contracts and, in the case of terminations, minimum notice periods. We seek to find alternatives to terminations, such as retirement plans and re-employment on other tasks elsewhere within the Group.

Our employment contracts comply with current labour legislation. In 2011, all hourly paid workers and salaried employees in Finland – over 91 per cent of personnel – were covered by collective labour agreements. No collective labour agreements, nor any other collective agreements, have been agreed on with senior salaried employees.

All of our employees' employment contracts contain a period of notice equal to at least the minimum required by labour legislation and collective labour agreements. Minimum periods of notice vary depending on employees' collective agreements and the length of time they have worked for Lemminkäinen.

OUR GOALS

GOALS FOR THE YEAR 2011	HOW WE SUCCEEDED	NEXT STEPS
Developing management skills	In connection with our personnel survey, we implemented a separate managerial skill feedback report for managers with at least five employees in their team. We identified the managers who are most in need of managerial skills development, and directed them towards management training (LEKA).	Follow-up and further development of the manager assessment implemented in connection with the personnel survey. Continuous management training (LEKA).
Developing change management	Change management index based on the personnel survey was 39/100. It tells if Lemminkäinen employees have received enough information on the changes needed to build a unified company and that they understand the development goals and find the development discussions useful.	Change management index based on the personnel survey is 47/100. It tells if Lemminkäinen employees have received enough information on the changes needed to build a unified company and that they understand the development goals and find the development discussions useful.
Compensation development	All salaried employees are included either in the annual incentive plan or the project incentive plan.	Job grades have been defined for senior salaried employees and management. Internal and external salary comparison information is actively used in the development of fair and competitive recruitment.

Occupational health, safety and wellbeing

Lemminkäinen's occupational health and safety efforts seek to minimise the risks associated with accidents, burnout, and professional diseases. We employ standardised principles to improve working capacity management, and occupational health and wellbeing throughout the Group. Our personnel's wellbeing is an important factor in our success.

OCCUPATIONAL SAFETY

At Lemminkäinen, we seek a continual reduction in accidents by employing pre-emptive measures. The mainstays of our work are supporting safe working conditions and methods, a workplace atmosphere that emphasises safety, reducing accidents and safety training.

Management, employees, safety managers and the industrial safety organisation share responsibility for implementing safety measures and ensuring safety. All personnel from waged employees to senior salaried employees are represented by an industrial safety committee. Our Group-wide environment and safety steering group shares good practices across business sectors. Industrial safety committees enable all personnel to have a say in issues relating to health and safety in their workplace. A joint meeting of all of the Group's industrial safety committees is held once a year. Our safety policy and principles support our operations.

We believe that safety training is effective in reducing accidents. We provide all of our personnel with the requisite safety training, and occupational safety is now included in Lemminkäinen's own LEKA and PAKKI training. You can read more about our training programmes on pages 50–53.

Lemminkäinen is a member of the Finnish Institute of Occupational Health's Zero Accident Forum, which unites employers that are committed to improving occupational safety. Occupational safety audits are continually conducted to ensure safety on construction sites and in other workplaces. These audits also form part of the requirements for OHSAS 18001 certification. In Finland, we also make the weekly safety measurements required by law.

In addition to conducting external safety audits, we encourage our managers to make onsite visits. Safety rounds enable management to discuss onsite safety factors and pre-emptive measures with personnel and foremen.

We encourage our employees to keep their eyes open and report any practices that pose a risk to safety. In order to make these observations easier to report, we'll be switching to an electronic reporting system in 2012.

In 2011, the accident frequency for the Group's operations in Finland was 36 accidents leading to absence per million work hours. Although accidents were less serious in nature, we didn't achieve our target: a maximum of 20 accidents per million work hours. Last year, the accident reporting system was extended to cover our operations in infrastructure construction Sweden (25.5) and Denmark (36.7). The numbers and comparability of foreign accident frequency rates has not been assured. Extending the reporting system enables us to engage in systematic pre-emptive measures and share good safety practices at an international level. Our 2012 accident frequency target for operations in Finland is 20.

OCCUPATIONAL HEALTH AND WELLBEING

In addition to mandatory healthcare, we offer coverage geared towards occupational health at general practitioner level. We use an integrated healthcare model, that is, Lemminkäinen's healthcare unit coordinates its services with a network of healthcare partners. We focus strongly on pre-emptive care, which seeks to identify any threats to working capacity at the earliest possible stage. The Group's occupational healthcare unit coordinates the treatment and rehabilitation of those threatened by working incapacity. The unit works with line managers, the industrial safety organisation and HR professionals to support personnel's ability to cope at work. Occupational wellbeing at Lemminkäinen is managed by the wellbeing steering group, which consists of HR management personnel, occupational healthcare representatives, and salaried and waged employees.

Working capacity – monitoring, management and early support

Due to the physically demanding nature of working on a construction site, early retirements caused by working incapacity are a significant risk for Lemminkäinen.

We evaluate our employees' risk of working incapacity as part of standard occupational healthcare procedures and with the Sante health questionnaire, which forms part of health checks. The most significant risk factors to our personnel's working capacity are smoking and excessive alcohol consumption, and – for salaried employees and management – the risk of diabetes. Being overweight is one of the explanatory factors in those with an increased risk of diabetes.

Working incapacity is also prevented through task management, that is, the long-term development of tasks. In 2011, we introduced a monitoring, management and early support model to support the identification of working capacity risks. The early support model enables us to intervene in long-term or recurring sickness absences by offering employees support. We offer our supervisors training in early support. In 2011, 389 supervisors participated the training. Our goal for 2012 is to have trained a total of 90 per cent of Lemminkäinen's supervisors. The training aims to

OCCUPATIONAL SAFETY DUE TO SICKNESS ABSENCES

ABSENCE DUE TO SICKNESS % (IN FINLAND)	2011	2010	2009	target 2012
All personnel	4.1	4.1	4.4	4.0
salaried employees	1.8	1.8	1.9	–
hourly paid workers	5.4	5.3	6.1	–
Lemminkäinen Group	2.6	2.5	1.3	–
Building Construction	3.4	3.6	4.1	–
Infrastructure Construction	3.6	3.5	3.9	–
Technical Building Services	5.7	5.4	6.8	–

ABSENCE DUE TO ACCIDENT % (IN FINLAND)	2011	2010	2009	target 2012
All personnel	0.3	0.5	0.6	–
salaried employees	0.02	0.03	0.04	–
hourly paid workers	0.5	0.7	0.9	–
Lemminkäinen Group	0.01	0.02	0.2	–
Building Construction	0.3	0.6	0.6	–
Infrastructure Construction	0.3	0.3	0.3	–
Technical Building Services	0.4	0.6	0.8	–

ACCIDENT FREQUENCY RATE (IN FINLAND)	2011	2010	2009	target 2012
Lemminkäinen Group	36.1	36.1	36.2	20
Lemminkäinen Corporation	0	2.5	0	
Building Construction	30.5	32.0	36.4	
Infrastructure Construction	25.4	17.7	20.8	
Building Products *	-	58.9	50.6	
Technical Building Services	62.7	54.3	47.7	
Fatal accidents	0	0	1	0

Absence due to sickness and accidents: for 2011 and 2010, the proportion of absence from theoretical regular working hours (new calculation model). The data for 2009 is based on the working hours performed.
Accident frequency rate: x accidents / million working hours resulting in absence for more than one day Includes own staff.

* Lemminkäinen divested its roofing business, part of the Building Products business division, in December 2010. Since 2011, concrete business and sports construction, formerly part of the Building Products Division, are reported as part of Infrastructure Construction.

make working capacity management a part of everyday supervisory work.

Another thing we're seeking to establish in our routine activities is professional rehabilitation for those with a high risk of working incapacity. Our goal is to identify those employees in need of rehabilitation and offer them rehabilitation at the earliest possible stage. In 2012, we intend to include career path planning in development discussions. Career path planning not only boosts professional development, but also enables us to prevent unnecessary early retirements by steering high-risk employees towards new tasks, preferably within the Group.

Monitoring sickness absences is a fundamental aspect of our pre-emptive developmental efforts, and it has been set as one of the most important working capacity themes for 2011 and 2012. In accordance with the early support model, supervisors have been encouraged to stay in contact with employees during their sickness absences and to monitor their absences. In 2011, Lemminkäinen introduced a new system for classifying sickness absences based on the Confederation of Finnish Industries' (EK) model.

Monitoring sickness absences is a fundamental aspect of our **pre-emptive developmental efforts.**

Intoxicants

Lemminkäinen's healthcare unit assists in the treatment and referral of those experiencing problems with drugs or alcohol. Our goal is to have an intoxicant-free working environment and community. Lemminkäinen's anti-intoxicant programme was updated in 2011. As part of the update, we drew up a Group-wide intoxicant policy, which is based on Lemminkäinen's safety policy, working capacity maintenance activities, and the early support model. These guidelines will help supervisors and other personnel to prevent and identify problems with drugs and alcohol, and to take any necessary action at the earliest possible stage. Our anti-intoxicant policy has been discussed by our business sectors' codetermination organisations. Our goal for 2012 is to offer our employees more information about the health risks associated with drugs and alcohol. Supervisor training and internal communications will also boost the efficiency of our pre-emptive measures.

Supporting exercise

We encourage our personnel to take plenty of exercise. In 2011, we invested a total of EUR 317,000 in promoting exercise for our personnel working in Finland. We also raised our support to EUR 240 per person, in accordance with our target.

The Lemminkäinen exercise card is one of the benefits we offer to all of our employees in Finland. In 2011, we started to introduce a joint electronic card system to all 450 sports locations. 92,504 visits were made to subsidised sports locations in 2011. Our goal for 2012 is to introduce our own fitness website that will enable personnel to monitor their exercise.

Exercise Barometer

We use a biennial Exercise Barometer to monitor the success of our exercise programme in terms of both implementation and service use, as well as its influence on personnel's health. The latest study was carried out in spring 2011. Long-term investments in our exercise programme have generated results as, according to the barometer, 57 (54) per cent of employees take sufficient exercise to maintain good health. The most significant factors in the type and amount of exercise taken are employees' own habits, support from their employer, and encouragement from supervisors. The next study will be carried out in 2013.

Activating passive exercisers

Our goal is to motivate those engaging in passive or unvaried exercise. An exercise and wellbeing pilot was carried out in the Infrastructure Construction business sector in 2011. The pilot's primary goal was to help reduce the strain of everyday work by encouraging employees to improve their physical endurance. Employees were also encouraged to pay attention to weight management and healthy habits. The average level of physical endurance among participants rose and body composition results, such as fat percentages and weight indexes, improved. The results did not, however, show any significant improvements among those in the largest risk group.

OUR GOALS

GOALS FOR THE YEAR 2011	HOW WE SUCCEEDED	NEXT STEPS
Implementing the early support model and sickness absence monitoring system. Training managers in the use of the early support model.	We implemented the early support model and sickness absence monitoring system. 50 per cent of managers have been trained to use the early support model.	We continue training. The goal in 2012 is that 90 per cent of managers have been trained to use the early support model.
New tasks and solutions developed for employees with a high risk of reduced work capacity, supporting coping at work.	In order to identify occupational disability risks, the Group deployed a model for work capacity follow-up, management and early support.	Making career path planning part of development discussions.
The frequency of accidents involving operations in Finland corresponds to a maximum of 20 accidents leading to absences, per million work hours. Reporting is expanded outside Finland.	The frequency of accidents involving operations in Finland corresponded to 36 accidents that led to absences per million work hours. We expanded the reporting practice to the business operations of infrastructure construction in Sweden and in Denmark.	The frequency of accidents involving operations in Finland equals 20 accidents leading to absences, per million work hours. An electronic security risk identification system will be deployed in 2012.
Work capacity management incorporated into daily managerial duties	We created a system that monitors how active managers are in using the early support model.	In Finland, 70 per cent of managers, whose team members' sickness absences are above the set limits, have organised an early support discussion.

Responsibility in the procurement chain

In accordance with our Code of Conduct, we require our partners and suppliers to adhere to legislation and to follow international regulations concerning human rights, employment rights and the environment. We work with our subcontractors and suppliers to ensure that these requirements are being met, and we are developing systems to monitor their activities in this respect.

Our purchases totalled EUR 1,511 million (1,186), which represents 66 per cent of our net sales (65). Goods and raw materials accounted for EUR 719 million (543) and external services for EUR 809 million (646). Subcontracting was the largest external service, totalling EUR 656 million (490). About 35 per cent (30) of procurements were made from countries other than Finland.

INCREASED PROCUREMENTS EFFICIENCY INCREASES PROFITABILITY

In 2011, we launched an overhaul of our procurement model, which will promote our goals of improved profitability and competitiveness, and help to make Lemminkäinen a single, united construction company. As part of our updated strategy, in autumn 2011 we announced an efficiency programme that seeks to lighten our cost structure by EUR 50 million. We aim to make the majority of the savings, EUR 30 million, by increasing the efficiency of procurements. About one third of these savings should be implemented in 2012.

Decentralised procurements and our extensive supplier network are some of the issues that have posed challenges. The overhaul of our operating model seeks to standardise and create cost-efficient operating procedures.

STANDARDISATION AND COOPERATION – ROAD TO EFFICIENT PROCUREMENT

In summer 2011, we centralised our procurements in a single organisation. We have divided our procurements into 12 categories in which we handle tenders for Lemminkäinen's entire procurement volume. We have also defined a procurement strategy and have begun to define procurement processes. These efforts will continue in 2012.

Methods of achieving the targets laid down in our efficiency programme include standardising procurement processes and systems, downsizing our supplier network, removing overlapping agreements, and handling tenders centrally to harness the benefits of volume. We will also be increasing the proportion of foreign contractors and material imports in our procurements. The use of online auctions as a medium for bidding on tenders has generated favourable results, and we will be increasing their use in the future.

Our goal is to increase online procurements by developing and employing standard, Group-wide electronic procurement systems. Use of our procurement IT system will be extended to the entire Group, and work towards this will begin in 2012. This system will help us to, for example, improve supplier and product item management.

In order to gain benefits of volume, we have to improve cooperation between design process management and procurements. When it comes to logistics, we can enhance cooperation between production and procurements. We choose responsible suppliers that are able to provide nationwide service and with whom we can cooperate to develop more efficient operating models and, in particular, on-site logistics.

SUPPLIER AUDITS ENSURE QUALITY

In 2011, we audited 18 of our major Finnish suppliers using a questionnaire. In Estonia, six inspections of audits were carried out.

The supplier audit response rate fell short of our target in 2011. In 2012, we will be switching to a more comprehensive and more reliable system that will take a more in-depth look at our suppliers' subcontractor chains and issues relating to quality, the environment, occupational safety, and corporate responsibility. Our target is to audit five of our major suppliers.

FIGHTING THE GREY ECONOMY

We require all of our subcontractors to adhere to the Act on the Contractor's Obligations and Liability When Work is Contracted Out. We've been involved in developing the Tilaajavastuu.fi service, which seeks to prevent the operation of the grey economy in the construction industry, as well as its associated services Luotettava Kumppani (Reliable Partner) and Valvoja (Supervisor).

In August 2011, we organised a Group-wide, anti-grey economy theme day. During the theme day, site managers checked that their subcontractors were adhering to the Act on the Contractor's Obligations and Liability When Work is Contracted Out. Of the approximately 1,300 subcontractors inspected, about 93 per cent passed with clean sheets. In the main, the only deficiencies found were minor and subcontractors were obliged to correct them immediately.

During the theme day, we sent our partners 185 recommendations to join the Luotettava Kumppani (Reliable Partner) service. We are also aiming to make even more efficient use of the Tilaajavastuu.fi service in the future. We are identifying which suppliers haven't yet joined the service, so we can encourage them to join.

Independent Assurance Report*

TO THE MANAGEMENT OF LEMMINKÄINEN CORPORATION

We have been engaged by the Management of Lemminkäinen Corporation to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the period of January 1, 2011 to December 31, 2011 (hereinafter "Responsibility Reporting") disclosed in Lemminkäinen Corporation's Annual Report 2011.

MANAGEMENT'S RESPONSIBILITY

The Management of Lemminkäinen Corporation is responsible for preparing the Responsibility Reporting in accordance with the Reporting criteria as set out in Lemminkäinen Corporation's reporting instructions and the Sustainability Reporting Guidelines of the Global Reporting Initiative (version 3.0).

PRACTITIONER'S RESPONSIBILITY

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

We have not been engaged to provide assurance on amounts or other disclosures relating to the prior reporting periods presented in the Responsibility Reporting.

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

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

- Interviewing senior management of Lemminkäinen Corporation.
- Assessing how Lemminkäinen Group employees apply Lemminkäinen Corporation's reporting instructions and procedures.
- Visiting Lemminkäinen Corporation's Head Office as well as three sites in Finland.
- Interviewing employees responsible for collection and reporting of the information presented in the Responsibility Reporting at Lemminkäinen Group level and at the different sites where our visits took place.
- Inspecting relevant documents and systems for gathering, analysing and aggregating the information presented in the Responsibility Reporting as well as testing on a sample basis.
- Assessing the data consolidation process of the information presented in the Responsibility Reporting at Lemminkäinen Group level.

CONCLUSION

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the Responsibility Reporting has not been prepared, in all material respects, in accordance with the Reporting criteria. Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for corporate responsibility information. This independent assurance report should not be used on its own as a basis for interpreting Lemminkäinen Corporation's performance in relation to its principles of responsibility.

Helsinki, 27 February 2012

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

Maj-Lis Steiner
Director,
Authorised Public Accountant
Sustainability & Climate Change

*Translation from the Finnish original

GRI table and Global Compact index

Comparison with the guidelines of the global reporting initiative and the principles of global compact.

We have declared that our reporting is compliant with Application Level C+ of the GRI G3 Guidelines. PricewaterhouseCoopers Oy has checked our reporting and has confirmed it is compliant with Application Level C+. The index contains indicators reported in 2011. The GRI index can be found on our website www.lemminkainen.com/company/responsibility.

● Fully reported
● Partly reported
● Not reported

GLOBAL COMPACT	GRI	REPORTED INDICATORS	STATUS	PAGES	COMMENTS/REMARKS
		STRATEGY AND ANALYSIS			
	1.1	CEO's statement	●	11	
	1.2	Key impacts, risks and opportunities	●	12–15, 21–23, 43, 53, 57	
		ORGANISATIONAL PROFILE			
	2.1	Name of the organisation	●	2	
	2.2	Primary brands, products and services	●	15	
	2.3	Operational structure	●	15	
	2.4	Location of organisation's headquarters	●	83	www.lemminkainen.com/contact_information, the company's headquarters is located in Helsinki
	2.5	Number of countries and location of operations	●	15, 20	Number of major operating countries is 8: Finland, Sweden, Norway, Denmark, Russia, Estonia, Latvia and Lithuania
	2.6	Nature of ownership and legal form	●	68	
	2.7	Markets served	●	15	
	2.8	Scale of reporting organisation	●	3	
	2.9	Significant changes	●	6–7	
	2.10	Awards received in the reporting period	●	42	
		REPORT PARAMETERS			
	3.1	Reporting period	●	8	
	3.2	Date of the most recent report	●	8	
	3.3	Reporting cycle	●	8	
	3.4	Contact point for questions	●	83	www.lemminkainen.com/contact_information

Fully reported
Partly reported
Not reported

GLOBAL COMPACT	GRI	REPORTED INDICATORS	STATUS	PAGES	COMMENTS/REMARKS
		REPORT SCOPE AND BOUNDARY			
	3.5	Process for defining report content	Fully reported	8–9	The annual report is directed to shareholders, investors, analysts, media, customers, partners and personnel.
	3.6	Boundary of the report	Fully reported	8–9	
	3.7	Limitations on the report's scope or boundary	Fully reported	8–9	
	3.8	Basis for reporting subsidiaries and joint ventures	Fully reported	8–9	
	3.9	Data measurement techniques and bases of calculations	Fully reported	8–9, 55	
	3.10	Explanations of re-statements	Fully reported	9	
	3.11	Significant changes from previous reporting periods	Fully reported	8–9	
	3.12	GRI content index	Fully reported	60–65	
	3.13	Assurance policy and practice	Fully reported	9, 59	
		GOVERNANCE, COMMITMENTS AND ENGAGEMENT			
	4.1	Governance structure	Fully reported	68–69	
	4.2	Position of the Chairman of the Board	Fully reported	68–69	
	4.3	Independence of the Board members	Fully reported	68–69	
	4.4	Mechanisms for shareholder and employee consultation	Fully reported	68	
	4.5	Executive compensation and linkage to organisation's performance	Fully reported	72	
	4.6	Process for avoiding conflicts of interest	Fully reported	68	
	4.7	Process for determing expertise	Fully reported	66, 73	
	4.8	Implementation of mission and values statements; Code of Conduct	Fully reported	8,68	
	4.9	Procedures of the Board for overseeing risk management	Fully reported	68	Code of Conduct
	4.10	Processes for evaluating the Board's performance	Fully reported	68	
	4.11	Addressing precautionary approach	Fully reported	21–23	Risk management
	4.12	Voluntary charters and other initiatives	Fully reported	8	
	4.13	Memberships in associations	Not reported		
	4.14	List of stakeholder groups	Fully reported	48–49	
	4.15	Identification and selection of stakeholders	Fully reported		Stakeholders have been identified during the strategy process
	4.16	Approaches to stakeholder engagement	Fully reported	49	
	4.17	Key topics raised through stakeholder engagement	Fully reported	45, 50	

- Fully reported
- Partly reported
- Not reported

GLOBAL COMPACT	GRI	REPORTED INDICATORS	STATUS	PAGES	COMMENTS/REMARKS
		MANAGEMENT APPROACH AND PERFORMANCE INDICATORS			
		ECONOMIC PERFORMANCE			
		Management approach to economic responsibility	Fully reported	15, 24, 25, 48	
		Economic performance indicators			
	EC1	Economic value generated and distributed	Fully reported	48	
7	EC2	Risk and opportunities due to climate change	Fully reported	21	Financial implication of climate change not quantified in financial terms, www.lemminkainen.com/company/responsibility
	EC3	Coverage of the organisation's defined benefit plan obligations	Partly reported	52, 70, 115	
	EC4	Significant subsidies received from government	Fully reported	48	
1	EC5	Entry-level wage compared to minimum wage	Not reported		
	EC6	Spending on local suppliers	Not reported		
6	EC7	Local hiring	Not reported		
	EC8	Infrastructure investments provided for public benefit	Not reported		
	EC9	Significant indirect impacts	Not reported		
		ENVIRONMENTAL PERFORMANCE			
		Management approach to environmental responsibility	Fully reported	40	
		Environmental performance indicators			
8	EN1	Materials used by weight or volume	Not reported		
8–9	EN2	Recycled materials used	Not reported		
8	EN3	Direct energy consumption	Fully reported	41	
8	EN4	Indirect energy consumption	Partly reported	41	
8–9	EN5	Energy saved due to conservation and efficiency improvements	Not reported		
8–9	EN6	Initiatives to provide energy-effecient or renewable energy-based products and services	Not reported		
8–9	EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Not reported		
8	EN8	Total water withdrawal	Partly reported	41	
8	EN9	Water sources significantly affected	Not reported		
8–9	EN10	Percentage and total volume of water recycled and reused	Not reported		
8	EN11	Location and size of land holdings in biodiversity-rich habitats	Not reported		
8	EN12	Description of significant impacts of activieties, products, and services on biodiversity	Not reported		

- Fully reported
- Partly reported
- Not reported

GLOBAL COMPACT	GRI	REPORTED INDICATORS	STATUS	PAGES	COMMENTS/REMARKS
8	EN13	Habitats protected or restored	Not reported		
8	EN14	Managing impacts on biodiversity	Partly reported	42	
8	EN15	Species with extinction risk with habitats in areas affected by operations	Not reported		
8	EN16	Total direct and indirect greenhouse gas emissions by weight	Fully reported	43	
8	EN17	Other relevant indirect greenhouse gas emissions	Not reported		
7–9	EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Not reported		
8	EN19	Emissions of ozone-depleting substances	Not reported		
8	EN20	SOx, NOx, and other significant air emissions	Not reported		
8	EN21	Total water discharge	Not reported		
8	EN22	Total amount of waste	Fully reported	41	
8	EN23	Significant spills	Not reported		
8	EN24	Transported, imported, exported or treated hazardous waste	Not reported		
8	EN25	Water bodies and habitats affected by discharges of water	Not reported		
7–9	EN26	Mitigating environmental impacts of products and services	Not reported		
8–9	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Not reported		
8	EN28	Significant fines and sanctions for non-compliance with environmental regulations	Not reported		
8	EN29	Environmental impacts on transportation	Fully reported	40, 43	
7–9	EN30	Total environmental protection expenditures and investments	Not reported		
		SOCIAL PERFORMANCE			
		Management approach to social responsibility	Fully reported	50–53	
		Social performance indicators			
	LA1	Total workforce by employment type, employment contract and region	Partly reported	51, 52	
6	LA2	Breakdown of employee turnover	Not reported		
	LA3	Benefits to full-time employees that are not provided to temporary or part-time employees	Not reported		
1–3	LA4	Coverage of collective bargaining activities	Fully reported	52	
3	LA5	Minimum notice period regarding operational changes	Fully reported	52	In accordance with the Finnish codeterminated legislation.
1	LA6	Representation in joint management-worker health and safety committees	Fully reported	52	
1	LA7	Rates of injury, occupational diseases, lost days, fatalities and absenteeism	Partly reported	55	
1	LA8	Education and prevention programs regarding serious diseases	Partly reported	54, 56	

- Fully reported
- Partly reported
- Not reported

GLOBAL COMPACT	GRI	REPORTED INDICATORS	STATUS	PAGES	COMMENTS/REMARKS
1	LA9	Health and safety topics covered in formal agreements with trade unions	Not reported		
	LA10	Average hours of training per year per employee by employee category	Not reported		
	LA11	Programs for skills management	Partly reported	50	
	LA12	Employees receiving regular performance and career development reviews	Partly reported	50, 52	
1–6	LA13	Composition of governance bodies and breakdown of employees	Partly reported	52, 68	
1–6	LA14	Ratio of basic salary of men to women	Not reported		
		HUMAN RIGHTS			
		Management approach to human rights	Fully reported	8, 52, 54, 58, 68	
		Human rights indicators			
1–6	HR1	Investment agreements that include human rights clauses	Not reported		
1–6	HR2	Significant suppliers and contractors that have undergone human rights screening	Partly reported	58	
1–6	HR3	Employee training on policies and procedures concerning aspects of human rights	Not reported		
1–2, 6	HR4	Incidents of discrimination and actions taken	Not reported		
1–3	HR5	Actions to support freedom of association and collective bargaining in risk areas	Fully reported		Not actions threatening freedom of association or right to collective bargaining
1–2, 5	HR6	Measures taken to contribute to the elimination of child labour	Fully reported	8	Not actions involving significant risks of child labour
1–2, 4	HR7	Measures taken to contribute to the elimination of forced labour	Fully reported		Not actions involving significant risks of forced labour
1–2	HR8	Human rights-related training for security personnel	Not reported		
1–2	HR9	Incidents of violations involving rights of indigenous people and actions taken	Not reported		
		SOCIETY			
		Management approach to society	Fully reported	8, 21, 58, 68	
		Society indicators			
	SO1	Managing impacts of operations on communities	Not reported		
10	SO2	Number of business units analyzed for risks related to corruption	Not reported		
10	SO3	Employees trained in organisation's anti-corruption policies	Not reported		
10	SO4	Actions taken in response to incidents of corruption	Not reported		
1–10	SO5	Public policy positions and participation in public policy development and lobbying	Not reported		

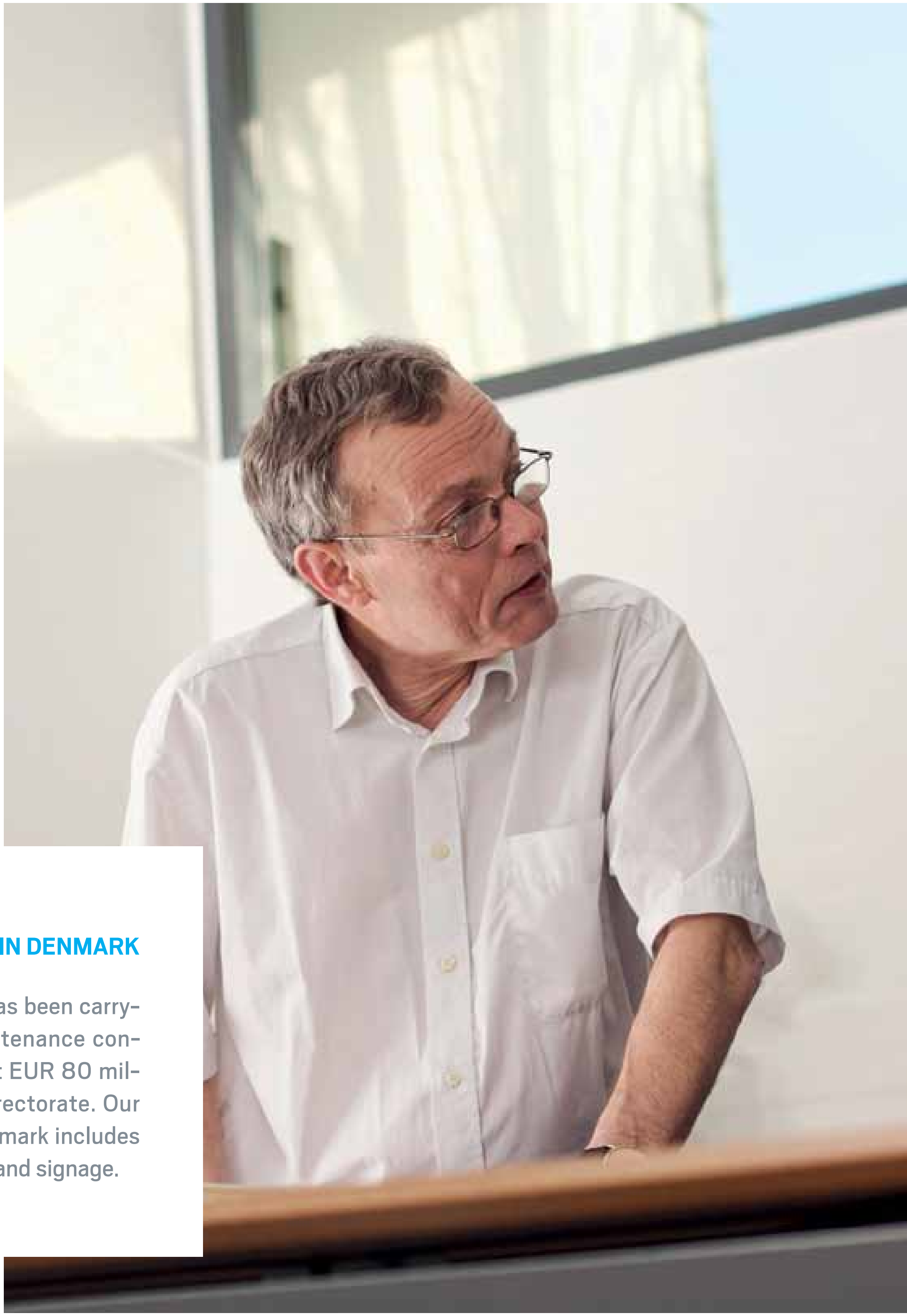
- Fully reported
- Partly reported
- Not reported

GLOBAL COMPACT	GRI	REPORTED INDICATORS	STATUS	PAGES	COMMENTS/REMARKS
10	SO6	Contributions to political parties, politicians and related institutions		8	
	SO7	Lecal actions for anti-competitive behavior, anti-trust, and monopoly practices		23	
	SO8	Fines and sanctions for non-compliance with laws and regulations			
		PRODUCT RESPONSIBILITY			
		Management approach to product responsibility		8, 17, 44–45, 68	
		Product responsibility indicators			
1	PR1	Assessment of healt and safety impacts of products			
1	PR2	Non-compliance with regulations concerning health and safety impacts of products			
8	PR3	Product and service information required by procedures			
8	PR4	Non-compliance with regulations concerning product and service information and labeling			
	PR5	Practices related to customer satisfaction and results of customer satisfaction surveys		45, 48	
	PR6	Adherence to marketing communications laws, standards and voluntary codes		44	
	PR7	Non-compliance with regulations and voluntary codes concerning marketing communications			
1	PR8	Complaints regarding breaches of customer privacy			
	PR9	Fines for non-compliance concerning the provision and use of products and services			

Encounters:

In Denmark, roadworks are also carried out at night

In order to disrupt traffic as little as possible, paving work is often carried out during the evening and night. This requires good planning and effective solutions. Good relations between partners make it easier to achieve optimal results.



MOTORWAY MAINTENANCE IN DENMARK

Since 2006, Lemminkäinen has been carrying out major motorway maintenance contracts – worth a total of about EUR 80 million – for the Danish Road Directorate. Our road maintenance work in Denmark includes milling, paving, road markings, and signage.


Peter Andersen from Danish Road Directorate (left), Claus Terkildsen from Lemminkäinen (right).

Projects on highly trafficked roads require **effective** solutions.

For the past five years, Lemminkäinen has been implementing major motorway maintenance projects for the Danish Road Directorate. Thanks to this, our asphalt production in Denmark has risen by about 50 per cent. Lemminkäinen's road maintenance work in Denmark has included milling, paving, road markings, and signage. In addition to maintenance, we've also paved new roads in Denmark.

Peter Andersen, who heads up motorway maintenance in Denmark, says that he's extremely satisfied with Lemminkäinen's implementation of major maintenance contracts. In particular, Andersen has been very impressed by our performance in a maintenance project for the highly trafficked Vejle Fjord Bridge. Lemminkäinen A/S's Managing Director, Claus Terkildsen, says that the high volume of traffic on the bridge required sensible, effective solutions to be planned in cooperation with the country's road directorate. As with many other motorway paving projects, work on the Vejle project was carried out between 6 p.m. and 6 a.m., so as to minimise disruption to traffic. Terkildsen says that night work is always challenging and requires good planning, especially when it comes to logistics, as roads must be open for use by the early morning.

Andersen first came across Lemminkäinen back in 1994, when we launched our operations in the Danish paving market. He describes Lemminkäinen as a responsible company that fulfils its obligations. Andersen also underlines the importance of personal relationships when implementing demanding projects. It's easy to work with a partner you trust, as you don't need to get every little thing in writing. Seamless cooperation saves both parties time and money.

According to Terkildsen, Lemminkäinen's contracts with the Danish Road Directorate have enhanced our operations, especially in terms of planning and procedures. He says that these demanding projects have forged team spirit and an 'up and at 'em' attitude at Lemminkäinen, which is also evident in our end results. Andersen firmly believes that cooperation between the Danish Road Directorate and Lemminkäinen will continue.

Corporate Governance

Lemminkäinen Corporation is a Finnish public listed company whose administration complies with the Finnish Corporate Governance Code and the company's articles of association. Lemminkäinen's corporate governance is also guided by the values and Code of Conduct approved by the Board of Directors.

Up-to-date information about Lemminkäinen's corporate governance can be found on our website at www.lemminkainen.com/investors > Management and Corporate Governance.

PRINCIPLES OF CORPORATE GOVERNANCE

Lemminkäinen is administered in accordance with current legislation, such as the Companies Act, Accounting Act and Securities Market Act, and the company's Articles of Association.

We also observe the rules and regulations of NASDAQ OMX Helsinki Ltd and the Financial Supervisory Authority, and adhere to the Finnish Corporate Governance Code. In accordance with Recommendation 54 of the Finnish Corporate Governance Code, we publish a separate Corporate Governance Statement, both as a stock exchange release and on our website at www.lemminkainen.com/investors > Management and Corporate Governance.

LEMMINKÄINEN'S ADMINISTRATIVE BODIES

The General Meeting is where shareholders exercise their voting rights and is Lemminkäinen's highest decision-making body. The General Meeting elects the Board of Directors, which in turn appoints the President & CEO. The Board and the President & CEO are responsible for the management of the Group. The Executive Board and other management personnel assist the President & CEO in his duties.

General Meeting

Lemminkäinen's Annual General Meeting is held annually within six months from the end of the previous financial year on a date determined by the Board of Directors.

The right to attend a General Meeting is restricted to those shareholders who are registered on the list of shareholders maintained by Euroclear Finland Oy on the record date, which is at least eight working days prior to the meeting. Shareholders must also register their attendance by the date stated in the invitation.

The Annual General meeting decides on all matters required in the provisions of the Companies Act, such as adoption of the Financial Statements, profit distribution, and granting discharge from liability to the members of the Board of Directors and the President & CEO. The AGM also elects the members of the Board of Directors and the auditors, and decides on their remuneration.

2011 Lemminkäinen Corporation's 2011 Annual General Meeting was held in Helsinki on 4 April 2011. 129 shareholders attended the meeting, representing about 69 per cent of the company's total number of shares and votes. The decisions of the Annual General Meeting are available in full at: www.lemminkainen.com/ Investors > Management and Corporate Governance > General meeting of shareholders

Board of Directors

Lemminkäinen Corporation's Annual General Meeting elects each year at least four and at most eight members to serve on the Company's Board of Directors, which elects the Chairman and Vice Chairman from among the members. Board members' term of office ends at the conclusion of the first Annual General Meeting held after their election.

The Board of Directors decides on matters of principle and any issues that would have broad-ranging implications for the company. The Board appoints and dismisses the President & CEO, supervises his or her actions, and decides on his or her remuneration and other benefits. The Board also approves our Group's strategy, operating principles and guiding values, and ensures that they are up-to-date and correctly implemented. The Board also ensures that the Group's risk management principles have been defined and conducts an annual examination to ensure that key business risks have been identified and are being systematically monitored. Lemminkäinen's President & CEO attends the Board's meetings to present matters for the Board's consideration, as do the CFO and the Executive Vice President of Corporate Business Development, who also acts as the Secretary of the Board. Other members of the Executive Board and the company's management attend meetings as required.

2011 The Board of Directors met 11 times in 2011 with an attendance rate of 92 per cent. The Board consisted of: Berndt Brunow (Chair), Juhani Mäkinen (Vice Chair), Mikael Mäkinen, Kristina Pentti-von Walzel, Heikki Räty and Teppo Taberman. One of the Board's most important areas for concern in 2011 was ensuring Lemminkäinen's profitability. The Board met to discuss updates to the Group's strategy and ways to guarantee sufficient funding. In 2011, the Board also handled strategic acquisitions, organisational restructuring, and issues relating to the development of Lemminkäinen's operating model.

The Board of Directors carried out a self-assessment of its work. Amongst other things, the Board assessed 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. All members of the Board are independent of the company. Berndt Brunow, Juhani Mäkinen, Mikael Mäkinen, Heikki Räty and Teppo Taberman are independent of major shareholders.

BOARD COMMITTEES

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

Audit Committee

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

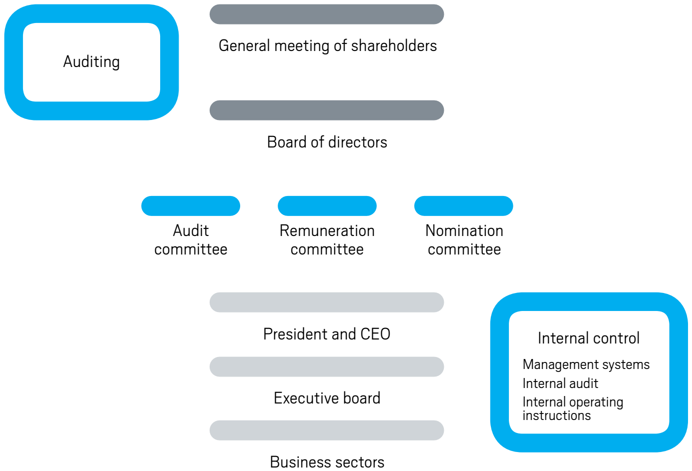
The Audit Committee deals with reports and plans prepared for the committee by the internal audit function and the auditor. It also assesses the independence of the statutory auditor or firm of authorised public accountants, and in particular the provision of ancillary services to the audited firm. The Audit Committee carries out preparatory work on the election of the auditor for the Board of Directors' consideration.

The Audit Committee consists of a Chairman and two members appointed by the Board. The company's auditor, internal auditor and management representatives are also invited to meetings. All committee mem-

THE BOARD OF DIRECTORS' MOST IMPORTANT TASKS

- To approve the Group' strategy, operating principles and guiding values, and to ensure that they are up-to-date and correctly implemented
- To approve Group-company budgets as part of the consolidated budget
- To make decisions concerning the Group's key investment and financing activities
- To ensure that the Group's risk management principles have been defined and to conduct an annual examination to ensure that key business risks have been identified and are being systematically monitored
- To ensure that the Group has a well-functioning system of internal controls
- To make decisions on whether to divest existing businesses or to expand into new business areas in accordance with the company's line of business as defined in its Articles of Association
- To appoint and dismiss the President and CEO and his or her immediate subordinates
- To decide, on the basis of a proposal made by the Remuneration Committee, on the principles of the Group's incentive-based remuneration systems and on the salaries, incentives and other benefits of the President and CEO and Group Executive Board

LEMMINKÄINEN GROUP'S CORPORATE GOVERNANCE AND MANAGEMENT



bers must be competent in the Audit Committee's task domain, and at least one member must have expertise in accountancy, bookkeeping or auditing.

2011 The Audit Committee met four times in 2011 with an attendance rate of 100 per cent. The Audit Committee consisted of Heikki Räty (Chair), Juhani Mäkinen and Kristina Pentti-von Walzel. In addition to regular items, the Audit Committee also considered the Group's funding and risk management policies and the comparison figures drawn up in preparation for the 2012 business sector change. The Committee also considered impairment testing.

Nomination Committee

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

2011 The Nomination Committee met once in 2011 with an attendance rate of 100 per cent. The Nomination Committee consisted of Berndt Brunow (Chair), Kristina Pentti-von Walzel and Teppo Taberman. The Committee made a proposal containing a list of proposed nominees for Lemminkäinen's Board and a recommendation for the fees to be paid to both Board and Committee members. The General Meeting approved the Nomination Committee's proposal, which was presented at the Annual General Meeting held on 4 April 2011.

Remuneration Committee

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

2011 The Remuneration Committee met twice in 2011 with an attendance rate of 100 per cent. The Remuneration Committee consisted of Mikael Mäkinen (Chair), Berndt Brunow and Teppo Taberman. The Remuneration Committee considered the short- and long-term incentives from 2010 and the elements and earnings criteria for short- and long-term incentives in 2011. It also decided which executives would fall under the scope of the 2011 management incentive system. The Committee drew up a list of recommendations, which was approved by the Board of Directors. The Remuneration Committee also received a review of the current situation in HR.

GROUP MANAGEMENT

President & CEO

The President & CEO is responsible for the Group's routine administration and business planning. The President & CEO undertakes the execution of measures approved by the Board of Directors and handles preparations for any measures that are strategically important at Group level. The President & CEO also ensures that the Group has adequate management resources and that its administration is appropriate and complies with the law.

Executive Board

The Lemminkäinen Group's Executive Board comprises the President & CEO of the parent company, the executive vice presidents of our business sectors, the Executive Vice President of Human Resources and ICT, the Executive Vice President of Corporate Business Development, and the Chief Financial Officer. The President & CEO is Chairman of the Executive Board and appoints its secretary.

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

2011 In 2011, the members of the Executive Board were Timo Kohtamäki, President and CEO; Jukka Terhonen, Executive Vice President, Building Construction; Henrik Eklund, Executive Vice President, Infrastructure Construction; Marcus Karsten, Executive Vice President, Technical Building Services; Tiina Mellas, Executive Vice President, Human Resources and ICT; Tiina Mikander, Executive Vice President, Corporate Business Development; and Robert Öhman, CFO. Kati Suurmunne, Senior Vice President, Communications and Marketing, was Secretary of the Board of Directors.

In addition to his other duties, Marcus Karsten, Executive Vice President, Technical Building Services, was responsible for the management and development of Group-wide customer relations. Jukka Terhonen, Executive Vice President, Building Construction was responsible for residential construction in Russia, developing a Group-wide renovation concept, and enhancing procurements. Developing Scandinavian infrastructure construction was the responsibility of Henrik Eklund, Executive Vice President, Infrastructure Construction.

Tiina Mellas was responsible for the management and development of the Group's human resources and ICT.

Tiina Mikander, Executive Vice President, Corporate Business Development, was responsible for developing strategic business planning and management systems.

CFO Robert Öhman's areas of responsibility were Finance, Treasury, Mergers and Acquisitions, Investor Relations and Legal Affairs.

Insider Administration

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

Insiders subject to disclosure requirements are the members of Lemminkäinen's Board of Directors, the President & CEO and the chief auditor of our accounting firm. We have also defined the members of Lemminkäinen's Executive Board as insiders subject to disclosure requirements. The share ownership of all insiders subject to disclosure requirements is public.

We also maintain permanent company-specific insider registers of people who regularly receive inside information due to their position or duties. Their share ownership is not public. When necessary, we also keep registers of project-specific insiders.

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

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 our audit encompasses the Group's accounting, administration, Financial Statements and Board of Directors' report for each accounting period. The Auditor makes regular reports to the Audit Committee and submits an Auditors' Report to the Annual General Meeting. The Auditors' Report contains a statement as to whether the Financial Statements and the Board of Directors' report give a true and fair view, as defined in the rules governing financial reporting, of the Group's 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.

2011 Lemminkäinen's auditor was PricewaterhouseCoopers Oy, a firm of authorised public accountants, with Kim Karhu as chief auditor in 2011. PricewatehouseCoopers Oy has been Lemminkäinen's auditor since 2004. In 2010, Lemminkäinen invited bids from firms of authorised public accountants. As a result, the 2011 Annual General Meeting re-elected PricewaterhouseCoopers Oy as our auditor, in accordance with a proposal made by the Board of Directors.

In 2011, we paid our auditor EUR 631,781 (2010: EUR 857,347) in auditing fees and EUR 269,601 in consultancy fees (EUR 389,107).

Internal control

Internal controls seek to ensure that the Group's operations are efficient and profitable, that reporting is consistent and reliable, and that the Group's operating principles and all applicable legislation and regulations are observed.

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

The President & CEO is responsible for the practical organisation of internal controls. He or she ensures that supervision of the company's bookkeeping and asset management has been properly arranged.

Our business is organised into business sectors whose executive vice presidents report to the President & CEO. The Group's other directors and managers are responsible for internal controls within their own areas of responsibility.

We control and monitor our functions in order to ensure their efficiency and appropriateness. Our key means are the financial reports and business reviews prepared by management at business area, business sector and Group level. Our internal controls over financial reporting aim to ensure that the interim reports and Financial Statements we publish are prepared in accordance with the accounting and reporting principles adopted by Lemminkäinen, and that they are reliable. The internal control function also monitors financial reporting to ensure that it is handled in accordance with set timetables. Lemminkäinen's financial reporting processes and risk management are described in greater detail in the Corporate Governance Statement, which is available on our website: www.lemminkainen.com/Investors > Management and Corporate Governance.

Our most significant risks and their management are described in greater detail on our website and on pages 21–23 of the Annual Report.

Legal affairs are coordinated by a Group-level unit in order to promote consistent practices and to ensure the management of legal risks. Our personnel receive regular training in legal and contractual matters. We have also drawn up detailed guidelines for different areas, such as competition law and insider issues, and provide training on them. Monitoring compliance with these guidelines falls under the scope of our line operations and management, and we also provide training on them.

Lemminkäinen's shared values and Code of Conduct define expectations for how personnel should act and how we should interact with our partners and stakeholders. The Group's values, Code of Conduct and strategy are closely linked, and their practical application is a key part of leadership and everyday management.

Internal Audit

The internal audit unit assists the Board of Directors in its supervisory role by obtaining information on the adequacy and functionality of risk management and internal controls in the Lemminkäinen Group and its business units. The internal audit unit assesses the economy and efficiency of resource usage, the reliability of reporting, the protection and security of assets, and compliance with regulations, operating principles and guidelines. Its operating principles are defined in the internal auditing instructions approved by the Board of Directors.

The internal audit unit is subordinate to the Board of Directors and operates under the supervision of the President & CEO. It consists of an audit manager and as many internal auditors as are required for the unit to carry out its work. Internal auditing resources are strengthened as required by procuring internal auditing services from external service providers.

Remuneration

Remuneration – Board of Directors

Lemminkäinen Corporation's 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. Board members' term of office ends at 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.

2011 The 2011 Annual General Meeting decided that the Chairman of the Board would be paid a fee of EUR 10,000 per month (2010: EUR 10,000) and Board members would each receive EUR 3,000 per month (EUR 3,000). Members of the Board also received an attendance fee of EUR 500 per meeting (EUR 500).

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

Remuneration – Management

On the basis of a proposal submitted by the Remuneration Committee, Lemminkäinen's Board of Directors decides on the salaries, incentive schemes and other benefits received by the President & CEO and the Executive Board.

As part of Lemminkäinen's strategy renewal process in 2009, we also renewed our management remuneration and incentive policy to aid developments in management. Remuneration for the Group's Executive Board has been based on this policy since 2009, and was extended to cover all management positions in 2010.

According to the policy, the pay of the President & CEO as well as the members of the Group's Executive Board and other management personnel consists of fixed basic pay, payments in kind, other benefits, as well as short- and to some extent long-term rewards.

A fixed basic salary denotes monthly monetary compensation, which is determined by the nature of the position as well as the person's experience and performance. In addition to meal benefits and the use of a company car and mobile phone, management personnel also have extended insurance coverage for accidents and travel during their leisure time. Total remuneration therefore consists of both basic salary and benefits.

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

Short-term incentives

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

2011 In 2011, management's performance-related bonuses were based on the Lemminkäinen Group's profit before taxes and the successful implementation of the Group's strategic programme. In addition to these criteria, the performance-related bonuses for

MEMBERS OF THE BOARD AND BOARD'S COMMITTEES	Independence of the company	Independence of significant shareholders	Audit Committee	Nomination Committee	Renumeration Committee
Berndt Brunow, chairman	Yes	Yes		Chairman	Member
Juhani Mäkinen, vice chairman	Yes	Yes	Member		
Mikael Mäkinen, member	Yes	Yes			Chairman
Kristina Pentti-von Walzel, member	Yes	No	Member	Member	
Heikki Räty, member	Yes	Yes	Chairman		
Teppo Taberman, member	Yes	Yes		Member	Member

BOARD MEMBER MEETING PARTICIPATION	Board	Audit Committee	Nomination Committee	Renumeration Committee
Berndt Brunow	11/11		1/1	2/2
Juhani Mäkinen	11/11	4/4		
Mikael Mäkinen	10/11			2/2
Kristina Pentti-von Walzel	11/11	4/4	1/1	
Heikki Räty	11/11	4/4		
Teppo Taberman	7/11		1/1	2/2

the executive vice presidents of Lemminkäinen's business sectors were also based on each sector's result and the successful implementation of its own business plan. The performance-related bonuses for the Executive Board were based on implementation of Group's business plan. The achievement of the targets of performance-related bonuses is monitored at least every six months.

In 2011, the President & CEO's maximum performance-related bonus was 80 per cent of his annual salary. The maximum percentage for performance-related bonuses for other members of the Group's Executive Board was 60 per cent of their annual salary in 2011.

Long-term incentives

Lemminkäinen's long-term incentive plan is a share-based scheme comprising three one-year earning periods: the calendar years 2010, 2011 and 2012. The commitment period is two years. The Board of Directors decides on the earning criteria for each period as well as on the targets to be established at the beginning of each earning period. The achievement of earning criteria is monitored at least once every six months.

The scheme's target group consists of the President & CEO, the members of Lemminkäinen's Executive Board, and about 35 others. The Board of Directors decides on the distribution of shares to key personnel.

2011 In 2011, the earning criteria for the long-term incentive plan were targets set for the Group's equity ratio and return on investment.

Supplementary pension plans

As of 1 January 2010, supplementary pension plans for the President & CEO and Executive Board have been based on a defined contribution scheme and obtaining a paid-up policy. Contributions are calculated as a percentage of annual salary. Executive Board members are entitled to retire upon reaching 60 years of age (old system) or 63 years of age (new system, as of 15 September 2011).

2011 In 2011, EUR 1.2 million was paid into defined contribution pension plans for the President & CEO and Executive Board members. EUR 0.2 million was paid into defined benefit schemes.

President & CEO

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

The President & CEO's pension is determined according to the terms of the Group's supplementary pension plan for management. The President & CEO's plan is therefore based on a defined contribution scheme and obtaining a paid-up policy. The President & CEO is entitled to retire upon reaching 60 years of age.

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

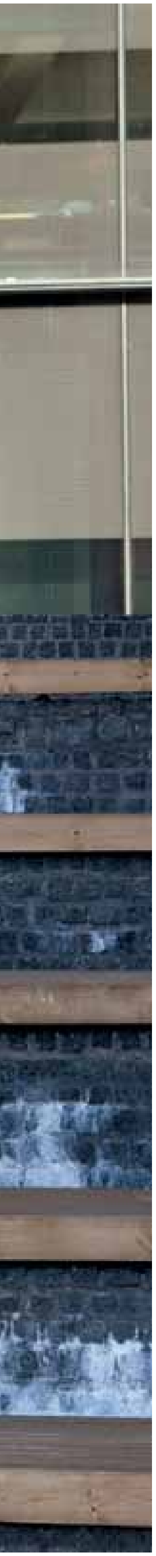
MONTHLY REMUNERATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS (€)	2011	2010
Berndt Brunow	120,000	120,000
Mikael Mäkinen	36,000	36,000
Kristina Pentti-von Walzel	36,000	36,000
Heikki Räty	36,000	36,000
Teppo Taberman	36,000	36,000
Juhani Mäkinen	36,000	36,000
Total	300,000	300,000

REMUNERATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS (€)	2011	2010
Berndt Brunow	6,000	7,000
Mikael Mäkinen	5,500	6,500
Kristina Pentti-von Walzel	8,000	10,000
Heikki Räty	9,500	10,000
Teppo Taberman	4,500	9,000
Juhani Mäkinen	8,000	9,500
Total	41,500	52,000

SALARIES AND BENEFITS PAID TO MEMBERS OF EXECUTIVE BOARD (€)	2011	2010
Salary	1,101,115	1,364,672
Benefits	47,372	62,480
Short-term reward scheme	75,481	241,112
Long-term reward scheme	-	91,703
Total	1,223,968	1,759,967

SALARIES AND BENEFITS PAID TO THE PRESIDENT AND CEO (€)	2011	2010
Salary	438,941	407,408
Benefits	18,966	18,490
Short-term reward scheme	33,000	132,000
Long-term reward scheme	-	88,320
Total	490,907	646,217

Board of Directors



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

Chairman of the Board since 2008 and a member of the Board since 2002. Chairman of the Nomination Committee and a member of the Remuneration Committee. Independent of the Company and its major shareholders.

Primary work experience
- Oy Karl Fazer Ab, Managing Director 2002–2007
- Sanitec Corporation, Managing Director 2000–2002
- Over 20 years of experience in executive positions in the forest industry both in Finland and abroad

Key positions of trust
- Chairman of the Board of Directors: Oy Karl Fazer Ab
- Vice Chairman of the Board of Directors: UPM Kymmene Corporation
- Member of the Board of Directors: Hanken School of Economics, Hartwall Capital Ltd. and Oy Nautor Ab

MIKAEL MÄKINEN, b. 1956, M.Sc.

Member of the Board of Directors since 2009. Chairman of the Remuneration Committee. Independent of the Company and its major shareholders.

Primary work experience
- Cargotec Corporation, President & CEO 2006–
- Wärtsilä Corporation, Group Vice President, Ship Power 1999–2006; Wärtsilä NSD Singapore, Managing Director 1997–1998; Marine, Wärtsilä SACM Diesel, Vice President 1992–1997

Key positions of trust
- Chairman of the Board of Directors: International Chamber of Commerce ICC Finland
- Member of the Board of Directors: Federation of Finnish Technology Industries, Stora Enso Corporation and Finpro

HEIKKI RÄTY, b. 1953, M.Sc. (Econ.)

Member of the Board of Directors since 2009. Chairman of the Audit Committee. Independent of the Company and its major shareholders.

Primary work experience
- Helectron Oy Ab, Managing Director 2009–
- EHA-Invest GmbH, Managing Director 2008–2009
- Myllykoski Corporation, Deputy CEO 1998–2008; CFO 1994–1997

Key positions of trust
- Chairman of the Board of Directors: My Fastigheter Holding Ab
- Member of the Board of Directors: Saxo Oy, Pato Oy, Mekalasi Oy, Electrosonic Group Oy Ab and Audico Holding Oy

JUHANI MÄKINEN, b. 1956, Counsellor of Law

Member and Vice Chairman of the Board of Directors since 2008. Member of the Audit Committee. Independent of the Company and its major shareholders.

Primary work experience
- Hannes Snellman Attorneys Ltd, Partner 1985–2010
- Scandinavian Law Office, Rotterdam, Netherlands, Resident lawyer 1982–1984

Key positions of trust
- Chairman of the Board of Directors: Oy Forcit Ab
- Vice Chairman of the Board of Directors: Componenta Oyj
- Member of the Board of Directors: Oy Karl Fazer Ab, Viking Malt Oy and Virala Oy Ab

KRISTINA PENTTI-VON WALZEL, b. 1978, M.Sc. (Econ.), B.Sc. (Pol.Sc.)

Member of the Board of Directors since 2007.
Member of the Nomination Committee and the Audit Committee. Independent of the Company and non-independent of its major shareholders.

Primary work experience
- Hanken School of Economics, Campaign Director/ fundraising, 2008–
- Work experience placements in the Ministry for Foreign Affairs of Finland as well as in various positions in personnel management and the financial services industry for companies such as Mandatum Stockbrokers Ltd and Fortum Corporation, 1999–2006

Key positions of trust
- Member of the Board of Directors: Aspo Plc, Foundation for Economic Education, CMI
- Crisis Management Initiative and Finnish Family Firms Association

TEPPO TABERMAN, b. 1944, M.Sc. (Econ.)

Member of the Board of Directors since 1997 and Vice Chairman of the Board of Directors, 1998–2008. Member of the Remuneration Committee and the Nomination Committee. Independent of the Company and its major shareholders.

Primary work experience
- Professional board member and economic advisor, 1995–
- Twenty years of experience in the banking industry, including deputy managing directorships in two different banks

Key positions of trust
- Member of the Board of Directors: Rettig Group Oy Ab and Ingman Group Oy Ab

From left to right:
Teppo Taberman, Juhani Mäkinen, Kristina Pentti-von Walzel,
Heikki Räty, Mikael Mäkinen, Berndt Brunow

Updated 9 February 2012

Executive Board

TIMO KOHTAMÄKI, b. 1963, Lic. Tech.

President and CEO 2009–
Group employee since 1996

Primary work experience
- Lemminkäinen Infra Oy, Managing Director 2008
- Lemcon Ltd, Head of Infra Unit 2000–2007; Construction Manager 1996–1999
- Viatek Yhtiöt Oy/Geoinsinöörit Oy, Project Manager 1989–1996

Positions of trust
- Chairman of the Board of Directors: Confederation of Finnish Construction Industries (RT)
- Member of the Board of Directors: Confederation of Finnish Industries EK
- Member of the Supervisory Board: Ilmarinen Mutual Pension Insurance Company
- Member of the Advisory Board: Nordea Bank
- Member of the Delegation: Helsinki Region Chamber of Commerce

HENRIK EKLUND, b. 1961, M.Sc. (Eng.)

Executive Vice President, International Operations 2012–
Executive Vice President, Infrastructure Construction 2009–2011
Group employee since 1989

Primary work experience
- Lemminkäinen International Ltd, Managing Director 2012–
- Lemminkäinen Infra Oy, Managing Director 2009–2011
- Lemminkäinen Infra Oy, Head of Paving and International Operations 2008
- Lemminkäinen Corporation, Head of the Paving and Mineral Aggregates Division 2005–2007
- Lemcon Ltd, Export Director 2001–2004
- Lemminkäinen Construction Ltd, Project Planning Manager, Project Manager, Regional Manager 1995–2000

Positions of trust
- Member of the Supervisory Board: Etera Mutual Pension Insurance Company
- Member of the Board of Directors: Infra Association

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

Executive Vice President, Technical Building Services 2010–
Group employee since 2002

Primary work experience
- Lemminkäinen Talotekniikka Oy, Managing Director 2010–
- Tekmanni Service Oy, Managing Director 2004–2009; Marketing and Development Director 2002–2004
- Siemens Group, a variety of managerial positions 1992–2002

Positions of trust
- Chairman of the Board of Directors: Oy Victor Ek Ab and STTA ry
- Member of the Board of Directors: LVI-TU
- Member of the Delegation: Stiftelsen för Åbo Akademi

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

Executive Vice President, HR and ICT, 2010–
Group employee since 2009

Primary work experience
- Lemminkäinen Corporation, Director, Human Resources, 2009–2010
- TietoEnator, HR Centre, Vice President, 2005–2008
- TietoEnator, Processing & Network, Director for Business Development, 2004–2005; Head of Profit Unit, 1999–2004; Head of Department, 1997–1998

TIINA MIKANDER, b. 1967, Master of Laws, MBA

Executive Vice President, Corporate Business Development 2010–
Group employee since 1998

Primary work experience
- Lemminkäinen Corporation, Director, Legal Affairs 2005–2010; Legal Counsel 1998–2005
- City of Kauniainen, city clerk and administration manager 1997–1998
- Loviisa District Court, judicial trainee and locum district court judge 1994–1996

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

Executive Vice President, Building Construction 2009–
Group employee since 2001

Primary work experience
- Lemminkäinen Talo Oy, Managing Director 2009–
- Rakennustoimisto Palmberg Oy, Managing Director 2001–2009
- YIT Group, Head of Building Construction, Area Manager in Tampere-Vaasa, Head of housing production in Helsinki Metropolitan Area, Managing Director (Otto Wuorio Oy), Production Manager (Otto Wuorio Oy), Design-and-build Contract Manager (Otto Wuorio Oy) 1985–2001

Positions of trust
- Chairman: Tampere Chamber of Commerce & Industry, Confederation of Finnish Construction Industries (RT), Housing Group
- Member of the Board of Directors: Building Construction Association (TRT ry) and SFHP (Suomi-Finland Housing and Planning Association)

ROBERT ÖHMAN, b. 1959, M.Sc. (Econ.)

Chief Financial Officer, 2009–
Group employee since 2009

Primary work experience
- Sponda Plc, Chief Financial Officer, 2006–2009
- Vattenfall Oy, Finance Director, 1996–2006
- Waste Management Finland Oy, Finance Director, 1992–1996
- Reuters Ges.m.b.H, Finance and Administration Manager, 1990–1992
- Reuters Suomi Oy Ab, Finance Manager, 1986–1990

Positions of trust
- Member of the Board of Directors: Etera Mutual Pension Insurance Company

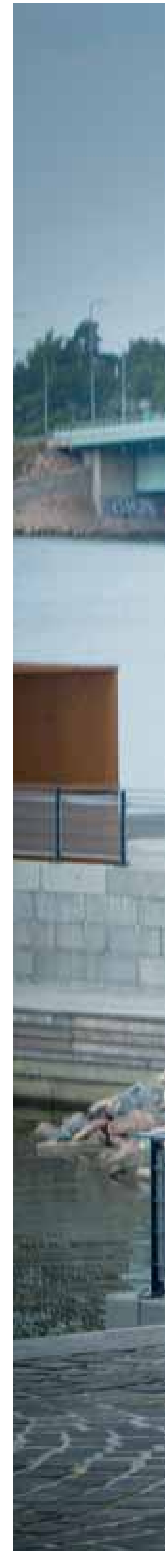
HARRI KAILASALO, b. 1969, M.Sc. (Eng.), eMBA

Executive Vice President, Infrastructure Construction 2012–
Group employee since 1995

Primary work experience
- Lemminkäinen Infra Oy, Managing Director 2012–
  Lemminkäinen Infra Oy, Senior Vice President of Business Operations 2011–
- Lemminkäinen Infra Oy, Senior Vice President, Civil Engineering 2009–2011
- Lemminkäinen Infra Oy/Lemcon Ltd, Civil Engineering, Construction Manager 2000–2009
- Lemcon Ltd, Civil Engineering, Production Manager 1998–2000

Positions of trust
- Vice Chairman of the Board of Directors, The Finnish Association of Civil Engineers (RIL)

Harri Kailasalo joined the Executive Board on 1 Jan 2012 when Henrik Eklund started as Executive Vice President of International Operations. Eklund will continue as a member of the Executive Board.



From left to right:
Marcus Karsten, Tiina Mikander, Jukka Terhonen, Timo Kohtamäki,
Tiina Mellas, Henrik Eklund, Robert Öhman.

KEKKILÄ OY

Since 2011, Lemminkäinen has been responsible for electrical and fire safety monitoring at Kekkilä Oy's ten production facilities in Northern Europe. The production facilities are inspected regularly, and the results are made available to Kekkilä via an online service included in the package.

Matti Tyster from Kekkilä (right), Ari Kurri from Lemminkäinen (left).

Encounters:

Ensuring fire safety guarantees our customer's ability to operate

Systematic monitoring enables more **reliable** management of fire risks.

Ensuring fire safety at production facilities with a high risk of fire requires Lemminkäinen's experts to carry out systematic, pre-emptive monitoring. Employing external fire experts enables our customer to focus on their core competencies.

Since 2011, Lemminkäinen has been responsible for monitoring electrical and fire safety at Kekkilä Oy's ten production facilities in Northern Europe. Lemminkäinen's technical building system experts conduct annual fire safety inspections at the facilities. Reports on these inspections are made accessible to Kekkilä via an online service.

According to Matti Tyster, who heads up Kekkilä's supply chain, and Ari Kurri, Lemminkäinen's product manager, the idea for transferring electrical and fire safety monitoring to Lemminkäinen came about during co-operation on a rebuilding project, after a fire at Kekkilä's production facility in Eurajoki. Tyster says that Lemminkäinen offered both a comprehensive service package and the equipment and systems expertise that Kekkilä lacked. According to Kurri, Lemminkäinen's experts must have certain qualifications and at least five years of experience in comparable tasks. Tyster says that employing Lemminkäinen's experts enables Kekkilä to focus on its own business and core competencies.

Peat is the main raw material used in the production of Kekkilä's substrates, and its processing significantly increases the risk of fire. Effective monitoring is employed to ensure that fire does not break out, thereby safeguarding personnel safety, uninterrupted production, and delivery reliability. Tyster says that Lemminkäinen's systematic, pre-emptive operating model is an effective way of identifying potential risks.

In Tyster's opinion, a partner must be able to work in a variety of surroundings without disturbing their customer's operations. It is also important for the results of inspections to be presented in an easily understandable manner. Kurri says that Lemminkäinen's electrical and fire safety service has not caused any extra work for Kekkilä personnel, as Lemminkäinen has independently handled all of the monitoring, reporting, and drawing up of suggested measures. All that Kekkilä has to do is monitor the reports and, when necessary, decide what action to take.

Tyster says that Kekkilä has been satisfied with both cooperation with Lemminkäinen and the usefulness of the service. In his opinion, the costs are quite reasonable considering the reduced fire risk versus the potential expenses of a fire.

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Board of directors report 2011

OPERATING ENVIRONMENT IN 2011

Finland

The operating environment for construction was stable during the first half of the year, but in the autumn economic uncertainty increased markedly. However, weakened consumer confidence did not impact in residential unit sales, which remained steady during the entire year. Low interest rates, insignificant growth of unemployment, and the population shift to growth centres have maintained demand for new housing.

After two consecutive years of decline, there was an upturn in the construction of business and commercial premises in 2011. The total annual volume of business premise construction still lagged behind the peak year of 2008 by approximately one fifth. Trading in real estate slowed down towards the end of the year, and the yield requirements for sites, particularly outside growth centres, were up slightly. A great number of construction projects were being planned. Finding tenants, however, proved to be challenging, and this slowed down project initiation. After the 2008 recession, the annual number of start-ups in industrial construction has remained below the long term average.

The total volume of infrastructure construction decreased for the third year running. The government and municipalities have cut their allocations for basic road maintenance and road investments. The market for rock engineering was good. Demand was maintained particularly by underground rock excavation works in growth centres and mine investments in Northern Finland. New building construction projects kept the demand for geotechnical engineering works, concrete construction and mineral aggregates at a good level. The volume of paving works remained close to the level of the previous year despite the price increase for bitumen products.

Growth in building construction increased the demand for technical building projects as well as for maintenance and servicing. Demand for electrical contracting was down after the summer, but regional variations were considerable. As for technical building system renovation projects, the order book grew due to piping renovations in residential buildings, repairs improving the energy efficiency of buildings, and changes in heating methods.

Other markets

In Sweden, highly active mining operations and major tunnel projects have kept rock engineering contractors busy in 2011. The state of Sweden has allocated considerable resources to the development of the country's infrastructure, thus increasing the total volume of infrastructure construction for several years running. The building construction market situation in Sweden is good for renovation projects in particular.

The volumes of infrastructure construction in Norway and Denmark grew by approximately 5 per cent in 2011. In both countries, the paving season was better than in the previous year. Demand for infrastructure construction was also boosted by the growth of the energy supply sector, and several ongoing road and rail projects.

The economies of the Baltic countries started out on the road to recovery, but construction was still muted. The number of road construction and renovation projects exceeded that of the previous year. In Estonia, demand for infrastructure construction grew faster than in other Baltic countries.

According to the estimates of Euroconstruct, the volumes of new residential construction in St. Petersburg, Russia, grew by approximately 10 per cent compared to the previous year, with the value of the business reaching EUR 2.8 billion. Prices for new apartments were up by approximately 8 per cent. The demand for residential construction in Russia was supported particularly by the growth in consumer purchasing power, and the better availability of consumer mortgages. More and more apartment buyers finance their apartment with a mortgage, and the numbers of granted mortgages showed a considerable increase.

STRATEGY IMPLEMENTATION IN 2011 AND UPDATES TO THE STRATEGY

Lemminkäinen published its current strategy for the period 2010–2013 in November 2009. In October 2011, the company updated its strategy and confirmed its financial targets.

The key goals of Lemminkäinen's strategy are profitable growth and strengthening of the Group's financial position. The growth target for the company's net sales is an average of 10 per cent by the end of the 2010–2013 strategic period. The Group's other financial target levels are return of investment over 18 per cent, and equity ratio of at least 35 per cent. The company seeks to issue dividends corresponding to at least 40 per cent of the result of the financial period.

FINANCIAL TARGET LEVELS AND THEIR ACHIEVEMENT IN 2011

LEMMINKÄINEN'S FINANCIAL TARGETS	Target level	Actual in 2011	Actual in 2010
Return on investment	over 18 per cent at the end of the strategic period	10.8%	7.0%
Equity ratio	at least 35 per cent	30.8%	35.0%
Growth in net sales	10 per cent on average by the end of the strategic period	24%	-4%
Payment of dividend	40 per cent of the result of the financial period	28% 1)	over 100%

1) Board of Directors' proposal on dividends

In 2011, the net sales of Lemminkäinen grew by 24 per cent, and the company more than quadrupled its pre-tax profit. At 10.8 per cent, return on investment had also improved on the previous year. Profitability does not, however, meet set targets yet, but the company is clearly moving in the right direction. Strategy updates in the autumn of 2011 and the efficiency programme set up by Lemminkäinen are initiatives whose primary goal is to improve the Group's profitability. At 30.8 per cent, equity ratio was weaker than in the previous year. This was partly due to the growth of Lemminkäinen's business volumes and the capital invested in own residential development. Proposed dividends for 2011 are EUR 0.50 per share, equalling 28.3 per cent of the company's result for the financial period. In 2010, when the result of the financial period was EUR 0.02 per share, the company paid out dividends at EUR 0.50 per share.

Key points of the autumn 2011 strategy update

On 10 October 2011, Lemminkäinen published its specified strategic focus for the period ending in 2013. The company's key strategic targets and financial target levels remained unchanged.

In business operations, focus will shift to more profitable segments. In Building Construction, Lemminkäinen aims to increase the share of operations accounted for by its own development to over 50 per cent of the sector's net sales (about 30 per cent in 2011) and strengthen the company's market share in residential construction. Maintenance and servicing for technical building systems will also be bolstered. The goal is to raise the service business share of the Technical Building Services' net sales to approximately 50 per cent (about 30 per cent in 2011).

Lemminkäinen looks for growth in its international operations, in particular. In St Petersburg, the company seeks to start up the construction of about 1,000 residential units annually. The company intends to increase net sales from infrastructure construction in Norway, Denmark and Sweden by a total of about EUR 100 million in 2012–2013. In addition to the paving business, Lemminkäinen is seeking growth from special contracting in infrastructure construction, in which the Company has achieved a good competitive position in, for example, the growing Nordic market for rock engineering and geotechnical engineering works. Growth can also be accelerated through acquisitions.

Efficiency programme to boost the achievement of strategic targets

When Lemminkäinen updated its strategy, it also initiated an efficiency programme aiming at improving profitability. The programme seeks annual cost-savings of EUR 50 million after 2013. Boosting efficiency in procurements will yield about EUR 30 million of these savings. Savings of approximately EUR 20 million are sought by improving the efficiency of operations, existing processes, the business locations network and organisational and management structures. As part of the efficiency programme, Lemminkäinen initiated personnel negotiations in the autumn of 2011. As a result of the negotiations, Lemminkäinen will make a reduction of a maximum of 300 man-years during 2011–2012.

International Operations to be the Company's fourth business sector

Effective 1 January 2012, Lemminkäinen created a new business sector – the company's fourth – out of its international operations in order to ensure profitable growth and the company's competitiveness in an international operating environment. In addition to Finland, Lemminkäinen's main market areas comprise Russia, the other Nordic countries, and the Baltic countries.

NET SALES

NET SALES BY BUSINESS SECTOR, EUR MILLION	1–12/2011	1–12/2010	Change
Building construction	894.1	770.2	16%
Infrastructure Construction	1,178.8	932.9	26%
Technical building services	293.9	269.1	9%
Other operations and Group eliminations	–59.4	–61.2	3%
Business sectors, total	2,307.4	1 911.0	21%
Reconciling items	–33.3	–81.4	59%
Group, total (IFRS)	2,274.1	1 829.6	24%
of which operations outside Finland	780.3	543.5	44%

Lemminkäinen's net sales grew in by 24%, amounting to EUR 2,274.1 million (1,829.6). Net sales grew in all Group's business sectors. In Finland, residential development increased from the previous year with Lemminkäinen completing a total of 1,077 (418) residential units as own development. In infrastructure construction, the net sales growth was boosted by the underground infrastructure projects in growth centres and the mine excavation works in Northern Finland. Bustling building construction also increased the demand for mineral aggregates, concrete products, and technical building services.

In addition to Finland, Lemminkäinen's main market areas comprise Russia, the other Nordic countries, and the Baltic countries. In 2011, the company's net sales from operations outside Finland saw year-on-year growth of 44 per cent, and amounted to EUR 780.3 million (543.5). The growth of Lemminkäinen's paving contracting operations in Norway was fortified by the acquisition of Mesta Industri AS. During the current year, and for the first time, the company's net sales from paving operations in Norway exceeded those accrued in Finland. Infrastructure business operations in Denmark and the Baltic countries as well as building construction in Sweden also exceeded the levels of the previous year. Net sales from operations in Russia were approximately on a par with the level of the previous year.

Of the net sales during the review period, 66% (71) was generated in Finland, 23% (17) in other Nordic countries, 5% (5) in Russia and 6% (7) in other countries.

OPERATING PROFIT

NET SALES BY BUSINESS SECTOR, EUR MILLION	1–12/2011	1–12/2010	Change
Building construction	16.3	25.6	–36%
Infrastructure Construction	63.9	15.3	over 100%
Technical building services	5.2	4.5	16%
Other operations	–16.6	–15.6	–6%
Business sectors, total	68.8	29.7	over 100%
Reconciling items	–15.3	–0.1	over 100%
Group, total (IFRS)	53.5	29.6	81%

OPERATING MARGIN BY BUSINESS SECTOR, %	1–12/2011	1–12/2010
Building construction	1.8	3.3
Infrastructure Construction	5.4	1.6
Technical building services	1.8	1.7
Group, total (IFRS)	2.4	1.6

Lemminkäinen's operating profit in 2011 improved by 81% and amounted to EUR 53.5 million (29.6). Operating margin was 2.4% (1.6). In infrastructure construction, the result more than quadrupled year-on-year. Profitability improved especially in the concrete business sector and in the paving operations of Norway and Denmark. In building construction, more own housing development projects were completed than in the previous year. The result for this sector was, however, burdened by the low profitability of contracting and the rise in the costs of construction. The company had non-recurring capital gains from equipment sales in 2010. The profitability of Technical Building Services improved during the second half of the year, particularly because of the upturn in the market and the impact of the Company's internal profitability improvement measures.

Lemminkäinen's operating profit for 2011 was also improved by about EUR 11 million in negative goodwill from the Mesta Industri AS acquisition. Consolidated operating profit does not include EUR 15.3 million in capital gains from the sale of the roofing business. Its impact is recorded in the Group's result for the review period and earnings per share.

ORDER BOOK

ORDER BOOK BY BUSINESS SECTOR, EUR MILLION	31.12.2011	31.12.2010	Change
Building construction	768.5	683.9	12%
of which unsold	206.3	135.3	52%
Infrastructure Construction	521.8	416.6	25%
Technical building services	110.0	125.9	–13%
Group, total	1,400.4	1,226.4	14%
of which operations outside Finland	482.5	294.3	64%

Lemminkäinen's order book grew by 14% and amounted to EUR 1,400.4 million (1,226.4). In Building Construction, the order book for the Finnish operations remained at the level of the previous year, whereas the order book for international operations grew. In Infrastructure Construction, the order book grew thanks to rock engineering, foundation construction and geotechnical engineering, and international business operations. In Technical Building Services, the order book remained somewhat below the level of the previous year: however, the outlook in this sector, particularly for the first half of the coming year, is relatively good. Technical Building Services have increased their attention to the margins of the order book.

Lemminkäinen's international order book grew by 64% year-on-year, and amounted to EUR 482.5 million (294.3). International orders were boosted by residential construction in Russia: at the end of 2011, the company initiated a project in the Vasily Island of St. Petersburg, comprising 400 residential apartments. In Infrastructure Construction, the order book grew particularly in the paving operations of Norway, Denmark and Estonia. Of the Group's order book, 66 (76) per cent originated in Finland, 20 (16) per cent in the other Nordic countries, 7 (3) per cent in Russia, and 7 (5) per cent in the Baltic countries and in other countries.

BALANCE SHEET, CASH FLOW AND FINANCING

The balance sheet total stood at EUR 1,242.8 million (1,062.0) on 31 December 2011. The balance sheet grew due to growth in Lemminkäinen's business operations and the increased emphasis on own residential development.

The Group's return on investment improved to 10.8% (7.0). The equity ratio of 30.8% was down on the previous year (35). The equity ratio declined due to the growth of the balance sheet. Gearing was 114.5% (105.7). Working capital grew by 20%, amounting to EUR 861.4 million (720.6). Net working capital was EUR 435.7 million (388.6). Lemminkäinen seeks to achieve an 18 per cent return on investment and an equity ratio of 35 per cent by the end of the 2010—2013 strategy period. The company also seeks to reduce its net working capital by approximately EUR 100 million.

At the end of the review period, interest-bearing debt was EUR 431.6 million (375.5), of which long term interest-bearing debt accounted for EUR 194.6 million (214.1) and short term interest-bearing debt for EUR 237.0 million (161.4). Interest-bearing net debt was EUR 401.2 million (349.2). Of all interest-bearing debt, 38% were with a fixed interest rate, and on 31 December 2011, the financing expenses of all interest-bearing debt was, on average, 3.4%.

Of the Group's interest-bearing debt, 17% (17) comprise loans from financial institutions, 28% (20) commercial papers, 12% (8) project loans related to own production of residential and business premises, 15% (24) pension loans, 14% (15) finance leasing liabilities and 14% (16) bonds. Moreover, the company had unused committed credit limits in the amount of EUR 140,7 million (160,0) at the end of the review period.

Some of the Group's loan arrangements include two financial covenants that are reviewed quarterly: equity ratio and ratio of net debt to EBITDA.

Net financing expenses during the review period amounted to EUR 18.9 million (22.0), representing 0.8% (1.2) of net sales. The Group's financing expenses were reduced by the financial arrangements carried out in late 2010.

During the third quarter of the year, Lemminkäinen prepared for the uncertainty of the financial market by strengthening its cash reserve. At the end of the review period, the company's cash reserve was reduced so that its liquid assets amounted to EUR 30.4 million (26.3) on 31 December 2011.

According to the cash flow statement, the cash flow from operating activities in 2011 was EUR –7.1 million (–37.2). Growth of the sales inventory for own residential development had a major impact on the cash flow from operating activities.

BUSINESS SECTORS
Building construction

KEY FIGURES, EUR MILLION	1–12/2011	1–12/2010	Change	1–3/11	4–6/11	7–9/11	10–12/11
Net sales	894.1	770.2	16%	184.2	210.1	211.6	288.2
Operating profit	16.3	25.6	–36%	–3.7	2.8	1.6	15.6
Operating margin %	1.8	3.3		–2.0	1.3	0.8	5.4
Order book at end of period	768.5	683.9	12%	750.0	775.0	784.4	768.5
of which unsold	206.3	135.3	53%	192.7	222.6	178.0	206.3

In 2011, net sales from Building Construction grew in by 16%, amounting to EUR 894.1 million (770.2). Net sales grew particularly due to residential construction in Finland and building construction in Sweden. Of the net sales, 81% (76) came from Finland, 7% (7) from Russia, 12% (10) from Sweden and 0% (7) from other countries.

The business sector's operating profit was EUR 16.3 million (25.6). The result for the corresponding period of 2010 includes non-recurring capital gains from equipment sales. Lemminkäinen's own residential construction saw a clearly higher completion rate, and the housing market remained steady throughout the year. The result for this sector was, however, burdened by the low profitability of competitive contracting and the rise in the costs of construction. The result for Building Construction depended heavily on the last quarter, since more than half of the company's own residential development projects were completed in December.

At the end of 2011, the order book amounted to EUR 768.5 million (683.9). The order book was boosted particularly by residential construction in Russia, where Lemminkäinen initiated a new residential apartment project in St. Petersburg, comprising approximately 400 apartments. International operations accounted for approximately a quarter of the building construction order book, whereas in 2010 their share had been 13%.

Operations in Finland

In 2011, Lemminkäinen began the construction of a total of 1,612 (2,252) new residential units, of which own development accounted for 67% (45). The housing market was fairly steady throughout the year, although selling times became slightly longer around year end.

LEMMINKÄINEN HOUSING DEVELOPMENT [1], FINLAND	2011	2010	2009
Residential start-ups (own development)	1,076	1,004	351
Residential start-ups (contracted development)	536	1,248	1,090
Housing units sold	914	911	771
Completed	1,077	418	533
Under construction at end of period	989	991	405
of which unsold	483	439	193
Completed and available for sale at end of period	224	110	263

[1] Housing units sold, completed, under construction and available for sale are all own development

At the end of the period, the company owned a total of 792,000 m^2 of unused building rights in Finland, of which 380,000 m^2 were residential building rights. The company also had binding or conditional co-operation and zoning agreements for 443,000 m^2, of which 188,000 m^2 were residential building rights. The balance sheet value of the plots was EUR 104.6 million (90.1) at the end of the review period.

In the Jätkäsaari district of Helsinki, the company is building 430 units in four residential blocks. The entity comprises a total of seven buildings, two of which are Hitas projects (price and quality controlled owner-occupied flats). The last units of the residential block are estimated to be completed during 2016.

In the field of business and commercial construction, Lemminkäinen initiated numerous projects around Finland. In downtown Helsinki, the company is building three office buildings valued at a total of about EUR 150 million in Töölönlahti. Some of the buildings will also include exclusive residential units. In Sipoo and Vantaa, Southern Finland, Lemminkäinen is building two large logistics centres that will be completed in 2012 and are valued at a total of around EUR 45 million. In industrial construction, Lemminkäinen is working on significant, ongoing contracts at the Westenergy power plant in Mustasaari, and two turnkey projects in Espoo and Hämeenlinna. In Turku, Lemminkäinen is constructing a Gigantti electronics store for Virtanen Yhtiöt Oy as well as K-Citymarket supermarkets in Kokkola and Mäntsälä for Kesko.

In building construction renovation, the market situation remained favourable. In Helsinki and Porvoo, Lemminkäinen embarked on a renovation contract for a total of 18 apartment buildings, valued at a total of approximately EUR 27 million. In the Tapiola centre in Espoo, Lemminkäinen will conduct extensive renovation and construction works. The value of the project is approximately EUR 27 million, and it is estimated to be completed early in the summer of 2013.

Business operations in the real estate sector were also more active than in the previous year. In Tampere, a residential property that will be completed in the spring of 2013 was sold to SATO, one of Finland's leading corporate investors in housing. The third phase of Polaris Business Park in Leppävaara, Espoo, was sold to a German property investor. In addition, Lemminkäinen sold a number of smaller individual business premise projects around Finland to both Finnish and foreign property investors.

International operations

In Russia, the focus of Lemminkäinen's operations was in own residential construction in the St. Petersburg area. Lemminkäinen sold a total of 194 (276) residential units in St. Petersburg during 2011. The largest number of residential unit sales was concluded during the last quarter of the year. Demand for new apartments was accelerated by the better availability of consumer mortgages to Russian apartment buyers. Out of Lemminkäinen's customers, approximately a fifth financed their apartment purchase partly with a mortgage, a practice which in the previous year had been nonexistent.

In the spring of 2011, Lemminkäinen signed a framework agreement for the implementation of a vast residential construction project on Vasily Island in downtown St. Petersburg. Under the agreement, Lemminkäinen will build and develop approximately 2,000 residential units in addition to business and office premises on a 5.6-hectare lot. The total value of the project is approximately EUR 400 million. Construction is expected to begin in 2012, and last approximately five years.

In the last quarter of the year, Lemminkäinen completed a site with 150 residential units in northern St. Petersburg. The company also initiated a new site of 400 residential units on Vasily Island. The value of the inventories that Lemminkäinen had tied up in Russia at the end of the review period was EUR 46.8 million (47.9).

LEMMINKÄINEN'S OWN HOUSING DEVELOPMENT, RUSSIA	2011	2010	2009
Residential start-ups (own development)	404	154	0
Housing units sold	194	276	133
Completed	154	498	104
Under construction at end of period	404	154	479
of which unsold	404	154	367
Completed and available for sale at end of period	82	122	22

Building construction in Sweden performed well in 2011, and the future outlook is also positive, due to the order book, which is stronger than before. In 2011, operations in Sweden accounted for 12% of Lemminkäinen's Building Construction net sales. In Sweden, the Company primarily builds residential units and renovates business premises, particularly public buildings.

Infrastructure construction

KEY FIGURES, EUR MILLION	1–12/2011	1–12/2010	Change	1–3/11	4–6/11	7–9/11	10–12/11
Net sales	1,178.8	932.9	26%	85.4	293.7	482.6	317.1
Operating profit	63.9	15.3	yli 100%	–7.1	24.3	50.3	–3.6
Operating margin %	5.4	1.6		–8.3	8.3	10.4	–1.1
Order book at end of period	521.8	416.6	25%	598.1	829.6	577.8	521.8

The net sales of the Infrastructure Construction business sector grew by more than 25 per cent in 2011, and amounted to EUR 1,178.8 million (932.9). Net sales in Finland grew in particular because of special contracting in infrastructure construction, and the concrete business sector. In Norway and Denmark, the paving season lasted longer than in the previous year. Volumes were also increased by the successful acquisition of Mesta Industri AS in Norway. Net sales in the Baltic countries also grew compared to the previous year. The order book of operations outside Finland grew by 60% and amounted to EUR 557.5 million (349.2). Infrastructure Construction generated 52% (55) of its net sales in Finland, 36% (31) in the other Nordic countries, and 9% (9) in the Baltic states.

The business sector's operating profit quadrupled, totalling EUR 63.9 million (15.3). The most significant improvements in results could be observed in the operations in Norway and Denmark; however, profitability in Finland also surpassed the levels of the previous year. In mineral aggregates and the concrete business sector, in particular, profitability was clearly above past levels. Non-recurring items impacting the 2011 result include capital gains of EUR 15.3 for the sale of the roofing business and about EUR 11 million in negative goodwill from the acquisition of Mesta Industri AS, which had a positive impact on the result of the business sector. The comparable year 2010 was burdened by, for example, loss-generating maintenance contracts in Norway, and the poor market situation in the Baltic countries.

The order book for Infrastructure Construction grew by 25 per cent, totalling at EUR 521.8 million (416.6). Growth in the order book was due mainly to the paving activities in Norway and Estonia, and to special contracting in infrastructure construction. International operations accounted for more than a half of the order book, i.e. EUR 285.4 (192.6).

Operations in Finland

In Infrastructure Construction, demand was high in nearly all business sectors. Numerous underground construction projects and mining in Northern Finland provided plenty of work in rock engineering. Lemminkäinen won two major Western Metro excavation contracts in the Helsinki metropolitan area with a total value of EUR 36 million. The Pahtavaara gold mine in Northern Finland provided continuation for Lemminkäinen's mine excavation contracting, as the company was selected as the excavation contractor for 2012–2013. The value of this contract is approximately EUR 20 million, and it includes an option for further excavation projects in 2014.

During the year, Lemminkäinen began works for three major parking facilities in Hämeenlinna, Espoo and Tampere. The projects continue in 2012, and their combined total value is approximately EUR 50 million. Moreover, the company is working on the excavation and interior contract for the Finlandia Concert and Conference Hall parking garage in downtown Helsinki. The value of this project is approximately EUR 40 million, and it is estimated to be completed in 2012.

The pickup in building construction in Finland also increases the demand for geotechnical engineering works, concrete products and mineral aggregates. Demand was high especially for concrete products. In 2011, the total volume of paving work in Finland remained at the level of the previous year in or, in some regions, even declined slightly. The paving market was burdened by the rising prices of raw materials, especially bitumen products. In spite of the deteriorating market situation, Lemminkäinen managed to retain the volume and profitability of the paving business sector at a good level. The company successfully defended itself from the rising bitumen prices with oil derivatives and contractual arrangements.

International operations

Early in the summer, Lemminkäinen completed the acquisition of Mesta Industri AS in Norway, making it the country's largest paving contractor in 2011. For the first time, the company now racks up greater net sales from paving operations in Norway than in Finland. In Western Norway, Lemminkäinen initiated a hydropower plant project that is estimated to be completed in the summer of 2013. The total value of the contract is about EUR 20 million. Also in Denmark, the paving season of 2011 was a good one, with Lemminkäinen's net sales and result growing considerably compared to the previous year.

In Sweden, Lemminkäinen has, in the past few years, solidified its position as a major special contractor in infrastructure construction. The company is currently engaged in sizeable mine excavation contracts in, for example, the mines of Svartliden and Kiruna. Moreover, during the current year, Lemminkäinen began the construction of bypass route for a power plant in Central Sweden. The value of this project is approximately EUR 43 million, and it is estimated to be completed in early 2014.

In the Baltic countries, activity in infrastructure construction has gradually increased, but construction volumes are still far from the peak figures of 2007. In the summer and early autumn, Lemminkäinen landed numerous infrastructure construction contracts in Estonia, Latvia and Lithuania, valued at a total of about EUR 48 million.

Technical building services

KEY FIGURES, EUR MILLION	1–12/2011	1–12/2010	Change	1–3/11	4–6/11	7–9/11	10–12/11
Net sales	293.9	269,1	9%	63.6	69.7	75.9	84.7
Operating profit	5.2	4,5	16%	0.7	–1.4	1.6	4.3
Operating margin %	1.8	1,7		1.1	–2.0	2.1	5.1
Order book at end of period	110.0	125,9	–13%	123.5	130.2	123.3	110.0

In 2011, Technical Building Services' net sales grew by 9%, amounting to EUR 293.9 million (269.1). 83 per cent of the net sales were generated in Finland. The business sector's operations outside Finland largely comprise the construction of telecom networks in, for example, North and South America. Operating profit improved by 16% and amounted to EUR 5.2 million (4.5). The sector's profitability improved especially during the second half of the year. The insufficient earnings trend early on in the year was impacted by the weak profitability of contracting and the rise in certain raw material and input prices. The sector implemented various profitability improvement measures, such as improving the efficiency of sales and marketing, productisation of services, and centralised procurement. Process management and follow-up of contracted projects were also developed further. At year end, the order book of Technical Building Services amounted to EUR 110.0 million (125.9).

In 2011, Lemminkäinen embarked on various contracted technical building service projects around Finland, both for new and renovation construction. The company won a contract, worth approximately EUR 4 million, for the pipe-laying, electrification and construction works at the Finnish food industry company Atria Plc's plant in Kauhajoki, western Finland. The construction works will be performed by Lemminkäinen's building construction sector, and their total value is approximately EUR 6 million.

In Turku, the company is currently working on the technical building renovation contracts of Kuntatalo and Linnakiinteistö. The company has also concluded an agreement with Itella, a provider of information and product flow services, on the maintenance and repairs of the ventilation systems of major postal centres and terminals around Finland. Moreover, Lemminkäinen is currently carrying out a large-scale electrification contract at the Kevitsa mine. The contract is valued at about EUR 9 million, and it is Lemminkäinen's largest individual industrial electrification project.

INVESTMENTS

Gross investments in 2011 amounted to EUR 84.0 million (59.6), representing 3.7 per cent (3.3) of the company's net sales. They were mainly replacement investments in infrastructure construction and individual acquisitions. Lemminkäinen's most significant acquisition in 2011 was that of the Norwegian infrastructure construction company Mesta Industri AS for the price of around EUR 11 million.

ENVIRONMENT

Lemminkäinen takes life-cycle and environmental perspectives into account when developing its operations, products and services. The Group's management of environmental affairs and the environmental effects of operations are continuously monitored by means of internal monitoring and control programmes. The Group is moving ahead with its development programme that aims to define common goals for environmental responsibility, operational models and performance indicators until the end of current strategy period. Environmental reporting is being developed in line with the international GRI (Global Reporting Initiative) framework's G3 guidelines. In 2011, Lemminkäinen participated for the first time in the international Carbon Disclosure Project (CDP) analyses, which evaluates performance in climate-related issues. Concurrently, the company initiated a risk assessment on the impact of climate change to its operations.

The Company's Annual Report and website provide more information on Lemminkäinen's environmental issues.

RESEARCH AND DEVELOPMENT

Research and development activities at Lemminkäinen focus on the utilisation of information technology in construction, environmental and energy efficiency, and service development and productisation. The utilisation of building information modelling in project planning was developed further in 2011. The productisation of services moved ahead particularly in the Technical Building Services sector, which, in January 2012, launched an extensive product family that improves the energy efficiency and safety of buildings. Products and services are developed in long term collaboration with customers.

In February, Lemminkäinen received a patent in the field of renovation construction for its apartment-block-raising method, with which an apartment block's additional building rights can be utilised efficiently and without disturbance to inhabitants. The method also enables installing elevators in older, non-elevator buildings.

The Group's business sectors are each responsible for their own research and development activities, which focus, for example, on developing the efficiency and operating environment of business activities, and quality assurance. Lemminkäinen's Central Laboratory carries out infrastructure construction R&D at Group level. In 2011, the Group's research and development expenditure accounted for approximately 0.7% of net sales.

EMPLOYEES

During the review period, the Group companies had 8,421 employees (8,314) on average. Of all employees, 69 per cent (71) were employed in Finland, 14 per cent (12) in other Nordic countries, 9 per cent (10) in Baltic countries and 8 per cent (7) in other countries.

PERSONNEL ON AVERAGE	1–12/2011	1–12/2010	Change
Hourly paid employees	5,489	5,401	2%
Salaried employees	2,932	2,913	1%
Personnel, total	8,421	8,314	1%
of whom working outside Finland	2,590	2,372	9%
Personnel at the end of the financial year	7,929	7,744	2%

PERSONNEL BY BUSINESS SECTOR, AVERAGE	1–12/2011	1–12/2010	Change
Building Construction	2,228	2,063	8%
Infrastructure Construction	3,914	4,000	–2%
Technical Building Services	2,017	2,060	–2%
Parent company	261	191	37%
Group, total	8,421	8,314	1%

In Infrastructure Construction, Lemminkäinen gained about 170 new employees in connection with the Mesta Industri AS acquisition in Norway. In addition, about 400 employees left Lemminkäinen's employ in Finland in early 2011 due to the divestment of the roofing business.

In early 2011, Lemminkäinen centralised its business support functions to create Shared services: at this time, employees from business sectors transferred to the parent company. Support functions are handled on a centralised basis by internal competence and service centres, enabling the business functions to focus more effectively on their core operations.

On 24 October 2011, Lemminkäinen initiated personnel negotiations that impact the whole Group. As a result of the negotiations, the company will make a reduction of a maximum of 300 man-years. All personnel reductions involved will be finalised by the end of 2012. These reductions mainly affect the management and salaried employees in Finland. The negotiations were part of Lemminkäinen's comprehensive efficiency programme, seeking annual cost-savings of EUR 50 million from 2013 onwards.

CHANGES IN THE ORGANISATION STRUCTURE

Changes taking effect during 2011

Lemminkäinen's internal support functions – HR, financial administration, IT, legal affairs as well as communications and marketing – were centralised in internal competence and service centres that were launched at the beginning of 2011. The Group's business sectors started using the competence and service centres during 2011. The target of shared services is to provide optimal support to business objectives. The company is seeking a competitive edge and support for growth from cost-effective, professional and high-quality internal support services.

Changes decided on in 2011 and taking effect from the beginning of 2012

On 1 January 2012, Lemminkäinen merged its international business operations into a new business sector. After the change, Lemminkäinen's business sectors include Building Construction, Infrastructure Construction, Technical Building Services and International Operations.

Henrik Eklund, M.Sc. (Eng.), who is a member of the Group's Executive Board, started out as the Executive Vice President of International Operations on 1 January 2012. His latest position was Lemminkäinen's Executive Vice President of Infrastructure Construction. Eklund is responsible for Lemminkäinen's operations outside Finland, where the most significant areas are infrastructure construction in Scandinavia and the Baltic countries, and building construction in Russia and Sweden.

Harri Kailasalo, M.Sc. (Eng.), eMBA, has been appointed Executive Vice President of Infrastructure Construction and a member of the Executive Board as of 1 January 2012. He is responsible for Infrastructure Construction operations in Finland. Earlier, Kailasalo was Senior Vice President in Lemminkäinen's Infrastructure Construction business sector.

Jukka Terhonen, M.Sc. (Eng), member of the Group Executive Board and Executive Vice President, Building Construction, will from 1 January 2012 onwards be responsible for Building Construction operations in Finland, and Marcus Karsten, M.Sc. (Econ.), Group Executive Board member and Executive Vice President, Technical Building Services, will assume responsibility for Finland's Technical Building Service operations.

LEGAL PROCEEDINGS

In 2009, the Supreme Administrative Court (SAC) ordered Finnish asphalt industry companies to pay an infringement fine for violations of the Act on Competition Restrictions.

In late 2011, a total of 40 claims for damages brought by municipalities and the Finnish state (Finnish Transport Agency) are pending against Lemminkäinen and other asphalt industry companies in the District Court. The claimants contend that restrictions of competition have caused them damages. The total amount of damages sought from Lemminkäinen is currently about EUR 117 million. After the Finnish Transport Agency changed its claim, the total amount of claims has risen by approximately EUR 15 million. The claims presented in the statements of claim differ from each other as regards their amounts and grounds.

The ruling rendered by the SAC in 2009 as it stands does not mean that Lemminkäinen or the other asphalt industry companies actually caused any damages to the asphalt work clients. The ruling does not concern the individual contracts that the claimants cited in support of their claims. Nor does the ruling concern the pricing of individual contracts. The SAC has not investigated the contention that inflated prices that do not correspond to market prices have been charged for the contracts.

Lemminkäinen's initial position is that the claims for damages are without foundation. The claims will be processed in the order and schedule set by the District Court. Preparatory sessions for the trial began in January 2012, but a more detailed process and ruling schedule is currently not yet available.

No provisions have been made in respect of the claims of the municipalities and the Finnish Transport Agency that are pending in the District Court.

Lemminkäinen will provide information on the proceedings in its interim reports or in separate releases, as necessary.

RISKS AND UNCERTAINTIES

Risk management is an essential part of Lemminkäinen's business operations. The target of risk management is to ensure the achievement of strategic and operational targets, and to increase shareholder value. The Company's Annual Report and website provide more information on Lemminkäinen's major risks and risk management policy. A more detailed account of the financial risks is also provided in the notes to the 2011 financial statements.

Fluctuations in global economic trends cause uncertainty in the operating environment and complicate efforts aiming at forecasting future change. New construction in Finland is sensitive to economic cycles and therefore poses a market risk. This risk is managed both structurally and operationally. The more stable demand for infrastructure construction balances out fluctuating volumes in new domestic construction, as does the growth in maintenance, servicing and renovation.

The company's own housing development involves both sales and price risks. Unsold residential units tie up capital and therefore the Company starts new housing construction only if sufficient numbers of the units have been reserved by buyers in advance. When undertaking own development of business premises, the premises are usually sold to real estate investors in the early stages of construction at the latest, thereby reducing sales risks.

Project-specific risks generally involve changes in input costs and the management of project implementation. These are managed through systematic project management in both bidding and implementation phases. Weather conditions also pose a risk in the construction industry. Unusual or harsh weather can weaken the profitability of our operations by interrupting or delaying projects.

Lemminkäinen uses great amounts of oil-based products in asphalt production. The price of bitumen is tied to the global price of oil and the Company manages the bitumen price risk with oil derivatives and contractual terms.

Writs of summons filed at district court level by certain municipalities and the Finnish Transport Agency pose a risk.

SHARES AND SHARE CAPITAL

The Company has one share class. Each share carries one vote at a general meeting of shareholders and confers an equal right to a dividend.

The listed price of Lemminkäinen Corporation's share was EUR 26.00 (24.20) at the beginning of the financial year and EUR 18.72 (26.00) at the end. Market capitalisation at the end of the period was EUR 367.8 million (510.8). Share turnover during the period totalled 3,366,940 (4,171,666). The total value of share turnover was EUR 77.0 million (103.2).

Lemminkäinen's share capital is EUR 34,042,500 and the total number of shares is 19,644,764. Neither the share capital nor number of shares changed during the review period.

Authorisations of the Board of Directors

The Extraordinary General Meeting of Lemminkäinen Corporation, held on 12 November 2009, decided in accordance with the proposal of the Board of Directors to authorise the Board of Directors to resolve on a share issue and/or an issue of special rights entitling their holders to shares, as referred to in Chapter 10, Section 1 of the Finnish Companies Act, in one or more instalments, either against payment or without consideration. The Board of Directors is still authorised to issue 1,576,486 shares and/or special rights entitling their holders to shares. The authorisation is valid for five (5) years after being granted.

Lemminkäinen Corporation's Annual General Meeting, which convened on 4 April 2011, resolved to authorise the Board of Directors to decide on the repurchase of a maximum of 1,000,000 own shares in one or several instalments, using the unrestricted shareholders' equity of the company, subject to the provisions of the Finnish Companies Act on the maximum amount of own shares in the possession of the company or its subsidiaries. The authorisation will remain in force for a period of 18 months from the resolution of the General Meeting. By the end of 2011, the authorisation had not been exercised.

Share-based incentive plan

The Company has a share-based incentive plan that covers about 40 key employees. The plan consists of three a periods, i.e. the calendar years 2010, 2011 and 2012. The Board of Directors decides on the earnings criteria for each period as well as on the targets to be established at the beginning of each earnings period. The reward, if any, for 2011 was based on Lemminkäinen Group's equity ratio and return on investment.

The reward for the earnings period of 2011 will be paid out in 2012 in part in company shares and in part as money. The share paid out as money covers the deferred taxes and tax-like payments. The shares may not be transferred during the commitment period that ends two years after the end of the earnings period. The Company's CEO and the members of the Group Executive Board must retain ownership of half of the shares granted to them as rewards in the plan for two years after the end of the commitment period.

SHAREHOLDERS

At the end of the review period, the company had 4,548 shareholders (4,979). Holders of nominee-registered shares and non-Finnish shareholders held 15 (8) per cent of all Lemminkäinen Corporation shares and voting rights. The Pentti family holds approximately 57 per cent (57) of all company shares. Company ownership and division by sector and scale, largest shareholders, and share ownership of the members of the Executive Board and the Board of Directors are available on the company's web pages at www.lemminkainen.com/investors.

Flagging notifications

On 13 September 2011, Peab AB announced that its holding in Lemminkäinen exceeded 5 per cent. According to the announcement, Peab AB (publ) held 1,140,225 Lemminkäinen Corporation shares, which is 5.80 per cent of Lemminkäinen Corporation's shares and votes. In addition to this, Peab Invest AS, a fully-owned subsidiary of Peab AB (publ), holds a forward contract of 940,000 shares, which represents 4.78 per cent of Lemminkäinen Corporation's shares and votes. The contract was rolled forward at the end of the review period. Lemminkäinen does not know the new maturity date.

On 2 December 2011, the death estate of Erkki Pentti announced that after a partial inheritance distribution, shares in Lemminkäinen Corporation belonging to the death estate were divided equally between Heppu Pentti and Anna Pentti. Following this, Heppu Pentti and Anna Pentti transferred their shares in Lemminkäinen Corporation to PNT Group Oy, of which they each own one half, as a contribution in kind. As a result, the shares held by Erkki Pentti's death estate in Lemminkäinen Corporation reduced from 3,673,956 shares, i.e. around 18.7 per cent of all shares and votes in Lemminkäinen Corporation, to zero. PNT Group Oy's shares in Lemminkäinen Corporation have risen by the corresponding amount, exceeding 15 per cent of all shares and votes in the company.

Shareholder agreements

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

RESOLUTIONS OF THE ANNUAL GENERAL MEETING AND ADMINISTRATION

On 4 April 2011, Lemminkäinen Corporation's Annual General Meeting adopted the company's financial statements for 2010 and granted the members of the Board of Directors and the President and CEO discharge from liability. The General Meeting resolved, in accordance with the Board of Directors' proposal, to pay a dividend of EUR 0.50 per share to a total of EUR 9,822,382. The record date for payment of dividend was 7 April 2011 and the dividend was paid on 14 April 2011.

Berndt Brunow, Juhani Mäkinen, Mikael Mäkinen, Kristina Pentti-von Walzel, Heikki Räty and Teppo Taberman were re-elected to serve as members of the Board of Directors. PricewaterhouseCoopers Oy, a firm of authorised public accountants, was re-elected to serve as the company's auditors, with Kim Karhu, Authorised Public Accountant, as chief auditor.

Lemminkäinen Corporation's Board of Directors held an organising meeting on 4 April 2011. Berndt Brunow will continue as the Chairman of the Board of Directors, and Juhani Mäkinen as the Vice Chairman.

OUTLOOK FOR THE NEAR FUTURE

Finland

The volume of new building construction is expected to decrease in 2012. Residential unit start-ups are restrained by the uncertain economic outlook and growth in new residential unit offering. Factors that support apartment purchasing continue to consist of increasing household income, low interest rates, and stable employment rates. Lemminkäinen estimates that it will start up the construction of about 1,000 units in its own residential development in Finland in 2012.

The real estate market has slowed down, and yield requirements, particularly for sites outside growth centres, have grown slightly. Demand for commercial construction is weakened by the cautiousness of tenants, who are not eager to get involved in ongoing projects. Lemminkäinen has extensive ongoing business premise projects in the Helsinki metropolitan area, and the order book for business premises is satisfactory. The company is preparing commercial building projects in growth centres, but they have as yet not been green-lighted.

The possibility of a slowdown in new building construction reduces demand for building technical service projects, although the industry will be impacted by this only after a delay. The growing need for piping renovations, repairs that improve energy efficiency and changes in heating methods increase the demand for building technical services and renovation regardless of economic trends. Lemminkäinen's order book in Technical Building Services is satisfactory, and the margins of the order book have clearly become healthier.

The volume of infrastructure construction is not expected to grow in 2012. Paving volumes are also likely to remain on the 2011 level. Demand for rock engineering is maintained by greater mining activity and underground excavation work in the growth centres. A number of new rail and railway projects will also be launched in 2012. Lemminkäinen has various ongoing special contracts in infrastructure construction around Finland, and the order book, in its entirety, exceeds that of the previous year.

Other markets

In Sweden, Norway and Denmark, the volume of infrastructure construction is growing faster than in Finland. In Sweden, demand is increased by major motorway projects in Stockholm and mining activity Northern Sweden. In Norway and Denmark, the number of road and rail projects has increased, which also supports the demand for paving works. The construction markets of the Baltic countries are gradually improving along with the recovery of their economies. Lemminkäinen has numerous infrastructure construction projects in progress in Norway, Sweden and the Baltic countries, which extend until 2012–2013.

In St. Petersburg, Russia, residential construction volumes are expected to remain roughly on the level of the previous year. Factors that impact residential unit demand include consumer purchasing power, domestic population shifts, the availability of consumer mortgages, and the general political and economic climate in Russia. Good plots are increasingly difficult to obtain, which may, to some extent, hamper new start-ups. Lemminkäinen has initiated a project of about 400 residential units on the Vasily island in St. Petersburg, and estimates the project will be completed in phases by the end of 2013.

Lemminkäinen'n profit guidance for 2012

Lemminkäinen estimates that in 2012, its net sales will remain on the same level as in 2011, and that its pre-tax profit will improve on 2011. This company's estimate of its net sales and profitability development is based on the year-on-year growth in the order book and its margins. The guidance is also based on the assumption that the market situation will not deteriorate considerably from late 2011.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The distributable shareholders' equity shown on the balance sheet of the parent company, Lemminkäinen Corporation, amounts to EUR 157,151,029.90, consisting of EUR 82,969,836.31 in retained earnings from previous years and EUR 13,184,493.09 in profit for the accounting period.

The Board of Directors will propose to the AGM that, for the financial year ended 31 December 2011, the company distributes a per-share dividend of EUR 0.50 to a total of EUR 9,822,382.00, after which retained earnings would stand at EUR 86,331,947.40.

EVENTS AFTER THE END OF THE REVIEW PERIOD

Lemminkäinen has received a flagging notification stating that in a deed of gift signed on 4th January 2012, Olavi Pentti bestowed 1,964,480 Lemminkäinen shares to his daughter, Noora Forstén. As a result, the shares held by Olavi Pentti in Lemminkäinen Corporation is reduced from 3,673,953 shares, i.e. around 18.7 per cent of all shares in Lemminkäinen Corporation, to 1,709,473 shares, i.e. approximately 8.7 per cent of all shares in the company, thereby falling below 10 per cent of Lemminkäinen Corporation's shares and votes. Noora Forstén's shares in the company have risen from 1,593 to 1,966,073, which corresponds to 10 per cent of all shares and votes in Lemminkäinen Corporation.

Helsinki, 8 February 2012

LEMMINKÄINEN CORPORATION
Board of Directors

Consolidated income statement (IFRS)

EUR 1,000	Note	1.1.2011–31.12.2011	1.1.2010–31.12.2010
Net sales	2,3	2,274,127	1,829,562
Other operating income	7	20,719	26,824
Increase or decrease in stocks of finished goods and work in progress		48,880	–7,752
Production for own use		294	396
Use of materials and services		1,505,462	1,124,173
Employee benefit expenses	10	456,523	411,525
Depreciation	9	37,997	35,046
Decreases in value of goodwill	9	73	
Other operating expenses	8	292,331	249,468
Share of the result of associates	11	1,867	743
Operating profit		53,501	29,561
Financial income	12	11,446	19,765
Financial expenses	12	30,366	41,735
Result before taxes		34,581	7,592
Income taxes	13	–10,301	–5,819
Result of continuing operations		24,280	1,772
Profit of discontinued operations	5	11,291	–617
Result for the financial year		35,571	1,155
Result for the financial year attributable to			
Equity holders of the parent company		34,720	299
Non-controlling interest		851	857
EPS attributable to equity holders of the parent company, EUR			
Earnings per share, dilited and undiluted			
Continuing operations		1.19	0.05
Discontinued operations		0.57	–0.03
Total		1.77	0.02

Consolidated statement of comprehensive income (IFRS)

EUR 1,000	Note	1.1.2011–31.12.2011	1.1.2010–31.12.2010
Result for the financial year		35,571	1,155
Translation difference	22	–811	3,894
Change in fair value	13, 22	–12	12
Cash flow hedge	13, 22	570	460
Other comprehensive income, total		–253	4,366
Comprehensive income for the financial year		35,318	5,522
Comprehensive income for the financial year attributable to			
Equity holders of the parent company		34,467	4,665
Non-controlling interest		851	857

Consolidated statement of financial position (IFRS)

EUR 1,000	Note	31.12.2011	31.12.2010	1.1.2010
ASSETS				
Non-current assets				
Tangible assets	15	207,182	175,259	184,613
Goodwill	16	85,693	84,847	78,265
Other intangible assets	16	18,712	14,407	2,698
Holdings in associates	11	9,291	7,605	6,251
Available-for-sale financial assets	18	5,992	6,410	6,582
Deferred tax assets	13	19,356	17,409	15,702
Other non-current receivables	20	4,765	7,175	7,481
		350,991	313,113	301,592
Current assets				
Inventories	19	448,467	369,763	374,721
Trade and other receivables	20	407,287	325,975	286,780
Income tax receivables		5,616	12,729	13,998
Cash and cash equivalents	21	30,395	26,348	74,400
		891,766	734,815	749,900
Available-for-sale non-current assets	5		14,097	
Assets, total		1,242,757	1,062,025	1,051,492

EUR 1,000	Note	31.12.2011	31.12.2010	1.1.2010
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent company				
Share capital	22	34,043	34,043	34,043
Share premium account	22	5,675	5,750	5,750
Hedging reserve	22	–940	–1,510	–1,970
Fair value reserve	22		12	
Invested non-restricted equity fund	22	63,220	63,144	
Translation difference	22	1,385	2,196	–1,698
Retained earnings	22	210,591	221,262	231,285
Result for the financial year	22	34,720	299	
		348,693	325,196	267,410
Non-controlling interest		1,708	5,086	23,213
Shareholders' equity, total		350,401	330,282	290,623
Liabilities				
Non-current liabilities				
Loans	25	194,643	214,134	290,749
Deferred tax liability	13	21,727	17,577	18,975
Pension liabilities	23	3,872	508	749
Provisions	24	6,224	2,283	1,762
Other non-current liabilities	26	3,226	3,882	2,390
		229,692	238,385	314,626
Current liabilities				
Loans	25	236,968	161,381	108,397
Provisions	24	7,495	6,437	8,271
Accounts payable and other liabilities	26	416,383	315,956	322,567
Income tax liabilities		1,817	5,203	7,008
		662,664	488,976	446,243
Liabilities for available-for-sale non-current assets	5		4,383	
Liabilities, total		892,356	731,743	760,869
Shareholders' equity and liabilities, total		1,242,757	1,062,025	1,051,492

Consolidated cash flow statement (IFRS)

EUR 1,000	Note	1.1.2011–31.12.2011	1.1.2010–31.12.2010
Cash flow from business operations			
Result before taxes		34,581	7,592
Adjustments	29		
Depreciation and impairment on goodwill		38,070	35,046
Share of the result of associates		–1,867	–743
Other non-payment-related income and expenses		–8,698	7
Financial income and expenses		18,920	21,969
Other adjustments		–6,392	–20,558
Cash flow before change in working capital		74,614	43,313
Change in working capital			
Increase (–)/decrease(+) in current business receivables		–72,367	–36,596
Increase (–)/decrease(+) in inventories		–71,323	771
Increase (+)/decrease(–) in current liabilities		82,589	–9,668
Cash flow from operations before financial items and taxes		13,513	–2,181
Interest expenses paid		–16,470	–16,102
Other financial expenses paid		–12,493	–25,379
Dividends received		390	540
Interest received		2,576	2,290
Other financial income received		9,543	15,036
Direct taxes paid		–4,167	–11,376
Cash flow from business operations		–7,108	–37,172

EUR 1,000	Note	1.1.2011–31.12.2011	1.1.2010–31.12.2010
Cash flow from investments			
Investments in tangible and intangible assets		–41,961	–32,876
Capital gains from the sale of tangible and intangible assets		13,747	34,112
Investments in other assets		–4	–1
Capital gains from the sale of other investments		1,450	315
Purchases of subsidiary shares less cash and cash equivalents at time of purchase	4	–18,532	–11,419
Sales of subsidiary shares less cash and cash equivalents at time of sale	5	28,085	
Purchases of shares in associated undertakings			–622
Cash flow from investments		–17,215	–10,491
Cash flow from financing			
Share issue for cash consideration			39,525
Increase (–)/decrease(+) in non-current receivables		2,349	307
Short term loans drawn		257,009	244,374
Repayments of short term loans		–191,330	–185,988
Long term loans drawn		258,706	83,127
Repayments of long term loans		–276,168	–169,789
Repayments of finance leasing debts		–11,408	–8,693
Dividends paid		–10,791	–2,077
Cash flow from financing		28,367	787
Increase (+)/decrease(–) in cash and cash equivalents		4,045	–46,877
Cash and cash equivalents at beginning of financial year	21	26,348	74,400
Translation difference of cash and cash equivalents		2	–1,176
Cash and cash equivalents at end of financial year		30,395	26,348

Consolidated statement of changes in equity (IFRS)

EUR 1,000	Note	Share capital	Share premium account	Hedging reserve	Fair value reserve	Invested non-restricted equity fund	Translation difference	Retained earnings	Parent company shareholders' equity	Non-controlling interest	Shareholders' equity, total
Shareholders' equity 1.1.2010		34,043	5,750	–1,970			–1,698	234,512	270,637	23,213	293,849
Adjustment								–3,226	–3,226		–3,226
Adjusted shareholders' equity 1.1.2010		34,043	5,750	–1,970			–1,698	231,285	267,410	23,213	290,623
Result for the financial year								299	299	857	1,155
Translation difference							3,894		3,894		3,894
Cash flow hedge				460					460		460
Change in fair value					12				12		12
Comprehensive income for the financial year				460	12		3,894	299	4,665	857	5,522
Share issue to investors for cash consideration						39,525			39,525		39,525
Share issue to non-controlling interest for cash consideration						24,335			24,335		24,335
Transaction expenses of share issues						–716			–716		–716
Direct entries, acquisition of non-controlling interest								–10,105	–10,105		–10,105
Change in non-controlling interest										–17,068	–17,068
Cancellation of dividend liability								82	82		82
Dividends paid	22									–1,915	–1,915
Transactions with owners, total						63,144		–10,024	53,121	–18,983	34,137
Shareholders' equity 31.12.2010		34,043	5,750	–1,510	12	63,144	2,196	221,561	325,196	5,086	330,282

EUR 1,000	Note	Share capital	Share premium account	Hedging reserve	Fair value reserve	Invested non-restricted equity fund	Translation difference	Retained earnings	Parent company shareholders' equity	Non-controlling interest	Shareholders' equity, total
Shareholders' equity 1.1.2011		34,043	5,750	–1,510	12	63,144	2,196	221,561	325,196	5,086	330,282
Result for the financial year								34,720	34,720	851	35,571
Translation difference							–811		–811		–811
Cash flow hedge				570					570		570
Change in fair value					–12				–12		–12
Comprehensive income for the financial year				570	–12		–811	34,720	34,467	851	35,318
Direct entries, acquisition of non-controlling interest								–1,147	–1,147		–1,147
Change in non-controlling interest										–3,256	–3,256
Dividend distribution	22							–9,822	–9,822	–974	–10,796
Transfers between funds			–76			76					
Transactions with owners, total			–76			76		–10,969	–10,969	–4,230	–15,199
Shareholders' equity 31.12.2011		34,043	5,675	–940		63,220	1,385	245,311	348,693	1,708	350,401

Accounting principles applied in the IFRS consolidated financial statements, 31 December 2011

BASIC INFORMATION ON THE COMPANY

Lemminkäinen Corporation is a public limited company established under the laws of Finland and domiciled in Helsinki. The Company's registered address is Salmisaarenaukio 2, 00180, Helsinki, Finland. Lemminkäinen Corporation is the parent company of Lemminkäinen Group. The Group operates in all branches of the construction sector.

The Group comprises the following operating segments: Building Construction, Infrastructure Construction and Technical Building Services. Building Construction and Infrastructure Construction operate mainly in the Nordic countries and Eastern Europe. Technical Building Services operates globally.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the IAS and IFRS standards and SIC and IFRIC interpretations that were in force on 31 December 2011 have been observed in their preparation. The term 'International Financial Reporting Standards' refers to standards and interpretations of them authorised for use in the European Union in accordance with the procedure prescribed in EU Regulation (EC) No. 1606/2002 as well as in the Finnish Accounting Act and the provisions laid down pursuant to the Act. The notes to the consolidated financial statements are also in accordance with Finnish accounting and community legislation supplemental to the IFRS regulations. The consolidated financial statements will be available on the Company's website at www.lemminkainen.com from Week 11 of 2012 onward. Printed copies of the consolidated financial statements can be ordered from the Company's Corporate Communications staff: tel. +358 20 715 8067 or e-mail info@lemminkainen.fi, from Week 14 onward.

The figures in the financial statements are denominated in thousands of euros. Transactions are treated on the basis of original acquisition costs, with the exception of financial instruments. The Board of Directors approved the publication of the consolidated financial statements on 8 February 2012.

PRINCIPLES OF CONSOLIDATION

Subsidiaries

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

Direct acquisition costs are recognised as expenses in the income statement from the beginning of 2010. All costs arising directly from the acquisition were included in the acquisition costs until 31 December 2009.

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

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

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

Associated companies and joint ventures

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

Unrealised capital gains arising in connection with business and fixed asset transactions between the Group and associated companies or joint ventures are eliminated in proportion to the ownership share. The amounts are deducted from the Group's retained earnings and non-current assets. The eliminated capital gain is recognised through profit or loss as it is realised.

Shares of the results of associated companies are included in operating profit since they belong to the operations of reporting business segments.

OPERATING SEGMENTS

IFRS 8 Operating Segment Reporting requires that reported segment information be based on internal segment reporting to the management, which in Lemminkäinen Group means the president of Lemminkäinen Corporation, who is the chief operative decision-maker. Internal segment reporting to the management covers net sales, depreciation, operating profit, fixed assets, inventories, and trade receivables. The figures reported to the management are accurate to the nearest EUR 1,000.

Reportable segment information is generally prepared according to the principles applied for the consolidated financial statements. Imputed items are not considered in segment reporting. These items include, among others, depreciation of assets acquired by finance leasing, interest separated from payments, warranty provisions, and unrealised gains or losses on derivatives. In segment reporting to the management, finance leasing arrangements are treated as ordinary rental agreements, in deviation from the accounting principles of IFRS financial statements. Associated companies are combined in segment reporting in proportion to the ownership share using the line-by-line method. In IFRS financial statements, associated companies are combined in accordance with the equity method. In segment reporting, inter-segment sales are not allocated to segments, owing to their minimal magnitude, and are not reported to the management.

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

PRESENTATION OF THE FINANCIAL STATEMENTS

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

FOREIGN CURRENCY ITEMS

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

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

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

FINANCIAL ASSETS

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are financial assets held for trading or financial assets that are initially classified as financial assets at fair value through profit or loss. This category also includes all derivative contracts that do not meet the conditions set for hedge accounting in IAS 39. Currency and interest rate derivatives that do not meet the conditions set for the above-mentioned hedge accounting are entered in this category by the Group. Derivatives are carried at fair values based on market prices and generally accepted valuation models. Changes in the fair values are recognised in the Group's financial items.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

When assets classified as available-for-sale financial assets are sold or impairment is recognised, accumulated changes in the fair value recognised in equity are included in the income statement under other operating income or expenses.

LOANS AND RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

IMPAIRMENT OF FINANCIAL ASSETS

On every closing date, the Group assesses whether there is any objective evidence of impairment of the value of a financial asset or a group of financial assets. If there is objective evidence of impairment, the amount recoverable from the financial asset, which is the fair value of the asset, is estimated and the impairment loss is recognised wherever the book value exceeds the recoverable amount. Impairment losses are recognised in the income statement.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value, with the transaction costs deducted. Subsequently, all financial liabilities are measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities are capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The Group has non-current and current financial liabilities, and they may be interest-bearing or non-interest-bearing.

CAPITALISATION OF BORROWING COSTS

The Group capitalises the borrowing costs of obtaining an asset as part of its acquisition cost when qualifying projects and percentage-of-completion construction projects.

Qualifying assets

A qualifying asset is one that takes longer than a year to prepare for its intended purpose. A qualifying asset may be a fixed or movable asset, an inventory item, or an intangible asset.

Costs of borrowing for the purpose of acquisition of an asset

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

General borrowings

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

Prepayments

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

Commencement and cessation of capitalisation

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

DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives are recognised initially at the time of acquisition at fair value on the balance sheet and subsequently measured at fair value. Entries resulting from changes in the fair value are affected by whether or not the derivative has been specified as a hedging instrument in accordance with IAS 39 and the type of item the instrument is hedging.

The Group applies hedge accounting for hedging cash flows of certain variable-rate loans. The hedging relationship between the hedged item and the hedging instruments, as well as the Group's risk management objective and strategy, is documented by the Group upon the inception of the hedging arrangement. The effectiveness of the hedging relationship is assessed at inception and then at regular intervals at least on every reporting day. Changes in the value of the effective share of derivatives meeting the hedging conditions are entered in the fair value reserve of equity and presented in other comprehensive income. The ineffective portion is recognised under financial items in the income statement. The cumulative change in fair value is transferred from equity and recognised in the income statement for the periods in which the hedged item affects the result.

When a hedging instrument expires or is sold or the hedge no longer meets the criteria for hedge accounting, the hedge accounting is terminated. Any accumulated profit or loss from the hedging instrument remains in equity until the anticipated transaction is realised and recognised in the income statement. If the anticipated transaction is no longer expected to take place, any profit or loss recognised in equity is immediately transferred to financial items in the income statement.

Derivatives that do not meet the conditions set for hedge accounting are classified as current assets or liabilities. Changes in the fair value of these derivatives are recognised in financial income and expenses with the exception of commodity derivatives which changes in fair values are recognised in other operating income and expenses.

INCOME RECOGNITION PRINCIPLES

Recognition of income from the sale of manufactured goods

The Group recognises income from the sale of its manufactured products at the time when the essential risks and benefits associated with product ownership are transferred to the buyer and the Group no longer has any authority or control over the product. As a rule, this means the time when the product is handed over to the customer in accordance with the agreed terms and conditions of delivery. The fair value income received, adjusted for direct taxes, discounts given and exchange rate differences on foreign currency sales, is presented in the income statement as net sales.

Recognition of income from services

Income from services is recognised when the outcome of the relevant business transaction can be reliably estimated. Recognition is based on the degree of completion on the closing date. The same rules are applied as for recognition of construction projects under the percentage-of-completion method.

Recognition of income from construction projects

Percentage of completion

When recognising income from long term construction projects, the Group observes the percentage of-completion method on the basis of the degree of completion if the project in question possesses the characteristics of a negotiated contract. In such contracts, the buyer can decide on the primary structural or functional characteristics of the project before or during construction.

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

When the costs incurred and recognised profits are greater than billing based on the project's progress, the difference is presented in the balance sheet item 'Trade and other receivables'. If the costs incurred and recognised profits are less than the billing based on the project's progress, the difference is presented in the balance sheet item 'Accounts payable and other current liabilities'.

In the recognition of income from projects with lease liability commitments, the impact of the estimated realisation of these lease liabilities is taken into consideration.

Recognition on completion

Income from own building developments sold is recognised on completion in accordance with delivery principles, because such projects do not fulfil the criteria set for long term construction projects; these criteria include bearing the risks and rewards of ownership as well as the owner having control, which are not transferred to the buyer while construction is still in progress.

Recognition of life-cycle projects

In life-cycle projects, the operator – that is, the service provider – builds the infrastructure used for service provision or improves and maintains said infrastructure. The Group recognises income from construction and improvement services on the basis of the percentage of completion.

Recognition of interest and dividends

Interest income is recognised on a time basis by means of the effective interest rate method. Dividends are recognised when the right to receive payment is established.

VALUATION AND DEPRECIATION OF NON-CURRENT ASSETS

Tangible assets

The Group companies' tangible assets are shown on the balance sheet at cost less depreciation and impairment. Land is not subject to depreciation. Tangible assets are depreciated over their estimated economic lifetimes, which are as follows:

– Buildings and structures	10–40 years
– Machinery and equipment	4–10 years
– Mineral aggregate deposits	depreciation based on material depletion
– Other tangible assets	10 years

A tangible asset is subject to depreciation from the time that it is ready for service. Depreciation is charged over the period from the asset's introduction to use until the end of its useful economic life. The residual value and economic lifetime of assets are reviewed in connection with the preparation of each set of annual financial statements and, if necessary, these are adjusted to reflect any changes that may have occurred in the economic benefit expected. When depreciation charges are made according to plan, the residual value of the asset is zero.

The depreciation of property, plant and equipment items is discontinued when the asset in question is classified as available for sale as defined in IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations'.

Normal maintenance and repair costs are expensed as incurred. Significant improvements or additional investments are capitalised and depreciated over the remaining useful economic lifetime of the asset to which they pertain, provided that it is likely that the Company will derive future economic benefit from the asset. Capital gains on the sale of a tangible asset are presented in 'Other operating income', and losses in 'Other operating expenses'. The Group expenses the interest costs of tangible assets' acquisitions, unless the project meets the requirements for capitalisation of borrowing costs, in which case they are capitalised as part of the acquisition cost.

Intangible assets

Goodwill

Goodwill is the amount by which the cost of acquiring a company exceeds the Group's interest in the net fair value of its identifiable assets, liabilities and contingent liabilities at the time of acquisition. Goodwill on consolidation of business operations prior to 2004 is the carrying amount determined in accordance with earlier accounting standards, which is used as the IFRS deemed cost of acquisition. Goodwill is not amortised. Goodwill is regularly tested for impairment. In the impairment testing, goodwill is allocated to cash-generating units. Goodwill is recognised on the balance sheet at cost less impairment, which is expensed on the income statement. The holding of any non-controlling interests in the acquiree is measured either at fair value or the amount corresponding to the share of the identifiable net assets of the acquiree attributable to the non-controlling interests. The measurement principle is specified separately for each acquisition.

Research and development expenditure

Research and development expenditure is expensed as incurred, with the exception of development expenditure satisfying the capitalisation criteria of IAS 38, which is recognised on the balance sheet and amortised through profit or loss over its useful economic lifetime.

Other amortised costs

Intangible assets include amortised costs that are not related to tangible assets and have economic effects lasting longer than one year. These amortised costs include, for example, the costs of making basic repairs to leased premises. These costs would be amortised over the term of the lease.

Other intangible rights

Assets such as patents and software licence payments, as well as prepayments related to them, are also classified as intangible assets. Other intangible assets are recognised at cost on the balance sheet and amortised over their useful economic lifetime. The amortisation times of intangible assets are as follows:

- Software licence payments 5 years
- Other intangible rights 5–10 years

The asset is subject to depreciation from the time that it is ready for service. Depreciation is charged over the time from the asset's introduction into use until the end of its useful economic life. When depreciation charges have been made according to plan, the residual value of the asset is zero.

Financial assistance received

Financial assistance received from the Finnish State or some other public-sector source is recognised as income on the income statement at the same time as corresponding costs are expensed. Investment grants are deducted from the value of the asset in question.

Impairment

The carrying amount of an asset is assessed on each reporting date for determination of whether there are indications of impairment. If indications of impairment are found, the 'recoverable amount' for the asset in question is assessed. Annual impairment tests are always made for goodwill. The recoverable amount for an asset is either its fair value less costs to sell or, if higher, its value in use. In the measurement of value in use, expected future cash flows are discounted to their present value with discount rates that reflect the country's average capital costs before taxes. Market risk and non liquidity premiums are taken into consideration in the setting of the discount rates. If it is not possible to calculate the recoverable cash flows for an individual asset, the recoverable amount for the cash-generating unit to which the asset belongs is determined. An impairment loss is recognised on the income statement if the carrying amount exceeds the recoverable amount.

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

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

LEASING AGREEMENTS WHEREIN THE GROUP IS THE LESSEE

Leasing agreements that pertain to tangible assets in which substantially all risks and rewards of ownership are transferred to the Group are classified as finance leasing agreements. Finance leasing agreements are recognised as assets on the balance sheet at a value equal to the fair value of the leased item on the date of the lease's commencement or, if lower, the present value of the minimum lease payments. Corresponding liability is recognised in current and non-current loans.

Assets leased under finance leasing agreements are depreciated over the useful economic lifetime of the asset class or a shorter period as the lifetime of the lease elapses, and impairment losses are recognised as required. Annual leasing payments are divided into financial expenses and debt amortisation instalments over the lifetime of the lease so that the same interest rate is applied to the outstanding debt in every accounting period.

Leasing agreements in which the rights and risks of ownership are retained by the lessor are treated as other leasing agreements. Payments under other leasing agreements are treated as leasing expenses, and they are recognised on the income statement in equal instalments over the lifetime of the lease.

VALUATION OF INVENTORIES

Flats and other real property included in inventories are recognised on the balance sheet at cost or, if lower, their net realisable value. The net realisable value is the estimated selling price that may be obtained in an active market in the normal course of business, less the costs of selling and the costs necessary for completion of the product in question. Materials and supplies are valued according to the FIFO (first-in, first-out) principle. The value of inventories includes all of the variable costs arising from their acquisition and production as well as the proportion of fixed and general costs of manufacture that is attributable to them in conditions of normal production. The costs of selling are not included in the valuation of inventories at cost. Neither are financing costs included in the valuation of inventories at cost, except in the case of a project that meets the requirements set for capitalisation of borrowing costs.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value less transaction costs, and later at amortised cost. They are subject to impairment testing in connection with the preparation of the annual financial statements. Recognised doubtful receivables are assessed on a case-by-case basis. If there is objective evidence that the value of trade or other receivables is impaired, the credit losses are recognised as an expense on the income statement. When a debtor is in significant financial difficulties, any probable bankruptcy, delinquent payments, or payments that are more than 90 days overdue constitute evidence of the impairment of the trade receivables.

TREATMENT OF OWN BUILDING DEVELOPMENTS

Expenditure committed to own building developments is capitalised on the balance sheet as part of current assets and receivables. Liabilities and prepayments related to companies under construction are included in current liabilities.

The share of loans obtained that corresponds to the unsold proportion of flats that are still under construction as well as the proportion of loans for completed but unsold flats is included in current interest-bearing liabilities.

EMPLOYEE BENEFITS

Pension obligations

The pension schemes of Group companies operating in different countries are generally defined contribution plans. Payments in respect of defined-contribution plans are expensed on the income statement for the accounting period to which they apply. In the case of a defined-benefit plan, a pension liability is recognised to the extent that the plan gives rise to a pension obligation. If a defined-benefit plan gives rise to a pension surplus, it is recognised in prepayments and accrued income on the balance sheet.

The pension costs of a defined-benefit plan are measured by means of the projected unit credit method. The amount of pension liability is calculated by deduction of the fair value of the assets belonging to the pension scheme on the balance sheet date from the present value of the future pension obligations on the balance sheet date. The pension obligations are expensed on the basis of actuarial calculations for the duration of employee service. The actuarial gains and losses arising from these pension obligations are recognised on the income statement over the expected average remaining length of service of the participating employees to the extent that they exceed 10% of the defined-benefit obligation or, if greater, the fair value of the plan's assets. The discount rate applied is the interest rate payable on low-risk financial securities with maturities corresponding to the duration of the pension liability.

Management remuneration programmes

The management remuneration programme has three elements: salary and fringe benefits, short term remuneration and long term remuneration. Short term remuneration comprises annual performance related bonuses earned for exceeding predefined performance targets. Long term remuneration consists of not only pension remuneration but also rewards in the form of shares. The performance targets for share-type rewards are always set one year in advance. Any performance related bonuses and share-type rewards are paid out in the following year, once the results have been confirmed.

The expenses of other management remuneration programmes are recognised on the income statement as personnel expenses as they arise.

PROVISIONS

A provision is made when the Group has a legal or *de facto* obligation based on some past event and it is likely that freedom from liability either would require a financial payment or would result in financial loss, and that the amount of liability can be reliably measured. Provisions have to do with warranties, onerous work or contracts and landscaping and other environmental liabilities. They are generally realised in the beginning or following accounting period and their discounting to present value has no essential bearing on the correctness of the financial statements.

Provisions for construction warranties are calculated on the basis of the level of warranty expenses actually incurred in earlier accounting periods and are recognised when income from a completed project is recognised on the income statement. If the Group will receive reimbursement from a subcontractor or material supplier on the basis of an agreement in respect of anticipated expenses, the future compensation is recognised when its receipt is, in practice, beyond doubt.

Provision is made for onerous work or contracts when the amount of expenditure required by the agreement to fulfil the obligations exceeds the benefits that may be derived from it.

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

Ten-year liabilities related to own building developments are included as a provision in the financial statements to the extent that their realisation is considered likely.

In the recognition of income from projects with lease liability commitments, the impact of the estimated realisation of these lease liabilities is taken into consideration.

INCOME TAXES

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

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

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

DISTRIBUTION OF DIVIDENDS

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

EARNINGS PER SHARE

The undiluted earnings per share are calculated by division of the profit for the accounting period attributable to the shareholders of the parent company by the weighted average number of shares outstanding during that period. In calculation of the diluted earnings per share, the diluting effect stemming from the conversion of all dilutive potential ordinary shares into shares must be taken into account in the weighted average number of shares outstanding.

TREASURY SHARES

If the Company or its subsidiaries acquire the Company's treasury shares, the Company's equity is reduced by the amount of consideration paid for the shares plus transaction costs after taxes until such time as the treasury shares are cancelled. If treasury shares are sold or reissued, the consideration is recognised in equity. No gains or losses are recognised in respect of purchases, sales, issuance, or cancellation of the Company's own equity instruments.

MANAGEMENT JUDGEMENT AND ESTIMATES

The use of judgement and estimates

When preparing the financial statements, the Company's management have to make accounting estimates and assumptions about the future, as well as judgement-based decisions on the application of the accounting principles. These estimates and decisions affect the reported amounts of assets, liabilities, income and expenses for the accounting period as well as the recognition of contingent items. The estimates and judgements are based on experience-based and other justifiable assumptions that are believed to be reasonable under the prevailing circumstances. Information on key aspects of the financial statements for which management judgement and estimates have been necessary is presented below.

The Company's management have had to make judgements when determining the economic lifetimes of tangible and intangible assets, and when classifying leases into finance leasing agreements and other leasing agreements. The estimates and forward-looking assumptions made on the balance sheet date mainly pertain to income recognition in accordance with the percentage of contract completion, the recognition of provisions, the valuation of assets belonging to acquired companies and their realisability, the formulae used to calculate employee benefits, the forecasts and assumptions used in impairment tests, and the setting off of deferred tax assets against future taxable profit.

Economic lifetimes of tangible and intangible assets

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

Leasing agreements wherein the Group is the lessee

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

Recognition of income from construction projects

When recognising income from long term construction projects, the Group follows the percentage of completion method on the basis of the extent of completion if the project in question fulfils the criteria for a negotiated contract. In such contracts, the buyer can decide on the primary structural or functional characteristics of the project before or during construction. Costs actually incurred include only those costs that correspond to work already carried out. Management estimates are necessary for reliable determination of the total costs that will be incurred for completion of a project. All project costs are itemised and measured as accurately as possible, to facilitate comparison with earlier values. If the management assess a project to be onerous (i.e., total costs exceed total income), the loss is immediately expensed. If the management are unable to make a reliable determination of the total income from a construction project, the income is recognised in accordance with delivery.

Recognition of provisions

On the basis of the historical evidence available, the management estimate whether it is likely that the settlement of a present obligation will result in an outflow of resources embodying economic benefits from the Group. If such a condition exists and a reliable estimate as to the amount and the timing of the obligation can be made, then it is recognised as a provision in the financial statements.

Valuation at cost

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

Employee benefits

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

Impairment testing

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

Taxes

The most essential estimate made by the management pertains to the principles for recognition of deferred tax assets. The reversal of a tax-deductible temporary difference reduces the taxable profit in future accounting periods. The most common tax-deductible temporary difference between accounting and taxation is a confirmed tax loss. The management must judge whether there will be sufficient taxable profit in the future for the purpose of making use of remaining tax losses. A deferred tax asset arising from unused tax losses is recognised only to the extent of the likelihood that there will be future taxable profit against which the unused tax losses may be utilised.

The estimates are based on the management's best judgement, but actual outcomes may differ from the estimates used in the financial statements.

NEW STANDARDS AND INTERPRETATIONS

Standards and interpretations that became effective in 2011

The standards and interpretations that became effective in 2011 have no material impact on the consolidated financial statements.

The following amendments to standards and interpretations have no material impact on the consolidated financial statements: IFRS 3 (amendments), IFRS 7 (amendment), IAS 1 (amendment), IAS 24 (revised), IAS 27 (amendment), IAS 32 (amendment), IAS 34 (amendment), IFRIC 13 (amendment), IFRIC 14 (amendment) and IFRIC 19 (amendment).

Standards and interpretations that became effective at the beginning of 2012

The following amendments to standards and interpretations will have no material impact on the consolidated financial statements: IAS 12 (amendment) and IFRS 7 (amendment).

Notes to the consolidated financial statements (IFRS)

1 AMENDMENTS CONCERNING EARLIER FINANCIAL YEARS

The company has adjusted a claim for compensation that was recognised early from the assets for the comparison year in 2008. This adjustment diminishes the retained earnings by EUR 3.2 million and the trade and other receivables by EUR 4.4 million and increases deferred tax assets by EUR 1.1 million. The opening balance sheet dated 1 January 2010 and the notes have been adjusted accordingly.

CHANGES TO THE CONSOLIDATED BALANCE SHEET

31.12.2010 EUR 1,000	Balance sheet before adjustment	Other changes	Adjusted balance sheet
Deferred tax asset	16,275	1,134	17,409
Trade and other receivables	330,335	–4,360	325,975
Assets, total	1,065,252	–3,226	1,062,025
Retained earnings	224,488	–3,226	221,262
Shareholders' equity, total	333,509	–3,226	330,282
Shareholders' equity and liabilities, total	1,065,252	–3,226	1,062,025

2 INFORMATION BY BUSINESS SECTOR

Lemminkäinen Group's main business sectors were reorganised starting 1.1.2011 to three business sectors: building construction, infrastructure construction and technical building services. Functions outside the business sectors are reported under unallocated items.

Building Construction (Lemminkäinen Talo Oy)

The business sector engages in residential construction, commercial and office construction, industrial and logistics construction, and sports and recreational construction.

Infrastructure Construction (Lemminkäinen Infra Oy)

The business sector engages in the construction and maintenance of road, street and railway networks as well as rock, concrete and geotechnical engineering. The company has its own asphalt, concrete and mineral aggregate production.

Technical Building Services (Lemminkäinen Talotekniikka Oy)

The company's business areas are technical building services, technical facility services and industrial services, and telecommunications network construction. The company provides installation, contracting, servicing and maintenance services.

Unallocated items

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

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

OPERATING SEGMENTS

1.1.–31.12.2011 EUR 1,000	Building Construction	Infrastructure Construction	Technical Building Services	Other operations	Eliminations	Segments total	Reconciling items	Group total, IFRS
Net sales	894,070	1,178,839	293,887	31,013	–90,434	2,307,375	–33,248	2,274,127
Depreciation and impairment on goodwill	676	35,620	943	3,111		40,350	–2,280	38,070
Operating profit	16,284	63,940	5,205	–16,620		68,809	–15,308	53,501

The reconciling items for net sales comprise EUR –29.5 million from the equity share treatment of associates and EUR –3.8 million from discontinued operations. The reconciling items for operating profit comprise EUR 0.7 million in personnel expenses, EUR 0.3 million from the IFRS treatment of finance leasing, EUR –1.0 million from the equity share treatment of associated companies and EUR –15.3 million in other closing entries.

1.1.–31.12.2010 EUR 1,000	Building construction	Infrastructure construction	Technical building services	Other operations	Eliminations	Segments total	Reconciling items	Group total, IFRS
Net sales	770,217	932,904	269,087	11,383	–72,576	1,911,015	–81,453	1,829,562
Depreciation	2,070	34,801	939	958		38,768	–3,722	35,046
Operating profit	25,622	15,276	4,455	–15,634		29,719	–158	29,561

The reconciling items for net sales comprise EUR –18.5 million from the equity share treatment of associates and EUR –62,9 million from discontinued operations. The reconciling items for operating profit comprise EUR –1.1 million in personnel expenses, EUR 2.5 million from the IFRS treatment of finance leasing, EUR –0.7 million from the equity share treatment of associated companies, EUR –1.4 million in other closing entries and EUR 0.5 from discontinued operations.

EUR 1,000	31.12.2011	31.12.2010
Assets by operating segment		
Building Construction	505,503	440,086
Infrastructure Construction	363,656	317,845
Technical Building Services	46,971	44,452
Other operations	50,788	46,217
Segments, total	966,918	848,600
Assets not allocated to segments and group eliminations, total	275,839	213,425
Group total, IFRS	1,242,757	1,062,025

3 INFORMATION BY MARKET AREA

GEOGRAPHICAL SEGMENTS

1.1.–31.12.2011 EUR 1,000	Finland	Other Nordic countries	Eastern Europe and the Baltic states	Other countries	Total
Net sales	1,493,845	525,611	216,115	38,557	2,274,127
Assets	840,589	227,733	145,458	28,977	1,242,757
Investments	43,120	36,402	4,378	77	83,976

1.1.–31.12.2010 EUR 1,000	Finland	Other Nordic countries	Eastern Europe and the Baltic states	Other countries	Total
Net sales	1,286,097	327,285	178,351	37,828	1,829,562
Assets	735,555	153,217	142,509	30,744	1,062,025
Investments	32,914	19,420	7,111	134	59,579

Revenues are allocated to segments according to the location of customers and assets according to their geographic location.

4 ACQUIRED BUSINESSES

2011

On 1 January 2011 the capital stock of Ylivieskan Putkiasennus Oy was acquired in its entirety. The company is engaged in the installation of heating, piping and ventilation. Acquisition costs allocated to customer accounts and margins of the order book were booked in intangible assets in connection with the acquisition. The acquisition entails contingent additional acquisition prices, owing to which the final acquisition price will be confirmed within four years of the time of acquisition. The current value of the additional acquisition prices was recognised as a liability in the balance sheet.

On 26 May 2011 Lemminkäinen acquired Sotkamon Sora ja Sepeli Oy. The company is engaged in earth construction, crushing of mineral aggregates and concrete, selling mineral aggregates and public road maintenance contracting. The goodwill recognised on this acquisition comprises an increase in market share as well as cost-savings in procurements, logistics and production. The acquisition price will be settled in accordance with the agreed payment programme within three years of the time of the acquisition. The current value of the unpaid share was recognised as a liability in the balance sheet.

On 31 May 2011 Lemminkäinen acquired Mesta Industri AS. The company specialises in asphalt and mineral aggregates business. Acquisition costs allocated to customer accounts and margins of the order book were booked in intangible assets in connection with the acquisition. The acquisition generated negative goodwill due to assets and liabilities being measured at fair value. The negative goodwill was recognised in other income from business operations in the income statement.

In the year 2011 the recognised fair values of the acquired business operations after merging are presented in the table below.

EUR 1,000	Fair values recognised after merging 2011
Assets	
Tangible assets	24,629
Intangible assets	1,886
Investments	1,023
Deffered tax asset	4,816
Inventories	7,294
Current receivables	12,665
Cash and cash equivalents	270
Assets, total	52,584
Liabilities	
Pension liabilities	2,831
Deferred tax liabilities	359
Provisions	4,740
Loans	396
Other liabilities	18,957
Liabilities, total	27,283
Net assets	25,301
Acquisition price paid in cash	14,361
Share of purchase price booked as liability	641
Acquisition cost, total	15,002
Goodwill	–10,298
Recognised in balance sheet goodwill	768
Negative goodwill recognized during the financial	–11,067
Transaction price paid in cash	14,361
Cash funds of acquired subsidiary	270
Cash flow effect	14,092
Expensed acquisition expenditure	563

On the consolidation of the acquired business operations, EUR 105.0 million has been recognised in net sales and EUR 5.6 million in operating profit. Full-year net sales of the acquired business operations in 2011 amounted to about EUR 117.6 million and operating profit to about EUR –1.0 million. If the acquirees had been consolidated as from the beginning of the year, consolidated net sales would have been EUR 2,286.8 million and operating profit EUR 46.9 million.

2010

On 21 April 2010, the Company acquired 75,0% of the outstanding in Asfalt Remix AS, a company specialising in the cold milling of asfalt. The goodwill recognised on this acquisition comprises an increase in market share as well as cost-savings in procurements, logistics and production. In addition, acquisition costs allocated to customer accounts have beem booked in intangible assets. The acquisition includes the option to redeem shares from non-controlling shareholders at a value based on average post-tax earnings for the past three years and the change in shareholders' equity. The redemption price is determined on the basis of these two components to its present value on the closing date and recognised as a liability.

On 9 June 2010, the Company acquired 90.1% of the shares outstanding Risa Rock AS and renamed it Lemminkäinen Anlegg AS. The acquiree specialises in tunnel excavation. The goodwill recognised on this acquisiton comprises an increase in market share as well as cost-savings in procuremets, logistics and production. In addition, acquisition costs allocated to customer accouts and the order book have been booked in intangible assets. The acquisition includes the option to redeem shares from non-controlling shareholders at a valuea based on average EBITDA over a period of four years, adjusted with working capital. The redemption price is determined on the basis of this component and it iis discounted to its present valuea on the closing date and recognised as liability.

On 4 October 2010, the Company acquired all the shares outstanding in UAB Žvyrkasyba, a company that owns and sells gravel assets. Most of the consolidation difference of this acquisiton is allocates to gravel assets. The recognised goodwill comprises synergy benefits and the cost-savings achieved in procurements.

On 26 October 2010, the Company acquired all the shares outstanding in Suonenjoen Sementtituote Oy, a company that manufactures concrete elements for construction. The consolidation difference from this acquisition has been allocated to the building transferred in the transaction. The recognised goodwill comprises synergy benefits from the acquisition of the company.

In the year 2010 aggregated information on these acquisitions is presented in the following table.

EUR 1,000	Fair values recognised after consolidation 2010
Assets	
Tangible assets	7,272
Intangible assets	3,835
Investments	5
Inventories	372
Current receivables	2,125
Cash and cash equivalents	5,147
Assets, total	18,757
Liabilities	
Deferred tax liabilities	1,576
Loans	7,019
Other liabilities	2,487
Liabilities, total	11,081
Net assets	7,676
Acquisition price paid in cash	11,384
Discounted present value of the redemption option recognised as a liability	2,071
Acquisition cost, total	13,455
Goodwill, total	5,779
Expensed acquisition expenditure	172
Contingent liabilities recognised on redemption options	
Contingent liabilities at time of acquisition	2,870
Contingent liabilities at time of acquisition if predicted to be	
10 percentage points higher	3,157
10 percentage points lower	2,583

On the consolidation of the acquired business operations, EUR 17.4 million has been recognised in net sales and EUR 0.6 million in operating profit. Full-year net sales of the acquired business operations in 2010 amounted to about EUR 23.0 million and operating profit to about EUR 0.7 million. If the acquirees had been consolidated as from the beginning, consolidated net sales would have been EUR 1,898.1 million and operating profit EUR 29.2 million.

5 DISCONTINUED BUSINESS OPERATIONS

The Group sold its roofing business to Axcel in January 2011. The Group decided on sale in December 2010. Roofing business was categorised as discontinued operation in the interim report in 31 March 2011. The result of operations of the sold unit, the capital gains from its sale and its part of cash flows were as follows:

EUR 1,000	1.1.–31.1. 2011	1.1.–31.12. 2010
The result of the roofing business		
Income	3,787	62,936
Expenses	–5,642	–63,770
Profit before taxes	–1,855	–834
Taxes	482	217
Result for the financial period	–1,373	–617
Pre-tax capital gains from the sale of the roofing business	17,114	
Taxes	–4,449	
Capital gains after taxes	12,664	
Result for the period from discontinued operations	11,291	–617
Cash flow from business operations	–1,904	
Cash flow from investments	–54	
Cash flow from financing	1,958	
Cash flows, total	0	

EUR 1,000	31.1.2011
The impact of the sale of roofing business to groups' financial position	
Property, plant and equipment	1,986
Receivables	7,909
Inventories	5,245
Accouts payable and other liabilities	–4,169
Assets and liabilities, total	10,971
Cash considerations	28,085

Available-fo-sale non-current assets in 2010

Assets and liabilities related to the roofing business are presented as held for sale after the Group signed an agreement on 15 December 2010 to sell its roofing business.

EUR 1,000	31.12.2010
Non-current assets held for sale	
Property, plant and equipment	1,950
Intangible assets	8
Available-for-sale financial assets	0
Inventories	6,242
Other current assets	5,898
Total	14,097
Liabilities related to non-current assets held for sale	
Other current liabilities	4,383

6 INFORMATION ON CONSTRUCTION PROJECTS

EUR 1,000	31.12.2011	31.12.2010
Percentage-of-completion method		
Recognition of project income by the percentage-of-completion method	1,833,335	1,639,744
Incurred costs and recognised net profits of work in progress (less booked losses)	1,163,371	1,111,954
Payments received in advance (for work not yet done)	10,657	17,149
Gross project-related receivables from clients	55,490	52,841
Gross project-related debts to clients	92,478	79,336
Completed-contract method		
Income recognised as revenue on delivery from own building developments	276,587	170,965
Inventories recognised from own building developments	170,421	131,755
Advance payments recognised for own building developments	26,331	55,202

Service concession arrangements

In 2011, the Group had one ongoing life-cycle project, Kuopio life-cycle project.

The company established for this life-cycle project, Lemminkäinen PPP Oy (the service provider), signed the agreement with Kiinteistö Oy Kuopion koulutilat (the financier) on 14 December 2009. The project comprises new construction and renovation works for four schools and one day-care centre. The service provider is responsible for building management and maintenance for a period of 25 years. The total value of the project is EUR 93.5 million. All construction work in the project must be completed by autumn 2013.

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

The City of Kuopio shall have the right to terminate the agreement with a six-month period of notice if the sum of the reductions in usability and service level for the 12 months prior to the inspection period at one or more of the properties is no less than 50% of the annual service fees of said property/properties. The City of Kuopio shall have the right to terminate the agreement after the 10th and 20th years of the agreement, that is, in 2021 and 2031.

The service provider shall have the right to terminate the agreement with a six-month period of notice, if the financier or the City of Kuopio neglect their payment obligations for 90 days.

7 OTHER OPERATING INCOME

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Capital gains on sale of tangible assets	6,335	21,336
Capital gains on sale of investments	220	121
Rental income	318	385
Net income from hedging purchases and sales	1,736	23
Financial aid and accident compensation received	661	1,566
Negative goodwill	11,014	
Others	436	3,394
	20,719	26,824

8 OTHER OPERATING EXPENSES

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Capital losses on sale of tangible and intangible assets	173	527
Capital losses on sale of investments	132	2
Voluntary personnel-related expenses	13,162	14,387
Rental expenses	42,169	37,608
Direct acquisiton costs	563	172
Other production expenses	175,771	135,598
Other fixed expenses	60,361	61,175
	292,331	249,468

9 DEPRECIATION AND IMPAIRMENT

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Depreciation of tangible assets		
Buildings and structures	1,648	2,275
Machinery and equipment	18,298	19,300
Leased assets	10,917	10,079
Other tangible assets	2,953	1,808
	33,816	33,463
Depreciation of intangible assets		
Software licences	762	765
Other intangible rights	3,350	752
Other intangible assets	70	66
	4,182	1,584
Depreciation, total	37,997	35,046

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Impairment		
Goodwill	73	

10 PERSONNEL AND EMPLOYEE BENEFIT EXPENSES

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Personnel expenses		
Wages and salaries	370,839	332,571
Pension expenses	54,926	51,056
Other personnel-related expenses	30,758	27,898
	456,523	411,525
Management salaries and emoluments		
Salaries and fees paid to Board members and the managing directors	3,944	6,095

Pension expenses are dealt with in greater detail in section 23 of the notes and management remuneration schemes in section 33.

	1.1.–31.12. 2011	1.1.–31.12. 2010
Average number of employees		
Salaried staff	2,932	2,913
Hourly paid workers	5,489	5,401
	8,421	8,314
Personnel by business segment		
Building Construction	2,228	2,063
Infrastructure Construction	3,914	4,000
Technical Building Services	2,017	2,060
Parent company	261	191
	8,421	8,314

Pension commitments

The members of Lemminkäinen Group's Executive Board can retire at 60 years of age. The members of the Executive Board are Lemminkäinen Corporation's President and CEO, Chief Financial Officer, Executive Vice President, Human Resources and Information Technology, Executive Vice President, Corporate Business Development, as well as the heads of the business sectors.

11 SHARE OF THE RESULTS OF ASSOCIATES

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Share of the results of associates		
Share of the profits of associates	1,881	884
Share of the losses of associates	–13	–141
	1,867	743

EUR 1,000	31.12.2011	31.12.2010
Shares in associates 1.1.	7,605	6,251
Translation difference	38	358
Increases	1,942	1,381
Decreases	–294	–385
Shares in associates 31.12.	9,291	7,605

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

MAJOR ASSOCIATES (INFORMATION PRESENTED IN FULL)

EUR 1,000	Group's ownership, %	Assets	Liabilities	Net sales	Result for the financial year
2011					
Finavo Oy, Finland	47.5	2,289	1,179	453	
Genvej A/S, Denmark	50.0	607	158	247	55
Martin Haraldstad AS, Norway	50.0	9,297	3,921	7,745	1,035
Nordasfalt AS, Norway	50.0	17,647	10,717	36,529	2,157
Ullensaker Asfalt ANS, Norway	50.0	3,266	206	14,446	190
2010					
Finavo Oy, Finland	47.5	1,075	1,059	5,475	–1
Genvej A/S, Denmark	50.0	587	217	417	24
Martin Haraldstad AS, Norway	50.0	9,266	4,956	6,133	834
Nordasfalt AS, Norway	50.0	12,898	8,166	24,888	487
Ullensaker Asfalt ANS, Norway	50.0	3,121	343	5,599	–283

12 FINANCIAL INCOME AND EXPENSES

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Financial income		
Interest income from loans and receivables	2,287	2,549
Interest incom from available-for-sale financial assets	53	
Dividend income from available-for-sale financial assets	96	155
Capital gains from available-for-sale financial assets	75	
Foreign exchange rate gains	8,670	16,523
Gains on the change in fair value of interest rate derivatives		421
Other financial income	264	118
Financial income, total	11,446	19,765
Financial expenses		
Interest expenses for financial liabilities recognised at amortised cost	17,375	15,449
Foreign exchange rate losses	11,076	17,351
Losses on the change in fair value of interest rate derivatives	–343	607
Other financial expenses	2,823	8,811
Financial expenses, total	30,931	42,219
Capitalisation of borrowing costs of qualifying assets	–565	–484
Financial expenses, total	30,366	41,735
Financial income and expenses, total	–18,920	–21,969

EXCHANGE RATE DIFFERENCES RECOGNISED IN THE INCOME STATEMENT

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Exchange rate differences on sales	29	1,249
Exchange rate differences on purchases	435	1,185
Exchange rate differences on financial items	–2,405	–829
Exchange rate differences, total	–1,941	1,605

13 TAXES

The taxes of Finnish Group companies for their result for the 2011 financial year were recognised at the tax rate of 26%, which was the corporate tax rate in force on the balance sheet date. Deferred tax was recognised in Finnish companies with a tax rate of 24.5%, which was approved by Parliament on 13 December 2011 as the new corporate tax rate.

INCOME TAXES

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Income taxes on normal business operations	–3,620	–9,854
Income taxes in respect of previous years	–684	–1,137
Deferred taxes	–5,997	5,171
	–10,301	–5,819
Reconciliation of taxes on the income statement and taxes calculated at the Finnish tax rate		
Result before taxes	34,581	7,592
Taxes calculated on the above at the Finnish tax rate	–8,991	–1,974
Differing tax rates of foreign subsidiaries	–1	–426
Tax-exempt income in income statement	3,047	137
Non-deductible expenses in income statement	–3,519	–1,683
Deductible non-income statement items	334	353
Taxable non-income statement items	–375	–733
Use of unrecognised earlier tax losses		69
Loss-making results for the financial year		–162
Effect of change in the corporate tax rate	–52	
Other items	–62	–265
Taxes for the previous financial year	–684	–1,137
Taxes on the income statement, total	–10,301	–5,819

DEFERRED TAXES

EUR 1,000	31.12.2011	31.12.2010
Deferred tax assets		
Internal margin on fixed assets	469	544
Landscaping provision	610	702
Confirmed losses	15,124	10,700
Fair valuation	308	510
Other temporary differences	2,846	4,953
	19,356	17,409
Deferred tax liabilities		
Accumulated depreciation differences	12,587	9,654
Revaluations	775	823
Recognition of income from long term projects	4,337	2,821
Fair valuation	1,959	2,042
Other temporary differences	2,068	2,238
	21,727	17,577

According to Group strategy, it will be possible to utilise the deferred tax assets recognised from losses, EUR 15.1 million (EUR 10.7 million in 2010) in full from future taxable profit. In 2011, EUR 0.3 million (EUR 0.2 million in 2010) of deferred tax assets was left unrecognised from tax losses.

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

OTHER COMPREHENSIVE INCOME ITEMS

EUR 1,000	Before taxes	Taxes	After taxes
2011			
Translation difference	–811		–811
Cash flow hedges	771	–200	570
Fair value change	–17	4	–12
	–57	–196	–253
2010			
Translation difference	3,894		3,894
Hedging of net investments	622	–162	460
Cash flow hedges	17	–4	12
	4,532	–166	4,366

14 DIVIDENDS PAID AND PROPOSED

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Dividend paid during the financial year		
Per share for the previous year, EUR	0.50	0.00
In total for the previous year, EUR 1,000	9,822	0.00
Proposed for approval by the AGM		
Per share for the financial year, EUR	0.50	0.50
In total for the financial year, EUR 1,000	9,822	9,822

15 TANGIBLE ASSETS

EUR 1,000	Land	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost, 1.1.2011	13,499	50,611	343,638	38,651	2,558	448,958
Translation difference	9	34	192	43	0	279
Increases	323	560	38,653	2,978	4,831	47,344
Increases from acquired businesses	2,085	475	18,163	5,577		26,300
Decreases	–2,041	–2,051	–50,932	–3,473	–367	–58,863
Transfers between items	–271		1,198	274	–1,205	–4
Acquisition cost, 31.12.2011	13,604	49,631	350,912	44,051	5,817	464,014
Accumulated depreciation, 1.1.2011		–33,809	–218,780	–21,110		–273,699
Translation difference		–45	–116	–35		–196
Accumulated depreciation on increases		–1	–87			–87
Accumulated depreciation on decreases		1,971	45,642	3,353		50,967
Depreciation for the financial year		–1,648	–29,215	–2,953		–33,816
Accumulated depreciation, 31.12.2011		–33,532	–202,555	–20,745		–256,832
Carrying amount, 31.12.2011	13,604	16,099	148,357	23,305	5,817	207,182
Carrying amount, 1.1.2011	13,499	16,802	124,858	17,541	2,558	175,259

EUR 1,000	Land	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost, 1.1.2010	13,369	55,461	351,275	34,499	3,671	458,275
Translation difference	59	224	2,513	302	15	3,114
Increases	114	1,315	26,033	2,810	2,113	32,385
Increases from acquired businesses	32	1,645	5,065	1,175		7,917
Decreases	−42	−4,858	−33,915	−392	−1,357	−40,563
Discontinued operations	−54	−1,935	−10,052		−136	−12,177
Transfers between items	21	−1,242	2,720	257	−1,749	7
Acquisition cost, 31.12.2010	13,499	50,611	343,638	38,651	2,558	448,958
Accumulated depreciation, 1.1.2010		−34,798	−219,474	−19,390		−273,661
Translation difference		−200	−1,860	−169		−2,229
Accumulated depreciation on increases		−112	−397	−10		−519
Accumulated depreciation on decreases		2,344	23,218	383		25,945
Accumulated depreciation from discontinued operations		1,228	8,999			10,227
Transfers between items		3	114	−117		
Depreciation for the financial year from continued and discontinued operations		−2,275	−29,379	−1,808		−33,463
Accumulated depreciation, 31.12.2010		−33,809	−218,780	−21,110		−273,699
Carrying amount, 31.12.2010	13,499	16,802	124,858	17,541	2,558	175,259
Carrying amount, 1.1.2010	13,369	20,664	131,801	15,109	3,671	184,613

The Group has no capitalised interest expenses.

EUR 1,000	31.12.2011	31.12.2010
Assets acquired under finance lease agreement are included in machinery and equipment as follows:		
Acquisition cost, 1.1.	119,243	114,022
Translation difference	135	711
Increases	15,822	9,064
Decreases	−34,475	−4,554
Acquisition cost, 31.12.	100,725	119,243
Accumulated depreciation, 31.12.	−43,670	−65,380
Carrying amount, 31.12.	57,055	53,863

16 INTANGIBLE ASSETS

EUR 1,000	Goodwill	Intangible rights	Other capitalised expenditure	Advance payments	Total
Acquisition cost, 1.1.2011	84,847	8,798	8,492	5,978	108,116
Translation difference	150	–1	27		176
Increases	32	1,103	955	5,507	7,598
Increases from acquired businesses	736	8	1,880		2,624
Decreases		–579	–5	–827	–1,411
Transfers between items		770	6,691	–7,457	4
Acquisition cost, 31.12.2011	85,766	10,099	18,041	3,202	117,108
Accumulated depreciation, 1.1.2011		–6,707	–2,155		–8,861
Translation difference		1	–11		–11
Accumulated depreciation on decreases		424			424
Depreciation for the financial year		–832	–3,350		–4,182
Impairments	–73				–73
Accumulated depreciation, 31.12.2011	–73	–7,114	–5,516		–12,703
Carrying amount, 31.12.2011	85,693	2,985	12,526	3,202	104,405
Carrying amount, 1.1.2011	84,847	2,092	6,338	5,978	99,255

EUR 1,000	Goodwill	Intangible rights	Other capitalised expenditure	Advance payments	Total
Acquisition cost, 1.1.2010	78,265	8,035	2,125	193	88,618
Translation difference	803	1	31		835
Increases		895	6,453	5,954	13,302
Increases from acquired businesses	5,779	76			5,856
Decreases		–380	–73		–453
Discontinued operations		–12	–22		–35
Transfers between items		183	–21	–169	–7
Acquisition cost, 31.12.2010	84,847	8,798	8,492	5,978	108,116
Accumulated depreciation, 1.1.2010		–6,233	–1,422		–7,656
Translation difference		–67	18		–49
Accumulated depreciation on increases		–10			–10
Accumulated depreciation on decreases		359	51		411
Accumulated depreciation from discontinued operations		10	17		27
Depreciation for the financial year from continued and discontinued operations		–765	–818		–1,584
Accumulated depreciation, 31.12.2010		–6,707	–2,155		–8,861
Carrying amount, 31.12.2010	84,847	2,092	6,338	5,978	99,255
Carrying amount, 1.1.2010	78,265	1,802	703	193	80,963

Goodwill impairment tests are made at least once a year and whenever there are indications of possible impairment. The tests are carried out as value-in-use calculations of individual businesses in accordance with the smallest cash-generating unit principle. The calculations are prepared in accordance with the management's estimates of business development and the future outlook. The management's estimates are based on its knowledge and long experience of the Company's business sectors as well as on development forecasts generally available for them.

Goodwill is allocated to the following operating segments:

EUR 1,000	Finland	Other Nordic countries	Eastern Europe and the Baltic states	Market areas, total	Common to segment 1)	Total
31.12.2011						
Building Construction	5,840	244	587	6,671		6,671
Infrastructure Construction	12,069	16,094	1,322	29,485	23,986	53,471
Technical Building Services	25,550			25,550		25,550
	43,459	16,338	1,909	61,707	23,986	85,693

EUR 1,000	Finland	Other Nordic countries	Eastern Europe and the Baltic states	Market areas, total	Common to segment 1)	Total
31.12.2010						
Building Construction	5,856	244	660	6,760		6,760
Infrastructure Construction	11,098	16,261	1,322	28,681	23,903	52,584
Technical Building Services	25,503			25,503		25,503
	42,456	16,506	1,982	60,944	23,903	84,847

1) The goodwill reported in the "Common to segment" column has arisen from the acquisition of Danish and Norwegian asphalt businesses. It is allocated to the whole paving and mineral aggregates cash generating unit because it is Lemminkäinen's strategy to operate broadly in countries of the Baltic Rim region. This goodwill has been tested at the level of the whole paving and mineral aggregates cash generating unit, in addition to which the goodwill allocated to each business area of infrastructure Construction has been tested separately for each country.

In impairment testing the discounted present value of the recoverable cash flows of each cash-generating unit is compared with the carrying amount of the unit in question. If the present value is lower than the carrying amount, the difference is recognised through profit or loss as an expense in the current year.

Cash flow statements of the business units are prepared for a planning period covering the next 5 years in accordance with the management's estimates. Cash flow forecasting beyond that planning period is cautious and based on the assumption that there will be no real growth of the business.

The Weighted Average Cost of Capital (WACC), calculated for each individual unit, is used as the discount factor. WACC takes into account the risk-free interest rate, the liquidity premium, the expected market rate of return, the industry's beta value, and the debt interest rate, including the interest rate margin. These components are weighted according to the fixed, average target capital structure of the sector. Pre-tax WACC is determined unit-specifically in testing. In the tests for 2011, long term risk-free interest rate levels remained exceptionally low as investors sought safety from government bonds with good credit rating, keeping discount rates at a low level. In addition, the interest rate margin of liabilities was lower compared with the previous year.

The sector-specific weighted averages of the key assumptions used in the value-in-use calculations: 1)

	Building Construction	Infrastructure Construction	Technical Building Services
2011			
Discount rate, % (before taxes)	**7.3**	**7.4**	**7.5**
Average growth rate of net sales, %	**11.5**	**3.7**	**4.5**
Long term average growth rate, %	**1.0**	**1.0**	**1.0**
2010 2)			
Discount rate, % (before taxes)	7.8	8.3	8.1
Average growth rate of net sales, %	6.1	6.4	6.5
Long term average growth rate, %	1.0	1.0	1.0

1) The figures should not be regarded as forecasts for the entire business sector since the averages are calculated for only the cash-generating units to which goodwill has been allocated. The differences in the size of the cash-generating units are taken into account by weighting the figures according to the net sales of units when calculating the average. The forecasts are based on cautious outlooks so as to ensure the reliability of the test results.

2) The figures for the comparative period adjusted according to the new group structure in effect from 2011.

Lemminkäinen recognised an impairment of goodwill of less than EUR 0.1 million in connection with testing in the third quarter of 2011 in relation to the decision to shut down the company in the Talo business sector that carried on project management operations in Hungary. For the other cash generating units, goodwill impairment tests made during the third quarter of 2011 indicated that the present value of cash flows exceeded the carrying amount in all of the business units. Therefore there was no need to recognise any further impairment of goodwill.

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

The sensitivity analyses indicated that variations in key assumptions considered generally relevant, reasonable and customary for Lemminkäinen's business sectors would not give rise to the need for impairment. Most of the Group's goodwill is allocated to the Infrastructure Construction business sector due to its acquisition of Nordic paving operations as well as to the Technical Building Services business sector. The margins between the present value and carrying amount of the cash flows of the Nordic paving operations of Infrastructure Construction and of the Technical Building Services business sector are large, and not even major changes in the outlook would be enough to necessitate goodwill impairment. Of the cash-generating units tested, the Lithuanian paving operations are showing the greatest sensitivity, with impairment risk allocated for a share of EUR 0.8 million of goodwill if prospects weaken or the interest rate rises considerably. If necessary, additional tests will be carried out if the results of sensitivity analyses and changes in the outlook give cause. The long term predictability of Lemminkäinen's business sectors is reasonably good and the goodwill impairment risk small in all business cycles.

FIGURES DESCRIBING THE GOODWILL IMPAIRMENT RISK OF UNITS SUBJECT TO IMPAIRMENT TESTING BY BUSINESS SECTOR

EUR 1,000	Building Construction	Infrastructure Construction	Technical Building Services
2011			
Goodwill allocated to the business sector, total	6,671	53,471	25,550
Ratio of present value to carrying amount [1]	4.92	3.22	3.60
Goodwill impairment if annual growth over the			
long term were 1 percentage point lower	0	0	0
long term were 2 percentage points lower	0	996	0
Goodwill impairment if the borrowing cost			
were 1 percentage point higher	0	0	0
were 2 percentage points higher	0	202	0

EUR 1,000	Building Construction	Infrastructure Construction	Technical Building Services
2010 [2]			
Goodwill allocated to the business sector, total	6,760	52,584	25,503
Ratio of present value to carrying amount [1]	4.67	3.24	15.76
Goodwill impairment if annual growth over the			
long term were 1 percentage point lower	492	0	0
long term were 2 percentage points lower	492	0	0
Goodwill impairment if the borrowing cost			
were 1 percentage point higher	492	0	0
were 2 percentage points higher	492	0	0

1) Net-sales-weighted average of the business sector's cash-generating units subject to impairment testing. Ratio less than 1 would lead to impairment.
2) The figures for the comparative period adjusted according to the new group structure in effect from 2011.

17 FINANCIAL ASSETS AND LIABILITIES BY CLASS

EUR 1,000	Note	Financial assets/ liabilities recognised at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Derivatives subject to hedge accounting	Balance sheet value	Fair value
31.12.2011								
Non-current financial assets								
Available-for-sale financial assets	18			5,992			5,992	5,992
Other non-current receivables	20		4,765				4,765	4,765
Current financial assets								
Trade and other receivables	20		407,023				407,023	407,023
Derivative contracts	20	264					264	264
Cash and cash equivalents	21		30,395				30,395	30,395
Financial assets total		264	442,183	5,992			448,439	448,439
Non-current financial liabilities								
Loans	25				194,643		194,643	190,698
Other non-current liabilities	26				3,226		3,226	3,226
Current financial liabilities								
Loans	25				236,968		236,968	236,968
Accounts payable and other financial liabilities [1]	26				279,209		279,209	279,209
Derivative contracts	26	1,192				1,244	2,436	2,436
Financial liabilities total		1,192			714,047	1,244	716,483	712,538

[1] Accounts payable and other financial liabilities do not include statutory obligations or prepayments received, as these are not classified as financial liabilities under IFRS.

EUR 1,000	Note	Financial assets/ liabilities recognised at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Derivatives subject to hedge accounting	Balance sheet value	Fair value
31.12.2010								
Non-current financial assets								
Available-for-sale financial assets	18			6,410			6,410	6,410
Other non-current receivables	20		7,175				7,175	7,175
Current financial assets								
Trade and other receivables	20		325,576				325,576	325,576
Derivative contracts	20	399					399	399
Cash and cash equivalents	21		26,348				26,348	26,348
Financial assets total		399	359,099	6,410			365,908	365,908
Non-current financial liabilities								
Loans	25				214,134		214,134	211,428
Other non-current liabilities	26				3,882		3,882	3,882
Current financial liabilities								
Loans	25				161,381		161,381	161,381
Accounts payable and other financial liabilities [1]	26				192,543		192,543	192,543
Derivative contracts	26	1,756				2,040	3,796	3,796
Financial liabilities total		1,756			571,939	2,040	575,735	573,030

[1] Accounts payable and other financial liabilities do not include statutory obligations or prepayments received, as these are not classified as financial liabilities under IFRS.

Measurement of fair values

Other non-current receivables include interest-bearing loan receivables, and their balance sheet values correspond to their fair values. The carrying amount of trade and other receivables is equal to their fair value due to their short maturity. The fair value of the bond included in non-current liabilities is based on the market price, and the fair value of other non-current liabilities has been calculated through discounting of the future cash flows to the present value by the interest that the Group would receive on corresponding loans on the accounting date, consisting of the risk-free interest rate plus a risk premium. The discount interest rates used vary between 2.5 and 4.5% (2.8 to 4.1%). The balance sheet value of current financial liabilities is assumed to be close to their fair value.

The Group has classified financial instruments recognised at fair value by using a three-level hierarchy of fair values. Financial instruments belonging to Level 1 are subject to active trading on the market, and, therefore, their fair values are available from active and efficient markets. The fair values of instruments recorded at Level 2 are based on verifiable market data and generally accepted valuation methods but are not directly quoted on the markets. Fair values at Level 3 are based not on verifiable market data but on quotations provided by brokers and market valuation reports.

A FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE

EUR 1,000	Level 2	Level 3	Total
31.12.2011			
Assets			
Derivative receivables	**105**	**159**	**264**
Liabilities			
Derivative liabilities	**2,436**	**-**	**2,436**

EUR 1,000	Level 2	Level 3	Total
31.12.2010			
Assets			
Derivative receivables	113	286	399
Liabilities			
Derivative liabilities	981	2,816	3,796

There is a statement reconciling the difference between the opening and closing balances for the fair-valued financial instruments recognised at fair value recorded in Level 3. The changes that occurred during the period are presented separately in the reconciliation statement.

LEVEL 3 RECONCILIATION STATEMENT

EUR 1,000	Financial instruments recognised at fair value through profit or loss	Financial instruments recognised at fair value through other comprehensive income items
Fair values 1.1.2011	–487	–2,040
Transfers from/to Level 3	607	2,040
Gains and losses, total		
on the income statement	40	
on the statement of comprehensive income		
Fair values 31.12.2011	159	

EUR 1,000	Financial instruments recognised at fair value through profit or loss	Financial instruments recognised at fair value through other comprehensive income items
Fair values 1.1.2010	–421	–2,815
Transfers from/to Level 3		
Total gains and losses		
in the income statement	–67	315
in comprehensive income		460
Fair values 31.12.2010	–487	–2,040

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR 1,000	31.12.2011	31.12.2010
Balance sheet value, 1.1.	6,410	6,582
Translation difference	0	0
Increases	961	7
Change in fair value		17
Decreases	–1,378	–196
Transferred for sale		0
Balance sheet value, 31.12.	5,992	6,410

Available-for-sale financial assets include non-quoted shares. The fair value of unquoted shares cannot be reliably determined, and thus they are presented at cost less impairment.

19 INVENTORIES

EUR 1,000	31.12.2011	31.12.2010
Materials and supplies	42,774	39,941
Building plots and real estate	123,441	107,346
Housing under construction	90,779	68,297
Commercial property under construction	39,428	21,698
Work in progress	28,157	32,437
Prepayments	9,083	8,717
Completed housing companies	65,667	44,154
Completed commercial property	6,256	10,528
Products and goods	42,883	42,889
	448,467	376,005
Transferred to non-current assets held for sale		–6,242
	448,467	369,763

Collateral notes for uncompleted properties included in inventories are used as collateral security for the debts of companies included in inventories to the value of EUR 82.0 million (EUR 62.1 million in 2010).

20 NON-CURRENT AND CURRENT RECEIVABLES

EUR 1,000	31.12.2011	31.12.2010
Non-current receivables		
Interest-bearing		
Loan receivables	4,264	5,784
Other receivables		131
	4,264	5,915
Non-interest-bearing		
Trade receivables	501	238
Other receivables		1,022
	501	1,260
Non-current trade and other receivables, total	4,765	7,175
Current receivables		
Interest-bearing		
Loan receivables	202	944
Non-interest-bearing		
Trade receivables	264,640	207,145
Project income receivables	73,486	69,724
Interest receivables	355	591
Personnel expenses	2,311	2,892
Capitalised financial expenses		111
Other prepayments and accrued income	34,568	21,690
Receivables from derivative instruments	264	399
Receivables from real estate companies under construction	1,364	10,273
Other receivables	30,095	18,103
	407,085	330,928
Transferred to non-current assets held for sale		–5,898
Current trade and other receivables, total	407,287	325,975

Non-current loan receivables include mainly receivables from Tieyhtiö Ykköstie Oy. The balance sheet values of current and non-current interest-bearing loan receivables correspond to their fair values. Trade receivables amounting to EUR 0.2 million (EUR 1.4 million in year 2010) were recognised as credit losses during the financial year.

21 CASH AND CASH EQUIVALENTS

EUR 1,000	31.12.2011	31.12.2010
Cash in hand and at banks	30,395	26,348

Cash and cash equivalents comprise bank account balances and liquid deposits with maturities of less than three months made in solvent partner banks.

22 NOTES CONCERNING SHAREHOLDERS' EQUITY

Shares and share capital

Lemminkäinen Corporation has one share class. On 31 December 2010, the Company had 19,644,764 shares. All issued shares are fully paid up. The Group does not possess any treasury shares.

The Board of Directors was authorised to decide on an issue of 1,576,486 shares on 31 December 2011. The authorisation is valid for five years after the conclusion of the general meeting held on 12 November 2009, at which the original authorisation was granted.

EUR 1,000	Number of shares (1,000 shares)	Share capital	Share premium account	Invested unrestricted equity reserve	Total
1.1.2010	17,021	34,043	5,750		39,793
Share issue to investors for cash consideration	1,700			39,525	39,525
Share issue to non-controlling interest for cash consideration	924			24,335	24,335
Transaction expenses of share issues				–716	–716
31.12.2010	19,645	34,043	5,750	63,144	102,937
Transfers between funds			–76	76	
31.12.2011	**19,645**	**34,043**	**5,675**	**63,220**	**102,937**

Share premium account

Share premiums are recognised in the share premium account.

Invested non-restricted equity fund

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

Translation differences and hedging reserve

The translation differences include the differences arising from the translation of the financial statements of foreign units. Gains and losses on hedges of net investments in foreign units are also included in the translation differences when the requirements set for hedge accounting are met.

Changes in the effective part of derivatives falling within the scope of hedge accounting are recognised in the hedging reserve.

EUR 1,000	Translation difference	Hedging reserve	Total
1.1.2010	–1,698	–1,970	–3,668
Translation difference	3,894		3,894
Cash flow hedge		460	460
31.12.2010	2,196	–1,510	686
Translation difference	–811		–811
Cash flow hedge		570	570
31.12.2011	**1,385**	**–940**	**445**

RETAINED EARNINGS

EUR 1,000	31.12.2011	31.12.2010
Retained earnings, 1.1.	**221,561**	231,285
Result for the financial year	**34,720**	299
Dividends paid	**–9,822**	
Direct entries, minority acquisition	**–1,147**	–10,105
Cancellation of dividend liability		82
Retained earnings, 31.12.	**245,311**	221,561
Share of appropriations in retained earnings, 31.12	**26,379**	22,170

23 PENSION OBLIGATIONS

EUR 1,000	31.12.2011	31.12.2010
The movement in the defined benefit obligation over the year		
Beginning of year	21,776	15,941
Translation difference	78	703
Current service cost	1,133	1,894
Past service cost		2,141
Interest cost	751	808
Actuarial losses and gains	–2,378	1,461
Gains/losses from curtailments of benefit arrangement	–6,627	–742
Benefits paid	–795	–430
Increases from acquired businesses	7,736	
End of year	21,674	21,776
The movement in the fair value of plan assets of the year		
Beginning of year	15,961	12,553
Translatation difference	57	531
Expected return on plan assets	586	750
Actuarial losses and gains	–2,131	–327
Curtailment	–5,179	
Employer contributions	2,399	2,641
Benefits paid	–790	–185
Increases from acquired businesses	2,472	
End of year	13,376	15,961
Present value of funded obligations	21,674	21,776
Fair value of funds	–13,376	–15,961
	8,298	5,815
Unrecognised actuarial gains and losses	–2,581	–5,822
Unrecognised costs of past service	–1,845	–474
Defined benefit pension plan obligation (+) / asset (–)	3,872	–481
Pension plan obligations on the balance sheet	3,872	508
Pension plan assets on the balance sheet		–989

The pension plan assets are recognised as a deferred income on the balance sheet.

EUR 1,000	31.12.2011	31.12.2010
Recognised expenses relating to defined benefit pension plans		
Pension costs based on service in the financial year	1,133	1,894
Interest cost of obligation stemming from benefits	751	808
Expected yield on funds belonging to the plan	–312	–750
Actuarial gains and losses	–379	910
Costs based on past service		–317
	1,192	2,545

	2011	2010	2009	2008	2007
Assets and liabilities related to the plans over five years					
Defined benefit obligation	21,674	21,776	15,941	12,419	11,255
Fair value of plan assets	–13,376	–15,961	–12,553	–10,164	–9,911
	8,298	5,815	3,388	2,254	1,344

The pension schemes of group companies operating in different countries are generally defined contribution plans. Payments in respect of defined contribution plans are expensed on the income statement in the accounting period during which they are made. Group pensions for which the present value of the associated obligations is determined by a method based on future benefits and for which the funds belonging to the plan are fair valued on the accounting date are classified as defined benefit pension plans. The actuarial gains and losses arising from these pension provisions are recognised on the income statement over the expected average remaining working lives of the participating employees to the extent that it exceeds 10% of the present value of the defined benefit obligation or, if greater, 10% of the fair value of plan's assets.

Payments to be made to defined benefit pension plans in Lemminkäinen Group during 2012 are estimated at EUR 1.9 million.

EUR 1,000	31.12.2011 Finland	31.12.2011 Abroad	31.12.2010 Finland	31.12.2010 Abroad
The most important actuarial assumptions				
Discount rate, %	4.5	3.3	4.8	4.4
Expected yield on funds, %	5.8	4.6	6.0	5.6
Future pay rise assumption, %	3.5	3.8	3.5	4.0
Future pension rise assumption, %	2.1	0.9	2.1	1.3
Inflation rate, %	2.0	2.5	2.0	3.8

24 PROVISIONS

EUR 1,000	Warranty provisions	Landscaping provisions	Other provisions	Total 31.12.2011	Total 31.12.2010
Provisions, 1.1.	6,100	864	1,756	8,720	10,033
Translation differences	1	1	3	5	24
Increases in provisions	1,417	75	3,215	4,707	2,651
Expensed provisions	–2,252	–647	–1,540	–4,439	–2,951
Reversals of unused provisions	–4	–13		–17	–1,037
Purchases and sales of subsidiaries	2,843	1,899		4,743	
Provisions, 31.12.2011	8,105	2,180	3,434	13,719	
Provisions, 31.12.2010	6,100	864	1,756		8,720

EUR 1,000	31.12.2011	31.12.2010
Provisions categorised as		
Long term	6,224	2,283
Short term	7,495	6,437
	13,719	8,720

A provision is made when the Group has a legal or de facto obligation based on some past event and it is likely that freedom from liability will either require a financial payment or result in financial loss, and that the amount of liability can be reliably measured.

Provisions for construction warranties are calculated on the basis of the level of warranty expenses actually incurred in earlier accounting periods. If the Group will receive reimbursement from a subcontractor or material supplier on the basis of an agreement in respect of anticipated expenses, the future compensation is recognised when its receipt is in practice beyond doubt. Provisions in respect of landscaping obligations are made according to the use of ground materials.

25 LOANS

EUR 1,000	31.12.2011 Balance sheet values	31.12.2011 Fair values	31.12.2010 Balance sheet values	31.12.2010 Fair values
Non-current				
Loans from credit institutions	44,213	43,306	39,871	39,871
Pension loans	44,116	41,696	70,755	68,980
Finance lease liabilities	46,257	46,257	42,944	42,944
Bonds	59,763	59,145	60,000	59,070
Other non-current liabilities	295	295	564	564
	194,643	190,698	214,134	211,428
Current				
Loans from credit institutions	20,246	20,246	15,169	15,169
Pension loans	22,759	22,759	19,035	20,390
Finance lease liabilities	12,897	12,897	11,726	11,726
Chequing accounts	7,171	7,171	8,663	8,663
Commercial papers	119,910	119,910	75,100	74,679
Liabilities of housing companies under construction	53,939	53,939	30,851	30,851
Other current loans	46	46	837	837
	236,968	236,968	161,381	162,315

Measurement of fair values of loans is explained in Note 17.

LOANS BY CURRENCY

EUR 1,000	31.12.2011 Non-current loans	31.12.2011 Current loans	31.12.2010 Non-current loans	31.12.2010 Current loans
EUR	158,107	218,376	195,008	148,262
DKK	7,888	6,124	9,287	4,924
EEK			537	236
LTL	11	3	32	2,992
NOK	28,637	9,030	9,269	4,670
SEK		3,436		297
	194,643	236,968	214,134	161,381

FINANCE LEASE LIABILITIES

EUR 1,000	31.12.2011	31.12.2010
Finance leasing debts and interest on them is due as follows		
In one year or earlier	14,787	13,455
Over one year, but less than five years	40,239	35,339
Over five years	10,479	12,193
	65,505	60,988
Present value of minimum leases		
In one year or earlier	12,897	11,726
Over one year, but less than five years	36,343	31,516
Over five years	9,914	11,428
	59,154	54,670
Accumulated future financial expenses from finance leasing debts	6,351	6,318

26 ACCOUNTS PAYABLE AND OTHER LIABILITIES

EUR 1,000	31.12.2011	31.12.2010
Non-current		
Other non-current liabilities	3,226	3,882
Accounts payable and other current liabilities		
Prepayments received	99,406	102,777
Debts to owners of housing under construction	7,226	15,228
Accounts payable	101,127	69,257
Project expenses	36,644	17,400
VAT	35,331	21,222
Interest debts	1,616	1,275
Amortisations of personnel expenses	85,913	68,327
Other accrued liabilities	27,610	12,174
Derivative liabilities	2,436	3,796
Other current liabilities	19,074	8,881
	416,383	320,338
Transferred to non-current assets held for sale		−4,383
Accounts payable and other current liabilities	416,383	315,956
Non-current and current accounts payable and other liabilities	419,609	319,837

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

27 FINANCIAL RISK MANAGEMENT

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

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

Interest rate risk

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

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

The Group can take out both variable- and fixed-rate long term loans. The ratio of fixed- and variable-rate loans can be changed by using interest rate derivatives. In 2011, the Group has used interest rate swaps and applied hedge accounting to two interest rate swap agreements.

Interest rate fluctuations in 2011 did not have any unusual effect on the Group's business, but a significant rise in the level of interest rates may have a detrimental effect on the demand for housing.

Sensitivity analysis of interest rate risk

The following assumptions are made when calculating the sensitivity caused by a change in the level of interest rates:

- the interest rate change is assumed to be 1 percentage point
- the position includes variable-rate financial liabilities, variable-rate financial receivables and interest rate derivatives
- all factors other than the change in interest rates remain constant
- taxes have not been taken into consideration when calculating sensitivity

EUR 1,000	Income statement +1 %	Income statement –1 %	Other comprehensive income +1 %	Other comprehensive income –1 %
31.12.2011				
Variable-rate liabilities	–3,038	3,038		
Variable-rate receivables	304	–304		
Interest rate derivatives	72	–74	334	344
	–2,663	2,661	334	344

EUR 1,000	Income statement +1 %	Income statement –1 %	Other comprehensive income +1 %	Other comprehensive income –1 %
31.12.2010				
Variable-rate liabilities	–2,257	2,257		
Variable-rate receivables	263	–263		
Interest rate derivatives	165	–165	641	–649
	–1,829	1,829	641	–649

Currency risk

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

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

Transaction risk arise in foreign currency denominated transactions from operational and financial activities. The Group seeks to hedge it's transaction risk of business operations primarily by operative means. The remaining transaction risk is hedged by using instruments such as foreign currency loans and currency derivatives.

The group companies are responsible for identifying, reporting, forecasting and hedging their transaction risk positions internally. The Group Treasury is responsible for hedging the Group's risk positions as external transactions in accordance with the treasury policy. The general rule is that the major net positions forecasted for the 12 months following the review date are hedged, with a hedging ratio ranging from 25–100 per cent and emphasising the first six months.

The key currencies in which the Group was exposed to transaction risk in 2011 were US-dollar and russian rouble. These transaction risk positions were mainly due to sales, procurements, receivables and liabilities. In 2011 the Group did not apply hedge accounting to transaction risk hedging.

Sensitivity analysis of transaction risk

The following assumptions have been made when calculating the sensitivity caused by changes in the euro/dollar and euro/rouble exchange rates:

- the exchange rate change is assumed to be +/–10%
- the position includes financial assets and liabilities denominated in roubles and dollars
- the position does not include forecasted future cash flows
- taxes have not been taken into consideration when calculating sensitivity

EUR 1,000	31.12.2011 Income statement	31.12.2010 Income statement
EUR/USD +/–10%	–142/+173	–332/+406
EUR/RUB +/–10%	–529/+647	–427/+522

Funding and liquidity risk

The Group seeks to optimise the use of liquid assets in funding its business operations and to minimise interest and other financial expenses. The Group Treasury is responsible for managing the Group's overall liquidity and ensuring that adequate credit lines and a sufficient number of funding sources are available. It also ensures that the maturity profile of the Group's loans and credit facilities is spread sufficiently evenly over coming years as set out in the treasury policy. The Group's liquidity management is based on monthly forecasts of funding requirements and daily cash flow forecasting.

According to the treasury policy, the Group's liquidity reserve shall at all times match the Group's total liquidity requirement, and it must be accessible within five banking days without any additional charges being incurred. The Group's total liquidity requirement consists of the liquidity requirement of day-to-day operations, risk premium needs and the strategic liquidity requirement.

Due to the nature of the Group's business operations, the importance of seasonal borrowing is great. The effect of seasonal variation on short term liquidity is controlled by using a commercial paper programme, committed credit limits and bank overdraft facilities. The total amount of the Group's commercial paper programme is EUR 300 million (EUR 300 million), of which EUR 119.9 million (EUR 75.0 million) was in use at 31 December 2011. At that time, the Group had unused committed credit facilities totalling EUR 140.7 million (EUR 160.0 million).

The main principle in liquidity management is to use excess liquidity of business operations to repay debt. The Group's excess liquidity is collected by means of internal deposits and cash pools. The amount of cash and cash equivalents at 31 December 2011 was EUR 30.4 million (EUR 26.3 million).

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

CASH FLOWS OF FINANCIAL LIABILITIES AND DERIVATIVES BASED ON AGREEMENTS

EUR 1,000	2012	2013	2014	2015	2016	2017-	Total
31.12.2011							
Loans	231,391	61,341	90,605	2,682	598	782	387,398
Finance lease liabilities	14,787	13,041	10,542	8,350	8,305	10,479	65,505
Interest rate derivatives	891	460	70				1,421
Foreign exchange derivatives							
Cash flows payable	71,076						71,076
Cash flows receivable	–69,928						–69,928
Commodity derivatives							
Cash flows payable							
Cash flows receivable	–159						–159
Other financial liabilities	176,071	2,011	341	524			178,948
Accounts payable	101,127						101,127
Total	525,256	76,854	101,558	11,556	8,903	11,261	735,388

EUR 1,000	2011	2012	2013	2014	2015	2016-	Total
31.12.2010							
Loans	152,697	43,869	41,993	90,738	7,984	395	337,675
Finance lease liabilities	13,455	10,891	9,758	7,426	7,265	12,193	60,988
Interest rate derivatives	1,577	1,090	604	122			3,393
Foreign exchange derivatives							
Cash flows payable	49,209						49,209
Cash flows receivable	–48,794						–48,794
Commodity derivatives							
Cash flows payable	169						169
Cash flows receivable							
Other financial liabilities	121,951	487	25	12			122,475
Accounts payable	69,257						69,257
Total	359,522	56,336	52,380	98,297	15,249	12,588	594,372

Credit risk

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

The Group is exposed to credit risk through all of the Group's trade receivables and receivables associated with deposits and receivables. The maximum amount of credit risk is the combined total of the balance sheet values of the aforementioned items. The amounts and due dates of the Group's trade and loan receivables are presented in the next table.

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

The Group Treasury is responsible for the management of the Group's counterparty and credit risks related to cash, financial investments and financial transactions. The Group is exposed to counterparty risk when investing liquid assets and using derivative instruments. Liquid assets are invested in short term bank deposits, certificates of deposit issued by solvent partner banks, and commercial papers issued by corporations with a good credit rating. The treasury policy specifies the approved counterparties and their criteria. At the end of 2011, the counterparty risk was considered to be low.

AGEING ANALYSIS OF TRADE AND LOAN RECEIVABLES

EUR 1,000	Not due	Past due 1–30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total
31.12.2011						
Non-current receivables						
Trade receivables	501					501
Loan receivables	4,264					4,264
Current receivables						
Trade receivables	217,797	26,923	7,347	4,033	8,541	264,640
Loan receivables	202					202
	222,763	26,923	7,347	4,033	8,541	269,607

EUR 1,000	Not due	Past due 1–30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total
31.12.2010						
Non-current receivables						
Trade receivables	238					238
Loan receivables	5,784					5,784
Current receivables						
Trade receivables	169,559	21,965	4,041	1,469	10,111	207,145
Loan receivables	944					944
	176,526	21,965	4,041	1,469	10,111	214,112

Commodity price risk

The Group's paving operations are exposed to bitumen price risk. The price of bitumen is determined by the world market price of oil. The Group protects itself against the bitumen price risk with fixed purchase prices and derivatives that are not subject to hedge accounting. By the closing date, the group companies had used bitumen derivatives to hedge, in total, 7,600 Mt (21,350 Mt) of bitumen purchases.

Management of capital and the capital structure

Capital means the equity and interest-bearing liabilities shown on Lemminkäinen's consolidated balance sheet.

Lemminkäinen Group's capital management attempts to ensure cost-effectively that all of the Group's business sectors maintain their business viability at a competitive level in all cyclical conditions, that risk-carrying capacity is adequate, for example, in construction contracts, and that the Company is able to pay a good dividend and service its loans.

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

Some of the Group's borrowing facility arrangements include two financial covenants that are measured quarterly: the ratio of net debt to EBITDA and the equity ratio. The terms of the other covenant were not met during the first quarter, but the lenders accepted a temporary amendment to the term of the covenant in question while the financing arrangements will remain unchanged with respect to the other parts. In the course of the year, the terms of the covenants were restored to their original levels.

The Company also follows the development of equity by means of the return on investment. A long term average in excess of 18% is regarded as a good return. The return on investment in 2011 was 10.8 % (7.0 % in 2010).

EUR 1,000	31.12.2011	31.12.2010
Interest-bearing liabilities	431,611	375,514
Cash and cash equivalents	30,395	26,348
Interest-bearing net debt	401,216	349,166
Equity attributable to the equity holders of parent company	348,693	325,196
Equity, total	350,401	330,282
Equity ratio, %	30.8	35.2
Gearing, %	114.5	105.7
Return on investment, %	10.8	7.0

28 DERIVATIVES

EUR 1,000	Nominal value	Fair value positive	Fair value negative	Fair value net
31.12.2011				
Foreign exchange derivatives	70,977	105	–928	–823
Interest rate derivatives	35,740		–1,508	–1,508
Commodity derivatives	3,493	159		159
31.12.2010				
Foreign exchange derivatives	48,902	113	–981	–868
Interest rate derivatives	58,072		–2,647	–2,647
Commodity derivatives	7,888	286	–169	117

The fair value of derivative contracts is the gain or loss arising from closure of the contract based on the market price on the accounting date.

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

29 ADJUSTMENTS TO CASH FLOWS FROM BUSINESS OPERATIONS

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Depreciation and impairment on goodwill	38,070	35,046
Change in obligatory provisions	258	–1,338
Change in pension obligations	3,031	–289
Credit losses on trade receivables	174	1,413
Financial income and expenses recognised on an accruals basis	18,920	21,969
Capital gains and losses on the sale of fixed assets as well as other non-payment income and expenses	–17,904	–20,744
Share of the results of associates	–1,867	–743
Translation differences	–649	407
	40,033	35,721

30 OTHER RENTAL COMMITMENTS

EUR 1,000	31.12.2011	31.12.2010
Minimum leases of irrevocable rental agreements		
One year or less	12,983	15,152
Over one year, but less than five years	30,796	30,357
Over five years	13,397	17,525
	57,175	63,035
Other rental commitments include the following rental liabilities		
One year or less	6,465	8,153
Over one year, but less than five years	10,936	9,818
Over five years	357	430
	17,758	18,401

Irrevocable rental commitments are mainly rental agreements concerning real estate and leased machines.

31 GUARANTEES AND CONTINGENT LIABILITIES

EUR 1,000	31.12.2011	31.12.2010
Other mortgages and securities for own commitments		
Business mortgages		420
Bonds pledged as security	17	263
Deposits		61
	17	745
Pledges on behalf of others		
Pledged securities	90	90
Mortgages and pledged securities, total		
Business mortgages		420
Pledged securities	107	353
Deposits		61
	107	835
Guarantees		
On behalf of associates	20,337	
On behalf of others	18,863	25,763
	39,200	25,763
Investment purchase commitments	7,154	7,147

32 LITIGATION

In 2009, the Supreme Administrative Court (SAC) ordered Finnish asphalt industry companies to pay an infringement fine for violations of the Act on Competition Restrictions.

In late 2011, a total of 40 claims for damages brought by municipalities and the Finnish state (Finnish Transport Agency) are pending against Lemminkäinen and other asphalt industry companies in the District Court. The claimants contend that restrictions of competition have caused them damages. The total amount of damages sought from Lemminkäinen is currently about EUR 117 million. After the Finnish Transport Agency changed its claim, the total amount of claims has risen by approximately EUR 15 million. The claims presented in the statements of claim differ from each other as regards their amounts and grounds.

The ruling rendered by the SAC in 2009 as it stands does not mean that Lemminkäinen or the other asphalt industry companies actually caused any damages to the asphalt work clients. The ruling does not concern the individual contracts that the claimants cited in support of their claims. Nor does the ruling concern the pricing of individual contracts. The SAC has not investigated the contention that inflated prices that do not correspond to market prices have been charged for the contracts.

Lemminkäinen's initial position is that the claims for damages are without foundation. The claims will be processed in the order and schedule set by the District Court. Preparatory sessions for the trial began in January 2012, but a more detailed process and ruling schedule is currently not yet available.

No provisions have been made in respect of the claims of the municipalities and the Finnish Transport Agency that are pending in the District Court.

33 RELATED-PARTY TRANSACTIONS

Lemminkäinen Group's related parties include associated companies and senior management. Senior management comprises the Board of Directors, the CEO, Executive Board and the internal audit manager. Business with associates is conducted at market prices.

BUSINESS WITH RELATED PARTIES

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Sales of goods and services		
To associates	635	295
Purchases of goods and services		
From associates	13,565	4,051

EUR 1,000	31.12.2011	31.12.2010
Balance of purchases/sales of goods and services		
Trade receivables		
From associates	1	6
Accounts payable		
To associates	611	69

As of 31 December 2011, the Group had granted EUR 0.1 million in loans to associates (EUR 0.1 million in 2010). Related-party transactions with associates involve mainly asphalt contracts and mineral aggregate deliveries. A list of investments in subsidiaries and associates can be found in Section 35 and additional information on associates in Section 11.

RELATED-PARTY SALARIES, FEES AND OTHER SHORT TERM EMPLOYEE BENEFITS

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Board of Directors		
Berndt Brunow	126	127
Mikael Mäkinen	42	43
Kristina Pentti-von Walzel	44	46
Heikki Räty	46	46
Teppo Taberman	41	45
Juhani Mäkinen	44	46
Executive Board		
Timo Kohtamäki	491	646
Other members of the Executive Board	1,224	1,668
Related-party salaries, fees and other short term employee benefits	2,056	2,666

Remuneration of the Board of Directors

Lemminkäinen Corporation's Annual General Meeting elects each year the members to serve on the Company's Board of Directors and decides their fees. The term of office of the board members ends at the conclusion of the first Annual General Meeting held after their election.

The 2011 Annual General Meeting decided that the Chairman would be paid a fee of EUR 10,000 (2010: 10,000) per month and the board members would each received a fee of EUR 3,000 (3,000) per month. The board members also receive an attendance fee of EUR 500 per meeting. In addition, the chairman of the Audit Committee be paid an attendance fee of EUR 1,000 and the members of the Audit Committee be paid an attendance fee of EUR 500 for each meeting of the Committee.

The members of Lemminkäinen's Board of Directors do not belong to the share-based incentive scheme, and they are not employees of Lemminkäinen Corporation.

Remuneration of the Group Management

On the basis of a proposal submitted by the Remuneration Committee, the Lemminkäinen Board of Directors decides on the basic salary and fringe benefits of the president and CEO and of the Executive Board and on both short term and long term remuneration.

Management remuneration

The Lemminkäinen Group complies with the management remuneration policy approved by the Board of Directors. According to this policy, the remuneration given to the president and CEO, members of the Group's Executive Board, and other management personnel consists of a fixed basic salary plus payments in kind, other benefits, and long- and short term bonuses.

The key economic goals of Lemminkäinen's strategy are profitable growth and strengthening of the Group's financial position. The Board of Directors decides annually on the short- and long term remuneration metrics and their values used to support the reaching of Lemminkäinen's strategic goals.

Fixed basic pay refers to a person's monthly salary, which is determined by the business value of the job as well as the performance and experience of the person doing the job. In addition to the use of a company car, mobile phone, and meal benefit, management personnel have extended insurance cover for accidents and travel in their leisure time.

Short term reward scheme

Short term rewarding is based on the possibility of receiving an annual performance-linked bonus. Performance-related pay is earned by exceeding performance targets, and the associated values are specified at the beginning of each year. Lemminkäinen's management are divided into four performance-related pay groups, with the classification determining the maximum performance-related pay percentage applicable for each individual. Membership of a performance-related pay group is based on the individual's position in the organisational hierarchy, as well as the business value and impact of the person's job.

For all members of the Executive Board, the performance-related reward possible for 2011 will be based on Lemminkäinen Group's result before taxes and the implementation of the strategic programme. The performance-related rewards for the heads of the four branches will be based on not only the above-mentioned criteria but also the operating result of each branch as well as the final balanced scorecard for the branch, and for the other members of the Executive Board they are based on the associated balanced scorecard in addition to the above. Reaching of the performance-related reward targets will be assessed at least biannually.

The maximum performance-related reward payable to Lemminkäinen's president and CEO in 2011 will be 80% of his annual salary. The corresponding percentage for the other members of the Group's Executive Board will be 60% of their annual salary.

Long term reward scheme

Lemminkäinen's long term reward scheme is a share-based incentive plan with three earning periods: calendar years 2010, 2011, and 2012. The commitment period is two years. The Lemminkäinen Board of Directors decides on the earning criteria for each earning period and on the targets set for them at the beginning of each earning period. Fulfilment of the earning criteria will be examined at least biannually. The earning criteria for the 2011 long term reward will be the Group's return on investment and the Group's equity ratio.

In addition to the president and CEO and the other members of Lemminkäinen's Executive Board, approximately 40 further persons are included within the scope of the scheme. The Lemminkäinen Board of Directors decides on the distribution of shares to key personnel.

34 EVENTS AFTER THE ACCOUNTING DATE

As of 1 January 2012, Lemminkäinen's business operations are organised into four branches: International Operations, Building Construction, Infrastructure Construction and Technical Building Services.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

35 SHARES AND HOLDINGS

COMPANY	Consolidated shareholding, %	Parent company shareholding, %	Parent company shareholding, shares	Parent company shareholding, book value Finnish GAAP, EUR 1,000	Shareholding of other Group undertakings book value Finnish GAAP, EUR 1,000
31.12.2011					
Group undertakings					
Lemminkäinen Talo Oy, Helsinki	100.0	100.0	2,183,663	73,922	
Lemminkäinen Infra Oy, Helsinki	100.0	100.0	1,338	36,711	
Lemminkäinen Talotekniikka Oy, Espoo	100.0	100.0	2,138,147	43,226	
Lemminkäinen Rakennustuotteet Oy, Helsinki	100.0	100.0	250	6,230	
Lemcon Networks Oy, Helsinki	100.0	100.0	392,000	2,383	
UAB Lemcon Vilnius, Lithuania	100.0	100.0			
UAB Lemminkäinen Lietuva, Lithuania	99.9	99.9	3,737,272	3,526	
Lemminkäinen Talo Oy International, Helsinki	100.0				5
Lemminkäinen Talo Oy Russia, Helsinki	100.0				155
Lemminkäinen PPP Oy, Kuopio	100.0				3
ICM International Construction Management, Hungary	100.0				684
Lemminkäinen Co., Ltd, China	100.0				72
Lemminkäinen Construction (India) Private Limited, India	100.0				853
Lemcon HR Oy, Helsinki	100.0				60
OOO Lemcon Invest, Russia	100.0				2,284
Lemcon Polska Sp.Z O.O, Poland	100.0				1,576
Lemminkäinen Ehitus As, Estonia	100.0				3
OOO Lemminkäinen Service, Russia	100.0				13
OOO Lemminkäinen Stroy, Russia	100.0				864
Rekab Entreprenad Ab, Sweden	80.0				243
ZAO Lemminkäinen Rus, Russia	100.0				14,629
Lemcon (Philippines) Inc, Philippines	100.0				222
Lemcon (Thailand) Ltd, Thailand	100.0				51
Lemcon Argentina S.R.L, Argentina	100.0				5
LEMCON Baumanagement GmbH, Germany	100.0				26
Lemcon Bauprojekt-Management GmbH, Austria	100.0				28
Lemcon Bulgaria EOOD, Bulgaria	100.0				3
Lemcon Canada Ltd, Canada	100.0				1
Lemcon Chile Ltda, Chile	100.0				14
Lemcon Columbia Ltda, Columbia	100.0				3
Lemcon do Brasil Ltda, Brasil	100.0				22
Lemcon Építöipari Kft, Hungary	100.0				28

COMPANY	Consolidated shareholding, %	Parent company shareholding, %	Parent company shareholding, shares	Parent company shareholding, book value Finnish GAAP, EUR 1,000	Shareholding of other Group undertakings book value Finnish GAAP, EUR 1,000
Lemcon Network Services Ltd, UK	100.0				19
Lemcon Networks Mexico S.de R.L.De C.V. Mexico	100.0				
Lemcon Norge As, Norway	100.0				12
Lemcon Pte Ltd, Singapore	100.0				7
Lemcon Servicos de Planejamento de Engenharia Ltda, Brasil	100.0				20
Lemcon USA Corporation, United States	100.0				1
Lemcon Venezuela C.A., Venezuela	100.0				8
LEMCON ECUADOR SA, Ecuador	100.0				1
Pasila Telecom Oy, Helsinki	100.0				8
Private Company lemcon Ukraine, Ukraine	100.0				8
PT Lemcon Networks, Indonesia	100.0				75
Asfalt Remix AS, Norway	75.0				5,320
ICS "Lemminkainen Infra Oy" SRL, Moldova	100.0				
Lemminkäinen A/S, Denmark	100.0				18,972
Lemminkäinen Anlegg AS, Norway	90.1				3,951
Lemminkäinen Industri AS, Norway	100.0				10,556
Lemminkäinen Eesti AS, Estonia	91.7				3,894
Lemminkäinen Norge AS, Norway	100.0				11,799
Lemminkäinen Sverige Ab, Sweden	100.0				12
Lohketööd Oy, Salo	85.0				3
Oü Järva Paas, Estonia	44.2				3
Oü Lõhketööd, Estonia	85.0				1,192
SIA Lemminkainen Latvija, Latvia	100.0				1,835
Tolarock Oy, Kajaani	100.0				3,048
ZAO Lemminkäinen Dor Stroi, Russia	100.0				544
Tekmanni RusService Oy, Espoo	100.0				3
Tekmen SPB, Russia	90.0				192
Lembet Oy, Helsinki	100.0	10.0	1	1	5
ZAO Lemruf, Russia	100.0				3
Total				165,999	83,334

COMPANY	Consolidated shareholding, %	Parent company shareholding, %	Parent company shareholding, shares	Parent company shareholding, book value Finnish GAAP, EUR 1,000	Shareholding of other Group undertakings book value Finnish GAAP, EUR 1,000
Associated undertakings					
Finavo Oy, Helsinki	47.5				476
Genvej A/S, Denmark	50.0				202
Lemcon Likusasa Africa Pty, South-Africa	50.0				
NHK Rakennus Oy, Helsinki	35.0				622
Martin Haraldstad AS, Norway	50.0				793
Nordasfalt AS, Norway	50.0				613
Ullensaker Asfalt ANS, Norway	50.0				580
MultiMore AB. Sweden	25.0				52
Vuokatin Betoni Oy, Sotkamo	33.1				13
Total					3,352
Other shares and holdings					
Housing shares				327	209
Property shares				793	3,066
Other shares and holdings				646	950
Total				1,766	4,225

Parent company income statement (FAS)

EUR 1,000	Note	1.1.–31.12. 2011	1.1.–31.12. 2010
Net sales	1.1	32,307	20,895
Production for own use		290	
Other operating income	1.2	4,216	24,496
Materials and services	1.3	320	252
Personnel expenses	1.4	20,048	14,851
Depreciation	1.5	3,112	958
Other operating expenses		25,718	21,346
Operating profit/loss		–12,385	7,983
Financial income and expenses	1.6	3,990	–7,095
Profit before extraordinary items		–8,395	889
Extraordinary items	1.7	22,900	14,000
Result before taxes		14,505	14,889
Direct taxes	1.8	–1,321	2,698
Result for the financial year		13,184	17,587

Parent company balance sheet (FAS)

EUR 1,000	Note	31.12.2011	31.12.2010
ASSETS			
Non-current assets	2.1		
Intangible assets	2.1.1	9,057	5,313
Tangible assets	2.1.2	12,317	12,772
Holdings in Group undertakings	2.1.3	165,999	161,680
Other investments	2.1.3	1,766	2,062
		189,139	181,828
Current assets	2.2		
Deferred tax asset	2.2.1	1,755	3,279
Non-current receivables	2.2.1	4,264	4,613
Current receivables	2.2.2	351,908	323,594
Cash in hand and at banks		1,073	4,586
		359,000	336,071
		548,140	517,899
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	2.3		
Share capital		34,043	34,043
Share premium account		5,675	5,675
Invested non-restricted equity fund		60,997	60,997
Other funds		–940	–1,510
Retained earnings		82,970	75,206
Result for the financial year		13,184	17,587
		195,929	191,996
Liabilities	2.4		
Deferred tax liability	2.4.1	1,358	1,441
Non-current liabilities	2.4.2	140,398	159,598
Current liabilities	2.4.3	210,456	164,864
		352,211	325,903
		548,140	517,899

Parent company cash flow statement (FAS)

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Cash flow from business operations		
Result before extraordinary items	–8,395	889
Extraordinary items	22,900	14,000
Adjustments		
Depreciation according to plan	3,112	958
Financial income and expenses	–3,990	7,095
Other adjustments	–4,314	–24,130
Cash flow before change in working capital	9,313	–1,189
Change in working capital		
Increase(–)/decrease(+) in current interest-free business receivables	–14,227	32,262
Increase(+)/decrease(–) in current interest-free liabilities	2,934	2,852
Cash flow from operations before financial items and taxes	–1,980	33,925
Interest and other financial expenses paid	–20,208	–24,663
Dividends received	5,761	1,741
Interest and other financial income received	17,481	15,092
Direct taxes paid	–105	–18
Cash flow from business operations	949	26,077
Cash flow from investments		
Investments in tangible and intangible assets	–6,421	–4,750
Capital gains from the sale of tangible and intangible assets	51	108
Investments in other assets	–4	
Capital gains from the sale of other investments	178	91
Purchases of subsidiary shares	–5,842	–875
Cash flow from investments	–12,037	–5,426

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
Cash flow from financing		
Increase(–)/decrease(+) in non-current receivables	348	370
Share issue for cash consideration		39,525
Group contributions received	14,000	14,000
Change in Group receivables/liabilities	–20,475	–79,140
Short term loans drawn	214,266	229,600
Repayments of short term loans	–175,532	–158,564
Long term loans drawn	258,706	82,800
Repayments of long term loans	–273,937	–156,933
Dividends paid	–9,822	
Cash flow from financing	7,553	–28,342
Increase(+)/decrease(–) in cash and cash equivalents	–3,535	–7,690
Cash and cash equivalents at begining of financial year	4,586	12,186
Corporate restructuring	22	90
Cash and cash equivalents at end of financial year	1,073	4,586

Parent Company's Accounting Principles, 31 Dec. 2011

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

FOREIGN CURRENCY ITEMS

Transactions denominated in foreign currencies are translated to the functional currency using the exchange rate ruling on the transaction date. On the closing date, receivables and liabilities on the balance sheet are translated using the exchange rates on that date.

DERIVATIVES

Derivatives are measured at fair value.

Forward foreign exchange contracts are measured on the closing date using the forward foreign exchange rates on that date. Forward foreign exchange contracts are used to hedge against changes in predicted foreign currency-denominated cash flows and the exchange rates of receivables and liabilities in foreign currencies. The fair values of interest-rate swap agreements are calculated as the present value of future cash flows. Interest-rate swap agreements are used for the variable to fixed rate conversion of the Company's loans from financial institutions. The income and expenses from these assets and liabilities entered in the income statement are presented under financial items in the income statement and in section 1.6 of the notes to the financial statements.

HEDGE ACCOUNTING

The Company has applied hedge accounting to interest-rate swap agreements used to hedge variable-rate loans. The agreements are defined as cash flow hedges and they provide protection against fluctuations in loan interest payments due to changes in market interest rates. The change in fair value of the interest-rate swap agreements used as hedges is recognised directly in the hedging reserve in equity to the extent that the hedging relationship is effective. The ineffective part of the change is entered in interest expenses in the income statement. Changes in fair value accumulated in equity are recognised through profit and loss in interest expenses in the accounting period when the hedged item produces a profit or loss.

VALUATION AND DEPRECIATION OF FIXED ASSETS

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

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

PENSION LIABILITY

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

RESEARCH AND DEVELOPMENT EXPENSES

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

DIRECT TAXES

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

Notes to the Parent Company Financial Statements (FAS)

1 INCOME STATEMENT

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
1.1 NET SALES BY MARKET AREA		
Finland	32,288	20,843
Nordic countries	19	33
Eastern Europe and Baltic countries	0	19
	32,307	20,895
1.2 OTHER OPERATING INCOME		
Profit on the sale of fixed assets	43	45
Gain on merger	4,158	24,421
Others	15	30
	4,216	24,496
1.3 MATERIALS AND SERVICES		
Purchases during the financial year		
External services	320	252
	320	252

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
1.4 NOTES CONCERNING PERSONNEL, MANAGEMENT AND BOARD MEMBERS		
Personnel expenses		
Salaries, wages and emoluments	15,365	11,249
Pension expenses	4,159	3,005
Other staff costs	524	597
	20,048	14,851
Management salaries and emoluments		
Board Members and Managing Director	932	998
Average number of employees		
Salaried employees	261	191
	261	191
Pension commitments concerning Board Members and Managing Director		
The retirement age of the Managing Director of Lemminkäinen Corporation is 60 years.		
1.5 DEPRECIATION		
Intangible rights	349	362
Other capitalised expenditure	2,242	22
Buildings	343	347
Machinery and equipment	117	165
Other tangible assets	62	62
	3,112	958

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
1.6 FINANCIAL INCOME AND EXPENSES		
Dividend income		
From Group undertakings	5,760	1,740
From others	1	1
	5,761	1,741
Other interest and financial income		
From Group undertakings	14,501	11,604
From others	4,137	5,716
	18,638	17,320
Interest expenses and other financial expenses		
To Group undertakings	–1,658	–2,453
To others	–18,751	–23,703
	–20,409	–26,156
Net financial income/expenses	3,990	–7,095
Financial imcome and expenses include:		
Exchange gains and losses (net)	–1,426	–387
Change in fair value of currency derivatives (net)	330	–320
Change in fair value of interest rate derivatives (net)	153	–153

EUR 1,000	1.1.–31.12. 2011	1.1.–31.12. 2010
1.7 EXTRAORDINARY ITEMS		
Extraordinary incomes, Group contributions	22,900	14,000
	22,900	14,000
1.8 DIRECT TAXES		
Income taxes on normal business operations	–1,215	–50
Income taxes in respect of previous years	–105	2,748
	–1,321	2,698

2 BALANCE SHEET

EUR 1,000	31.12.2011	31.12.2010
2.1 NON-CURRENT ASSETS		
2.1.1 Intangible assets		
Intangible rights	1,684	349
Other capitalised expenditure	4,848	205
Advance payments	2,526	4,759
	9,057	5,313
2.1.2 Tangible assets		
Land and water	6,261	6,278
Buildings	5,345	5,690
Machinery and equipment	310	346
Other intangible assets	397	459
Advance payments and work in progress	5	
	12,317	12,772
2.1.3 Investments		
Holdings in Group undertakings	165,999	161,680
Other shares and holdings	1,766	2,062
	167,765	163,742
2.1.1 Intangible assets		
Intangible rights		
Acquisition cost 1.1.	2,014	1,861
Increases	1,683	377
Decreases	–33	–224
Acquisition cost 31.12.	3,663	2,014
Accumulated depreciation 31.12.	–1,980	–1,664
Book value 31.12.	1,684	349
Other capitalised expenditure		
Acquisition cost 1.1.	327	259
Increases	6,886	68
Acquisition cost 31.12.	7,212	327
Accumulated depreciation 31.12.	–2,364	–122
Book value 31.12.	4,848	205
Advance payments		
Acquisition cost 1.1.	4,759	193
Increases	5,378	4,735
Decreases	–7,611	–169
Acquisition cost 31.12.	2,526	4,759

EUR 1,000	31.12.2011	31.12.2010
2.1.2 Tangible assets		
Land and water		
Acquisition cost 1.1.	3,191	3,191
Decreases	–18	
Acquisition cost 31.12.	3,173	3,191
Revaluations	3,087	3,087
Book value 31.12.	6,261	6,278
Buildings		
Acquisition cost 1.1.	14,672	14,900
Increases		26
Decreases	–320	–254
Acquisition cost 31.12.	14,351	14,672
Accumulated depreciation 31.12.	–11,384	–11,360
Revaluations	2,378	2,378
Book value 31.12.	5,345	5,690
Machinery and equipment		
Acquisition cost 1.1.	1,052	1,458
Increases	81	106
Decreases	–125	–512
Acquisition cost 31.12.	1,008	1,052
Accumulated depreciation 31.12.	–698	–706
Book value 31.12.	310	346
Other tangible assets		
Acquisition cost 1.1.	1,364	1,359
Increases		7
Decreases	–5	–2
Acquisition cost 31.12.	1,358	1,364
Accumulated depreciation 31.12.	–961	–905
Book value 31.12.	397	459
Advance payments and construction in progress		
Acquisition cost 1.1.		26
Increases	5	
Decreases		–26
Acquisition cost 31.12.	5	

EUR 1,000	31.12.2011	31.12.2010
2.1.3 Investments		
Holdings in Group undertakings		
Acquisition cost 1.1.	161,680	164,688
Increases from mergers		32,273
Increases	5,842	22,347
Decreases from mergers	–1,524	–57,628
Acquisition cost 31.12.	165,999	161,680
Merger difference has been allocated to acquisition cost of received subsidiary shares and to other operating income.		
Other shares		
Acquisition cost 1.1.	1,986	2,031
Increases		5
Decreases	–296	–50
Acquisition cost 31.12.	1,690	1,986
Revaluations	76	76
Book value 31.12.	1,766	2,062
2.1.4 Revaluations		
Land		
Value 1.1.	3,087	3,087
Value 31.12.	3,087	3,087
Buildings		
Value 1.1.	2,378	2,378
Value 31.12.	2,378	2,378
Shares		
Value 1.1.	76	76
Value 31.12.	76	76
2.2 CURRENT ASSETS		
2.2.1 Non-current receivables		
Loan receivables	4,264	4,613
Deferred tax asset	1,755	3,279
	6,019	7,891

EUR 1,000	31.12.2011	31.12.2010
2.2.2 Current receivables		
Amounts owed by prties outside the Group		
Accounts receivable	220	19
Other receivables	189	752
Prepayments and accrued income	669	1,116
	1,079	1,887
Amounts owed by Group undertakings		
Accounts receivable	9,902	2,076
Other receivables	339,141	317,669
Prepayments and accrued income	1,787	1,963
	350,830	321,707
Current receivables, total	351,908	323,594
Items included in prepayments and accrued income		
Interest receivables	249	590
Deferred personnel expenses	63	
Deferred financial expenses	309	111
Others	48	415
	669	1,116
2.3 SHAREHOLDERS' EQUITY		
Share capital 1.1.	34,043	34,043
Share capital 31.12.	34,043	34,043
Share premium account 1.1.	5,675	5,675
Share premium account 31.12.	5,675	5,675
Invested non-restricted equity fund 1.1.	60,997	
Increases		60,997
Invested non-restricted equity fund 31.12.	60,997	60,997
Hedging reserve 1.1.	–1,510	
Increases	796	–2,040
Transfer to deferred tax liability	–226	530
Hedging reserve 31.12.	–940	–1,510

EUR 1,000	31.12.2011	31.12.2010
Retained earnings 1.1.	92,792	75,124
Distribution of dividend	–9,822	
Transfer from revaluations reserve		82
Retained earnings 31.12.	82,970	75,206
Result for the financial year	13,184	17,587
Shareholders' equity, total	195,929	191,996
Distributable funds 31.12.	157,151	153,789
2.4 LIABILITIES		
2.4.1 Deferred tax liability		
From revaluations	1,441	1,441
From timing differences	–83	
	1,358	1,441
2.4.2 Non-current liabilities		
Loans from credit institutions	36,519	28,597
Pension loans	44,116	70,755
Bonds	59,763	60,000
Other non-current liabilities		246
	140,398	159,598
2.4.3 Current liabilities		
Loans from credit institutions	12,696	11,423
Pension loans	22,759	19,035
Commercial paper	119,910	75,100
Accounts payable	1,847	1,269
Accounts payable to Group undertakings	325	115
Other liabilities to Group undertakings	42,525	48,778
Other liabilities	3,195	4,991
Accruals and deferred income	7,200	4,152
	210,456	164,864

EUR 1,000	31.12.2011	31.12.2010
Items included in accruals and deferred income		
Interests	1,543	1,184
Accrued personnel expenses	5,477	2,690
Others	180	278
	7,200	4,152
2.5 CONTINGENT LIABILITIES		
Pledges given on behalf of others		
Securities pledged	90	90
	90	90
Mortgages and pledges, total		
Securities pledged	90	90
	90	90
Guarantees given		
On behalf of Group undertakings	334,574	254,915
On behalf of associated undertakings	20,337	
On behalf of others	18,863	25,763
	373,774	280,679
Leasing liabilities		
Payable next year	6,938	4,678
Payable in subsequent years	26,354	24,794
	33,292	29,472
Derivative contracts		
Forward foreign exchange contracts		
Nominal value	81,577	48,902
Fair value	–283	–868
Interest rate swap contracts		
Nominal value	28,597	48,072
Fair value	–1,313	–2,193

Financial indicators (IFRS)

EUR MILLION	2011	2010 1)	2009 1) 2) 3)	2008 1) 3)	2007
Net sales	2,274.1	1,829.6	1,965.5	2,477.4	2,174.1
Exports and operations outside Finland	780.3	543.5	527.6	676.7	581.6
% net sales	34.3	29.7	26.8	27.3	26.8
Operating profit	53.5	29.6	23.2	117.6	127.2
% net sales	2.4	1.6	1.2	4.7	5.8
Result before taxes	34.6	7.6	–10.2	85.4	111.2
% net sales	1.5	0.4	–0.5	3.4	5.1
Result for the financial year 4)	34.7	0.3	–26.2	51.7	72.9
% net sales	1.5	0.0	–1.3	2.1	3.4
Non-current assets 5)	351.0	313.1	301.6	290.1	272.1
Inventories 5)	448.5	369.8	374.7	398.2	330.9
Financial assets 5)	437.7	352.3	375.2	722.1	465.9
Shareholders' equity 4)	348.7	325.2	267.4	309.9	295.5
Non-controlling interest	1.7	5.1	23.2	27.8	23.7
Interest-bearing liabilities	431.6	375.5	399.1	586.5	357.0
Interest-free liabilities 5)	458.9	346.6	361.7	486.2	392.8
Balance sheet total	1,242.8	1,062.0	1,051.5	1,410.4	1,069.0
Return on equity, %	10.5	0.4	–7.6	18.1	27.5
Return on investment, %	10.8	7.0	5.5	17.0	20.7
Equity ratio, %	30.8	35.0	30.7	26.0	32.7
Gearing, %	114.5	105.7	111.7	99.6	87.2
Interest-bearing net liabilities	401.2	349.2	324.7	336.4	278.5
Gross investments	84.0	59.6	41.5	60.2	61.4
% net sales	3.7	3.3	2.1	2.4	2.8
Order book 31.12.	1,400.4	1,226.4	1,064.5	1,064.5	1,414.1
Average number of employees	8,421	8,314	8,626	9,776	9,201

1) The figures include an adjustment made to receivables in 2011.
2) As from 1 January 2010, Lemminkäinen observes the interpretation IFRIC 15 – Agreements for the Construction of Real Estate in its Reporting. The comparative figures for 2009 have also been calculated in accordance with the interpretation.
3) The figures include a liability noted in an additional report on a consortium.
4) Attributable to the equity holders of the parent company.
5) The figure includes assets held for sale or related liabilities. Non-current assets held for sale and related liabilities are presented in note 5.

Share-related financial indicators (IFRS)

	2011	2010 [1]	2009 [1] [2] [3]	2008 [1] [3]	2007
Earnings per share (EPS), EUR	1.77	0.02	–1.54	3.04	4.29
Equity per share, EUR	17.75	16.55	15.71	18.21	17.36
Dividend per share, EUR	0.50 [4]	0.50	0.00	0.90	1.80
Dividend to earnings ratio, %	28.3	over 100	0.0	29.6	42.0
Effective dividend yield, %	2.7	1.90	0.0	6.9	5.7
Price/earnings ratio (P/E)	10.6	1,664.4	–15.7	4.3	7.4
Share price, EUR					
mean	22.86	24.73	21.38	27.40	44.88
lowest	17.08	21.21	13.30	12.53	31.03
highest	27.37	30.00	30.30	37.55	55.61
at end of financial year	18.72	26.00	24.20	13.05	31.50
Market capitalisation, EUR mill.	367.8	510.8	411.9	222.1	536.2
Shares traded, 1,000	3,367	4,172	1,918	3,185	5,204
% of total	17.1	21.8	11.3	18.7	30.6
Number of shares					
average for the period, 1,000	19,645	19,124	17,021	17,021	17,021
at end of period, 1,000	19,645	19,645	17,021	17,021	17,021

[1] The figures include an adjustment made to receivables in 2011.
[2] As from 1 January 2010 Lemminkäinen observes the interpretation IFRIC 15 – Agreements for the Construction of Real Estate in its Reporting. The comparative figures for 2009 have also been calculated in accordance with the interpretation.
[3] The figures include a liability noted in an additional report on a consortium.
[4] Board of Directors' proposal to the AGM.

Formulae for the financial indicators

RETURN ON INVESTMENT, %

$$\frac{\text{Result before taxes + interest and other financial expenses}}{\text{Balance sheet total (average) – interest-free liabilities (average)}} \times 100$$

RETURN ON EQUITY, %

$$\frac{\text{Result for the financial period}}{\text{Shareholder's equity, total (average)}} \times 100$$

EQUITY RATIO, %

$$\frac{\text{Shareholder's equity, total}}{\text{Balance sheet total – advances received}} \times 100$$

GEARING, %

$$\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Shareholder's equity, total}} \times 100$$

INTEREST-BEARING NET DEBT

Interest-bearing liabilities – cash and cash equivalents

EMPLOYEES

$$\frac{\text{Sum of monthly employee headcount}}{\text{Number of months in the financial period}}$$

EARNINGS PER SHARE

$$\frac{\text{Result for the financial period – non-controlling interest}}{\text{Issue-adjusted number of shares (average)}}$$

EQUITY PER SHARE

$$\frac{\text{Equity attributable to the equity holders of the parent company}}{\text{Issue-adjusted number of shares at the end of the period}}$$

DIVIDEND PER SHARE

$$\frac{\text{Dividend fot the financial period}}{\text{Issue-adjusted number of shares at the end of the period}}$$

DIVIDEND TO EARNINGS RATIO, %

$$\frac{\text{Dividend fot the financial period}}{\text{Result for the financial period – non-controlling interest}} \times 100$$

EFFECTIVE DIVIDEND YIELD, %

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

P/E RATIO

$$\frac{\text{Issue-adjusted share price at the end of the period}}{\text{Earnings per share}}$$

ISSUE-ADJUSTED MEAN SHARE PRICE

$$\frac{\text{Trading value or total share turnover in euros}}{\text{Issue-adjusted number of shares traded during the period}}$$

MARKET CAPITALISATION

Number of shares x final share quotation

Board of directors' proposal for the distribution of profit

Distributable shareholders' equity shown on the parent company balance sheet at 31 December 2011 amounts to EUR 157,151,029.90, consisting of retained earnings EUR 82,969,836.31 and the profit for the financial year EUR 13,184,493.09.

The board of directors will propose to the AMG that, for the financial year ended 31 December 2011, the company a per-share dividend of EUR 0.50 to a total of EUR 9,822,382.00, after which retained earnings would stand at EUR 86,331,947.40.

Helsinki, 8 February 2012

Berndt Brunow

Juhani Mäkinen

Mikael Mäkinen

Kristina Pentti-von Walzel

Heikki Räty

Teppo Taberman

Timo Kohtamäki
Managing Director

Auditor's Report*

TO THE ANNUAL GENERAL MEETING OF LEMMINKÄINEN CORPORATION

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Lemminkäinen Corporation for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Helsinki, 23 February 2012

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kim Karhu
Authorised Public Accountant

*Translation from the Finnish original

Shares and shareholders

LEMMINKÄINEN'S SHARE AND SHARE CAPITAL

The Company has one share class. Each share carries one vote at a general meeting of shareholders and confers an equal right to a dividend. On 31 December 2011, the Company had 19,644,764 shares. The Company's share capital is EUR 34,042,500.

SHARE PRICE AND TURNOVER

The price of Lemminkäinen's share on the last trading day of 2011 was EUR 18.72 (26.00). The share price increased by 28 per cent during the report year. The highest share price quoted was EUR 27.37 in April and the lowest EUR 17.08 in August. The average price in 2011 was EUR 22.86 (24.73). The year-end market capitalisation was EUR 367.8 million (510.8).

During 2011, share turnover on NASDAQ OMX Helsinki Ltd totalled 3,366,940 shares (4,171,666) with a total share turnover value of EUR 77.0 million. Lemminkäinen has a Liquidity Providing (LP) agreement with Nordea Bank Finland Plc. According to the agreement, Nordea Bank Finland Plc must quote both bid and offer prices for Lemminkäinen's share such that the prices do not deviate from each other by more than 4 per cent, calculated on the bid price.

SHAREHOLDERS

At the end of 2011, Lemminkäinen had 4,548 shareholders (4,979). The Pentti family owned about 57 per cent (57) of the company's shares. About 15 per cent (8) of shares were in foreign ownership or registered in a nominee's name.

At the end of 2011, the members of the Group Executive Board and the Board of Directors held a total of 749,958 Lemminkäinen shares, representing 3.8 per cent of the Company's shares and the voting rights conferred by them. The holdings of Lemminkäinen's public insiders are updated in real time on the Company's website at www.lemminkainen.com/investors.

FLAGGING NOTIFICATIONS

In September 2011, Lemminkäinen received a flagging notification stating that Peab AB's holding in the company had exceeded 5 per cent. According to the notification, Peab AB (publ) held 1,140,225 Lemminkäinen shares on 13 September 2011, which corresponds to 5.80 per cent of Lemminkäinen's shares and votes. Peab Invest AS, which is a fully-owned subsidiary of Peab AB (publ), also holds a forward contract for a further 940,000 shares, which represents 4.78 per cent of Lemminkäinen's shares and votes. Lemminkäinen is not aware of the due date for this contract.

In December 2011, Lemminkäinen received a flagging notification announcing that the shares in Lemminkäinen belonging to the estate of Erkki Pentti had been divided between Anna Pentti and Heppu Pentti. Following this, Anna Pentti and Heppu Pentti transferred their shares in Lemminkäinen to PNT Group Oy, of which they each own one half, as a contribution in kind. As a result, the shares held by Erkki Pentti's estate in Lemminkäinen decreased from 3,673,956 shares and votes to zero, while PNT Group Oy's shares in the Company rose by the corresponding amount.

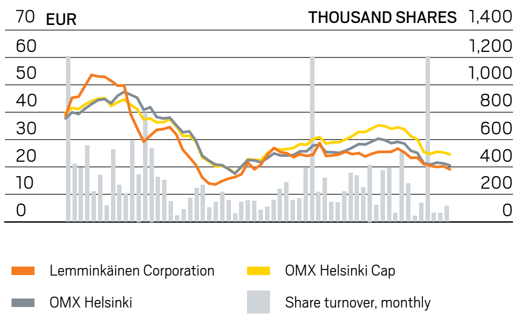
MORE INFORMATION ON SHARES AND SHAREHOLDERS IN THE BOARD OF DIRECTOR'S REPORT 2011 ON PAGES 92–93.

LEMMINKÄINEN'S SHARE (LEM1S)	
Listing:	NASDAQ OMX Helsinki
Listing date:	1 June, 1995
Trading currency:	EUR
Segment:	Mid Cap
Sector:	Industrials
Trading code:	LEM1S
ISIN code:	FI0009900336
Reuters ID:	LEM1S.HE
Bloomberg ID:	LEM1S FH

MAJOR SHAREHOLDERS, 31.12.2011

NAME OF SHAREHOLDER	number of shares	% of total shares
PNT Group	3,673,956	18.70
Pentti Olavi	3,673,953	18.70
Estate of Heikki Pentti	1,906,976	9.71
Varma Mutual Pension Insurance Company	723,727	3.68
Pentti-Kortman Eva Katarina	635,660	3.24
Pentti-Von Walzel Anna Eva Kristina	635,660	3.24
Pentti Timo Kaarle Kristian	635,660	3.24
Ilmarinen Mutual Pension Insurance Company	432,687	2.20
Mandatum Life Insurance Company Limited	283,711	1.44
Maa- ja Vesitekniikan Tuki ry.	250,000	1.27
Etera Mutual Pension Insurance Company	204,310	1.04
Laakkonen Mikko Kalervo	154,601	0.79
ODIN Finland	151,934	0.77
Alfred Berg Mutual Fund	130,153	0.66
Nordea Pro Suomi Mutual Fund	108,563	0.55
15 largest in total	13,601,551	69.23
Nominee registered	2,853,105	14.50
Other shareholders	3,190,108	16.27
Total	19,644,764	100.00

SHARE PRICE DEVELOPMENT AND SHARE TURNOVER



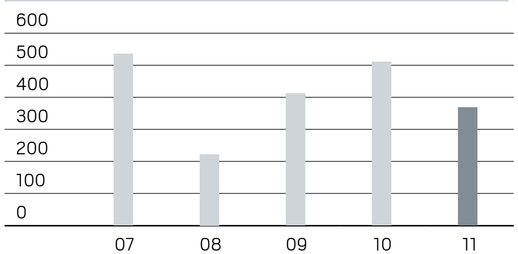
SHAREHOLDERS BY NUMBER OF SHARES 31.12.2011

	Number of shareholders	% of shareholders	Number of shares	% of shares
1–100	1,922	42.3	103,045	0.5
101–500	1,796	39.5	466,140	2.4
501–1,000	413	9.1	329,495	1.7
1,001–10,000	350	7.7	1,048,960	5.4
10,001–100,000	49	1.0	1,431,201	7.3
100,001–500,000	9	0.2	1,962,124	10.0
500,001–	9	0.2	14,293,114	72.8
Common accounts	0	0	10,685	0.1
Total	4,548	100.0	19,644,764	100.0

SHAREHOLDERS BY SECTOR 31.12.2011

	Number of shareholders	% of shareholders	Number of shares	% of shares
Foreign and nominee registered owners	25	0.55	2,853,105	14.5
Finnish private investors	4,117	90.52	9,599,953	48.9
Public sector institutions	10	0.22	1,460,839	7.4
Financial and insurance institutions	20	0.44	849,157	4.3
Corporations	306	6.73	4,317,312	22.0
Non-profit institutions	70	1.54	553,713	2.8
Common accounts	0	0	10,685	0.1
Total	4,548	100.0	19,644,764	100.0

MARKET CAPITALIZATION, EUR MILLION



Information for shareholders and investors

GENERAL MEETING

Lemminkäinen Corporation's 2012 Annual General Meeting will be held at 2 p.m on Monday, 2 April 2012, at the High Tech Center, HTC Helsinki Auditorium, Tammasaarenkatu 1–5, Helsinki, Finland.

Each shareholder who is recorded on 21 March 2012 in the Company's shareholder register (maintained by Euroclear Finland Ltd) has the right to participate in the General Meeting. A shareholder whose shares are registered in his/her personal Finnish book-entry account is registered in the Company's shareholder register.

Registration

Shareholders must register for the AGM no later than 4.00 p.m. on 28 March 2012 either:

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

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

DIVIDEND POLICY

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

PAYMENT OF 2011 DIVIDEND

Lemminkäinen's Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.50 per share be paid for the 2011 financial year. Dividends will be paid to shareholders who are recorded in the shareholder register maintained by Euroclear Ltd on the record date, 5 April 2012. The dividend payout date proposed by the Board of Directors is 16 April 2012.

FINANCIAL REPORTING 2012

9 Feb 2012	2011 Financial Statement Bulletin
week 10	Annual Report (pdf online)
week 13	Annual Report (printed version)
3 May 2012	Interim Report, 1 Jan – 31 Mar 2012
2 Aug 2012	Interim Report, 1 Jan – 30 Jun 2012
1 Nov 2012	Interim Report, 1 Jan – 30 Sep 2012

PUBLICATION ORDERS

The Company publishes its financial reports, stock exchange releases and press releases in both Finnish and English. All releases can be ordered directly to email at Lemminkäinen's website, www.lemminkainen.com/investors. Printed copy of the Annual Report can be ordered at Lemminkäinen's website or by emailing info@lemminkainen.fi.

INVESTOR RELATIONS

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

INVESTMENT RESEARCH

According to the information available to the Company, analysts in the service of at least the following banks and brokerage firms have made investment analyses of Lemminkäinen: Carnegie Securities, Evli Bank, E. Öhman J:or Securities Finland, FIM Bank, Inderes Oy, Pohjola Bank, SEB Enskilda, Swedbank and Ålandsbanken. Contact information for these analysts is provided on Lemminkäinen's website at www.lemminkainen.com/investors.

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