Lemminkäinen

ANNUAL REPORT

2017

Contents

Board of Directors' report

GROUP KEY FIGURES

Key figures, IFRS		Jan–Dec 2017	Jan–Dec 2016	Change
Net sales	M€	1,847.2	1,682.7	164.5
Paving	M€	656.4	648.5	7.9
Infra projects	M€	475.4	426.2	49.2
Building construction, Finland	M€	655.1	581.2	73.9
Russian operations	M€	93.0	54.5	38.5
Other operations and Group eliminations	M€	-32.8	-27.7	-5.1
Operating profit	M€	41.8	67.6	-25.8
Paving	M€	3.3	20.8	-17.5
Infra projects	M€	7.5	12.5	-5.0
Building construction, Finland	M€	36.7	17.2	19.5
Russian operations	M€	-0.8	-3.8	3.0
Other operations	M€	-5.0	20.9	-25.9
Operating margin	%	2.3	4.0	
Paving	%	0.5	3.2	
Infra projects	%	1.6	2.9	
Building construction, Finland	%	5.6	3.0	
Russian operations	%	-0.8	-7.0	
Pre-tax profit	M€	25.7	49.2	-23.5
Profit for the period	M€	6.4	38.0	-31.6
Earnings per share for the period, basic	€	0.17	1.27	-1.10
Earnings per share for the period, diluted	€	0.17	1.26	-1.09
Cash flow from operating activities	M€	-13.6	131.7	-145.3

Key figures, IFRS		31 Dec 2017	31 Dec 2016	Change
Order book	M€	1,305.6	1,265.2	40.4
Operating capital	M€	442.7	388.2	54.5
Balance sheet total	M€	926.8	968.0	-41.2
Interest-bearing net debt	M€	127.9	81.1	46.8
Equity ratio[1)]	%	39.9	39.5	
Gearing[2)]	%	40.0	24.3	
Return on capital employed, rolling 12 months	%	8.1	11.3	

[1)] Equity ratio, if hybrid bonds were treated as debt: 12/2017: 35.6% and 12/2016: 35.4%.
[2)] Gearing, if hybrid bonds were treated as debt: 12/2017: 57.2% and 12/2016: 38.8%.

MAJOR EVENTS DURING THE REPORTING PERIOD

MERGER OF LEMMINKÄINEN AND YIT

Lemminkäinen Corporation and YIT Corporation announced on 19 June 2017 the plan to combine the two companies.

- Through the combination, a platform for the growth into one of the leading urban developers in the Northern European construction market is created.
- The combination will create significant value for the shareholders of the combined company through decreased sensitivity to economic cycles and improved competitiveness providing a strong platform for growth. The combination of Lemminkäinen and YIT will form a balanced business portfolio of Housing, Infrastructure projects, Paving, Business premises and Partnership properties.
- The combination was implemented as a statutory absorption merger whereby Lemminkäinen merged into YIT, Lemminkäinen's shareholders received YIT shares as merger consideration and Lemminkäinen ceased to exist. Lemminkäinen's shareholders received as merger consideration 3.6146 new shares in YIT for each share in Lemminkäinen owned by them, corresponding to an ownership in the combined company post-completion of 60% for YIT shareholders and 40% for Lemminkäinen shareholders.

The Finnish Financial Supervisory Authority approved the merger prospectus concerning the merger of Lemminkäinen and YIT on 24 August 2017 and granted an exemption from the obligation to publish a listing prospectus. Lemminkäinen published the merger prospectus on its website on 25 August 2017 and a Stock Exchange release on the supplement to the merger prospectus on 7 September 2017.

The Extraordinary General Meetings of Lemminkäinen and YIT held on 12 September 2017 approved the merger. Lemminkäinen published the notice to the General Meeting as a Stock Exchange release on 27 July 2017 and Stock Exchange releases on resolutions passed at the Extraordinary General Meetings on 12 September 2017.

PEAB AB was the only shareholder who voted against the merger of Lemminkäinen and YIT and demanded redemption of its shares at the Extraordinary General Meeting of Lemminkäinen on 12 September 2017. On 9 October 2017, PEAB announced that it had divested its entire holding in Lemminkäinen Corporation. As a result of the divestment, the redemption claim concerning the shares presented by PEAB at the General Meeting of Lemminkäinen became void and in connection with the combination of the companies, the entire merger consideration was given as YIT shares.

The Finnish Competition and Consumer Authority approved the merger of Lemminkäinen and YIT on 26 January 2018. Already earlier, the competition authorities of Russia, Slovakia, Estonia and Lithuania had approved the merger and the merger did not require authority permits in other countries. The Boards of Directors of both companies approved the completion of the merger on 31 January 2018 and the merger was completed on 1 February 2018.

GROUP PERFORMANCE

NET SALES

Net sales by segment		Jan–Dec 2017	Jan–Dec 2016	Change
Paving	M€	656.4	648.5	7.9
Infra projects	M€	475.4	426.2	49.2
Building construction. Finland	M€	655.1	581.2	73.9
Russian operations	M€	93.0	54.5	38.5
Other operations and Group eliminations	M€	-32.8	-27.7	-5.1
Group, total	M€	1,847.2	1,682.7	164.5

Net sales by country		Jan–Dec 2017	Jan–Dec 2016	Change
Finland	M€	1,215.7	1,133.0	82.7
Scandinavia	M€	388.9	376.5	12.4
Russia	M€	93.0	54.5	38.5
Baltic countries	M€	149.6	117.5	32.1
Other countries	M€		1.2	-1.2
Group, total	M€	1,847.2	1,682.7	164.5

In 2017, the Group's net sales totalled EUR 1,847.2 million (1,682.7). Changes in currency exchange rates had a positive impact of EUR 7.4 million compared to the year-earlier period.

In Paving, net sales increased due to higher volumes in Paving Finland. In Infra projects, net sales increased year-on-year due to higher volumes in Sweden and the Baltic countries. In Building construction, Finland, net sales grew due to higher volumes in both non-residential construction and residential development. In Russian operations, volumes grew mainly in building construction.

OPERATING PROFIT

Operating profit by segment		Jan–Dec 2017	Jan–Dec 2016	Change
Paving	M€	3.3	20.8	-17.5
Infra projects	M€	7.5	12.5	-5.0
Building construction, Finland	M€	36.7	17.2	19.5
Russian operations	M€	-0.8	-3.8	3.0
Business segments, total	M€	46.7	46.7	0.0
Other operations	M€	-5.0	20.9	-25.9
Group, total	M€	41.8	67.6	-25.8

Operating margin by segment		Jan–Dec 2017	Jan–Dec 2016
Paving	%	0.5	3.2
Infra projects	%	1.6	2.9
Building construction, Finland	%	5.6	3.0
Russian operations	%	-0.8	-7.0
Group, total	%	2.3	4.0

In 2017, the Group's operating profit was EUR 41.8 million (67.6). The operating margin was 2.3% (4.0). Changes in currency exchange rates had a positive impact of EUR 0.1 million compared to the year-earlier period.

In Paving, operating profit was impacted by delayed paving season start and by poor profitability in Scandinavia caused by the weak operative performance as well as by intense price competition. In Infra projects, operating profit decreased year-on-year mainly due to weaker margins in individual projects. In Building construction, Finland, operating profit improved mostly due to higher volumes and margin improvements in residential development. In Russian operations, operating profit was EUR -0.8 (-3.8). At the end of the year, the company had 1 unsold completed unit (2) in Russia.

The operating profit for other operations includes EUR 1.4 million costs, compensations and reimbursements related to court proceedings and EUR 3.4 million transaction costs related to the planned combination of Lemminkäinen and YIT.

The Group's adjusted operating profit was EUR 46.6 million (45.1).The adjusted operating margin was 2.5% (2.7) of net sales.

ORDER BOOK

Order book and order inflow		Order book at the end of period 31 Dec 2017	31 Dec 2016	Change	Order inflow during the period Jan–Dec 2017	Jan–Dec 2016	Change
Paving	M€	175.4	193.7	-18.3	483.7	442.1	41.6
Infra projects	M€	271.2	271.6	-0.4	243.0	342.2	-99.2
Building construction, Finland	M€	794.9	698.2	96.7	466.7	422.1	44.6
Russian operations	M€	64.1	101.7	-37.6	19.1	140.9	-121.8
Group, total	M€	1,305.6	1,265.2	40.4	1,212.5	1,347.2	-134.7
- of which unsold	M€	88.9	105.7	-16.8			

At the end of the year, the Group's order book stood at EUR 1,305.6 million (1,265.2). The January-December order inflow was EUR 1,212.5 million (1,347.2).

BALANCE SHEET, FINANCING AND CASH FLOW

Balance sheet and financing		31 Dec 2017	31 Dec 2016	Change
Key figures, balance sheet				
Equity ratio[1]	%	39.9	39.5	
Gearing[2]	%	40.0	24.3	
Return on capital employed, rolling 12 months	%	8.1	11.3	
Capital employed	M€	505.2	546.2	-41.0
Operating capital	M€	442.7	388.2	54.5
Net working capital	M€	257.3	187.8	69.5
Financial position and liquidity				
Interest-bearing debt	M€	185.8	212.5	-26.7
- of which long-term liabilities	M€	114.6	119.6	-5.0
- of which short-term liabilities	M€	71.2	92.9	-21.7
Liquid funds	M€	57.9	131.4	-73.5
Interest-bearing net debt	M€	127.9	81.1	46.8
Available committed credit limits	M€	200.0	185.0	15.0
Available overdraft limits	M€	12.4	12.4	0.0

[1] Equity ratio, if hybrid bonds were treated as debt: 12/2017: 35.6% and 12/2016: 35.4%.
[2] Gearing, if hybrid bonds were treated as debt: 12/2017: 57.2% and 12/2016: 38.8%.

On 31 December 2017, the balance sheet total was EUR 926.8 million (968.0), of which shareholders' equity accounted for EUR 319.3 million (333.7). Shareholders' equity includes EUR 34.8 million (34.8) hybrid bond. The company is entitled to redeem the remaining nominal amount of EUR 35.2 million hybrid bond earliest in March 2018.

The Group's operating capital on 31 December 2017 amounted to EUR 442.7 million (388.2). At the end of the year, net working capital stood at EUR 257.3 million (187.8). Working capital grew from comparison period especially in Infra projects and Russian operations.

Interest-bearing debt at the end of the year amounted to EUR 185.8 million (212.5) and interest-bearing net debt totalled EUR 127.9 million (81.1). Long-term interest-bearing debt accounted for 61.7% (56.3) of the loan portfolio at the end of the period. Liquid funds totalled EUR 57.9 million (131.4). Of the company's interest-bearing debt, EUR 99.4 million (99.7) comprises bonds, EUR 61.7 million (80.7) borrowings of housing and commercial property companies included in inventory, EUR 24.4 million (31.0) finance lease liabilities and EUR 0.4 million (1.1) other financial liabilities. No commercial papers were outstanding at the end of 2017 or at the end of 2016.

In the third quarter, the noteholders' meeting approved the changes to the terms and conditions of Lemminkäinen's EUR 100 million senior unsecured notes. The changes became effective at the completion of the merger of Lemminkäinen and YIT on 1 February 2018.

In March 2017, Lemminkäinen signed a new EUR 200 million committed revolving credit facility. The facility will mature during the first quarter in 2020 with options for two one-year extensions. Simultaneously, the company cancelled its EUR 185 million committed revolving credit facility that would have matured during the first quarter in 2018. At the end of the year, the company had available committed revolving credit facilities worth EUR 200.0 million (185.0) and overdraft limits worth EUR 12.4 million (12.4). Of the loan portfolio, 64% (66) was at a fixed interest rate.

Net finance costs amounted to EUR 16.0 million (18.4) in 2017. The interest expenses of the hybrid bond are not recorded under finance costs in the income statement; instead, their impact can be seen in earnings per share and equity.

Cash flow from operating activities amounted to EUR -13.6 million (131.7) in January–December. Cash flow from operating activities declined due to changes in net working capital, especially in Infra projects and Russian operations.

In the fourth quarter 2017, the company wrote down deferred tax assets in Norway and Sweden to the extent that the company has taxable temporary differences. The write-downs increased the tax expense in the income statement in January-December EUR 10.2 million. The write-downs weakened the profit for the accounting period and earnings per share.

BUSINESS SEGMENTS

PAVING

Operating environment
The state investments in paving remained stable in Finland. In Sweden, the market was solid and in Norway state investments increased. In Denmark, price competition remained intense.

Key figures for Paving		Jan–Dec 2017	Jan–Dec 2016	Change
Net sales	M€	656.4	648.5	7.9
Operating profit	M€	3.3	20.8	-17.5
% of net sales	%	0.5	3.2	
Order inflow	M€	483.7	442.1	41.6
Order book[1]	M€	175.4	193.7	-18.3
Operating capital[1]	M€	181.3	189.0	-7.7

[1] at the end of the period

Net sales in 2017 totalled EUR 656.4 million (648.5) of which 53% (52) from Finland and 47% (48) from Scandinavia. Net sales increased due to higher volumes in Paving Finland. The operating profit was EUR 3.3 million (20.8). Operating profit was impacted by delayed paving season start and by poor profitability in Scandinavia caused by the weak operative performance as well as by intense price competition.

At the end of the year, operating capital stood at EUR 181.3 million (189.0).

The total quantity of sold and paved asphalt in 2017 amounted to 6.8 million tonnes (6.9).

INFRA PROJECTS

Operating environment
Urbanisation, industrial investments and investments in energy and transport infrastructure increased demand for complex infrastructure construction. Especially in Sweden and Norway, the market was strong and there are several major projects ongoing or planned. In Finland, construction was supported by major infrastructure construction projects in urban growth centres and the growth in the overall construction market. In the Baltic countries, the market has continued to grow.

Key figures for Infra projects		Jan–Dec 2017	Jan–Dec 2016	Change
Net sales	M€	475.4	426.2	49.2
Operating profit	M€	7.5	12.5	-5.0
% of net sales	%	1.6	2.9	
Order inflow	M€	243.0	342.2	-99.2
Order book[1]	M€	271.2	271.6	-0.4
Operating capital[1]	M€	71.1	30.3	40.8

[1] at the end of the period

Net sales in 2017 totalled EUR 475.4 million (426.2) of which 50% (57) from Finland, 18% (15) from Scandinavia and 32% (28) from the Baltic countries. Net sales increased year-on-year due to higher volumes in Sweden and the Baltic countries. The operating profit was EUR 7.5 million (12.5). The operating profit decreased year-on-year mainly due to weaker margins in individual projects. At the end of the year, operating capital stood at EUR 71.1 million (30.3). Operating capital increased due to the increase in net working capital.

BUILDING CONSTRUCTION, FINLAND

Operating environment
The overall market situation in building construction was strong. Residential construction continued to be brisk, still focusing on small apartments in urban growth centres. Both consumer and investor activity have remained relatively stable. Individual large projects and public sector works maintained demand for non-residential construction.

Key figures for Building construction, Finland		Jan–Dec 2017	Jan–Dec 2016	Change
Net sales	M€	655.1	581.2	73.9
Operating profit	M€	36.7	17.2	19.5
% of net sales	%	5.6	3.0	
Order inflow	M€	466.7	422.1	44.6
Order book[1]	M€	794.9	698.2	96.7
Operating capital[1]	M€	217.8	215.8	2.0

[1] at the end of the period

Net sales in 2017 totalled EUR 655.1 million (581.2). The operating profit was EUR 36.7 million (17.2). Net sales grew due to higher volumes in both non-residential construction and residential development. Sales of residential development units were strong, 1,343 units in 2017 (1,002). Operating profit improved mostly due to higher volumes and margin improvements in residential development.

At the end of the year, the number of unsold completed units was 112 (185). The operating capital remained relatively stable and stood at EUR 217.8 million (215.8) at the end of the year.

Lemminkäinen's residential production (development projects and negotiated contracting)		Jan–Dec 2017	Jan–Dec 2016	Change
Started	units	1,621	1,106	515
– of which development projects	units	1,387	871	516
Completed	units	1,341	1,042	299
– of which development projects	units	870	664	206
Sold	units	1,565	1,234	331
– of which development projects	units	1,343	1,002	341
Sales to investors	%	15	31	,
Under construction[1]	units	1,729	1,482	247
– of which unsold[1]	units	543	433	110
Unsold completed[1]	units	112	185	-73
Land bank, balance sheet value[1]	M€	110.6	94.0	16.6
Started in competitive contracting	units	286	312	-26

[1] at the end of the period

RUSSIAN OPERATIONS

Operating environment

In Russia, economic growth is at a low level. In negotiated contracting in building construction, reliability of the contractor remains a competitive advantage. Construction and repair projects on major roads maintained demand for paving.

Key figures for Russian operations		Jan–Dec 2017	Jan–Dec 2016	Change
Net sales	M€	93.0	54.5	38.5
Operating profit	M€	-0.8	-3.8	3.0
% of net sales	%	-0.8	-7.0	
Order inflow	M€	19.1	140.9	-121.8
Order book[1]	M€	64.1	101.7	-37.6
Operating capital[1]	M€	44.9	23.7	21.2

[1] at the end of the period

Net sales in 2017 totalled EUR 93.0 million (54.5). Volumes grew mainly in building construction. The operating profit was EUR -0.8 million (-3.8). Reaching the financial targets after the strategy change in 2015 will still take some time.

Changes in currency exchange rates had a positive impact of EUR 10.3 million on net sales and a negative impact of EUR 0.1 million on the operating profit.

At the end of the year, the company had 1 unsold completed unit in Russia (2). The operating capital stood at EUR 44.9 million (23.7).

INVESTMENTS

Gross investments in 2017 amounted to EUR 24.8 million (20.8), representing 1.3% (1.2) of the company's net sales. Investments were mainly replacement investments of property, plant and equipment in Paving.

PERSONNEL

At the end of the year, Lemminkäinen employed 4,632 people (4,244), an increase of 388 people year-on-year. Roughly half of the personnel is employed in Finland. The number of personnel increased the most in Russian operations due to the increase of building construction business volumes. In Infra projects the organisation has been gradually strengthened to support the segment's growth ambitions. Of the personnel at the end of the year, 2,005 (1,947) were white-collar workers and 2,627 (2,297) were blue-collar workers.

Personnel by business segment		31 Dec 2017	31 Dec 2016	Change
Paving	persons	1,400	1,412	-12
Infra projects	persons	1,298	1,212	86
Building construction, Finland	persons	1,041	1,048	-7
Russian operations	persons	769	425	344
Parent company and others	persons	124	147	-23
Group, total	persons	4,632	4,244	388

Personnel by country		31 Dec 2017	31 Dec 2016	Change
Finland	persons	2,301	2,349	-48
Sweden, Norway, Denmark	persons	833	829	4
Baltic countries	persons	726	632	94
Russia	persons	769	425	344
Other countries	persons	3	9	-6
Group, total	persons	4,632	4,244	388

CHANGES IN LEMMINKÄINEN'S EXECUTIVE TEAM

Heikki Vuorenmaa was appointed Executive Vice President, Paving and a member of the Executive Team of Lemminkäinen Group as of 21 September 2017. Former Executive Team member and EVP, Paving, Robert Blumberg left the company and his position on 21 September 2017.

Sari Inkilä, EVP, Strategy and Development, left the company and her position on 1 November 2017, whereafter Jan Gustafsson, EVP, HR, has been responsible for strategy and development at Lemminkäinen.

OCCUPATIONAL SAFETY AND ENVIRONMENT

Lemminkäinen's long-term occupational safety target is zero lost-time accidents. The company's goal for occupational safety measures is to create a safe working environment for all employees and subcontractors. Lemminkäinen is committed to the shared occupational safety principles of the Confederation of Finnish Construction Industries RT (CFCI), which aim to accelerate the construction industry's progress towards the Zero accidents target. In May 2017, Lemminkäinen organized the Safety Week in all its counties of operation. During the Safety Week, the members of the management visited worksites and discussed topical occupational safety themes. Additionally, in

September, the Paving segment organized a safety campaign in its countries of operation in order to emphasize the importance of safety also during the autumn season in asphalt production.

Lemminkäinen monitors monthly the lost time accident rate and makes action plans accordingly. The company also monitors the lost time accident rate for subcontractors. In 2017, Lemminkäinen's lost time accident rate for own personnel was 7.0 (8.6) (accidents resulting in an absence of more than one day/million working hours). Despite the positive development of the lost time accident rate during the year, unfortunately three fatal accidents took place in Lemminkäinen's operations in Russia. Two of these were fatal accidents of Lemminkäinen's employees in the Paving segment and one of Lemminkäinen's subcontractor in Building Construction. Action plans have been made to prevent similar kinds of accidents in the future, and the follow-up of these actions will continue in 2018.

At the beginning of 2017, the company's safety experts initiated three Lean Six Sigma projects focusing on occupational safety, aiming to develop the safety performance and reporting in Lemminkäinen. The projects will continue in 2018. In May, Lemminkäinen organized the InfraHack event, during which innovations for construction were generated. Occupational safety was one of the topics for innovations. Lemminkäinen initiated a pilot project based on an InfraHack innovation that supports occupational safety. Occupational safety communications and a continuous safety-related dialogue are key elements in safe working practices. During 2017, Lemminkäinen developed the information flow of accidents and near-miss cases between its countries of operation and unified the occupational safety terminology as part of continuous improvement.

The long-term environmental targets of Lemminkäinen are to improve the company's energy efficiency and increase material efficiency and recycling. Most of Lemminkäinen's environmental footprint comes from the production processes of paving and mineral aggregates. Lemminkäinen minimises the environmental impact of its operations for example by developing production technology and process efficiency, for instance in machine usage. In Finland, Lemminkäinen is committed to a 7.5% decrease in the company's energy consumption from the 2014 level by 2025 in accordance with the voluntary Energy Efficiency Agreement for Industries. In 2017, the company continued to develop and harmonise the monitoring of energy consumption of its operations.

Lemminkäinen aspires to increase the material efficiency and recycling in its operations. The re-use of old asphalt reduces CO_2 emissions and enhances the company's material efficiency. Lemminkäinen's target is that 25% of the raw materials used in asphalt production is reclaimed asphalt by 2025. In 2017, 14% (15) of raw materials used was reclaimed asphalt. Surplus soils and construction waste are generated in our construction projects. Primarily we avoid generating waste. For generated waste Lemminkäinen seeks to find recycling or reuse solutions. Landfill as an end use solution is used only when recycling or reuse is not technically or economically possible. The company monitors the waste utilization rate and waste sorting of its building construction sites.

In 2017, Lemminkäinen trained its personnel in occupational safety and environmental matters. The company actively participates in working groups, which develop the industry legislation, ways of working and best available technology. During 2017, Lemminkäinen continued to share the best practices on occupational safety and environmental matters and develop international cooperation.

ENERGY CONSUMPTION

	GWh
Consumption of direct energy sources	
Diesel	165.4
Light fuel oil	152.0
Heavy fuel oil	133.6
Shale oil	22.9
Bio oil	5.8
Natural gas	190.3
Liquefied petroleum gas (LPG)	65.1
Liquefied natural gas (LNG)	17.8
Petrol	4.3
Total	757.2
Consumption of indirect energy sources	
Electricity	81.9
District heating	6.2
Total	88.1
Total energy consumption	845.3

Includes energy consumption within Lemminkäinen's own operations.

PUBLISHING CORPORATE GOVERNANCE STATEMENT AND STATEMENT OF NON-FINANCIAL INFORMATION

Resulting from the merger of Lemminkäinen Corporation and YIT Corporation 1 February 2018, Lemminkäinen is no longer an Issuer of a security as defined in the Securities markets act nor a Public Interest Entity as defined in the Accounting act. Therefore Lemminkäinen Corporation does not publish a corporate governance statement or statement of non-financial information.

RESEARCH AND DEVELOPMENT

In 2017, Lemminkäinen's research and development activities focused on the improvement of production technology and energy efficiency as well as operational efficiency. In addition, the company carried out activities to establish development portfolio management processes and agile development methods. Lemminkäinen also arranged an innovation challenge, Lemminkäinen InfraHack, to support its steps towards more digitalised infrastructure construction business. The Group has a paving industry laboratory in all of its operating countries focusing on paving research and development. The Central Laboratory is located in Finland. In 2017, the Group's research and development expenditure accounted for approximately 0.3% (0.2) of net sales.

SHARES AND SHAREHOLDERS

The company had one share class. Each share carried one vote at a general meeting of shareholders and entitled an equal right to dividend. Lemminkäinen's share capital was EUR 34,042,500 and the total number of shares was 23,219,900 at the end of the review period.

TRADING WITH SHARES

On 31 December 2017, the market capitalisation of Lemminkäinen's shares stood at EUR 530.7 million (473.3). The price of Lemminkäinen Corporation's share on the Nasdaq Helsinki Ltd was EUR 20.40 (13.79) on 1 January 2017 and 22.87 EUR (20.40) on 31 December 2017. In addition to on the Nasdaq Helsinki Ltd, Lemminkäinen's share was also traded on alternative markets. The total trading volume during January—December 2017 was 6,371,409 shares (2,770,162), of which alternative markets accounted for 7% (4). (Source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com).

SHAREHOLDERS

On 31 December 2017, the company had 3,928 shareholders (4,191). Nominee-registered and non-Finnish shareholders held 8.2% (13.6) of all Lemminkäinen Corporation shares and voting rights.

SHAREHOLDER AGREEMENTS

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

FLAGGING NOTIFICATIONS

On 9 October 2017, the holding of PEAB AB (publ) in Lemminkäinen decreased to 0 shares, corresponding to 0.00 per cent of Lemminkäinen's shares and voting rights, and on the same date, the holding of Onvest Sijoitus Oy in Lemminkäinen increased to 2,458,447 shares, corresponding to 10.59 per cent of Lemminkäinen's shares and voting rights.

TREASURY SHARES

On 13 March 2017, Lemminkäinen announced a directed share issue of treasury shares related to Lemminkäinen Corporation's performance share plan for 2013–2015. In this share issue, in total 1,687 shares held by the company were conveyed.

On 31 December 2017, Lemminkäinen held 15,000 of its own shares, which accounted for 0.06% of all shares.

RESOLUTIONS OF THE AGM AND ADMINISTRATION

On 28 March 2017, Lemminkäinen Corporation's Annual General Meeting adopted the company's annual accounts and consolidated financial statements for 2016 and granted the members of the Board of Directors and the President and CEO discharge from liability.

PAYMENT OF DIVIDEND

The General Meeting resolved, in accordance with the Board of Directors' proposal, to pay a dividend of EUR 0.66 per share for the financial year that ended on 31 December 2016, i.e. EUR 15,325,134.00 in total. The dividend was paid on 6 April 2017.

AUTHORISATION TO REPURCHASE THE COMPANY'S OWN SHARES

The General Meeting resolved, in accordance with the Board of Directors' proposal, to authorise the Board of Directors to resolve on the repurchase of the company's own shares, in one or several instalments, using the unrestricted shareholders' equity of the company. The authorisation covers a maximum of 2,321,990 own shares, which corresponds to 10 per cent of all the current shares of the company, however taking into account the provisions of the Finnish Limited Liability Companies Act on the maximum amount of own shares in the possession of the company or its subsidiaries.

The Board of Directors may resolve to repurchase shares in another proportion than that of existing shareholdings of the shareholders. The shares shall be purchased in public trading at the prevailing market price. The purchases shall be carried out on Nasdaq Helsinki Ltd in accordance with its rules and regulations.

The authorisation also includes the right of the Board of Directors to resolve on all other terms and conditions of the repurchase of the shares. The authorisation remains effective for a period of 18 months from the resolution of the General Meeting. The previous authorisation granted to the Board of Directors regarding repurchase of own shares expired simultaneously.

AUTHORISATION OF THE BOARD OF DIRECTORS TO RESOLVE ON A SHARE ISSUE AND AN ISSUE OF SPECIAL RIGHTS

The General Meeting resolved, in accordance with the Board of Directors' proposal, to authorise the Board of Directors to resolve on a share issue and/or an issue of special rights entitling to shares referred to in Chapter 10, Section 1 of the Finnish Limited Liability Companies Act in one or several instalments, either against payment or without payment. The number of shares to be issued, including the shares to be received based on special rights, shall not exceed 4,643,980 shares. The maximum number corresponds to 20 per cent of all the current shares of the company. The Board of Directors may resolve to issue either new shares or own shares possibly held by the company.

The authorisation entitles the Board of Directors to resolve on all terms and conditions of the share issue and the issue of special rights entitling to shares, including the right to derogate from the pre-emptive right of the shareholders. The authorisation may be used for the financing or execution of any acquisitions or other business arrangements, to strengthen the balance sheet and financial position of the company or for other purposes as determined by the Board of Directors. The authorisation remains effective for a period of 18 months from the resolution of General Meeting. The previous authorisation regarding a share issue and an issue of special rights expired simultaneously.

BOARD MEMBERSHIP AND ELECTION OF THE AUDITOR

The General Meeting confirmed the number of members of the Board of Directors as eight. Berndt Brunow, Noora Forstén, Finn Johnsson, Juhani Mäkinen, Kristina Pentti-von Walzel, Heikki Räty and Heppu Pentti were re-elected as members of the Board and Harri-Pekka Kaukonen as a new member of the Board. Authorised Public Accountants PricewaterhouseCoopers Oy was re-elected to serve as the company's auditor.

CONSTITUTIVE MEETING OF THE BOARD OF DIRECTORS

Lemminkäinen Corporation's Board of Directors held its organizing meeting on 28 March 2017. The Board re-elected Berndt Brunow as the Chairman and Juhani Mäkinen as the Vice Chairman of the Board. The Board of Directors elected from among its members Heikki Räty to serve as the Chairman of the Audit Committee, with Juhani Mäkinen and Kristina Pentti-von Walzel serving as members. Berndt Brunow was elected to serve as the Chairman of the Nomination Committee, with Noora Forstén, Heppu Pentti and Kristina Pentti-von Walzel serving as members. Berndt Brunow was elected to serve as the Chairman of the HR Committee, with Noora Forstén and Heppu Pentti serving as members.

RESOLUTIONS OF THE EXTRAORDINARY GENERAL MEETING

On 12 September 2017, the Extraordinary General Meetings of Lemminkäinen and YIT resolved on the combination of the companies in accordance with the merger plan of 19 June 2017. The combination was implemented as a statutory absorption merger whereby Lemminkäinen's shareholders received YIT shares as merger consideration. Lemminkäinen's shareholders received as merger consideration 3.6146 new shares in YIT for each share in Lemminkäinen owned by them, corresponding to an ownership in the combined company post-completion of 60% for YIT shareholders and 40% for Lemminkäinen shareholders.

LEGAL PROCEEDINGS

DAMAGES RELATED TO THE ASPHALT CARTEL

On 6 September 2017, the Supreme Court announced that it had granted leave to appeal to Lemminkäinen and the city of Vantaa regarding the legal proceedings concerning the damages related to the asphalt cartel. Concerning Lemminkäinen, there were 13 pending requests for leave to appeal submitted by Lemminkäinen as well as 19 requests for leave to appeal submitted by municipalities in the Supreme Court concerning the Helsinki Court of Appeal's decisions on 20 October 2016 regarding damages related to the asphalt cartel.

Lemminkäinen was granted leave to appeal in the cases concerning the cities of Mikkeli and Rovaniemi. The leave to appeal concerns the question whether the liability for compensation of Lemminkäinen has decreased due to the fact that the other parties' liability was time barred. The other applications for leave to appeal by Lemminkäinen will await the decisions to be rendered in the cases where leave to appeal was granted.

The leave to appeal granted to the city of Vantaa concerns the question whether Skanska Asfaltti Oy, NCC Industry Oy and Asfaltmix Oy were liable for damages caused by the cartel to the city based on the fact that the companies had acquired businesses from companies involved in the cartel. The question whether leave to appeal will be granted to Lemminkäinen and to the city of Vantaa, concerning other than the above mentioned issues, will be resolved in connection with the appeal.

According to the Supreme Court's decisions on 6 September 2017, the applications for leave to appeal of 16 cities or municipalities concerning Lemminkäinen were dismissed entirely. The application for leave to appeal by the city of Espoo will await the decisions to be rendered in the cases where leave to appeal was granted.

On 20 October 2016, the Court of Appeal of Helsinki gave its decisions in the legal proceedings concerning the damages related to the asphalt cartel. Regarding the 37 claims against Lemminkäinen, Lemminkäinen and other asphalt industry companies are entitled to receive reimbursements in total approximately EUR 20 million (consisting of capital amount of approximately EUR 14 million less as well as interest and legal expenses of approximately EUR 6 million less than according to the decisions of the District Court).

Of these reimbursements, Lemminkäinen is entitled to receive refunds (based on Lemminkäinen's own share and those shares of other defendants that Lemminkäinen has paid) in total approximately EUR 19 million consisting of capital as well as interest and legal expenses. Lemminkäinen recorded the reimbursement as income in its fourth-quarter result in 2016.

Lemminkäinen has as such deemed the claims for damages unfounded. After Helsinki Court of Appeal's decisions, Lemminkäinen has settled with 17 municipalities and the State of Finland. The parties agreed not to request leave to appeal from the Supreme Court or to withdraw their leave to appeal concerning the Helsinki Court of Appeal's decisions.

In addition, Lemminkäinen has been served summons regarding 21 claims against Lemminkäinen and other asphalt companies for damages. The capital amount of these claims is approximately EUR 26 million. For these claims, Lemminkäinen has made a provision worth approximately EUR 3.1 million based on the Helsinki Court of Appeal's decisions and the subsequent Supreme Court's decisions regarding the applications for leave to appeal.

QUOTAS RELATED TO THE USE OF RECYCLED ASPHALT

On 11 April 2017, the Helsinki Court of Appeal gave its decision concerning environmental infraction charges.

The Court of Appeal amended the District Court of Tuusula's liberating decision from June 2015 regarding environmental infraction charges against Lemminkäinen and two of its employees. The decision is related to the quotas for the amount of recycled asphalt used in asphalt mass production, as defined in the environmental permits of the company's Sammonmäki asphalt plant in Finland. The prosecutor demanded a confiscation of illegal profit of EUR 3.4 million and a corporate fine of at least EUR 120,000 from Lemminkäinen.

As the District Court, the Court of Appeal has viewed that the use of recycled asphalt in asphalt production does not spoil the environment. However, the defendants who were responsible for operating the Sammonmäki asphalt plant had neglected the compliance with the environmental permit as the asphalt plant had used more recycled asphalt than allowed in the environmental permit. Therefore, the two Lemminkäinen employees were sentenced to fines for breaching the environmental protection law.

In addition, Lemminkäinen was sentenced to a confiscation of illegal profit of EUR 3.4 million, which, according to the Court of Appeal, the company saved in its production costs by exceeding its recycled asphalt quotas. Lemminkäinen recorded the debt in its first quarter result. The claim related to the corporate fine was rejected.

Lemminkäinen has as such deemed the claim without foundation. Lemminkäinen and one of its employees have requested leave to appeal from the Supreme Court concerning Helsinki Court of Appeal's decision.

QUALITY CONCERNS RELATED TO READY-MIXED CONCRETE

In its construction business Lemminkäinen uses as a raw material, among other things, ready-mixed concrete. During the year 2016, especially in some infrastructure projects, suspicions have arisen that the ready-mixed concrete used in Finland would not entirely fulfil the predetermined quality requirements. As discussed in public in Finland, some quality problems have arisen for example during the construction of the concrete deck of the T3 building of Turku University Hospital, where Lemminkäinen is the project management contractor. It is claimed that the ready-mixed concrete would not fulfil the quality requirements, which even has led to the demolition of some structures.

The Hospital District of Southwest Finland, as client in the project for the construction of the concrete deck of the T3 building of Turku University Hospital, has presented claims for damages to Lemminkäinen relating to the quality of the ready-mixed concrete. The capital amount of these claims is currently approximately EUR 17 million.

According to Lemminkäinen, the responsible party for the quality of the concrete is the supplier. Consequently, Lemminkäinen has filed a claim to the District Court of Helsinki for compensation from the supplier, Rudus Oy, regarding the expenses relating to possible quality deviations. The capital amount of the claim is currently approximately EUR 20 million.

Lemminkäinen has not made any provisions for the claims.

RISKS AND UNCERTAINTIES

Lemminkäinen Corporation and YIT Corporation merged on 1 February 2018. Therefore Lemminkäinen Corporation will not give any forward-looking statements.

MARKET OUTLOOK

Lemminkäinen Corporation and YIT Corporation merged on 1 February 2018. Therefore Lemminkäinen Corporation will not give any forward-looking statements.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The merger of Lemminkäinen Corporation into YIT Corporation was implemented on 1 February 2018, whereby Lemminkäinen merged into YIT and Lemminkäinen Corporation ceased to exist. Due to the merger, the Board of Directors proposes that no dividend is distributed for the financial year that ended on 31 December 2017.

PROFIT GUIDANCE FOR 2018

Lemminkäinen Corporation and YIT Corporation merged on 1 February 2018. Therefore Lemminkäinen Corporation will not give any forward-looking statements.

MAJOR EVENTS AFTER THE REPORTING PERIOD

MERGER OF LEMMINKÄINEN AND YIT

The Finnish Competition and Consumer Authority approved the merger of Lemminkäinen and YIT on 26 January 2018. Already earlier, the competition authorities of Russia, Slovakia, Estonia and Lithuania had approved the merger and the merger did not require authority permits in other countries. The Boards of Directors of both companies approved the merger on 31 January 2018 and the merger of Lemminkäinen and YIT was completed on 1 February 2018.

PERSONNEL NEGOTIATIONS IN SWEDEN AND NORWAY

During the fourth quarter of 2017, Lemminkäinen's Paving segment started a programme to improve its competitiveness and profitability in Sweden and Norway. The company estimated that it needs to re-estimate its regional presence and seek ways to lighten its operating model in both countries. The personnel negotiations that began on 30 November 2017 have been concluded. As a result, Lemminkäinen will reduce 126 full-time equivalents from its operations in Sweden and Norway. When the negotiations were initiated, Lemminkäinen estimated that the personnel impact of the planned measures would be up to 170 full-time equivalent. Through these actions, Lemminkäinen aims to save approximately EUR 5 million in fixed costs annually. According to the company's estimate, the set targets will be achieved to the full extent.

REDEMPTION OF LEMMINKÄINEN'S EUR 35.2 MILLION HYBRID BOND

On 31 January 2018, Lemminkäinen announced that it will redeem the outstanding share of the EUR 70 million hybrid bond (ISIN: FI4000086665). The outstanding nominal amount is EUR 35.2 million. The hybrid bond was issued on 11 March 2014. The redemption will be made on 30 March 2018 in accordance with the terms and conditions of the hybrid bond, and as a result thereof the payment will take place on 3 April 2018.

Helsinki, 7 February 2018

LEMMINKÄINEN CORPORATION

Board of Directors

Consolidated income statement (IFRS)

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net sales		1,847.2	1,682.7
Other operating income		8.3	43.6
Change in inventories of finished goods and work in progress		-14.9	-31.2
Production for own use		0.3	0.1
Use of materials and services		1,323.7	1,158.9
Employee benefit expenses	21, 22, 23	310.3	303.1
Depreciation and amortisation	1, 3	31.5	34.3
Impairment	1, 3	0.3	0.2
Other operating expenses	2	133.4	132.6
Share of the profit of associates and joint ventures	24	0.1	1.5
Operating profit		41.8	67.6
Finance income	4	0.4	0.8
Finance costs	4	16.5	19.2
Profit before income taxes		25.7	49.2
Income taxes	5	-19.3	-11.2
Profit for the financial year		6.4	38.0
Profit for the financial year attributable to			
Equity holders of the parent company		6.4	38.0
Non-controlling interests		0.0	0.0
Earnings per share, basic, EUR	6	0.17	1.27
Earnings per share, diluted, EUR	6	0.17	1.26

Consolidated statement of comprehensive income (IFRS)

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Profit for the financial year		6.4	38.0
Items that will not be reclassified to profit or loss			
Defined benefit pension obligations	23, 29	-0.6	0.4
Items that may be reclassified subsequently to profit or loss			
Translation differences	20, 29	-2.8	7.3
Other comprehensive income, total		-3.4	7.7
Comprehensive income for the financial year		3.0	45.7
Comprehensive income for the financial year			
Equity holders of the parent company		3.0	45.7
Non-controlling interests		0.0	0.0

Consolidated statement of financial position (IFRS)

EUR million	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Property, plant and equipment	12	126.2	136.6
Goodwill	13	52.9	53.9
Intangible assets	13	6.3	10.0
Investments in associates and joint ventures	24	4.5	5.4
Available-for-sale financial assets	18	1.8	2.3
Deferred tax assets	5	7.1	30.7
Other non-current receivables	8	0.4	0.9
		199.3	239.6
Current assets			
Inventories	7	366.4	359.3
Trade and other receivables	8	302.2	235.7
Income tax receivables		1.0	2.0
Cash and cash equivalents	16	57.9	131.4
		727.5	728.4
Total assets		926.8	968.0
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent company			
Share capital	20	34.0	34.0
Share premium account		5.7	5.7
Invested non-restricted equity fund		91.5	91.4
Hybrid bonds	20	34.8	34.8
Translation differences	20	-21.4	-18.6
Retained earnings		168.3	148.2
Profit for the financial year		6.4	38.0
		319.3	333.7
Non-controlling interests	24	0.0	0.0
Total equity		319.3	333.7
Non-current liabilities			
Interest-bearing liabilities	15	114.6	119.6
Deferred tax liabilities	5	9.0	12.3
Pension obligations	23	0.3	
Provisions	11	15.4	20.4
Other non-current liabilities	10		0.3
		139.4	152.5
Current liabilities			
Interest-bearing liabilities	15	71.2	92.9
Provisions	11	12.8	12.1
Advance payments received	32	126.9	122.5
Trade and other payables	10	256.7	253.4
Income tax liabilities		0.6	0.8
		468.1	481.7
Total liabilities		607.5	634.3
Total equity and liabilities		926.8	968.0

Consolidated cash flow statement (IFRS)

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flows from operating activities			
Profit before taxes		25.7	49.2
Adjustments	28		
Depreciation and impairment		31.8	34.5
Share of the profit of associates and joint ventures		-0.1	-1.5
Finance income and costs		16.0	18.4
Other adjustments		2.9	-9.0
Cash flows before change in working capital		76.4	91.7
Change in working capital			
Increase (-)/decrease(+) in trade and other receivables		-68.6	13.7
Increase (-)/decrease(+) in inventories		-14.0	35.6
Increase (+)/decrease(-) in current liabilities		13.1	23.5
Cash flows from operations before financial items and taxes		6.9	164.4
Interest paid		-15.8	-23.1
Other finance costs paid		-4.6	-7.6
Dividends received		0.7	0.5
Interest received		0.4	0.5
Other finance income received		0.0	0.0
Income tax paid		-1.3	-3.2
Cash flow from operating activities		-13.6	131.7
Cash flows from investing activities			
Purchases of property, plant and equipment		-18.3	-9.9
Proceeds from sale of property, plant and equipment		6.8	11.7
Purchases of intangible assets		-0.8	-1.5
Proceeds from sale of other investments available-for-sale		0.1	1.1
Acquired subsidiary shares less cash and cash equivalents at time of purchase			-0.2
Disposed subsidiary shares less cash and cash equivalents at time of sale			1.2
Cash flow from investing activities		-12.2	2.3
Cash flows from financing activities			
Increase (-)/decrease(+) of long-term loan receivables		0.0	0.1
Proceeds from short-term borrowings	15	170.1	174.5
Repayments of short-term borrowings	15	-189.7	-209.7
Proceeds from long-term borrowings	15	0.0	
Repayments of long-term borrowings	15	-0.2	-0.8
Increase(+)/decrease(-) of hybrid bonds			-77.7
Repayments of finance lease liabilities	15	-11.8	-14.6
Dividends paid		-15.3	-2.8
Cash flow from financing activities		-46.9	-131.0
Increase (+)/decrease(-) in cash and cash equivalents		-72.8	3.0
Cash and cash equivalents at beginning of financial year		131.4	127.9
Translation difference of cash and cash equivalents		-0.7	0.4
Cash and cash equivalents at end of financial year	16	57.9	131.4

Consolidated statement of changes in equity (IFRS)

EUR million	Note	Share capital	Share premium account	Invested non-restricted equity fund	Hybrid bonds	Translation differences	Retained earnings	Parent company shareholders' equity	Non-controlling interest	Total equity
Equity 1 Jan 2016		34.0	5.7	91.4	111.6	-25.9	160.6	377.6	0.1	377.6
Profit for the financial year							38.0	38.0	0.0	38.0
Items that will not be reclassified to profit or loss										
Pension obligations	23						0.4	0.4		0.4
Items that may be reclassified subsequently to profit or loss										
Translation differences	20					7.3		7.3		7.3
Comprehensive income for the financial year						7.3	38.5	45.7	0.0	45.7
Acquisition of shares of non-controlling interest							0.0	0.0	0.0	0.0
Hybrid bonds' interests and costs							-10.1	-10.1		-10.1
Dividends	22						-2.8	-2.8		-2.8
Expired undistributed dividends							0.1	0.1		0.1
Transactions with owners, total							-12.8	-12.8	0.0	-12.9
Hybrid bonds	20				-76.8			-76.8		-76.8
Equity 31 Dec 2016		34.0	5.7	91.4	34.8	-18.6	186.3	333.7	0.0	333.7
Equity 1 Jan 2017		34.0	5.7	91.4	34.8	-18.6	186.3	333.7	0.0	333.7
Profit for the financial year							6.4	6.4	0.0	6.4
Items that will not be reclassified to profit or loss										
Pension obligations	23						-0.6	-0.6		-0.6
Items that may be reclassified subsequently to profit or loss										
Translation differences	20					-2.8		-2.8		-2.8
Comprehensive income for the financial year						-2.8	5.8	3.0	0.0	3.0
Hybrid bonds' interests and costs							-2.5	-2.5		-2.5
Dividends	22						-15.3	-15.3		-15.3
Share-based incentives				0.0			0.4	0.4		0.4
Transactions with owners, total							-17.4	-17.4		-17.4
Equity 31 Dec 2017		34.0	5.7	91.5	34.8	-21.4	174.7	319.3	0.0	319.3

Accounting policies applied in the IFRS consolidated financial statements, 31 December 2017

BASIC INFORMATION ON THE COMPANY

Lemminkäinen Corporation is a public limited company established under the laws of Finland and domiciled in Helsinki. The company's registered address is Salmisaarenaukio 2, 00180, Helsinki, Finland. Lemminkäinen Corporation is the parent company of the Group which shares are quoted on Nasdaq Helsinki Ltd. The parent company comprises together with its subsidiaries the Lemminkäinen Group (later "the Group" or "the company"). The Group produces infrastructure and building construction services mainly in Finland, other Nordic countries, Russia and the Baltic countries.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations to them (IFRIC) in effect on December 31, 2017 as adopted by the EU. The notes to the consolidated financial statements are also in accordance with Finnish accounting and corporate legislation supplemental to the IFRS regulations.

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

- Assumptions made concerning goodwill impairment testing
- Recoverability of deferred taxes
- The amount of obsolete inventory
- Recognition of bad debts
- Determination of the progress of the project as well as the project's expected revenue and costs concerning revenue recognition of construction projects with percentage-of-completion method
- Probability and amount of provisions

The areas involving management judgements, estimates and assumption are presented in paragraph Management judgements and estimates.

The financial statements have been prepared in euros and are presented in millions of euros in the annual report. Transactions are treated on the basis of original acquisition costs, with the exception of financial instruments, pension obligations, contingent considerations in acquisitions recognised as liability and options to redeem shares from non-controlling shareholders recognised as liability.

The Board of Directors approved the publication of the consolidated financial statements on 8 February 2018. Copies of the Lemminkäinen Corporation's and the consolidated financial statements will be available on the company's website from week 8 of 2018 onwards.

PRESENTATION OF CONSOLIDATED INCOME STATEMENT

IAS 1 Presentation of Financial Statements standard does not define operating profit. According to the definition of the company operating profit is the net amount obtained after adding other operating income to net sales and taking into account the change in inventories of finished goods and work in progress as well as production for own use, deducting the costs of use of materials and services, employee benefit expenses, depreciation, amortization and any impairment losses, and other operating expenses and adding the share of the profit of associates and joint ventures. Changes in the fair values of derivatives are recognised either in operating profit, in other operating income or in other operating expenses; or below the operating profit, in financial items depending on their nature. Exchange rate differences resulting from operating activities are recorded as adjustments to the corresponding items above the operating profit. Exchange rate gains and losses related to financing are recognised as finance income and costs.

PRINCIPLES OF CONSOLIDATION

SUBSIDIARIES

The consolidated financial statements include the parent company Lemminkäinen Corporation and all subsidiaries over which the Group has control. Lemminkäinen Corporation is considered to control an entity when it directly or indirectly owns more than 50 per cent of the votes or where it otherwise has the power to govern operating and financial policies. The criterion of control based on the voting right is fulfilled in all subsidiaries. Subsidiaries are consolidated in the consolidated financial statements from the date the Group gains control until the control ceases. Direct acquisition costs are recognised as other operating expenses in the income statement.

Intra-group shareholdings are eliminated by means of the acquisition method. The acquisition price comprises the consideration paid, the non-controlling interest in the acquiree, and the fair value of the previously held interest. The consideration paid is measured as the fair value of the assets given, liabilities assumed, and equity instruments issued by the Group. Any contingent consideration is measured at fair value at the time of acquisition and is included in the consideration paid. It is classified as either a liability or equity. Any contingent consideration classified as a liability is fair valued on the reporting date of each reporting period, and the resulting gains or losses are recognised through profit or loss. A contingent consideration classified as equity is not re-measured. Non-controlling interest in the acquiree is recognised on an acquisition-by-acquisition basis at either fair value or the amount corresponding to the share of the net assets of the acquiree held by non-controlling interests. The amount by which the acquisition price exceeds the fair value of the acquired net assets is recognised as goodwill on the statement of financial position. If the acquisition price is smaller than the fair value of the acquired subsidiary's net assets, the difference is recognised in the statement of comprehensive income. Fixed price symmetrical put and call option in relation to acquisition of non-controlling interest is recognised at fair value in the financial liabilities. When this kind of option exists, the share of the non-controlling interest is not recognised in the consolidated statement of financial position.

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

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

JOINT OPERATIONS

The participating parties of a joint operation have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The company's consortiums are classified as joint operations since the Group has joint control in these consortiums with another entity and they are not separate legal entities. The company's contractually agreed share of the consortium's assets, liabilities, revenues and expenses are consolidated to the consolidated financial statements. The company's alliance projects are not classified as joint operations since the factual joint control is not considered to exist. The customer always has the final right to decide on the continuity of the project. Revenue from alliance projects is recognised with percentage-of-completion method.

ASSOCIATES AND JOINT VENTURES

Associates are entities over which the company has significant influence, but neither control nor joint control. Typically the significant influence is considered to exist when the company holds 20 per cent or more of the voting rights of the entity but does not have control. An entity is classified as a joint venture when the company has joint control with another party and when decisions about the relevant activities require the unanimous consent of both parties. When classifying the arrangement the management estimates the arrangement's actual nature of decision making as well as contractual rights and obligations.

Associates and joint ventures are consolidated using the equity method. In equity method the Group's share of the profit of the joint venture corresponding to its ownership stake is included in the consolidated income statement. Correspondingly, the Group's share of the equity in the joint venture, including the goodwill arising from its acquisition, is recorded as the value of the Group's holding in the joint venture on the consolidated statement of financial position. If the Group's share of the losses of a joint venture exceeds the investment's carrying amount, the investment is assigned a value of zero on the statement of financial position and the excess is disregarded, unless the Group has obligations related to the joint venture. Unrealised gains arising in connection with business and fixed asset transactions between the Group and joint ventures are eliminated in proportion to the holding. The eliminated gain is recognised through profit or loss as it is realised. Any dividend received from the joint venture is eliminated from profit and from the acquisition value of the shares.

SEGMENT REPORTING

Reported segment information is based on internal segment reporting to the chief operating decision maker. Lemminkäinen Group's chief operating decision maker is the President and CEO of Lemminkäinen Corporation. Internal segment reporting to the management covers net sales, depreciation, operating profit, and operating capital. The reported operating capital consists of property, plant and equipment, goodwill, other intangible assets and net working capital. The net working capital includes inventories, current trade and other receivables, provisions, current trade and other payables as well as income tax receivables and liabilities. However, the net working capital allocated to the segments excludes accrued personnel expenses and accrued interest, accruals related to derivatives as well as accrued direct and indirect taxes. These figures are reported separately as items unallocated to segments. The figures reported to the management are accurate to the nearest thousand euros.

The company changed its reporting structure on 1 January 2017. Along with the strategy review, the Paving segment's operations in Baltic countries were transferred to the Infra projects segment.

The reportable operating segments remain unchanged:

- Paving;
- Infra projects;
- Building construction, Finland and
- Russian operations.

The comparative figures have been changed only in the Paving and Infra projects operating segments. The Group parent company and other operations and assets unallocated to the segments and companies managing individual plots and plants mainly outside Finland are reported as part of the Group's other operations.

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

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

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The company did not have either assets classified as held-for-sale or discontinued operations during the financial year or at the end of comparison period.

FOREIGN CURRENCY ITEMS

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

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

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

FINANCIAL ASSETS

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

LOANS AND RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

IMPAIRMENT OF FINANCIAL ASSETS

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

FINANCIAL LIABILITIES

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

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

REVENUE RECOGNITION

Revenues from goods and services sold are recognised as net sales less indirect taxes and discounts. If the sales transaction contains both unconditional and contingent considerations, the company examines the meeting of revenue recognition criteria concerning both considerations separately.

RECOGNITION OF REVENUE FROM CONSTRUCTION PROJECTS

Percentage-of-completion

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

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

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

In commercial building construction, the amount and probability of lease liability commitment is estimated as a project progresses, and it is included in the total cost estimate. A lease liability commitment is recorded as a liability when the construction project has been completed.,

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

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

RECOGNITION OF REVENUE FROM SERVICES

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

RECOGNITION OF REVENUE FROM THE SALE OF MANUFACTURED GOODS

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

REVENUE RECOGNITION OF LIFE-CYCLE PROJECTS

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

RECOGNITION OF INTEREST AND DIVIDENDS

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

NON-CURRENT ASSETS

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised on the statement of financial position at cost less depreciation and impairment. Property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives from the day they are available for use. Land areas are not subject to depreciation. Estimated useful economic lives of property, plant and equipment are as follows:

- Buildings and structures 10–40 years
- Machinery and equipment 3–15 years
- Mineral aggregate deposits
  depreciation based on material depletion
- Other property, plant and equipment 10 years

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

INTANGIBLE ASSETS

An intangible asset is recognised in the statement of financial position, when the cost of the asset can be measured reliably and it is probable that the expected economic benefits that are attributable to the asset will flow to the entity.

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

Goodwill is not amortised. Instead, the possible impairment of goodwill is tested annually and every time there's evidence of impairment. In the impairment testing, goodwill is allocated to cash-generating units. Goodwill is recognised on the financial statements at cost less impairment, if any, which is expensed on the income statement.

Intangible rights
Intangible rights include IT software licence fees, rights to use land as well as other licence fees and patents, including their advance payments. Intangible rights are recorded at cost in the statement of financial position and are depreciated over their useful economic lives. The interest costs are expensed, unless the asset meets the capitalisation criteria of borrowing costs, in which case they are capitalised as part of the cost of the asset. The estimated useful lives of intangible rights are:

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

Other intangible assets
Other intangible assets include expenditure that are not related to property, plant and equipment and have economic effects lasting longer than one year. Other intangible assets create future economic benefits over their useful economic lives. The benefits can be either income or cost savings. Other intangible assets are mainly renovation expenses of rental properties.

Research and development expenditure
Research and development expenditures are expensed when incurred, except for those development expenditures that meet the capitalisation criteria of IAS 38. For the time being there are not considered to be any development expenditures that meet the capitalisation criteria.

GRANTS RECEIVED
Government grants received from a public-sector source are recognised as other operating income at the same time that corresponding costs are recognised. Investment grants are deducted from the cost of the asset in question.

IMPAIRMENT
The carrying amounts of assets are assessed on each reporting date to determinate whether there are indications of impairment. If indications of impairment are found, the recoverable amount for the asset in question is assessed. An impairment loss is recognised on the income statement if the carrying amount exceeds the recoverable amount 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 time value of money and the risks specific to the asset. The Weighted Average Cost of Capital (WACC) is used as the discount factor. WACC takes into account the risk-free interest rate, the liquidity premium, the expected market rate of return, the industry's beta value, country risk and the debt interest rate, including the interest rate margin. These components are weighted according to the fixed, average target capital structure of the sector. If it is not possible to calculate the recoverable cash flows for an individual asset, the recoverable amount for the cash-generating unit to which the asset belongs is determined. .

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

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

LEASING AGREEMENTS WHEREIN THE GROUP IS THE LESSEE

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

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

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

INVENTORIES

The Group's inventory comprises among others Building Construction, Finland segment's housing and commercial property under construction and completed apartments and commercial property as well as land areas and real estate. Paving segment's mineral aggregates inventories are included in products and goods. Raw materials, such as bitumen, used in production of asphalt mass are included in materials.

The cost of materials and supplies is assigned by using the FIFO (first-in, first-out) principle. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The costs of selling are not included in the valuation of inventories at cost.

Building plots are land areas which consist of the original costs and development costs if they are perceived to increase the value of the land area.

Housing and commercial property under construction are Group's own developments. The cost comprises the construction and plot costs not yet expensed. Finance costs are included in the valuation of inventories at cost only when the capitalisation criteria of borrowing costs are met.

Completed apartments and commercial property are unsold shares of completed own developed residential and commercial projects.

The cost of mineral aggregate products included in products and goods comprise direct manufacturing salaries, other direct manufacturing costs as well as a proportion of production overheads. The cost is assigned by using the weighted average principle.

Inventories are measured at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in ordinary business operations less the estimated expenditure on product completion and sales. The carrying amounts of separate items in inventories are not decreased when the completed products in which the items belong to are expected to be sold at a price equalling or exceeding the combined acquisition costs of the separate items.

TREATMENT OF OWN BUILDING DEVELOPMENTS

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

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

The pension schemes of Lemminkäinen's Group companies are generally defined contribution plans. Defined contribution plan related payments are made to pension insurance companies, after which the Group has no other payment obligations. Payments in respect of defined contribution plans are expensed on the income statement in the accounting period in which they accrue. Other pension plans than defined contribution plans are defined benefit plans. 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 statement of financial position.

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

The company's pension obligations are not material for the company's financial statements.

SHARE-BASED REMUNERATION SCHEMES

The Group has share-based remuneration schemes. Share-based rewards are measured at fair value of Lemminkäinen share on the date of their being granted and expensed over their vesting and commitment periods. More detailed information about share-based remuneration can be found in the notes to the consolidated financial statements.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

Warranty provisions cover after completion repair costs arising from warranty obligations. Warranty provisions are calculated on the basis of the level of warranty expenses actually incurred in earlier accounting periods and are recognised as a liability when a project is completed. 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 considered secure. Provisions related to housing construction are expected to be used within one year after the provision is made. Warranty provisions related to other construction projects are mainly used in 1—2 years after the provision is made.

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

Environmental provisions are mainly related to a site's landscaping obligations. 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.

The expected time for using landscaping provisions depends on the use of the site, because in most cases the landscaping work starts after the use of the site ceases. In addition, environmental provisions cover other provisions related to environmental obligations.

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

Lease liability commitment arises, when the company has a contractual obligation to obtain tenants for premises not yet leased in a commercial real estate under construction or for sale. The amount and probability of lease liability commitment is estimated as the project progresses concerning commercial real estate under construction. The lease liability commitment is recorded as provision when project has been completed. Concerning commercial real estate for sale, the amount of lease liability commitment is estimated at time of sale. That is the time when the lease liability is recorded as well. Provisions for lease commitments are expected to be used in 1—3 years after the provision is made.

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

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

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in financial statements but it is presented in the notes of the financial statement.

INCOME TAXES

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

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

Carry–forward tax losses are treated as a tax asset to the extent that it is likely that the company will be able to utilise them in the near future. A deferred tax liability is only recognised in respect of the undistributed profits of subsidiaries if payment of the tax is expected to be realised in the foreseeable future. The Group´s deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

EQUITY AND DISTRIBUTION OF DIVIDENDS

TREASURY SHARES

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

SHARE PREMIUM ACCOUNT

Share premiums are recognised in the share premium account.

INVESTED UNRESTRICTED EQUITY FUND

Invested unrestricted equity fund includes the subscription prices of shares to the extent that they are not entered into share capital on the basis of a separate decision.

HYBRID BOND

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

TRANSLATION DIFFERENCES

Translation differences include the differences arising from the translation of the Group's foreign entities' non–Euro denominated financial statements into Euros. In previous years the Group hedged the net investment in foreign entities and hedging gains and losses from hedge instruments are also included in the translation differences, provided they qualified for hedge accounting. The Group has not applied hedge accounting for hedging the net investment in foreign entities during the reporting period.

DISTRIBUTION OF DIVIDENDS

The proposed dividend by the Board of Directors to the annual general meeting is recognised as a deduction of distributable equity when it has been approved by the annual general meeting.

EARNINGS PER SHARE

A basic earnings per share is calculated dividing the profitattributable to equity holders of the parent company by the weighted average number of ordinary shares in issue during the year. Hybrid bond interests which are accrued in the accounting period despite the time of payment and costs of hybrid bond redemption adjusted with tax effect are removed from the profit/result for the financial year. Treasury shares held by the company and outstanding ordinary shares that are contingently returnable are excluded from the weighted average number of ordinary shares in issue.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all dilutive potential shares unless the potential shares are antidilutive.

MANAGEMENT JUDGEMENT AND ESTIMATES

GOODWILL IMPAIRMENT TESTING

Goodwill is tested for potential impairment annually and whenever there are indications of impairment. The recoverable amount from the business of a cash–generating unit is derived from value–in–use calculations. These calculations require a significant use of estimates and assumptions. The cash flow forecasts are based on profitability plans approved by the company's management for a certain period and on other justifiable estimates of the prospects for the business sector and the cash–generating unit. The key uncertainties in value–in–use calculations are the discount rate and the long–term growth assumption. A more detailed description of the estimates and assumptions concerning goodwill impairment testing is given in the notes to the financial statements.

DEFERRED TAX ASSETS

The management regularly estimates the recoverability of deferred tax assets. Deferred tax assets from tax losses are recorded to the amount that the management estimates, based on its profit forecasts, to be utilisable in the future, considering the expiration period of tax losses.

INVENTORIES

The management regularly estimates, in its best judgement, the potential obsolescence of inventories by comparing their cost with the net realisable value. The net realisable value is an entity–specific value which is based on the most reliable evidence available at the time. Materials and other supplies held for use in the production of inventories are not written–down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

TRADE RECEIVABLES

The valuation of trade receivables involves a risk of credit loss. The management regularly estimates past–due trade receivables. The estimates are done according to the Group's credit risk policy and are based on realised customer–specific credit losses, the company's empirical knowledge and surveys.

RECOGNITION OF REVENUE FROM CONSTRUCTION PROJECTS

Revenue recognition on the basis of the percentage of completion is based on estimates of the project's expected revenue and costs as well as on the reliable determination of the progress of the project. In order to make a reliable estimate, the project's costs are determined and itemised as accurately as possible. To determine revenue, the management has to estimate factors affecting the total revenue amount. If estimates of the project's outcome change, recognised revenue and profit will be adjusted for the reporting period when the change first became known and could be estimated.

RECOGNITION OF PROVISIONS

Recognition of provisions involves probability– and amount–related estimates. The management estimates, based on its best knowledge, the probability of the realisation of an obligation that exists at the reporting date as well as the obligation's amount. The estimate of the probability and amount of realised costs is based on previous similar events and experience–based knowledge.

Notes to the consolidated financial statements (IFRS)

Performance

1 BUSINESS SEGMENTS AND MARKET AREAS

Lemminkäinen changed its reporting structure on 1 January 2017. Along with the strategy review, the Paving segment's operations in the Baltic countries were transferred to the Infra projects segment.

PAVING
The Paving segment includes the Group's paving and mineral aggregates business in Finland and Scandinavia.

INFRA PROJECTS
The Infra projects segment includes the rock engineering, earthworks and civil engineering businesses in Finland, Scandinavia and the Baltic countries.

BUILDING CONSTRUCTION, FINLAND
Building construction covers residential construction, commercial construction, industrial construction, renovation, property development and public-private partnership services. The company has both development and contracted projects.

RUSSIAN OPERATIONS
In Russia, Lemminkäinen operates in the paving business as well as the building construction business in contracted projects in St Petersburg and Moscow regions.

OTHER OPERATIONS
The Group's parent company as well as other operations and assets unallocated to the segments are reported as part of the other operations.

UNALLOCATED ITEMS
Unallocated items include accrued personnel expenses and interest, accruals related to derivatives as well as accrued direct and indirect taxes which are not allocated to the segments' operating capital.

OPERATING SEGMENTS

EUR million 1 Jan–31 Dec 2017	Paving	Infra projects	Building construction, Finland	Russian operations	Other operations	Eliminations	Group total, IFRS
Net sales	656.4	475.4	655.1	93.0	29.4	-62.1	1,847.2
Depreciation and impairment	20.6	6.3	0.1	1.5	3.4		31.8
Operating profit	3.3	7.5	36.7	-0.8	-5.0		41.8

EUR million 1 Jan–31 Dec 2016	Paving	Infra projects	Building construction, Finland	Russian operations	Other operations	Eliminations	Group total, IFRS
Net sales	648.5	426.2	581.2	54.5	30.3	-58.0	1,682.7
Depreciation and impairment	20.5	7.0	0.1	1.0	5.9		34.5
Operating profit	20.8	12.5	17.2	-3.8	20.9		67.6

EUR million	31 Dec 2017	31 Dec 2016
Operating capital by operating segment		
Paving	181.3	189.0
Infra projects	71.1	30.3
Building construction, Finland	217.8	215.8
Russian operations	44.9	23.7
Segments, total	515.1	458.8
Other operations	8.6	15.3
Items unallocated to segments	-81.0	-85.9
Group total, IFRS	442.7	388.2

SEASONALITY OF BUSINESS
Seasonality of certain operations of the company affects the company's profit and its timing. Weather conditions influence the lengths of the Paving segment's paving and mineral aggregates businesses working seasons, which affects the company's profit and its timing. The working seasons of these businesses and consequently their profits take place mostly in the second and third quarters. In addition, there may be some seasonality in the Infra projects segment's foundation engineering business due to the timing of building construction projects.

Revenue from residential and non-residential development projects is recognised, for the sold proportion, on completion which causes seasonal fluctuations to the company's profit. The company seeks to balance this fluctuation by launching new developed projects evenly throughout the year in which case the projects will be completed and revenue from them is recognised as evenly as possible throughout the year.

INFORMATION BY MARKET AREA

EUR million 1 Jan–31 Dec 2017	Finland	Scandinavia	Russia	Baltic countries	Other countries	Total
Net sales	1,215.7	388.9	93.0	149.6		1,847.2
Assets	649.7	143.9	77.5	54.7	1.0	926.8
Investments	9.3	10.0	3.0	2.4		24.8

EUR million 1 Jan–31 Dec 2016	Finland	Scandinavia	Russia	Baltic countries	Other countries	Total
Net sales	1,133.0	376.5	54.5	117.5	1.2	1,682.7
Assets	688.6	195.0	42.5	40.9	0.9	968.0
Investments	7.6	10.7	1.1	1.4		20.8

Net sales is determined by customer location and the carrying amount of assets based on their geographic location.

2 OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Gain on sales of property, plant and equipment	2.9	5.3
Gain on sales of available-for-sale financial assets	0.0	1.1
Rental income	2.2	1.6
Gain from hedging purchases and sales*	1.8	5.1
Grants and compensation on damages received	0.6	0.5
Legal proceedings concerning the damages related to the asphalt cartel		27.4
Others	0.9	2.6
	8.3	43.6

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

OTHER OPERATING EXPENSES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Loss on the sale of property, plant and equipment and intangible assets	0.4	0.6
Voluntary personnel expenses	9.5	9.1
Rental expenses	26.9	24.9
Losses from hedging purchases and sales*	1.8	2.4
Credit losses	0.5	1.1
Other expenses	94.2	94.4
	133.4	132.6

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

The table below shows the fees of the audit firm elected by the General Meeting of the parent company. The fees have been recorded in other operating expenses.

Milj. euroa	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Statutory audit fees	0.4	0.4
Tax consulting*	0.0	0.0
Other consulting*	0.6	0.1
	1.1	0.6

* Other than statury audit fees from PricewaterhouseCoopers Oy amounts to EUR 0.6 million. Other consulting in 2017 is caused by consulting costs of the merger of Lemminkäinen Corporation and YIT Corporation.

3 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Depreciation of property, plant and equipment		
Buildings and structures	0.9	0.9
Machinery and equipment	16.4	16.2
Leased machinery and equipment	8.6	9.9
Other tangible assets	1.4	1.4
	27.3	28.5
Amortisation of intangible assets		
Intangible rights	3.7	4.8
Other intangible assets	0.4	1.0
	4.1	5.8
Depreciation and amortisation, total	31.5	34.3
Impairment		
Intangible rights	0.1	0.2
Other intangible assets	0.2	
	0.3	0.2

4 FINANCE INCOME AND COSTS

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Finance income		
Interest income from loans and receivables	0.4	0.5
Other finance income	0.0	0.3
	0.4	0.8
Finance costs		
Interest expenses for financial liabilities recognised at amortised cost	10.8	12.8
Foreign exchange rate losses	1.9	1.1
Credit losses from loan receivables		0.6
Other interest and finance costs	3.8	4.7
	16.5	19.2
Finance income and costs, total	-16.0	-18.4

EXCHANGE RATE DIFFERENCES RECOGNISED IN THE INCOME STATEMENT

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Exchange rate differences on sales	0.0	0.0
Exchange rate differences on purchases	0.0	0.0
Exchange rate differences on hedging purchases and sales	0.4	-0.4
Exchange rate differences in financial items	-1.9	-1.1
Exchange rates differences, total	-1.5	-1.5

5 TAXES

INCOME TAXES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Income taxes on ordinary business operations	-0.3	-3.6
Income taxes in respect of prior years	1.5	-0.6
Deferred taxes	-20.5	-7.0
	-19.3	-11.2

Reconciliation of taxes in the income statement and taxes calculated at the Finnish tax rate	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Profit before income taxes	25.7	49.2
Taxes calculated on the above at the Finnish tax rate (20%)	-5.1	-9.8
Differing tax rates of foreign subsidiaries	0.7	0.5
Tax-exempt income in income statement	0.2	0.4
Non-deductible expenses in income statement	-1.8	-2.0
Deductible non-income statement items	0.7	0.2
Unrecognised tax on loss for the period*	-5.7	
Effect of change in the corporate tax rate		-0.4
Other items*	-9.7	0.5
Taxes for the previous financial year	1.5	-0.6
Taxes in the income statement, total	-19.3	-11.2

* The item was mainly affected by the write-down of deferred tax assets in Norway and Sweden.

DEFERRED TAXES

EUR million	1 Jan 2017	Exchange rate difference	Recognised in income statement	Recognised in other compre-hensive income	Transactions with owners of the parent company and other changes in equity	Acquisi-tions, divest-ments and mergers	31 Dec 2017
Deferred tax assets							
Deferred taxes from negative results	29.0	-0.4	-24.4				4.2
Provisions	4.8	-0.1	-0.6				4.1
Financial instruments	0.0	0.0	-0.6		0.6		
Property, plant and equipment and intangible assets	1.0	0.0	-0.1				0.9
Temporary difference from revenue recognition of construction projects	5.5	-0.3	-3.2				2.0
Other temporary differences	0.1	0.0	0.8	0.1			0.9
Deferred tax assets, gross	40.3	-0.8	-28.1	0.1	0.6		12.1
Offsetting	-9.7	0.3	4.4				-5.0
Deferred tax assets	30.7	-0.5	-23.7	0.1	0.6		7.1

EUR million	1 Jan 2017	Exchange rate difference	Recognised in income statement	Recognised in other compre-hensive income	Transactions with owners of the parent company and other changes in equity	Acquisi-tions, divest-ments and mergers	31 Dec 2017
Deferred tax liabilities							
Property, plant and equipment and intangible assets	2.7	-0.1	0.2				2.8
Financial instruments	0.5	0.0	0.2				0.6
Accelerated depreciations and voluntary provisions	11.5	0.0	-2.3				9.1
Temporary difference from revenue recognition of construction projects	4.9	-0.1	-4.8				
Other temporary differences	2.4	-0.1	-0.8	-0.1			1.5
Deferred tax liabilities, gross	22.0	-0.3	-7.6	-0.1			14.0
Offsetting	-9.7	0.3	4.4				-5.0
Deferred tax liabilities	12.3	-0.1	-3.1	-0.1			9.0

EUR million	1 Jan 2016	Exchange rate difference	Recognised in income statement	Recognised in other compre-hensive income	Transactions with owners of the parent company and other changes in equity	Acquisi-tions, divest-ments and mergers	31 Dec 2016
Deferred tax assets							
Deferred taxes from negative results	32.9	1.0	-4.6			-0.2	29.0
Provisions	6.3	0.0	-1.6				4.8
Financial instruments	0.2	0.0	-2.7		2.5		0.0
Property, plant and equipment and intangible assets	0.8	0.0	0.2				1.0
Temporary difference from revenue recognition of construction projects	4.5	1.2	-0.4			0.2	5.5
Other temporary differences	0.6	0.0	-0.6			0.1	0.1
Deferred tax assets, gross	45.4	2.2	-9.8		2.5	0.0	40.3
Offsetting	-8.4	-1.2	-0.1			0.0	-9.7
Deferred tax assets	36.9	1.0	-9.9		2.5	0.1	30.7

EUR million	1 Jan 2016	Exchange rate difference	Recognised in income statement	Recognised in other compre-hensive income	Transactions with owners of the parent company and other changes in equity	Acquisi-tions, divest-ments and mergers	31 Dec 2016
Deferred tax liabilities							
Property, plant and equipment and intangible assets	3.5	0.1	-1.1			0.2	2.7
Financial instruments	0.6	0.0	-0.2				0.5
Accelerated depreciations and voluntary provisions	11.6	0.0	-0.1				11.5
Temporary difference from revenue recognition of construction projects	6.1	1.2	-2.4			0.0	4.9
Other temporary differences	1.3	0.0	1.0	0.1			2.4
Deferred tax liabilities, gross	23.1	1.3	-2.8	0.1		0.2	22.0
Offsetting	-8.4	-1.2	-0.1			0.0	-9.7
Deferred tax liabilities	14.7	0.2	-2.9	0.1		0.2	12.3

Deferred tax liabilities are recognised mainly in full except in Norway and Sweden where deferred tax assets were written down in 2017 to the extent that the company has taxable temporary differences. In 2017, the write-downs related to Norway and Sweden increased the tax expense in the income statement in total EUR 10.2 million. The company utilized main part of its accumulated tax losses in Finland in 2017. Acccumulated tax losses, of which no deferred tax asset is not recognised amouted to EUR 16.5 million (0.0). Additionally, in Estonia the company is able to determine a reversal of the temporary difference and hence deferred tax has not been recognised for the time being.

6 EARNINGS PER SHARE

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Profit for the year attributable to the ordinary equity holders, EUR million	6.4	38.0
Interest of the hybrid bonds calculated on accrual basis less tax, EUR million	-2.5	-5.6
Costs of hybrid bond redemptions less tax, EUR million		-3.0
Profit for the year for the purpose of calculating earnings per share, EUR million	3.9	29.4
Weighted outstanding basic average number of shares, shares	23,204,535	23,203,213
Earnings per share, basic	0.17	1.27
Potentially dilutive shares of share based incentive plans, shares	57,432	102,522
With dilutive shares adjusted weighted-average shares	23,261,966	23,305,735
Earnings per share, diluted	0.17	1.26

Operating capital

7 INVENTORIES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Materials and supplies	37.3	33.8
Building plots and real estate	111.5	95.0
Housing under construction	126.4	120.8
Commercial property under construction	9.0	10.6
Advance payments	3.1	1.1
Completed apartments	38.7	58.3
Completed commercial property	16.1	15.4
Products and goods	24.2	24.2
	366.4	359.3

In 2017, the company recorded costs, other than those arising from sale, reducing the carrying amount of inventories a total of EUR 5.6 million (10.8). Paving segment's share of the write-downs totalled EUR 0.5 million (0.8), and were mainly due to write-downs of mineral aggregates inventory. Infra projects segment's share of the write-downs totalled EUR 0.1 million. Building construction, Finland segment's write-downs were due to project development costs and write-downs of plots and their amount totalled EUR 5.0 million (6.6). Russian operations segment did not have any write-downs related to inventories in 2017 (3.5).

8 TRADE AND OTHER RECEIVABLES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Interest-bearing receivables		
Non-current other receivables	0.0	0.0
Current loan receivables		0.2
	0.0	0.2
Non-interest-bearing receivables		
Non-current trade receivables	0.4	0.4
Current trade receivables	121.7	119.9
Project income receivables	116.7	58.5
Accrued personnel expenses	1.1	1.8
Other accrued income	15.5	13.5
Derivative assets	1.3	0.8
Receivables from real estate companies under construction	6.0	8.0
Non-current other receivables	0.0	0.4
Current other receivables	39.8	33.1
	302.6	236.4
Non-current receivables, total	0.4	0.9
Current receivables, total	302.2	235.7

In 2017, a net amount of trade receivable credit losses were EUR 0.5 million (1.1).

9 CONSTRUCTION PROJECTS

EUR million	31 Dec 2017	31 Dec 2016
Percentage-of-completion method		
Revenue recognised according to the percentage-of-completion method	1,327.2	1,339.2
Incurred costs and recognised net profits (less booked losses) of work in progress projects	1,269.7	1,214.9
Gross project-related receivables from clients	68.0	33.3
Gross project-related liabilities to clients	28.7	49.8

SERVICE CONCESSION ARRANGEMENTS

Lemminkäinen currently has ten ongoing life cycle projects, where subscribers are the cities of Kuopio, Oulu, Pudasjärvi, Porvoo and Parkano and municipalities of Sodankylä and Hollola. In each of the projects, Lemminkäinen refurbishes an old or builds a new building for the municipality as well as maintains the building in question for a service period specified in the contract. The city/municipality or Municipality Finance as leasing provider owns both the buildings and the land area where the buildings are located in each of the life cycle projects. In all of the contracts, the city or municipality has the right to terminate the contract during the service period under certain terms and conditions taking into consideration the interests of the service provider. Construction phase is tied to a building cost index and service periods are tied to maintenance index. Indexes are reviewed annually. Lemminkäinen does not have a significant right to organise supplementary use for any of the properties. Key information on each of the projects is presented in the following table.

Project	Contract date	Construction phase	Service phase	Total value*
Kuopio, schools and a day-care center	14 Dec 2009	completed	ends 2036	EUR 94 mill.
Oulu, Kastelli community center	01 Jun 2012	completed	ends 2039	EUR 86 mill.
Pudasjärvi, school campus	13 Mar 2014	completed	ends 2041	EUR 41 mill.
Pudasjärvi, care facility	06 Nov 2015	completed	ends 2036	EUR 12 mill.
Hollola, Heinsuo and Kalliola schools	05 Jun 2015	completed	ends 2037	EUR 49 mill.
Porvoo, schools and day-care centers	16 Dec 2015	ends 2018	ends 2038	EUR 61 mill.
Kuopio, Jynkkä and Karttula schools	22 Jan 2016	ends 2018	ends 2038	EUR 37 mill.
Parkano, school campus	31 Mar 2017	ends 2019	ends 2039	EUR 25 mill.
Sodankylä Health center	20 Jun 2017	ends 2019	ends 2039	EUR 31 mill.
Kuopio, Hiltulanlahti school	22 Dec 2017	ends 2019	ends 2039	EUR 26 mill.

* Based on estimate of the total value of the contract.

10 TRADE AND OTHER PAYABLES

EUR million	31 Dec 2017	31 Dec 2016
Non-current liabilities		
Accounts payable		0.2
Other non-current liabilities	0.0	0.1
	0.0	0.3
Current liabilities		
Advance payments received	123.7	119.0
Liabilities to owners of housing under construction	3.2	3.5
Trade payables	94.2	82.3
Project expense liabilities	43.1	48.4
VAT	19.7	17.3
Accrued interest	3.7	3.8
Accrued personnel expenses	58.5	61.4
Other accrued liabilities	16.9	13.2
Derivative liabilities	0.8	1.4
Other current liabilities	19.8	25.4
	383.6	375.9
Non-interest bearing liabilities, total	383.6	376.2

11 PROVISIONS

EUR million	Warranty provisions	10 year liability provisions	Environ-mental provisions	Lease commitment provisions	Litigation provisions	Other provisions	Total 31 Dec 2017	Total 31 Dec 2016
Provisions, 1 Jan	10.5	8.8	2.8	5.2	5.1	0.0	32.5	39.6
Exchange rate differences	0.0		-0.2				-0.2	0.2
Increases in provisions	13.2	1.4	0.5	3.3	0.2		18.7	18.1
Expensed provisions	-12.3	-0.9	-0.5	-6.8			-20.5	-16.8
Reversals of unused provisions					-2.2		-2.2	-8.6
Provisions, 31 Dec 2017	11.4	9.3	2.7	1.7	3.1	0.0	28.2	
Provisions, 31 Dec 2016	10.5	8.8	2.8	5.2	5.1	0.0		32.5
Provisions categorised as								
Non-current	1.7	6.3	2.7	1.7	3.1	0.0	15.4	20.4
Current	9.7	3.0					12.8	12.1
	11.4	9.3	2.7	1.7	3.1	0.0	28.2	32.5

12 PROPERTY, PLANT AND EQUIPMENT

EUR million	Land	Buildings and structures	Machinery and equipment	Leased machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost, 1 Jan 2017	13.3	39.5	230.2	85.1	39.5	1.3	409.0
Exchange rate differences	-0.1	-0.3	-3.7	-2.1	-0.6	0.0	-6.8
Increases		0.3	8.3	6.0	0.6	8.7	24.0
Disposals	-0.4	-2.2	-10.0	-13.3	-3.4	-0.2	-29.5
Transfers between items		0.4	7.6	-0.1		-7.9	
Cost, 31 Dec 2017	12.8	37.8	232.4	75.5	36.1	1.9	396.7
Accumulated depreciation and impairment, 1 Jan 2017		-29.4	-168.5	-53.1	-21.4		-272.4
Exchange rate differences		0.1	2.5	1.4	0.3		4.4
Accumulated depreciation on decreases		2.2	8.7	10.9	3.2		25.1
Transfers between items			-0.1	0.1			
Depreciation for the financial year		-0.9	-16.4	-8.6	-1.4		-27.3
Impairment					-0.2		-0.2
Accumulated depreciation and impairment, 31 Dec 2017		-28.1	-173.8	-49.2	-19.5		-270.5
Carrying amount, 31 Dec 2017	12.8	9.7	58.7	26.4	16.7	1.9	126.2
Carrying amount, 1 Jan 2017	13.3	10.1	61.7	32.0	18.1	1.3	136.6

EUR million	Land	Buildings and structures	Machinery and equipment	Leased machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost, 1 Jan 2016	15.2	39.0	223.1	90.4	40.0	0.9	408.6
Exchange rate differences	0.1	0.2	3.6	1.3	0.4	0.0	5.6
Increases		0.3	7.3	10.5	0.4	3.1	21.6
Disposals	-1.0	-0.9	-9.0	-14.4	-1.2	-0.1	-26.7
Transfers between items	-0.9	0.9	5.3	-2.7	-0.1	-2.6	-0.1
Cost, 31 Dec 2016	13.3	39.5	230.2	85.1	39.5	1.3	409.0
Accumulated depreciation, 1 Jan 2016		-28.9	-154.4	-55.5	-20.8		-259.5
Exchange rate differences		-0.1	-2.3	-1.0	-0.2		-3.6
Accumulated depreciation on decreases		0.5	7.1	10.6	1.0		19.2
Transfers between items			-2.6	2.6			
Depreciation for the financial year		-0.9	-16.2	-9.9	-1.4		-28.5
Accumulated depreciation, 31 Dec 2016		-29.4	-168.5	-53.1	-21.4		-272.4
Carrying amount, 31 Dec 2016	13.3	10.1	61.7	32.0	18.1	1.3	136.6
Carrying amount, 1 Jan 2016	15.2	10.1	68.7	34.9	19.2	0.9	149.1

The Group has no capitalised interest expenses in fixed assets.

13 INTANGIBLE ASSETS

EUR million	Goodwill	Intangible rights	Other intangible assets	Advance payments	Total
Cost, 1 Jan 2017	53.9	34.1	7.9	0.2	96.0
Exchange rate differences	-1.0	-0.2	-0.4		-1.5
Increases		0.3		0.5	0.8
Disposals		-1.7	-0.5		-2.2
Transfers between items		0.6		-0.6	
Cost, 31 Dec 2017	52.9	33.2	7.0		93.1
Accumulated amortisation and impairment, 1 Jan 2017		-25.0	-7.2		-32.1
Exchange rate differences		0.1	0.4		0.4
Accumulated amortisation on disposals		1.6	0.5		2.1
Amortisation for the financial year		-3.7	-0.4		-4.1
Impairment		-0.1			-0.1
Accumulated amortisation and impairment, 31 Dec 2017		-27.1	-6.7		-33.8
Carrying amount, 31 Dec 2017	52.9	6.0	0.3		59.2
Carrying amount, 1 Jan 2017	53.9	9.1	0.8	0.2	63.9

EUR million	Goodwill	Intangible rights	Other intangible assets	Advance payments	Total
Cost, 1 Jan 2016	53.1	32.3	7.7	0.1	93.2
Exchange rate differences	0.8	-0.1	0.3		1.0
Increases		1.0		0.9	1.9
Disposals		-0.2	0.0		-0.2
Transfers between items		0.9		-0.8	0.1
Cost, 31 Dec 2016	53.9	34.1	7.9	0.2	96.0
Accumulated amortisation and impairment, 1 Jan 2016		-20.1	-6.0		-26.1
Exchange rate differences		0.0	-0.2		-0.2
Accumulated amortisation on disposals		0.2	0.0		0.2
Amortisation for the financial year		-4.8	-1.0		-5.8
Impairment		-0.2			-0.2
Accumulated amortisation and impairment, 31 Dec 2016		-25.0	-7.2		-32.1
Carrying amount, 31 Dec 2016	53.9	9.1	0.8	0.2	63.9
Carrying amount, 1 Jan 2016	53.1	12.2	1.7	0.1	67.1

GOODWILL

At the date of acquisition, goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies arising from the business combination. The reportable operating segments correspond to the business based management model. Furthermore, the operating segments are the lowest level at which the company management monitors goodwill and the level on which the goodwill is tested. On 1 January 2017 the Paving segment's operations in the Baltic countries were transferred to the Infra projects segment which affected allocation of goodwill between Paving and Infra projects segments.

Goodwill by segment

EUR million 31 Dec 2017	Goodwill	Discount rate, % (pre-tax WACC)
Paving	38.4	7.7*
Infra projects	7.7	8.2*
Building construction, Finland	6.2	5.6
Russian operations	0.6	20.2
	52.9	

EUR million 31 Dec 2016	Goodwill	Discount rate, % (pre-tax WACC)
Paving	43.9	7.7*
Infra projects	3.2	8.0*
Building construction, Finland	6.2	5.6
Russian operations	0.6	20.2
	53.9	

* Country-specific operating capital-weighted average

Goodwill impairment tests

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

The goodwill impairment tests carried out during the fourth quarter of 2017 showed that the present values of the future cash flows exceed the carrying amounts in all segments.

Forecasts and key assumptions used in goodwill impairment testing

Cash generating units' cash flow forecasts were prepared for a three year planning period based on management estimates based on actual past performance. Main assumptions used in the preparation of the cash flow forecasts are the growth of the market in question, the company's profitability development as well as measures which the company has committed to.

Main assumptions in the goodwill impairment testing are long term growth and discount rate. Cash flow forecasts beyond the three year planning period are based on the assumption of 1 percent annual growth which was lower than European Central Bank's target inflation rate over medium term in effect at the time of the impairment testing. Weighted Average Cost of Capital (WACC), calculated for each individual unit, is used as the discount factor. WACC takes into account risk-free interest rate, illiquidity premium, expected market rate of return, the industry's beta value, country risk and debt interest rate including interest rate margin calculated for each unit. When determining the debt interest rate level, the company took into account the following segment-specific interest rate levels: interest rate levels for project loans in building construction in Finland as well as interest rate levels for finance lease liabilities related to paving and infra projects business operations. The components of discount factor are weighted according to average target capital structure of the sector. Pre-tax WACC is determined separately for each tested unit. In the calculation of the segment-specific discount rates, the company used country-specific discount rates that were weighted with country-specific operating capital.

Sensitivity analysis

In connection with the impairment tests, sensitivity analyses are made to determine how possible changes in key assumptions of the unit-specific impairment tests would affect the results of those tests. The key assumptions affecting the present value of cash flows are the development of market and competitive conditions, and the discount factor. In the sensitivity analyses the calculation variables affecting these assumptions are varied and the effects of the changes on the margin between the carrying value and present value of the cash flows are examined. Sensitivity analysis prepared in 2017 shows that reasonable and ordinary variation to key assumptions used in the testing would not cause a need for impairment. Figures describing the goodwill impairment risk of units subject to impairment testing by business segment are presented below.

EUR million 2017	Paving	Infra projects	Building construc- tion, Finland	Russian operations
Goodwill allocated to the business sector, total	38.4	7.7	6.2	0.6
Goodwill impairment if annual growth over the				
long term were 1 percentage point lower	0.0	0.0	0.0	0.0
long term were 2 percentage points lower	0.0	0.0	0.0	0.0
Goodwill impairment if the dicount rate				
were half a percentage point higher	0.0	0.0	0.0	0.0
were one percentage point higher	0.0	0.0	0.0	0.0

EUR million 2016	Paving	Infra projects	Building construc- tion, Finland	Russian operations
Goodwill allocated to the business sector, total	43.9	3.2	6.2	0.6
Goodwill impairment if annual growth over the				
long term were 1 percentage point lower	0.0	0.0	0.0	0.0
long term were 2 percentage points lower	0.0	0.0	0.0	0.0
Goodwill impairment if the dicount rate				
were half a percentage point higher	0.0	0.0	0.0	0.0
were one percentage point higher	0.0	0.0	0.0	0.0

Funding and financial risks

14 FINANCIAL RISK MANAGEMENT

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

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

FUNDING AND LIQUIDITY RISK

The Group seeks to ensure the availability of funding, optimise the use of liquid assets in funding its business operations and to minimise interest and other finance costs. The Group Treasury is responsible for managing the Group's overall liquidity and ensuring that adequate credit lines and a sufficient number of different funding sources are available. It also ensures that the maturity profile of the Group's loans and credit facilities is spread sufficiently evenly over coming years as set out in the treasury policy. The maturity schedule of the interest-bearing liabilities, as per the Group's accounting, is front-loaded. The reason for this is the EUR 61.7 million (80.7) borrowings of companies included in inventory, which are recorded in current interest-bearing liabilities. These liabilities mainly consist of non-current loans of housing companies, which are under construction or completed, and these borrowings will be transferred to the buyers of the co-op shares when the units are handed over. Regarding unsold housing units, the group will bear the liability by paying financial consideration for the units in question during a long loan period.

According to the treasury policy, the Group's liquidity reserve shall at all times match the Group's total liquidity requirement. Due to the nature of the Group's business operations, seasonal borrowing is of great importance. The Group's liquidity management is based on cash flow forecasting.

Liquidity reserve of the Group consists of a commercial paper programme, committed credit limits, bank overdraft facilities, and liquid funds. The total amount of the Group's commercial paper programme is EUR 300.0 million (300.0), which was unused at 31 December 2017 and at 31 December 2016. During the first quarter of 2017 Lemminkäinen agreed on a new EUR 200 million committed syndicated revolving credit facility. The facility is unsecured and matures during the first quarter in 2020. In addition, the agreement includes options for two one year extensions. Simultaneously, Lemminkäinen cancelled the earlier EUR 185 million committed revolving credit facility. At the end of the year, the Group had available committed credit facilities amounting to EUR 200.0 million (185.0) and overdraft limits amounting to EUR 12.4 million (12.4). The amount of liquid funds at 31 December 2017 was EUR 57.9 million (131.4).

The Group's available financing sources and liquid assets are sufficient to cover the obligations arising from current interest-bearing liabilities.

CONTRACTUAL CASH FLOWS OF FINANCIAL LIABILITIES AND DERIVATIVE INSTRUMENTS

EUR million 31 Dec 2017	2018	2019	2020	2021	2022	2023–	Total
Interest-bearing liabilities	80.5	116.6	4.2	2.1	1.4	0.5	205.3
Interest rate derivatives	0.2						0.2
Forward foreign exchange contracts							
Cash flows payable	86.6						86.6
Cash flows receivable	-86.8						-86.8
Commodity derivatives							
Cash flows payable	0.0	0.0	0.0				0.0
Cash flows receivable	-0.4	0.0					-0.4
Other financial liabilities	142.0	0.0	0.0	0.0			142.0
Trade payables	94.2						94.2
Financial guarantees given	2.7	0.7	0.1				3.5
	319.1	117.3	4.3	2.1	1.4	0.5	444.7

EUR million 31 Dec 2016	2017	2018	2019	2020	2021	2022–	Total
Interest-bearing liabilities	103.2	16.1	114.5	3.0	1.3	0.8	238.9
Interest rate derivatives	0.5	0.2					0.7
Forward foreign exchange contracts							
Cash flows payable	58.7						58.7
Cash flows receivable	-58.1						-58.1
Commodity derivatives							
Cash flows payable	0.1						0.1
Cash flows receivable	-0.6						-0.6
Other financial liabilities	155.8	0.0		0.0			155.9
Trade payables	82.3	0.2					82.5
Financial guarantees given	0.8	2.6	0.3	0.1		1.5	5.2
	342.7	19.2	114.8	3.1	1.3	2.3	483.3

FOREIGN EXCHANGE RATE RISK

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

Translation risk consists of foreign exchange rate differences arising from the translation of the income statements and the statement of financial position of foreign group companies into the Group's functional currency. Translation risk recorded in accounting is caused by equity investments in foreign entities and their retained earnings, the effects of which are recorded under translation differences in shareholders' equity. Lemminkäinen Group has foreign net investments in several currencies. The key currencies in which the Group was exposed to translation risk in 2017 were the Russian rouble and the Norwegian krone. The change in translation differences in 2017 was EUR –2.8 million (7.3), of which EUR –1.9 million (5.9) was attributable to the Russian rouble and EUR –1.0 million (1.7) to the Norwegian krone. Reportable translation risk is also caused by the reporting period's income statement, the impact of which can be seen, among others, directly in the Group's reportable net sales and operating profit in euros. In 2017, the impact of exchange rate changes (2017 actuals compared to 2017 actuals recalculated with 2016 foreign exchange rates) on the Group's net sales was EUR 7.4 million (–13.3), of which EUR 10.3 million (–4.9) was attributable to the Russian rouble and EUR –0.8 million (–7.3) to the Norwegian krone, and their impact on the operating profit was EUR 0.1 million (0.3), of which EUR –0.1 million (0.3) was attributable to the Russian rouble and EUR 0.1 million (–0.1) to the Norwegian krone. In accordance with the treasury policy, Lemminkäinen Group protects itself from translation risks primarily by keeping equity investments in foreign entities at an appropriately low level, and thus does not use financial instruments to hedge the translation risks.

Transaction risk consists of cash flows in foreign currencies from operational and financial activities. The Group seeks to hedge business currency risks primarily by operative means. The remaining transaction risk is hedged by using instruments such as foreign currency loans and foreign currency derivatives. The group companies are responsible for identifying, reporting, forecasting and hedging their transaction risk positions internally. The Group Treasury is responsible for hedging the group's risk positions as external transactions in accordance with the treasury policy. The transaction risk positions of the Group were mainly due to sales and purchases within the next 12 months, and receivables and liabilities in the statement of financial position.

The key currency pairs in which the group was exposed to transaction risk in 2017 and 2016 were EUR/SEK and EUR/RUB. In 2017 the Group did not apply hedge accounting to transaction risk hedging.

SENSITIVITY ANALYSIS OF TRANSACTION RISK

The following assumptions have been made when calculating the sensitivity caused by changes in exchange rates:

- the exchange rate change is assumed to be +/- 10%
- the position includes both external and intra-group financial assets and liabilities denominated in Swedish kronas and Russian roubles and derivatives hedging these items
- the position does not include forecasted future cash flows
- taxes are excluded in sensitivity analysis

EUR million 31 Dec 2017	Open transaction risk position	10% strengthening of EUR	10% weakening of EUR
EUR/SEK	-1.4	0.1	-0.2
EUR/RUB	-1.6	0.1	-0.2

EUR million 31 Dec .2016	Open transaction risk position	10% strengthening of EUR	10% weakening of EUR
EUR/SEK	1.6	-0.1	0.2
EUR/RUB	-0.1	0.0	0.0

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 borrowings, interest-bearing financial assets and interest rate derivatives. Interest rate changes have an effect on items in the income statement and consolidated statement of financial position.

The interest rate risk is managed by aligning the Group's average period of interest fixing term with the interest rate sensitivity of the business. The interest rate sensitivity position of the Group's business is estimated to be about 15 months. In accordance with treasury policy average interest rate fixing term and fixed/floating ratio of the debt protfolio is being followed. In addition, sensitivity analysis on interest rate risk are being done.

The Group can have both variable- and fixed-rate long-term borrowings. The ratio of fixed- and variable-rate borrowings can be changed by using interest rate derivatives. The Group has used interest rate swaps for managing interest rate risks, but has not used hedge accounting for these hedges during the reporting period.

Interest rate fluctuations in 2017 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 apartments.

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
- interest rate changes have been calculated for a 12 month period
- the position includes variable-rate financial liabilities, variable-rate financial assets (including cash and cash equivalents) and interest rate derivatives
- market interest rate is assumed to be positive at the start of the year for all other instruments except for interest rate derivatives
- all factors other than the change in interest rates remain constant
- taxes are excluded in sensitivity analysis

EUR million 31 Dec 2017	Interest rate risk position	Impact on profit or loss (+1%)	Impact on profit or loss (-1%)
Variable-rate financial liabilities	-86.5	-0.9	0.9
Variable-rate financial assets	47.9	0.5	-0.5
Interest rate derivatives	20.0	0.2	-0.2
	-18.5	-0.2	0.2

EUR million 31 Dec 2016	Interest rate risk position	Impact on profit or loss (+1%)	Impact on profit or loss (-1%)
Variable-rate financial liabilities	-112.8	-1.1	1.1
Variable-rate financial assets	131.4	1.3	-1.3
Interest rate derivatives	40.0	0.5	-0.5
	58.6	0.7	-0.7

COMMODITY PRICE RISK

The Group's paving operations are exposed to bitumen price risk. The price of bitumen is mainly determined by the world market price of oil. The Group protects itself against the bitumen price risk with price clauses in sales agreements, fixed purchase prices, and derivatives for which hedge accounting is not applied. Group Treasury regurarly follows the bitumen position of the Group.

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. 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.

Most of the Group's business is based on established and trustworthy customer relationships and on contractual terms generally observed in the industry. The Group is exposed to credit risk mainly through the Group's trade receivables and receivables associated with deposits and derivatives. The maximum amount of credit risk is the combined total values of the aforementioned items as presented in the consolidated statement of financial position. The amounts and due dates of the Group's trade receivables are presented in the following 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. In addition, Lemminkäinen uses factoring arrangements which also mitigates the credit risk. Lemminkäinen's credit losses have been minimal in relation to the scale of its operations. The main risks are associated with business in Russia. As a general rule, construction projects in Russia are only undertaken against receipt of advance payments. If, in exceptional situations, a credit risk is taken, the amount permitted is always proportional to the expected margin on the project in question. Receiveables transferred for legally enforceable collection are recognised as credit losses.

The Group 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 Group Treasury is responsible for the management of the Group's counterparty and credit risks related to cash, financial investments and financial transactions. The treasury policy specifies the approved counterparties and their criteria. At the end of 2017, the counterparty risk was considered to be low.

AGEING ANALYSIS OF TRADE RECEIVABLES

EUR million	31 Dec 2017	31 Dec 2016
Not due	87.7	97.0
Past due 1–30 days	23.0	13.7
Past due 31–60 days	2.2	2.7
Past due 61–90 days	1.2	2.5
Past due over 90 days	8.0	4.4
	122.2	120.3

MANAGEMENT OF CAPITAL AND THE CAPITAL STRUCTURE

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

The amount of the Group's interest-bearing liabilities is affected by factors such as scale of operations and cash flow, seasonal changes in production, acquisitions, investments in or the sale of production equipment, buildings and land, and possible equity related arrangements. The company continuously monitors especially the amount of debt, the ratio of net debt to EBITDA, and the equity ratio. The company also follows the development of equity by means of the return on capital employed. Lemminkäinen has determined its financial targets to be among others ROCE above 15% in 2019, equity ratio above 35% during 2016–2019, and in addition, Lemminkäinen aims at a stable distribution of dividends, with at least 40 per cent of the profit for the financial year distributed to the shareholders.

The Group may from time to time seek to repurchase its outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. The amounts involved may be material. The Group may decide to hold, cancel or sell such repurchased debt. Possible subsequent sales of repurchased debt may be made against cash or other compensation or in exchange for equity securities and such sales may be executed as open market offers, privately negotiated transactions or otherwise. Repurchases or exchanges of outstanding debt or subsequent sales or exchanges of repurchased debt, if any, will depend on prevailing market conditions, the Group's liquidity requirements, contractual restrictions and other factors.

During the first quarter of the reporting period the Company agreed on a new EUR 200 million committed revolving credit facility, and simultaneously cancelled its earlier EUR 185 million credit facility. The revolving credit facility includes two financial covenants, the ratio of net debt to EBITDA and the equity ratio, which are monitored quarterly and calculated as an average of four previous quarters. In 2017 and 2016, the company met its covenants.

The shareholders' equity includes a hybrid bond with nominal value of EUR 35.2 million (35.2). The hybrid bond is classified as an equity instrument but the bond holders do not have any rights of a shareholders, and the bond does not dilute shareholders' ownership in the company. The hybrid bond is unsecured and junior to all other borrowings of the company. The bond has no maturity date but the company has the right to redeem them at it's own discretion earliest after four years of the issuance date. The annual coupon rate until the first redemption date for the 31.12.2017 outstanding bond is 8.75%.

The EUR 100 million unsecured senior five-year bond carries a fixed annual coupon at the rate of 7.375 per cent payable semi-annually. The terms and conditions of the bond include two financial incurrence-based covenants: an equity ratio and net debt to EBITDA. If the equity ratio covenant is not met, the company is restricted from making certain payments, including repurchases of its own shares and redemption of hybrid bonds. If the net debt to EBITDA covenant is not met, the company is restricted in its ability to raise additional debt.

The noteholders' meeting which was held during the third quarter of the reporting period approved the Company's proposal relating to granting consents and waivers concerning the merger of Lemminkäinen Corporation and YIT Corporation, and took decisions to amend the terms and conditions of the bond which were related to the merger. The consents and waivers became effective immediately, and the amendments became effective at the completion of the merger of Lemminkäinen Corporation and YIT Corporation.

EUR million	31 Dec 2017	31 Dec 2016
Interest-bearing liabilities	185.8	212.5
Liquid assets	57.9	131.4
Interest-bearing net debt	127.9	81.1
Equity, total	319.3	333.7
Equity ratio, %	39.9	39.5
Gearing, %	40.0	24.3
Return on capital employed, %	8.1	11.3

15 INTEREST-BEARING LIABILITIES

EUR million	31 Dec 2017	31 Dec 2016
Non-current		
Borrowings from financial institutions	0.2	0.4
Finance lease liabilities	15.1	19.5
Bonds	99.4	99.7
	114.6	119.6
Current		
Borrowings from financial institutions	0.2	0.6
Finance lease liabilities	9.3	11.5
Borrowings of companies included in inventory	61.7	80.7
	71.2	92.9

Most of the liabilities are drawn in the debtor's functional currency.

FINANCE LEASE LIABILITIES

EUR million	31 Dec 2017	31 Dec 2016
Finance lease liabilities and interest on them is due as follows		
In one year or earlier	9.8	12.3
Over one year, but less than five years	15.1	19.4
Over five years	0.5	0.8
	25.4	32.5
Maturity of present value of minimum leases		
In one year or earlier	9.3	11.5
Over one year, but less than five years	14.6	18.6
Over five years	0.5	0.8
	24.4	31.0
Accumulated future finance costs from finance lease liabilities	1.0	1.5

RECONCILIATION OF INTEREST-BEARING LIABILITIES

	Current liabilities	Non-current liabilities	Finance lease liabilities	Total
31 Dec 2016	81.4	100.2	31.0	212.5
Proceeds from interest bearing liabilities	170.1	0.0		170.1
Repayments of interest bearing liabilities	-0.6	-0.2	-11.8	-12.6
Finance lease investments			6.0	6.0
Share of borrowings concerning sold apartments	-189.1			-189.1
Other non-cash changes*	0.2	-0.5	-0.8	-1.1
31 Dec 2017	61.9	99.5	24.4	185.8

* Foreign exchange rate differences have been included "Other non-cash changes".

16 CASH AND CASH EQUIVALENTS

EUR million	31 Dec 2017	31 Dec 2016
Cash in hand and at banks	57.9	131.4

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

17 DERIVATIVE FINANCIAL INSTRUMENTS

EUR million 31 Dec 2017	Nominal value	Fair value, positive	Fair value, negative	Fair value, net
Foreign exchange derivatives	86.6	1.0	-0.5	0.4
Interest rate derivatives	20.0		-0.2	-0.2
Commodity derivatives	3.7	0.4	0.0	0.3
	110.3	1.3	-0.8	0.5

EUR million 31 Dec 2016	Nominal value	Fair value, positive	Fair value, negative	Fair value, net
Foreign exchange derivatives	58.5	0.2	-0.7	-0.5
Interest rate derivatives	40.0		-0.7	-0.7
Commodity derivatives	5.5	0.6	-0.1	0.5
	104.0	0.8	-1.5	-0.7

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

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

Financial derivatives are subject to master netting- or similar arrangements which are enforceable in some circumstances. According to these arrangements above mentioned derivative assets and derivative liabilities could be settled on a net basis. Netting arrangements are enforceable according to typical negligence events or other events of default as the general terms for derivative transactions applies. Items, to which settlement on a net basis could be applied under certain conditions, are recognised on gross basis in the statement of financial position. Net figures would have been EUR 0.5 million (0.2) smaller than the gross figures presented in the table.

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

EUR million	2017	2016
Non-current available-for-sale financial assets, 1 Jan	2.3	2.7
Disposals	-0.4	-0.4
Non-current available-for-sale financial assets, 31 Dec	1.8	2.3

Non-current available-for-sale financial assets include several different unquoted shares out of which majority are real estate shares. The value of one individual investment is not significant in relation to the total of all other investments. The fair value of unquoted shares could not be reliably determined, thus they are presented at cost less possible impairments. Write-downs recognised during the reporting period were EUR 0.3 million (0.4).

19 FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

EUR million 31 Dec 2017	Financial assets / liabilities recognised at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Carrying amount	Fair value
Non-current financial assets						
Available-for-sale financial assets			1.8		1.8	1.8
Other non-current receivables		0.4			0.4	0.3
Current financial assets						
Trade and other receivables		297.9			297.9	297.9
Derivative assets	1.3				1.3	1.3
Cash and cash equivalents		57.9			57.9	57.9
Financial assets total	1.3	356.3	1.8		359.4	359.3
Non-current financial liabilities						
Interest-bearing liabilities				114.6	114.6	124.3
Other non-current liabilities				0.0	0.0	0.0
Current financial liabilities						
Interest-bearing liabilities				71.2	71.2	71.2
Trade payables and other financial liabilities**				239.4	239.4	239.4
Derivative liabilities	0.8				0.8	0.8
Financial liabilities total	0.8			425.3	426.0	435.7

EUR million 31 Dec 2016	Financial assets / liabilities recognised at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised cost	Carrying amount	Fair value
Non-current financial assets						
Available-for-sale financial assets			2.3		2.3	2.3
Other non-current receivables*		0.5			0.5	0.3
Current financial assets						
Trade and other receivables		233.1			233.1	233.1
Derivative assets	0.8				0.8	0.8
Cash and cash equivalents		131.4			131.4	131.4
Financial assets total	0.8	365.0	2.3		368.0	367.9
Non-current financial liabilities						
Interest-bearing liabilities				119.6	119.6	126.5
Other non-current liabilities				0.3	0.3	0.3
Current financial liabilities						
Interest-bearing liabilities				92.9	92.9	92.9
Trade payables and other financial liabilities**				238.2	238.2	238.2
Derivative liabilities	1.4				1.4	1.4
Financial liabilities total	1.4			451.0	452.4	459.3

* Other non-current receivables do not include assets related to pension obligations.

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

FAIR VALUE MEASUREMENT

Other non-current receivables includes trade receivables and other interest-free receivables. Fair values are based on future cash flows discounted using risk free market yields plus appropriate credit spreads. The used discount rates vary between 2.5–19.9 per cent (3.1–19.8). The carrying amount of current trade and other receivables is equal to their fair value due to their short maturity.

The most significant part of the non-current financial liabilities is a EUR 100 million senior bond, the fair value of which is based on the market price at the reporting date. The carrying amount of current financial liabilities is assumed to be close to their fair value due to their short maturity.

A FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE

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

EUR million 31 Dec 2017	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets			
Equity instruments		1.8	1.8
Derivative instruments			
Derivative assets	1.3		1.3
Derivative liabilities	0.8		0.8

EUR million 31 Dec 2016	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets			
Equity instruments		2.3	2.3
Derivative instruments			
Derivative assets	0.8		0.8
Derivative liabilities	1.4		1.4

LEVEL 3 RECONCILIATION STATEMENT

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

EUR million	**Financial instruments recognised at fair value through other comprehensive income**
Opening balance 1 Jan 2017	2.3
Disposals	-0.1
Gains and losses recognised in profit or loss, total	-0.3
Fair values 31 Dec 2017	1.8
Gains and losses on level 3 financial instruments held at the end of the accounting period	
In other operating income and expenses	-0.3

EUR million	**Financial instruments recognised at fair value through profit or loss**	**Financial instruments recognised at fair value through other comprehensive income**
Opening balance 1 Jan 2016	-3.7	2.7
Disposals		0.0
Transfers into Level 2	0.1	
Gains and losses recognised in profit or loss, total	3.6	-0.4
Fair values 31 Dec 2016		2.3
Gains and losses on level 3 financial instruments held at the end of the accounting period		
In other operating income and expenses		-0.4

20 SHAREHOLDERS' EQUITY AND DIVIDENDS

SHARES AND SHARE CAPITAL

Lemminkäinen Corporation had one share class. On 31 December 2017, the company had a total of 23,219,900 (23,219,900) shares and of which 15,000 (16,687) treasury shares.

HYBRID BONDS ELIGIBLE FOR EQUITY CLASSIFICATION

Shareholders' equity includes a hybrid bond with nominal value of EUR 35.2 million (35.2). The hybrid bond has no maturity date but the company has the right to redeem it after four years of the issuance date. The hybrid bond is unsecured and junior to all other borrowings of the company. The bond holders do not have any rights of a shareholders, and the bond does not dilute shareholders' ownership in the company. The annual coupon rate until the first redemption date for the outstanding bond is 8.75%.

TRANSLATION DIFFERENCES

At the end of 2017 the translation difference amounted to EUR –21.4 million (–18.6), of which the share of Russian operations was EUR –20.0 million (–18.1). The change of the translation difference was EUR –2.8 million during 2017 (7.3). The impact of Russian rouble exchange rate changes on the translation difference was a total of EUR –1.9 million (5.9) and the impact of Norwegian krone exchange rate changes was a total of EUR –1.0 million (1.7).

DIVIDEND PAID AND PROPOSED

	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Dividend paid during the financial year		
Per share for the previous year, EUR	0.66	0.12
In total for the previous year, EUR million	15.3	2.8
Proposed for approval by the AGM		
Per share for the financial year, EUR	0.00	0.66
In total for the financial year, EUR million	0.00	15.3

Employee benefits

21 EMPLOYEE BENEFITS AND NUMBER OF EMPLOYEES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Personnel expenses		
Wages and salaries	258.2	249.5
Share-based expenses	0.0	0.9
Pension expenses, defined contribution plans	35.7	33.4
Other personnel-related expenses	16.4	19.2
	310.3	303.1
The wages and salaries of the Group companies' managing directors and Board of directors	3.8	3.0

Remunerations of key management personnel are explained in more detail in the note 22 and defined benefit pension expenses are explained in more detail in the note 23.

SHARE-BASED PAYMENTS YEARS 2016–2018

At the end of 2015, the Board of Directors of Lemminkäinen Corporation decided on a new share-based incentive plan for the Group's key personnel. The plan included three one-year earning periods, calendar years 2016, 2017 and 2018. The company's Board of Directors decides on the earning criteria, the set targets and participants and the amount of shares given at the beginning of each earning period. The potential reward for each earning period will be paid in four parts. Each part is equal to 25 per cent of total reward. The rewards will be paid out during the following four years of the earning period. If the employment or service contract of a person participating in the plan ends during the earning or paid out period, they are not generally eligible to unpaid rewards. The reward is paid out as a combination of shares and cash. The purpose of the proportion to be paid in cash is to cover the taxes and tax-related costs arising from the reward. For paid out Lemminkäinen Corporation can use, at its own discretion, one or several of the following: new issued shares, current treasury shares of the company, shares acquired from markets or cash. The first part reward of year 2016 was paid entirely in cash based on the decision of Board of directors.

Information concerning share-based incentive plans are presented below:

	Performance-based reward			Conditional reward
	2017	2016	2015	2014
Grant date	9 Feb 2017	2 Mar 2016	4 Feb 2015	13 Feb 2014
Earning period start date	1 Jan 2017	1 Jan 2016	1 Jan 2015	1 Jan 2014
Earning period end date	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2016
Commitment period end date	30 Sep 2018/30 Sep 2019/ 30 Sep 2020 /30 Sep 2021	30 Sep 2017/30 Sep 2018/ 30 Sep 2019/30 Sep 2020	31 Dec 2016	30 Apr 2017
Vesting conditions	ROCE, operating profit	ROCE, operating profit	Equity ratio, ROCE	Share ownership requirement
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	Cash & Equity
Share price at grant date, EUR	18.46	13.80	13.96	13.41
Fair value of share at grant date, EUR**	16.21	12.57*	13.86	12.81
Amount of granted shares during period, maximum	221,680	291,600	266,074	
Changes in number of granted shares, maximum	-33,040	-19,200	-12,686	
Number of granted shares at the end of period, maximum	188,640	272,400	253,388	
Number of shares earned				
Matching shares subscribed at grant year				860
Number of plan participants at end of earning period	112	113	32	1
Assumed fulfilment of earning criteria at the end of earning period, %	0.0	75.0	30.0	
Fulfilment of earning criteria, %	0.0	75.0	0.0	
Estimated number of shares returned prior to the end of commitment period, %	10.0	10.0	10.0	10.0

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

The accrued expenses from the share based incentive plans recognised in the income statement in 2017 were a total of EUR 1.3 million (0.9). The net liability recognised in the statement of financial position in respect of share-based incentive plan at the end of 2017 was EUR 0.7 million (1.0). The company estimates that expenses to be recognised in 2018 from incentive plans realised before 2018 will be approximately EUR 0.4 million. The actual amount may differ from the estimated amount.

NUMBER OF PERSONNEL

	31 Dec 2017	31 Dec 2016
Personnel at the end of period		
White-collars	2,005	1,947
Blue-collars	2,627	2,297
	4,632	4,244
Personnel by business segment at the end of period		
Paving	1,400	1,412
Infra projects	1,298	1,212
Building construction, Finland	1,041	1,048
Russian operations	769	425
Parent company and others	124	147
	4,632	4,244

22 REMUNERATIONS OF KEY MANAGEMENT PERSONNEL

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

REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

According to management remuneration policy approved by the Board of Directors, the remuneration of the President and CEO and members of the Group's Executive Team consists of a fixed basic salary, fringe benefits, other benefits, annual short-term incentives (performance-based pay) as well as long-term share based incentive plans and pension plans. In addition, the company has agreed with certain members of the key management personnel that they are entitled to a transaction bonus related to the merger that is conditional to the completion of the merger of Lemminkäinen Corporation and YIT Corporation.

Costs related to remuneration of the President and CEO and the Executive Team are presented in the table below. In 2017, the company booked social security costs of EUR 0.5 million (0.5) from key management personnel's salaries, fees and other employee benefits. The social security costs are not included in the table's figures below. The table's figures are calculated on accrual basis and the performance and share-based rewards included in the figures are based on a year-end estimate.

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Short-term employee benefits	2.1	2.2
The President and CEO	0.6	0.6
Key management personnel other than the President and CEO	1.4	1.6
Post-employment benefits	0.4	0.4
The President and CEO	0.1	0.1
Key management personnel other than the President and CEO	0.3	0.3
Share-based payments	0.4	0.3
The President and CEO	0.2	0.2
Key management personnel other than the President and CEO	0.2	0.1
Termination benefits*	0.1	0.2
Key management personnel other than the President and CEO	0.1	0.2
Other long term benefits	0.1	0.4
The President and CEO	0.0	0.1
Key management personnel other than the President and CEO	0.0	0.2
Remuneration of key management personnel, total	3.1	3.4

* Does not include share based payments or costs of additional pension plans for the term of notice

Short-term employee benefits
Short-term employee benefits include fixed basic salary which is determined by the requirements of the position as well as the performance and experience of the person holding the position. In addition, short-term employee benefits include the use of a car benefit, mobile phone benefit, meal benefit and an extended insurance cover for accidents and travel in their leisure time.

The amount of the management's performance-related reward is based on financial and operational profit targets specified at the beginning of the year. Lemminkäinen's top management is divided into two performance-related reward groups which define the maximum performance-related reward percentage for each person. Defining a person's reward group is based on organisation level as well as the requirements and operational influence of the position. In 2017 the level of performance-related reward of the management was based on Group's operating profit, the return on capital employed as well as efficiency and reaching goals related to other development targets. The reward for members of the Executive team representing segment management was in addition based on the segment's operating profit and segment's return on capital employed. Achieving targets set on performance-related rewards were assessed quarterly by the Executive team. The maximum performance bonus payable to the President and CEO was 80 per cent of the annual salary and 60 per cent for other members of the Group Executive Team.

Lemminkäinen Corporation's Annual General Meeting elects each year the members to serve on the company's Board of Directors and decides on their fees on the basis of proposal submitted by Nomination Committee. The fees are paid fully in cash. The term of office of the Board members lasts until the end of the first Annual General Meeting held after their election. The members of Lemminkäinen's Board of Directors do not belong to the share-based incentive plan, and they are not employees of Lemminkäinen. The 2017 Annual General Meeting decided on fixed annual fee to be paid for Board members. This fixed annual fee ends after the next Annual General Meeting. A fee of EUR 120,000 (2016: EUR 10,000 per month) would be paid to the Chairman, EUR 54,000 (2016: EUR 3,000 per month) to the Vice Chairman of the Board and the Chairman of the Audit Committee and EUR 42,000 (2016: EUR 3,000 per month) to the members of the Board of Directors. In addition, the Board members and the Audit Committee members shall be paid an attendance fee of EUR 500 (500). Board members living outside Finland receive an extra EUR 1,000 (1,000) to their attendance fees.

Post-employment benefits
The additional pension plan of the President and CEO and the members of Executive Team is based on cash basis and earning a paid-up policy. The amount of payment is defined as a percentage of the annual salary. The President and CEO and other members of the Executive Team are entitled to retire at the age of 63. The amount of the President and CEO's and other members' of the Executive Team defined contribution pension benefit equals 20 per cent of their annual fixed salary.

Share-based payments
The share-based incentive plan during 2016–2018
In the end of 2015, the Board of Directors of Lemminkäinen Corporation decided on a new share-based incentive plan for the Group's key personnel.

Incentive plan comprises of three earning periods, which are calendar years 2016, 2017 and 2018. The company's Board of Directors decides on the earning criteria and the set targets and also participants and the amount of shares to be given at the beginning of each period. In 2017, the reward was based on return on capital employed (ROCE).

The maximum share reward in 2017 for the President and CEO was 27,800 gross shares and for other members of the Executive Team 9,150 gross shares. The rewards paid according to the incentive plan amount up to 1,200,000 Lemminkäinen Corporation's shares (including also part paid in cash). The Board of Directors recommends that the President and CEO and the members of the Executive Team own 50 per cent of shares they have got though incentive plan as long as the value is equal to their six months' salary. This ownership should be maintained during employment or service term. More detailed information about share-based incentive plans is found in the note 21.

Termination benefits
Term of notice for the Lemminkäinen's President and CEO agreement and for other members of the Executive Team is six months. If the company dismisses the President and CEO agreement, the President and CEO is entitled to an absolute severance pay equal to 12 months cash salary at the time of the agreement's termination. For other members of Executive Team the equivalent severance pay equals to six months cash salary at the time of the agreement's termination.

Other long term benefits
In 2015, a performance bonus agreement has been made for the President and CEO and the Executive Team for 2016—2018. The aim of the bonus agreement is to ensure long term continuity and profitability of the business. Because of rearrangements, bonus agreement was altered in 2016 in way that possible bonus will be paid in 2018 if the person still has employment contract. The possible bonus is equivalent to a maximum of 12 months' cash salary. The bonus criteria include, among other things, the success of the Group's financing arrangements as planned. The President and CEO and members of Group's Executive Team during June 2016 are entitled to this bonus agreement.

Other long term benefits expenses arose from service year awards to related party that comply with the Group's HR practices.

23 PENSION OBLIGATIONS

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

At the end of 2017 as well as in the comparison period, the company had defined benefit pension plans only in Finland. The plans were final salary defined benefit plans, they supplement the statutory pensions or enable retirement before the statutory retirement age. Defined benefit plans' assets consist entirely of qualifying insurance policies. Defined benefit pension obligations do not involve minimum funding requirements or they do not include investments to Lemminkäinen or to real estate or other assets used by the company. The expected return on the plan assets is an estimate of a life insurance company's future long term total rebate. Number of plan participants at the end of period were total of 79 (88), of which 77 (87) were pensioners.

The company estimates that, likewise in 2017, in 2018 it will not be make any payments with material impact regarding defined benefit pension plans. Estimate may vary from actual figures.

EUR million	31 Dec 2018 (forecast)	31 Dec 2017	31 Dec 2016
Recognised in the statement of financial position			
Present value of funded obligations	12.3	12.9	12.5
Fair value of plan assets	-12.0	-12.6	-12.9
Total amount recognised in the statement of financial position (-asset / +liability)	0.3	0.3	-0.4

	31 Dec 2017	31 Dec 2016
Actuarial assumptions		
Discount rate, %	1.5	1.0
Inflation rate, %	1.1	1.1
Customer refund of life insurance company, %	1.7	1.7
Future pension increases, %	1.9	1.3

	31 Dec 2017	31 Dec 2016
Sensitivity analysis, impact to present value of funded obligations		
Inflation rate, % +0.5 percentage point	5.90	5.79
Inflation rate, % -0.5 percentage point	-5.40	-5.30
Discount rate, % +0.5 percentage point	-5.20	-5.10
Discount rate, % -0.5 percentage point	5.70	5.60

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

Weighted average duration of the pension liability is approximately 10.7 years.

Other notes

24 INVESTMENTS

SUBSIDIARIES

31 Dec 2017	Consolidated shareholding, %	Parent company shareholding, %	Parent company shareholding, shares
Lemminkäinen Talo Oy, Helsinki	100.0	100.0	2,183,663
Lemminkäinen Infra Oy, Helsinki	100.0	100.0	1,338
Lemcon Networks Oy, Helsinki	100.0	100.0	392,000
UAB Lemcon Vilnius, Lithuania	100.0	100.0	
UAB Lemminkainen Lietuva, Lithuania	99.9	99.9	3,747,989
Lemminkäinen International Oy, Helsinki	100.0		
Lemminkäinen Russia Oy, Helsinki	100.0		
Lemminkäinen Co., Ltd, China	100.0		
Lemminkäinen Construction (India) Private Limited, India	100.0		
Lemcon HR Oy, Helsinki	100.0		
Lemminkäinen Polska Sp.Z O.O, Poland	100.0		
OOO Lemminkäinen Service, Russia	100.0		
OOO Lemminkäinen Stroy, Russia	100.0		
Lemcon Argentina S.R.L, Argentina	100.0		
Lemcon Venezuela C.A., Venezuela	100.0		
Pasila Telecom Oy, Helsinki	100.0		
Asfalt Remix AS, Norway	75.0		
Lemminkäinen A/S, Denmark	100.0		
Lemminkäinen Industri AS, Norway	100.0		
Lemminkäinen Eesti AS, Estonia	100.0		
Lemminkäinen Norge AS, Norway	100.0		
Lemminkäinen Sverige Ab, Sweden	100.0		
SIA Lemminkainen Latvija, Latvia	100.0		

All the company's subsidiaries have been included in the consolidated financial statements. Non-controlling interests in the company's subsidiaries have been recorded in relation to voting rights and ownership except for Norwegian Asfalt Remix AS. The company has an obligation to redeem the non-controlling interest of Asfalt Remix AS within an agreed period for which reason the share of the non-controlling interest has not been recognised in the statement of financial position. The obligation has been measured at fair value and recorded as a liability in the consolidated statement of financial position. The amount of the liability is not material.

Non-controlling interest in the consolidated statement of financial position totalled EUR 0.0 million (0.0) at the end of 2017, and it is not material to the company.

The company is not aware of any restrictions on its recorded assets at the end of 2017.

JOINT VENTURES

The Group's joint ventures are not individually material.

31 Dec 2017	Consolidated shareholding, %
Genvej A/S, Denmark	50.0
Nordasfalt AS, Norway	50.0

EUR million	2017	2016
Shares in joint ventures 1 Jan	5.4	4.7
Exchange rate difference	-0.4	0.3
Dividends received	-0.7	-0.6
Share of the profit for the period	0.1	1.0
Shares in joint ventures 31 Dec	4.5	5.4

ASSOCIATES

At the end of 2016 and in 2017 the Group had no associates.

OTHER SHARES AND HOLDINGS

The company has other shares and holdings, which are mainly real estate shares. The company's other shares and holdings are recorded as non-current available-for-sale financial assets in the statement of financial position. Changes in other shares and holdings are presented in the note 18.

25 OPERATING LEASE COMMITMENTS

EUR million	31 Dec 2017	31 Dec 2016
Minimum leases of irrevocable lease contracts due within		
One year or less	15.1	12.6
Over one year, but less than five years	31.6	25.4
Over five years	4.7	6.5
	51.4	44.5
Minimum leases of irrevocable lease contracts include operating lease commitments due within		
One year or less	7.9	6.0
Over one year, but less than five years	15.0	10.4
Over five years	0.2	0.1
	23.1	16.5

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

26 CONTINGENT ASSETS AND LIABILITIES

GUARANTEES AND COMMITMENTS

EUR million	31 Dec 2017	31 Dec 2016
Collateral notes of companies included in inventory*	132.0	144.4
Pledged assets		
For own commitments	3.7	3.6
Guarantees		
On behalf of consortiums and real estate companies	0.4	0.6
On behalf of others**	3.5	4.6
	3.8	5.2
Investment commitments***		
Property, plant and equipment	0.8	2.7
Building plots and real estates	41.3	37.4
	42.1	40.1

* Collateral notes for companies included in inventories are given for collateral security for their debts.
** The guarantees have been granted on behalf of the building construction business in Sweden (Rekab Entreprenad AB) which was divested on 1 September 2015. The acquiring parties have set a counter-commitment for part of these guarantees.
*** The amounts of presented commitments are minimum commitments based on the contract. Purchase commitments of property, plant and equipment are machinery investments of Paving and Infra projects segments. Purchase commitments of building plots and real estates are related to business of Building Contruction, Finland. Purchase commitments of building plots and real estates might contain contracts with terms for for example about enforcement of zoning. Comparison period figures are adjusted.

In addition, at the reporting date, the company has EUR 0.8 million (0.8) accrued interest liabilities concerning its hybrid bonds which are not recognised in statement of financial position.

DAMAGES RELATED TO THE ASPHALT CARTEL

On 6 September 2017, the Supreme Court announced that it had granted leave to appeal to Lemminkäinen and the city of Vantaa regarding the legal proceedings concerning the damages related to the asphalt cartel. Concerning Lemminkäinen, there were 13 pending requests for leave to appeal submitted by Lemminkäinen as well as 19 requests for leave to appeal submitted by municipalities in the Supreme Court concerning the Helsinki Court of Appeal's decisions on 20 October 2016 regarding damages related to the asphalt cartel.

Lemminkäinen was granted leave to appeal in the cases concerning the cities of Mikkeli and Rovaniemi. The leave to appeal concerns the question whether the liability for compensation of Lemminkäinen has decreased due to the fact that the other parties' liability was time barred. The other applications for leave to appeal by Lemminkäinen will await the decisions to be rendered in the cases where leave to appeal was granted.

The leave to appeal granted to the city of Vantaa concerns the question whether Skanska Asfaltti Oy, NCC Industry Oy and Asfaltmix Oy were liable for damages caused by the cartel to the city based on the fact that the companies had acquired businesses from companies involved in the cartel. The question whether leave to appeal will be granted to Lemminkäinen and to the city of Vantaa, concerning other than the above mentioned issues, will be resolved in connection with the appeal.

According to the Supreme Court's decisions on 6 September 2017, the applications for leave to appeal of 16 cities or municipalities concerning Lemminkäinen were dismissed entirely. The application for leave to appeal by the city of Espoo will await the decisions to be rendered in the cases where leave to appeal was granted.

On 20 October 2016, the Court of Appeal of Helsinki gave its decisions in the legal proceedings concerning the damages related to the asphalt cartel. Regarding the 37 claims against Lemminkäinen, Lemminkäinen and other asphalt industry companies are entitled to receive reimbursements in total approximately EUR 20 million (consisting of capital amount of approximately EUR 14 million less as well as interest and legal expenses of approximately EUR 6 million less than according to the decisions of the District Court).

Of these reimbursements, Lemminkäinen is entitled to receive refunds (based on Lemminkäinen's own share and those shares of other defendants that Lemminkäinen has paid) in total approximately EUR 19 million consisting of capital as well as interest and legal expenses. Lemminkäinen recorded the reimbursement as income in its fourth-quarter result in 2016.

Lemminkäinen has as such deemed the claims for damages unfounded. After Helsinki Court of Appeal's decisions, Lemminkäinen has settled with 17 municipalities and the State of Finland. The parties agreed not to request leave to appeal from the Supreme Court or to withdraw their leave to appeal concerning the Helsinki Court of Appeal's decisions.

In addition, Lemminkäinen has been served summons regarding 21 claims against Lemminkäinen and other asphalt companies for damages. The capital amount of these claims is approximately EUR 26 million. For these claims, Lemminkäinen has made a provision worth approximately EUR 3.1 million based on the Helsinki Court of Appeal's decisions and the subsequent Supreme Court's decisions regarding the applications for leave to appeal.

QUALITY CONCERNS RELATED TO READY-MIXED CONCRETE

In its construction business Lemminkäinen uses as a raw material, among other things, ready-mixed concrete. During the year 2016, especially in some infrastructure projects, suspicions have arisen that the ready-mixed concrete used in Finland would not entirely fulfill the predetermined quality requirements. As discussed in public in Finland, some quality problems have arisen for example during the construction of the concrete deck of the T3 building of Turku University Hospital, where Lemminkäinen is the project management contractor. It is claimed that the ready-mixed concrete would not fulfill the quality requirements, which even has led to the demolition of some structures.

The Hospital District of Southwest Finland, as client in the project for the construction of the concrete deck of the T3 building of Turku University Hospital, has presented claims for damages to Lemminkäinen relating to the quality of the ready-mixed concrete. The capital amount of these claims is currently approximately EUR 17 million.

According to Lemminkäinen, the responsible party for the quality of the concrete is the supplier. Consequently, Lemminkäinen has filed a claim to the District Court of Helsinki for compensation from the supplier, Rudus Oy, regarding the expenses relating to possible quality deviations. The capital amount of the claim is currently approximately EUR 20 million.

Lemminkäinen has not made any provisions for the claims.

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

27 TRANSACTIONS WITH RELATED PARTIES

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

TRANSACTIONS WITH RELATED PARTIES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Sales of goods and services to associates and joint ventures	0.6	1.7
Purchases of goods and services from associates and joint ventures	1.8	3.7

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Trade receivables from associates and joint ventures	0.0	0.0
Trade payables to associates and joint ventures	0.0	0.2
Loan receibables from associates and joint ventures	0.3	0.3

The transactions were made at market price. Related party transactions with associates and joint ventures are mainly asphalt works and mineral aggregate deliveries. Transactions were made at a market price. Company's related party transactions with key management personnel and board of directors have consisted of ordinary salaries and remuneration during 2016 and 2017.

28 ADJUSTMENTS TO CASH FLOWS

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Depreciation and impairment of goodwill	31.8	34.5
Share of the profits of associates and joint ventures	-0.1	-1.5
Finance income and costs recognised in the income statement	16.0	18.4
Change in provisions	-4.0	-7.6
Credit losses on trade receivables	0.5	1.1
Gains and losses on sale of fixed assets and other income and expenses not involving payments	-2.5	-6.4
Others	8.9	3.8
	50.7	42.4

Others-item includes adjustments to exchange rate differences, inventory write-downs and other non-payment based items.

29 OTHER COMPREHENSIVE INCOME ITEMS

EUR million 2017	Before taxes	Taxes	After taxes
Translation differences	-2.8		-2.8
Defined benefit pension obligations	-0.7	0.1	-0.6
	-3.5	0.1	-3.4

EUR million 2016	Before taxes	Taxes	After taxes
Translation differences	7.3		7.3
Defined benefit pension obligations	0.6	-0.1	0.4
	7.8	-0.1	7.7

30 NEW IFRS STANDARDS

NEW STANDARDS, INTERPRETATIONS AND ANNUAL IMPROVEMENTS AND AMENDMENTS TO IFRSS APPLIED BY THE COMPANY IN 2017

There are no IFRSs, IFRIC interpretations, annual improvements or amendments to IFRSs adopted by the company for the first time for the financial year which began on 1 January 2017 that have had a material impact on the company's consolidated financial statements.

STANDARDS, INTERPRETATIONS, ANNUAL IMPROVEMENTS AND AMENDMENTS TO IFRSS APPLIED BY THE COMPANY AFTER 2017

IFRS 15 Revenue from Contracts with Customers

Nature of the change

The effective date of IFRS 15 Revenue from Contracts with Customers is a financial period beginning on or after 1 January 2018. IFRS 15 specifies how and when to recognise revenue from contracts with customers. The starting point of the standard is a contract with a customer, to which a five-step model should be applied. A key factor in revenue recognition is the transfer of control. Revenue is recognised either over time or at a point in time. Once effective, the new standard will replace current IAS 18 and IAS 11 standards and related interpretations.

Estimated impacts
On the basis of the impact analysis, the analysis of the opening balance sheet as at 1 January 2017 and the contract analysis of significant new customer contracts prepared during the financial period, the application of IFRS 15 will not have a material impact either to the amount or the timing of revenue recognition. There are no adjustments to the comparative financials due to the application of IFRS 15. The number of disclosures in the consolidated financial statements will increase.

The company has identified certain contract elements which will be treated differently compared to the current accounting method. The number of performance obligations accounted for separately will increase mainly in the Building construction, Finland segment where a contract with a customer may cover the construction of several separate buildings and the maintenance service in life-cycle projects. Dividing such contracts with customers in several performance obligations accounted for separately will not have a material impact either to the amount or the timing of revenue recognition at the transition date as the majority is already accounted for separately under the current accounting practice. In addition, the number of performance obligations increases if Lemminkäinen commits to warranty periods that are longer than what has been defined in legislation or in general terms and conditions. In this case, the excess warranty period may be considered as a separate performance obligation and the transaction price allocated to it is recognised as revenue when the service is performed. Lemminkäinen has offered a small number of warranty periods exceeding the general terms and conditions which are low in value. Therefore, based on management's materiality assessment, they have not been accounted for as separate performance obligations. According to Lemminkäinen's current revenue recognition policies, the excess warranty period is not separated in revenue recognition.

Transaction prices are mainly variable in the contracts with customers of Lemminkäinen. According to IFRS 15, the transaction price expected to be received from the customer, including variable amounts such as penalties and bonus payments based on performance, is determined at the contract inception and re-estimated at the end of each reporting period. Some or all of the amount of the variable consideration estimated is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Due to the application of IFRS 15, the revenue from the bonus payments included in the transaction price may be recognised somewhat earlier compared to the current accounting practice. According to current accounting practice, variable amounts are accounted for once they are reliably determined.

The criteria in IFRS 15 for revenue recognition over time is fulfilled in majority of contracts with customers of Lemminkäinen. Therefore, as revenue from majority of contracts with customers is recognised over time under current accounting practice, there will be no significant changes to the timing of revenue recognition. The revenue from residential development projects in the Building construction, Finland segment is recognised at a point in time when the control is transferred to the customer, which is in line with the current accounting practice.

Date of application and transition method
The company adopts the standard as of 1 January 2018 using a retrospective method and all available transition relief options. In accordance with the retrospective method, in the 2018 consolidated financial statements the company adjusts the disclosures for the comparative financial year to comply with IFRS 15.

Description of practical expedients:

- The company does not adjust completed contracts that begun and ended during the financial year 2017.
- Variable consideration for contracts that were completed by the end of the financial year 2017 were not adjusted for the comparative financial year.
- The company does not disclose the amount of the transaction price allocated to unsatisfied performance obligations for the comparative financial year, that is as at 31 December 2017, nor does it provide a more detailed description of satisfying the obligations.
- The company does not adjust contracts that are completed contracts at the beginning of the earliest period presented.
- The company does not restate contract modifications made before the beginning of the transition period; instead, the company can take into account their aggregate effect when determining the transaction price, unsatisfied and satisfied performance obligations and the allocation of the transaction price to the performance obligations.

IFRS 9 Financial Instruments

Nature of the change
IFRS 9 Financial Instruments was issued in July 2014 and applies to an annual reporting period beginning on or after 1 January 2018. IFRS 9 Financial instruments standard concerns classification and measurement of financial assets and liabilities and their off-balance sheet recognition and also renews the rules concerning hedge accounting and introduces a new impairment model for financial assets.

Estimated impacts
The new impairment model for financial assets is based on expected credit losses, where customer's credit risk is taken into account. This model causes that credit loss recognition will be made earlier. The financial assets of the company mainly consists of trade receivables measured at amortised cost and customer contracts in accordance with IFRS 15. The company will use simplified approach and thus expected credit losses from trade receivables and customer contract assets in accordance with IFRS 15 will be recognised based on historical information with adjustment concerning expectations of the future. The company estimates that recognition of expected credit losses will have negative impact of EUR 1 million to equity of opening balance sheet at the date of initial application. The standard does not have any other significant impact on measurement of financial assets.

Additionally, the new standard introduces some disclosure requirements and changes in presentation.

Date of application and transition method

The company will adopt the standard as of 1 January 2018 using the expedients defined by the standard. The company will not restate prior periods. Application of the standard does not have an effect on published segment figures.

IFRS 16 Leases

Nature of the change

IFRS 16 Leases standard was issued in January 2016. The standard significantly changes lessee's accounting, because the distinction between operating lease agreements and finance lease agreements is removed. Thus almost all lease agreements are recognised in balance sheet, except for low value leases and short-term lease agreements. According to the new standard, a right-of-use asset (right to use the leased asset) and financial liability concerning lease payments is recognised.

Estimated impacts

According to the current estimate, the adoption of the standard will increase the amount of property, plant and equipment as well as the amount of financial liabilities. The company also has land lease agreements related to construction business, which, according to the preliminary analysis, will be recognised to inventories and financial liabilities. Assets related to land lease agreements and financial liabilities are derecognised when the property under construction is sold. According to the preliminary analysis, the standard is not expected to have significant impact on profit for the accounting period or equity.

Date of application and transition period

The effective date of the standard is a period beginning on or after 1 January 2019. The company will not adopt the standard prior the effective date.

OTHER STANDARDS, INTERPRETATIONS, ANNUAL IMPROVEMENTS AND AMENDMENTS TO IFRSS APPLIED BY THE COMPANY AFTER 2017

There are no other IFRSs, IFRIC interpretations, annual improvements or amendments to IFRSs that are not yet effective that would be expected to have a material impact on the company's consolidated financial statements.

31 EVENTS AFTER THE ACCOUNTING PERIOD

MERGER OF LEMMINKÄINEN AND YIT

The Finnish Competition and Consumer Authority approved the merger of Lemminkäinen and YIT on 26 January 2018. Already earlier, the competition authorities of Russia, Slovakia, Estonia and Lithuania had approved the merger and the merger did not require authority permits in other countries. The Boards of Directors of both companies approved the merger on 31 January 2018 and the merger of Lemminkäinen and YIT was completed on 1 February 2018.

REDEMPTION OF LEMMINKÄINEN'S EUR 35.2 MILLION HYBRID BOND

31 January 2018, Lemminkäinen announced that it will redeem the outstanding share of the EUR 70 million hybrid bond (ISIN: FI4000086665). The outstanding nominal amount is EUR 35.2 million. The hybrid bond was issued on 11 March 2014. The redemption will be made on 30 March 2018 in accordance with the terms and conditions of the hybrid bond, and as a result thereof the payment will take place on 3 April 2018.

Parent company income statement (FAS)

EUR million	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Net sales	1	35.2	34.1
Other operating income	2	1.4	30.7
Materials and services	3	0.2	0.2
Personnel expenses	4	11.2	14.5
Depreciation and reduction in value	5	4.3	6.2
Other operating expenses	6	21.5	21.9
Operating profit/loss		-0.5	22.0
Finance income and costs	7	-10.1	-21.5
Profit before appropriations and taxes		-10.6	0.5
Appropriations	8	64.2	37.8
Income taxes	9	-10.7	-8.5
Profit for the financial year		42.8	29.8

Parent company balance sheet (FAS)

EUR million	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets	10		
Intangible assets		5.5	5.5
Property, plant and equipment		9.9	10.8
Investments in group companies	11	154.2	154.2
Other investments		0.5	0.9
		170.1	171.3
Current assets	12		
Non-current receivables		126.1	81.7
Deferred tax asset		1.7	12.4
Current receivables		79.0	59.4
Cash in hand and at banks		44.3	115.5
		251.0	269.0
		421.1	440.3
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	13		
Share capital		34.0	34.0
Share premium account		5.7	5.7
Invested non-restricted equity fund		90.6	90.6
Retained earnings		59.4	44.9
Profit for the financial year		42.8	29.8
		232.6	205.0
Provisions	14		
Other provisions		3.1	5.1
Liabilities	15		
Non-current liabilities		135.2	135.2
Current liabilities		50.3	95.0
		185.5	230.2
		421.1	440.3

Parent company cash flow statement (FAS)

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flows from operating activities		
Profit/loss before appropriations and taxes	-10.6	0.5
Adjustments		
Depreciation and reduction in value	4.3	6.2
Finance income and costs	10.1	21.5
Other adjustments	-1.6	-9.1
Cash flow before change in working capital	2.2	19.0
Change in working capital		
Increase(-)/decrease(+) in trade and other receivables	7.6	-7.0
Increase(+)/decrease(-) in current liabilities	-5.0	5.0
Cash flow from operations before financial items and taxes	4.8	17.1
Interest and other finance costs paid	-24.2	-40.6
Interest and other finance income received	15.8	15.3
Income tax paid	0.0	0.0
Cash flow from operating activities	-3.5	-8.3
Cash flows from investing activities		
Purchases of tangible and intangible assets	-3.6	-0.9
Proceeds from sale of tangible and intangible assets		0.2
Proceeds from sale of other investments	0.1	1.0
Acquired subsidiary shares		-40.0
Cash flow from investing activities	-3.5	-39.6
Cash flows from financing activities		
Increase(-)/decrease(+) of long-term loan receivables	-46.8	37.6
Group contributions received	37.8	26.5
Change in group receivables/liabilities	-39.9	74.6
Proceeds from short-term borrowings		49.6
Repayments of short-term borrowings		-62.7
Repayments of long-term borrowings		-77.7
Dividends paid	-15.3	-2.8
Cash flow from financing activities	-64.1	45.1
Increase(+)/decrease(-) in cash and cash equivalents	-71.2	-2.8
Cash and cash equivalents at begining of financial year	115.5	118.3
Cash and cash equivalents at end of financial year	44.3	115.5

Parent Company's Accounting Policies, 31 Dec 2017

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

FOREIGN CURRENCY ITEMS

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

DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The derivatives are used in order to reduce business risks, interest rate risks and to hedge balance sheet items denominated in foreign currencies. Derivative financial instruments are measured at fair value and categorised by using a three-level fair value hierarchy. Financial instruments within Level 1 of the hierarchy are traded in active markets, hence prices are obtained directly from the efficient markets. Fair values of instruments within Level 2 are based on observable market inputs and generally accepted valuation methods. Fair values within Level 3 are not based on observable market data but on quotations provided by brokers and market valuation reports. All the Company's derivatives are categorised into level 2 of the hierarchy.

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

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

Lemminkäinen Corporation's subsidiaries operating in the paving business use commodity derivatives to manage the bitumen price risk. The execution of some of those derivatives with external counterparties is centralised to Lemminkäinen Corporation, and the corresponding internal derivative contracts are executed with intra-Group transactions with each subsidiary. Consequently, commodity derivatives do not affect Lemminkäinen Corporation's income statement significantly.

The Company has not applied hedge accounting to derivative instruments. Nevertheless, these derivative instruments have been utilised for hedging purposes. Fair value changes from derivative financial instruments are recognised according to the nature of the derivative, either in financial items or in other operating income and expenses in the income statement. Fair value changes are presented in section 7 of the notes to the financial statements.

VALUATION AND DEPRECIATION OF FIXED ASSETS

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

- Buildings and structures 10–40 years
- Machinery and equipment 3–15 years
- Other fixed assets 3–10 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

Costs of research are expensed in the year during which they occur. Development costs are capitalized if requirements for capitalization are met.

INCOME 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 income taxes on the income statement.

Notes to the parent company financial statements (FAS)

Notes to the Parent Company Financial Statements (FAS)

1 NET SALES BY MARKET AREA

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Finland	31.7	30.8
Scandinavia	2.2	2.1
Baltic countries	0.8	0.8
Russia	0.5	0.4
	35.2	34.1

2 OTHER OPERATING INCOME

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Gain on sales of fixed assets	0.0	1.2
Legal proceedings concerning the damages related to the asphalt cartel		27.4
Others	1.4	2.1
	1.4	30.7

3 MATERIALS AND SERVICES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Raw materials and consumables	0.1	0.2
External services	0.1	0.0
	0.2	0.2

4 NOTES CONCERNING PERSONNEL, MANAGEMENT AND BOARD MEMBERS

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Personnel expenses		
Salaries, wages and remunerations	8.9	11.9
Pension expenses	1.8	1.9
Other staff costs	0.5	0.6
	11.2	14.5
Management salaries and remunerations		
The President and CEO	0.6	0.7
Board of Directors	0.4	0.4
Average number of employees		
Salaried employees	135	144

Pension commitments concerning Board of Directors and the President and CEO

The retirement age of the President and CEO of Lemminkäinen Corporation is 63 years.

5 DEPRECIATION AND REDUCTION IN VALUE

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Depreciation		
Intangible rights	3.5	4.6
Other intangible assets	0.1	0.3
Buildings and structures	0.7	0.7
Machinery and equipment	0.0	0.0
	4.3	5.6
Reduction in value		
Revaluation of buildings		0.6
Depreciation and reduction in value	4.3	6.2

6 AUDIT FEES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Audit fees	0.1	0.1
Other consulting	0.0	0.0
	0.1	0.2

7 FINANCE INCOME AND COSTS

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Other interest and finance income		
From Group companies	5.3	7.1
From others	0.0	0.3
	5.3	7.4
Interest expenses and other finance costs		
To Group companies	0.4	0.0
To others	15.0	28.9
	15.4	28.9
Net finance income/costs	-10.1	-21.5
Finance income and costs include		
Exchange gains and losses (net)	-1.8	-0.7
Change in fair value of currency derivatives (net)	0.8	-2.2
Change in fair value of interest rate derivatives (net)	0.4	0.3

8 APPROPRIATIONS

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Group contributions	64.2	37.8

9 INCOME TAXES

EUR million	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Income taxes in respect of previous years	0.0	0.0
Change in the deferred tax assets	-10.7	-8.5
	-10.7	-8.5

10 NON-CURRENT ASSETS

INTANGIBLE ASSETS

EUR million	Intangible rights	Other intangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2017	25.6	2.6	0.1	28.3
Increases	0.1	3.2	0.5	3.7
Decreases	-1.2	-0.5		-1.7
Transfers between items	0.5		-0.5	
Cost 31 Dec 2017	25.0	5.3		30.3
Accumulated amortisation and impairment 1 Jan 2017	-20.4	-2.4		-22.8
Accumulated amortisation on disposals and transfers	1.2	0.5		1.7
Amortisation for the financial year	-3.5	-0.1		-3.6
Accumulated amortisation and impairment 31 Dec 2017	-22.7	-2.0		-24.8
Carrying amount 31 Dec 2017	2.3	3.3		5.5

EUR million	Intangible rights	Other intangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2016	25.0	2.7	0.1	27.7
Increases	0.7		0.1	0.8
Decreases	-0.1	0.0		-0.2
Transfers between items	0.1		-0.1	
Cost 31 Dec 2016	25.6	2.6	0.1	28.3
Accumulated amortisation and impairment 1 Jan 2016	-15.9	-2.1		-18.1
Accumulated amortisation on disposals and transfers	0.1	0.0		0.1
Amortisation for the financial year	-4.6	-0.3		-4.9
Accumulated amortisation and impairment 31 Dec 2016	-20.4	-2.4		-22.8
Carrying amount 31 Dec 2016	5.2	0.2	0.1	5.5

PROPERTY, PLANT AND EQUIPMENT

EUR million	Land	Building and structures	Machinery and equipment	Other tangible assets	Total
Cost 1 Jan 2017	2.9	18.8	0.6	1.3	23.6
Decreases	-0.2	-1.5	0.0	-1.1	-2.9
Cost 31 Dec 2017	2.8	17.3	0.5	0.2	20.8
Accumulated depreciation and impairment 1 Jan 2017		-14.4	-0.4	-1.1	-16.0
Accumulated depreciation on decreases and transfers		1.5	0.0	1.1	2.7
Depreciation for the financial year		-0.7	0.0		-0.7
Accumulated depreciation 31 Dec 2017		-13.5	-0.4		-14.0
Revaluations 1 Jan 2017	3.1				3.1
Revaluations 31 Dec 2017	3.1				3.1
Carrying amount 31 Dec 2017	5.8	3.7	0.1	0.2	9.9

EUR million	Land	Building and structures	Machinery and equipment	Other tangible assets	Total
Cost 1 Jan 2016	2.9	19.0	0.5	1.3	23.7
Increases			0.1		0.1
Decreases	0.0	-0.2	0.0		-0.2
Cost 31 Dec 2016	2.9	18.8	0.6	1.3	23.6
Accumulated depreciation and impairment 1 Jan 2016		-13.9	-0.4	-1.1	-15.4
Accumulated depreciation on decreases and transfers		0.1	0.0		0.1
Depreciation for the financial year		-0.7	0.0		-0.7
Accumulated depreciation 31 Dec 2016		-14.4	-0.4	-1.1	-16.0
Revaluations 1 Jan 2016	3.1	0.6			3.7
Reduction in revaluation		-0.6			-0.6
Revaluations 31 Dec 2016	3.1				3.1
Carrying amount 31 Dec 2016	6.0	4.4	0.1	0.2	10.8

INVESTMENTS

EUR million	Holdings in group companies	Shares in real estate	Other shares and holdings	Shares in housing companies	Total
Cost 1 Jan 2017	159.4	0.7	0.2	0.1	160.4
Decreases			-0.1		-0.1
Cost 31 Dec 2017	159.4	0.7	0.1	0.1	160.3
Accumulated impairment 1 Jan 2017	-5.3		-0.1		-5.4
Impairment		-0.3			-0.3
Accumulated impairment 31 Dec 2017	-5.3	-0.3	-0.1		-5.7
Carrying amount 31 Dec 2017	154.2	0.4	0.0	0.1	154.7

EUR million	Holdings in group companies	Shares in real estate	Other shares and holdings	Shares in housing companies	Total
Cost 1 Jan 2016	116.5	0.8	0.2	0.1	117.6
Increases	42.9				42.9
Decreases		0.0	0.0		0.0
Cost 31 Dec 2017	159.4	0.7	0.2	0.1	160.4
Accumulated impairment 1 Jan 2017	-2.4				-2.4
Impairment	-2.9		-0.1		-3.0
Accumulated impairment 31 Dec 2017	-5.3		-0.1		-5.4
Carrying amount 31 Dec 2017	154.2	0.7	0.1	0.1	155.1

11 INVESTMENTS IN GROUP COMPANIES

	Consolidated shareholding %	Parent company shareholding %
Lemminkäinen Talo Oy, Helsinki	100.0	100.0
Lemminkäinen Infra Oy, Helsinki	100.0	100.0
Lemcon Networks Oy, Helsinki	100.0	100.0
UAB Lemcon Vilnius, Lithuania	100.0	100.0
UAB Lemminkainen Lietuva, Lithuania	99.9	99.9

12 CURRENT ASSETS

EUR million	31 Dec 2017	31 Dec 2016
NON-CURRENT RECEIVABLES		
Loan receivables from Group companies	126.1	81.7
	126.1	81.7
Deferred tax assets		
From accruals and temporary differences	2.3	13.0
	2.3	13.0
Deferred tax liabilities		
From revaluations	0.6	0.6
	0.6	0.6
Deferred tax assets (+) and liabilities (-), total	1.7	12.4
CURRENT RECEIVABLES		
Receivables from parties outside the Group		
Trade receivables	0.1	0.2
Other receivables	1.3	8.9
Accrued receivables	2.5	1.8
	3.9	11.0
Receivables from Group companies		
Trade receivables	8.9	8.7
Other receivables	66.0	39.5
Accrued receivables	0.1	0.3
	75.1	48.4
Current receivables, total	79.0	59.4
Items included in accrued receivables		
Taxes		0.0
Deferred personnel expenses	0.1	0.1
Others*	2.4	2.0
	2.6	2.1

* Includes capitalised transaction costs related to bond issuances, total EUR 1,0 million (0.6).

13 SHAREHOLDERS' EQUITY

EUR million	31 Dec 2017	31 Dec 2016
Share capital 1 Jan	34.0	34.0
Share capital 31 Dec	34.0	34.0
Share premium account 1 Jan	5.7	5.7
Share premium account 31 Dec	5.7	5.7
Invested non-restricted equity fund 1 Jan	90.6	90.6
Assignment of own shares	0.0	
Invested non-restricted equity fund 31 Dec	90.6	90.6
Retained earnings 1 Jan	74.7	47.6
Dividends paid	-15.3	-2.8
Expired dividends		0.1
Retained earnings 31 Dec	59.4	44.9
Profit for the financial year	42.8	29.8
Shareholders' equity, total	232.6	205.0
Distributable funds 31 Dec	192.8	165.3

14 PROVISIONS

EUR million	31 Dec 2017	31 Dec 2016
Litigation provision	3.1	5.1

15 LIABILITIES

EUR million	31 Dec 2017	31 Dec 2016
Non-current liabilities		
Bonds	100.0	100.0
Hybrid bonds	35.2	35.2
	135.2	135.2
CURRENT LIABILITIES		
Liabilities to parties outside the Group		
Trade payables	1.6	1.0
Other liabilities	10.8	15.2
Accrued liabilities	8.2	9.6
	20.6	25.8
Liabilities to Group companies		
Trade payables	0.0	0.1
Other liabilities	29.2	68.8
Accrued liabilities	0.4	0.4
	29.6	69.2
Items included in accrued liabilities		
Accrued interests	4.4	4.4
Accrued personnel expenses	3.1	4.3
Others	1.2	1.2
	8.7	9.9

16 GUARANTEES AND COMMITMENTS

EUR million	31 Dec 2017	31 Dec 2016
Guarantees		
On own behalf*	25.1	0.1
On behalf of Group companies	404.9	380.6
On behalf of consortiums and real estate companies		0.3
On behalf of others**	3.5	4.6
	433.5	385.5

In addition, Lemminkäinen Corporation has set one guarantee without maximum amount on behalf of its subsidiary.

* As a result of the creditor hearing process related to the merger, EUR 25.0 million guarantees have been given to certain creditors that originally opposed the merger.
** The guarantees have been granted on behalf of the building construction business in Sweden (Rekab Entreprenad AB) which was divested on 1 September 2015. The acquiring parties have set a counter-commitment for part of these guarantees.

EUR million	31 Dec 2017	31 Dec 2016
Lease liabilities		
Payable next year	5,2	5,1
Payable in subsequent years	14,9	18,2
	20,1	23,3
Derivative contracts		
Forward foreign exchange contracts		
Nominal value	94.9	63.7
Fair value	0.5	-0.3
Interest rate swap contracts		
Nominal value	20.0	40.0
Fair value	-0.2	-0.7
Commodity derivatives		
Nominal value	2.8	7.8
Fair value	0.0	0.0

Financial indicators (IFRS)

EUR million	2017	2016	2015	2014	2013
Net sales	1,847.2	1,682.7	1,879.0	2,044.5	2,020.1
Operations outside Finland	631.4	550.0	761.0	971.2	929.0
% of net sales	34.2	32.7	40.5	47.5	46.0
Operating profit	41.8	67.6	37.3	36.3	-89.3
% of net sales	2.3	4.0	2.0	1.8	-4.4
Profit before taxes	25.7	49.2	16.7	-1.7	-116.1
% of net sales	1.39	2.92	0.89	-0.08	-5.75
Profit for the financial year attributable to the equity holders of the parent company	6.4	38.0	7.2	18.2	-93.7
% of net sales	0.3	2.3	0.4	0.9	-4.6
Non-current assets	199.3	239.6	261.0	307.9	362.5
Inventories	366.4	359.3	402.0	524.0	504.4
Financial assets	361.1	369.1	372.5	425.9	475.8
Equity	319.3	333.7	377.6	412.5	324.0
Non-controlling interest	0.0	0.0	0.1	0.1	0.6
Interest-bearing liabilities	185.8	212.5	254.7	347.8	407.6
Interest-free liabilities	421.7	421.7	403.1	497.5	611.0
Balance sheet total	926.8	968.0	1,035.5	1,257.8	1,342.7
Return on equity, %	2.0	10.7	1.8	4.9	-24.4
Return on capital employed, %	8.1	11.3	5.3	4.5	-10.8
Equity ratio, %	39.9	39.5	40.6	37.1	27.3
Gearing, %	40.0	24.3	33.6	51.8	100.8
Interest-bearing net liabilities	127.9	81.1	126.8	213.6	326.5
Gross investments	24.8	20.8	10.3	30.0	71.2
% of net sales	1.3	1.2	0.5	1.5	3.5
Order book 31 Dec, continuing operations	1,305.6	1,265.2	1,180.3	1,456.1	1,733.2
Personnel at the end of period, continuing operations	4,632	4,244	4,059	4,748	5,526

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

Financial indicators are not part of audited financial statements.

Share-related financial indicators (IFRS)

	2017	2016	2015	2014	2013
Earnings per share, basic, EUR	0.17	1.27	-0.15	0.40	-4.81
Earnings per share, diluted, EUR	0.17	1.26	-0.15	0.40	-4.81
Equity per share, EUR	13.76	14.38	16.28	19.33	15.70
Dividend per share, EUR	0.00*	0.66	0.12	0.00	0.00
Dividend per earnings, %	0.0	40.3	38.5	0.0	0.0
Effective dividend yield, %	0.0	3.2	0.9	0.0	0.0
Price per earnings (P/E)	134.9	16.1	-93.3	23.6	-3.2
Share price, EUR					
lowest	17.75	12.32	9.55	9.50	13.74
highest	29.00	20.79	13.91	15.89	16.97
at end of financial year	22.87	20.40	13.79	9.52	15.20
Market capitalisation at year end, EUR million	530.7	473.3	320.0	220.9	298.2
Share trading (Nasdaq Helsinki), 1,000 shares	5,352	2,674	2,612	1,096	1,758
% of shares issued	23.0	11.5	11.2	4.7	8.9
Weighted average number of shares, 1,000 shares	23,205	23,203	23,193	21,329	20,600
Number of shares at end of period, 1,000 shares	23,220	23,220	23,220	23,220	19,650
Number of treasury shares	15,000	16,687	16,687	16,687	34,915

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

Share-related financial indicators are not part of audited financial statements.

* Due to the merger, The Board of Directors proposes that no dividend is distributed for the financial year ended 31 December 2017.

Calculation of key ratios

KEY FIGURE	DEFINITIONS		BASIS OF ALTERNATIVE PERFORMANCE MEASURES ADOPTED
OPERATING PROFIT	Result for the period from countinuing operations before income taxes and net finance income and costs.		Operating profit shows result generated by operating activities.
OPERATING MARGIN, %	$\frac{\text{Operating profit}}{\text{Net sales}}$	x 100	Operating margin measures operational efficiency of the Company.
ADJUSTED OPERATING PROFIT	Operating profit + transaction costs related to the planned combination + costs, compensations and reimbursements related to the court proceedings + write-downs related to non-core businesses		Adjusted operating profit is presented to reflect the underlying business performance and to enhance comparability from period to period. Management believes that this alternative performance measure provides meaningful supplemental information by excluding items outside ordinary course of business, which reduce comparability from period to period.
ADJUSTED OPERATING PROFIT, %	$\frac{\text{Adjusted operating profit}}{\text{Net sales}}$	x 100	Adjusted operating margin is presented to enhance comparison of the result from period to period by excluding items outside ordinary course of business out of the computation.
RETURN ON CAPITAL EMPLOYED, %	$\frac{\text{Operating profit}}{\text{Total equity (quaterly average) + interest-bearing liabilities (quaterly average)}}$	x 100	Return on Capital Employed measures relative profitability of the Company.
EQUITY RATIO, %	$\frac{\text{Total equity}}{\text{Balance sheet total - advance payments received}}$	x 100	Equity Ratio measures leverage of the Company as well as the Company's ability to bear losses and cover its long term commitments.
LIQUID ASSETS	Cash and cash equivalents + short-term available-for-sale financial assets		Liquid assets is part of the Company's liquidity.
GEARING. %	$\frac{\text{Interest-bearing liabilities - cash and other liquid assets}}{\text{Total equity}}$		Gearing helps to indicate financial risk and it is a useful measure for management to monitor the level of the Company's indebtedness.
INTEREST-BEARING NET DEBT	Interest-bearing debt - liquid assets		Interest-bearing net debt indicates the total net financing of the Company.
BASIC EARNINGS PER SHARE	$\frac{\text{Profit for the financial year attributable to owners of the parent company - accrual basis interest of the hybrid bond adjusted with tax effect}}{\text{Weighted average number of ordinary shares in issue}}$		
DILUTED EARNINGS PER SHARE	$\frac{\text{Profit for the financial year attributable to owners of the parent company - accrual basis interest of the hybrid bond adjusted with tax effect}}{\text{Weighted average number of ordinary shares in issue + dilutive potential ordinary shares}}$		
RETURN ON EQUITY, %	$\frac{\text{Profit for the period}}{\text{Total equity (average)}}$	x 100	Return on Equity % describes the Company's ability to generate income from the total equity available.
EQUITY PER SHARE	$\frac{\text{Equity attributable to owners of the parent company}}{\text{Weighted average number of ordinary shares in issue}}$		
DIVIDEND PER SHARE	$\frac{\text{Dividend for the financial year}}{\text{Total number of shares - treasury shares}}$		
DIVIDEND PER EARNINGS, %	$\frac{\text{Dividend for the financial year}}{\text{Profit for the financial year attributable to owners of the parent company}}$	x 100	Dividend per earnings reflects the Company's ability to yield dividends to its owners.
EFFECTIVE DIVIDEND YIELD, %	$\frac{\text{Dividend per share}}{\text{Share price at the end of period}}$	x 100	
PRICE PER EARNINGS (P/E)	$\frac{\text{Share price at the end of period}}{\text{Basic earnings per share}}$		
MARKET CAPITALISATION	Number of shares in issue x share price at the end of period		
ORDER BOOK	Order boook includes alla work ordered by customers of which revenue has not been recognised. In residental building projects, the project is included in the order book once the so called RS capacity, according to the Housing Transactions Act, has been reached and the sale of the apartments can begin. The residental housing projects are excluded from the order book once they are completed.		

Board of Directors' proposal for the distribution of profit

Distributable shareholders' equity shown on the parent company balance sheet at 31 December 2017 amounts to EUR 192,838,685.35, consisting of invested unrestricted equity fund EUR 90,611,188.38, retained earnings from previous years EUR 59,400,586.49 and the result for the financial year EUR 42,826,910.48.

Due to the merger, The Board of Directors proposes that no dividend is distributed for the financial year ended 31 December 2017, after which the retained earnings would stand at EUR 102,227,496.97.

Helsinki, 7 February 2018

Berndt Brunow Chairman of the Board	Juhani Mäkinen	Noora Forstén
Finn Johnsson	Heppu Pentti	Kristina Pentti-von Walzel
Heikki Räty	Harri-Pekka Kaukonen	Casimir Lindholm President and CEO

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Lemminkäinen Oyj

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Lemminkäinen Oyj (business identity code 0110775-8) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

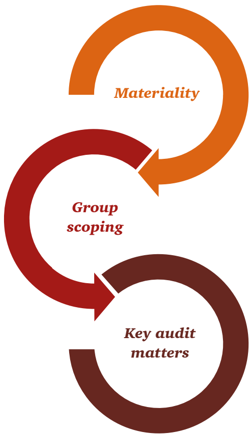
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 2 to the Financial Statements.

OUR AUDIT APPROACH

Overview



- Overall group materiality: € 11 million (2016: € 11 million)

- Audit scope: The group audit scope consisted of seven entities in five countries. In Addition to Finnish entities, the group audit team performed centrally procedures relating to the in-scope entities in Sweden and Russia. The coverage obtained through the scoping utilized is within the commonly acceptable range.

- Timing of percentage of completion revenue recognition
- Recoverability deferred tax assets related to tax losses in Norway
- Valuation of goodwill
- Valuation of inventory

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 11 million (2016: € 11 million)
How we determined it	The determination of materiality was based on two components: 0,75 % of total revenue and 1 % of total assets.
Rationale for the materiality benchmark applied	We considered the development of the company's balance sheet structure and profitability in the last several years and concluded that a combination of total revenue and total assets in our view properly reflects the volume of the company's operations. As the focus of the company as communicated by management in recent years has been on reducing operating capital and ensuring a solid balance sheet rather than maximizing profits, the use of total revenue and total assets in materiality determination is further supported. We applied professional judgement in determining the percentages utilized in materiality determination. The percentages used are within the normal limits as set out in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Our group audit scope included the financially most significant group companies in Finland, Sweden, Norway, Denmark and Russia. Our group audit scope included the most significant group companies operating in each segment. Through the audit procedures performed in the aforementioned group companies and the procedures performed at group level, we have obtained sufficient relevant audit evidence regarding the financial information of the group as a whole as a basis of our audit opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTER IN THE AUDIT OF THE GROUP

TIMING OF PERCENTAGE OF COMPLETION REVENUE RECOGNITION

Refer to the Accounting principles and notes 8-9 of the financial statements

When determining the pattern of revenue recognition for Building construction and Infra project contracts, the company applies criteria described under the Revenue recognition section of the Accounting policies of the financial statements.

For projects that meet the criteria, the company recognizes revenue though the percentage of completion method, in which the percentage of completion is calculated through the ratio of incurred costs to estimated total costs.

The calculation involves estimates, which create particular risk factors for revenue recognized through this method.

The key estimation uncertainties relate to

- the total value of the contract, which can be subject to changes in scope, discounts, penalties, bonuses and other such matters that may be unknown or uncertain at the time of preparing the financial statements.
- the costs needed to complete the contract

Due to the aforementioned factors we consider the timing of percentage of completion revenue recognition a key audit matter.

This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We tested the company's process for and results of percentage of completion revenue. As part of the testing we

- obtained an understanding of the processes and controls that have material impact on percentage of completion revenue
- tested the mathematical accuracy of percentage of completion calculations
- reconciled contract values used in the calculations against actual customer contracts
- obtained an understanding of contracts to assess whether any terms with unaccounted risk factors are present
- tested the Company's methodology for estimating costs to complete a project
- obtained an understanding of and tested the company's Investment Board function, which is used for review and approval of contracts, including sales contracts recognized in revenue, with potential significant financial impacts
- analysed the Company's project portfolio to identify projects with particular risk characteristics.
- challenged management estimates relating to projects with particular risk characteristics
- performed retrospective analysis of the accuracy of project-related estimates in prior periods by comparing them against actual subsequent outcomes.

RECOVERABILITY DEFERRED TAX ASSETS RELATED TO TAX LOSSES IN NORWAY

Refer to the accounting principles and note 5 of the financial statements

The company had deferred tax assets of € 11,8 million relating to tax losses in Norway at the beginning of 2017. Carry-forward tax losses are treated as a tax asset to the extent that it is likely that the company will be able to utilise them in the future.

Particularly in the paving segment the profitability of the Company's operations have been low in Norway in recent years, creating particular uncertainty and risk regarding the utilization of tax losses.

During 2017 management assessed the recoverability of the deferred tax asset relating to tax losses in Norway in light of the relevant IFRS standards. Subsequently the company wrote down the related deferred tax asset.

Due to the management judgement involved in this estimation this is considered a key audit matter.

We tested management's impairment assessment of the deferred tax asset relating to prior year losses and the assumptions used in it. In doing so, we

- evaluated the forecasts used in the impairment assessment against profitability in Norwegian operations in recent years, taking into account positive and negative effects of events not expected to occur in the future
- evaluated the reasonableness of the assumptions used in the forecasts
- tested the mathematical accuracy of the calculations used in the impairment assessment

VALUATION OF GOODWILL

Refer to the accounting principles and note 13 of the financial statements

The balance sheet of the company includes goodwill in the amount of € 52,9 million. Management is responsible for performing goodwill impairment tests to assess the carrying value of Goodwill as set out in the relevant accounting standards. There is a risk that assumptions used in the impairment test such as forecasted cash flows, discount rates and growth rates are inappropriate and that goodwill is overstated.

Due to the amount of goodwill in the balance sheet and the significant management judgements involved in impairment testing, goodwill valuation is considered a key audit matter.

Our testing of goodwill included testing of management's impairment testing model. As part of the procedures performed we

- obtained an understanding of management's approach to impairment testing comparing it against applicable accounting standards and the approach used in prior years
- critically assessed the inputs used in the impairment testing model for each Cash Generating unit (CGU) by reference to internal and external data as well as the strategy and budgets approved by the board
- tested the mechanical accuracy of the calculations used in management's impairment testing
- assessed the reasonableness of assumptions used in the testing
- we performed our own sensitivity analysis to assess how much each of the key assumptions in the model would have to change to trigger impairment
- utilized our own valuation specialists for assessing the discount rates used by management against the cost of capital for the company and it's peers

VALUATION OF INVENTORY

Refer to the accounting principles and note 7 of the financial statements

The Balance sheet of the company contains inventories in the amount of € 366,4 million, constituting a significant portion of the overall balance sheet value.

Inventories are measured at the lower of acquisition cost and net realisable value. The estimated net realisable value of an asset is dependent management's assumptions of future market development and construction activities in the geographical locations where the assets are located. These assumptions contain particular uncertainties in geographical areas where market activity is low. These characteristics are present namely in some Building plots and real estate assets belonging to the Building construction business as well as some mineral aggregates belonging to the paving business. Due to the uncertainties described above, the valuation of inventory constitutes a key audit matter.

In our audit of inventory valuation we

- obtained an overall understanding of the assets recognized under inventories in the balance sheet
- identified inventory assets with increased risk characteristics relating to overvaluation.
- obtained an understanding of the Company's assessment of the net realizable value of the inventory assets with identified risk characteristics
- challenged the judgements made by management in relation to net realizable values
- performed retrospective analysis of the accuracy of estimates made in prior periods by comparing them against subsequent selling prices.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER REPORTING REQUIREMENTS

APPOINTMENT

We have been appointed as auditor of the company by the general meeting for an uninterrupted period of 31 years since an auditor at our company was appointed on 9.1.1987. We have been the auditor of Lemminkäinen Oyj for the entire period of time that it has been a Public Interest Entity.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Due to the matters described in the report of the Board of Directors, Lemminkäinen Corporation does not publish a corporate governance statement or statement of non-financial information for the financial year 2017.

Helsinki 8 February 2018

PricewaterhouseCoopers Oy

Authorised Public Accountants

Markku Katajisto

Authorised Public Accountant (KHT)

Shares and shareholders

Lemminkäinen had one share class (LEM1S). Each share carried one vote at a general meeting of shareholders and entitled an equal right to dividend.

SHARE CAPITAL AND NUMBER OF SHARES

Lemminkäinen's share capital remained unchanged, amounting to EUR 34,042,500 at the end of 2017. The number of Lemminkäinen's shares was 23,219,900 at the end of 2017.

SHARE PRICE AND TRADING VOLUME

The price of Lemminkäinen Corporation's share on Nasdaq Helsinki Ltd. was on 1 January 2017 EUR 20.40 (13.79) and EUR 22.87 (20.40) on 31 December 2017. The highest share price quoted was EUR 29.00 in June and the lowest EUR 17.75 in April. On 31 December 2017, the market capitalisation of Lemminkäinen's shares stood at EUR 530.7 million (473.3).

In addition to the Nasdaq Helsinki Ltd., Lemminkäinen's share was also traded on alternative markets. The total trading volume during January–December totalled 6,371,409 shares (2,770,162), of which alternative markets accounted for 7% (4) (Source: Fidessa Fragmentation Index, http://fragmentation.fidessa.com).

SHAREHOLDERS

At the end of 2017, the company had 3,928 shareholders (4,191). Nominee-registered shares and non-Finnish shareholders held 8.2% (13.6) of all Lemminkäinen Corporation shares and voting rights.

FLAGGING NOTIFICATIONS

On 9 October 2017, the holding of PEAB AB (publ) in Lemminkäinen decreased to 0 shares, corresponding to 0.00 per cent of Lemminkäinen's shares and voting rights, and on the same date, the holding of Onvest Sijoitus Oy in Lemminkäinen increased to 2,458,447 shares, corresponding to 10.59 per cent of Lemminkäinen's shares and voting rights.

TREASURY SHARES

On 13 March 2017, Lemminkäinen announced a directed share issue of treasury shares related to Lemminkäinen Corporation's performance share plan for 2013–2015. In this share issue, in total 1,687 shares held by the company were conveyed.

On 31 December 2017, Lemminkäinen held 15,000 of its own shares, which accounted for 0.06% of all shares.

SHAREHOLDER AGREEMENTS

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

LEMMINKÄINEN'S SHARE (LEM1S)

Listing:	Nasdaq Helsinki Ltd
Listing date:	2 January 1997
Trading currency:	EUR
List:	Nordic Mid Caps
Sector:	Industrials, Construction & Engineering
Symbol:	LEM1S
ISIN:	FI0009900336
Reuters symbol:	LEM1S.HE
Bloomberg symbol:	LEM1S FH

BOARD OF DIRECTORS' AND GROUP EXECUTIVE TEAM'S SHAREHOLDINGS

	No. of shares on 31 Dec 2017	No. of shares on 31 Dec 2016
Board of Directors[1)]	7,334,425	7,334,425
President and CEO[1)]	6,979	6,979
Group Executive Team, excluding the President and CEO	15,075	15,575
Board of Directors' and Group Executive Team's shareholdings, total	7,356,479	7,356,979
% of all shares	32%	32%

[1)] Includes personal holdings and holdings of closely associated persons and controlled entities, if any.

MAJOR SHAREHOLDERS ON 31 DECEMBER 2017

		Number of shares	% of share capital
1	PNT Group Oy	4,231,948	18.2
2	Onvest Sijoitus Oy	2,458,447	10.6
3	Pentti Heikki Oskari Estate	2,253,698	9.7
4	Forstén Noora Eva Johanna	1,415,241	6.1
5	Pentti Lauri Olli Samuel	1,161,635	5.0
6	Varma Mutual Pension Insurance Company	1,091,677	4.7
7	Fideles Oy	882,200	3.8
8	Pentti-Von Walzel Anna Eva Kristina	760,580	3.3
9	Pentti-Kortman Eva Katarina	751,234	3.2
10	Vimpu Intressenter Ab	750,000	3.2
11	Pentti Timo Kaarle Kristian	655,280	2.8
12	Mandatum Life Unit-Linked	490,657	2.1
13	Mariatorp Oy	450,000	1.9
14	Wipunen varainhallinta Oy	400,000	1.7
15	Etera Mutual Pension Insurance Company	346,435	1.5
	15 major shareholders, total	18,099,032	77.9
	Other owners	3,265,448	14.5
	Nominee-registered shareholders	1,855,420	13.4
	Total	23,219,900	100.0

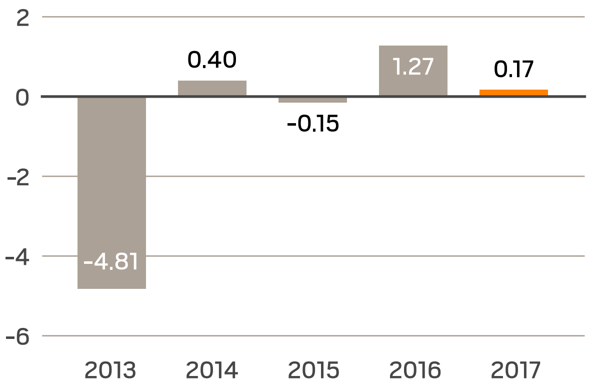
SHAREHOLDERS BY SECTOR ON 31 DECEMBER 2017

	Number of shareholders	% of owners	Number of shares	% of shares
Finnish private investors	3,627	92.3	8,917,761	38.4
Public sector institutions	5	0.1	1,741,531	7.5
Financial and insurance institutions	10	0.3	3,633,298	15.7
Corporations	220	5.6	6,728,104	29.0
Non-profit institutions	38	1.0	289,461	1.3
Foreign and nominee registered owners	28	0.7	1,909,745	8.2
Total	3,928	100.0	23,219,900	100.0

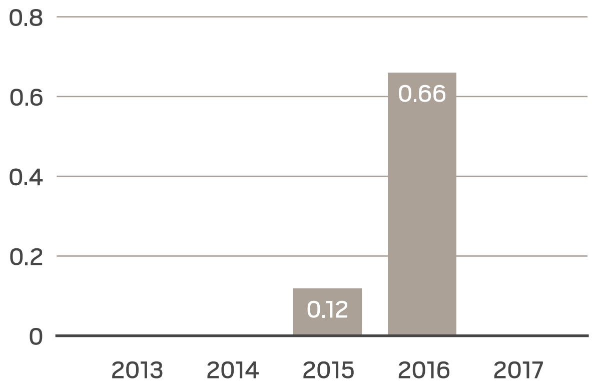
SHAREHOLDER DISTRIBUTION BY NUMBER OF SHARES ON 31 DECEMBER 2017

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1–100	1,636	41.6	72,178	0.3
101–500	1,530	39.0	368,986	1.6
501–1 000	335	8.5	241,598	1.0
1 001–5 000	329	8.4	648,886	2.8
5 001–10 000	34	0.9	255,173	1.1
10 001–50 000	36	0.9	697,930	3.0
50 001–100 000	8	0.2	517,905	2.2
100 001–500 000	7	0.2	2,245,746	9.7
500 001–	13	0.3	18,171,498	78.3
Total	3,928	100.0	23,219,900	100.0
of which nominee registered	9	0.2	1,855,420	8.0

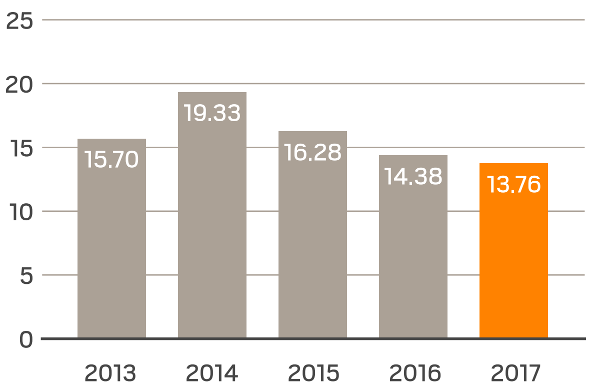
Earnings per share, EUR



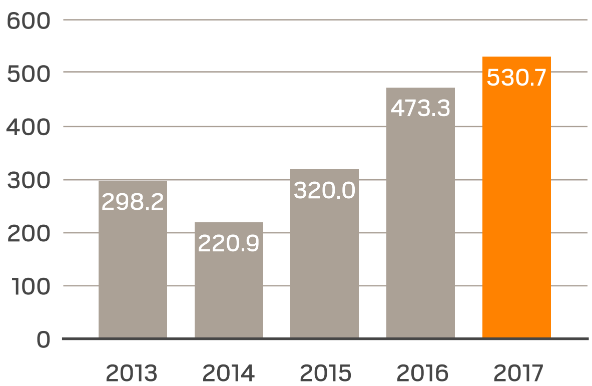
Dividend by share, EUR



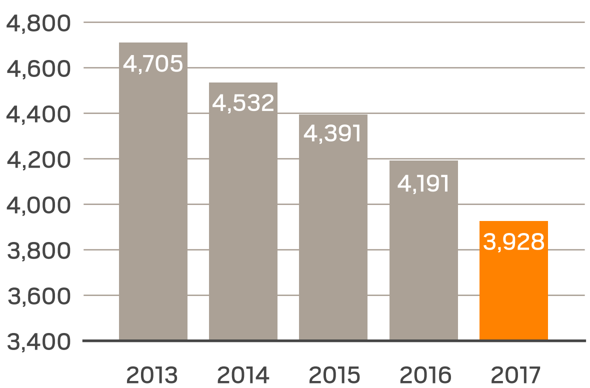
Equity per share, EUR



Market capitalisation, EUR million



Number of shareholders, pcs



Information concerning shares and shareholders is not a part of audited financial statements.

Information for shareholders and investors

ANNUAL GENERAL MEETING 2018

The merger of Lemminkäinen Corporation into YIT Corporation was implemented on 1 February 2018, whereby Lemminkäinen merged into YIT and Lemminkäinen Corporation ceased to exist. Due to the merger, no Annual General Meeting will be organized in 2018.

SHAREHOLDERS' MEETING

Due to the fact that Lemminkäinen has ceased to exist, a Shareholders' meeting will be organized at a time to be communicated later.

DIVIDEND POLICY AND DIVIDEND FOR THE YEAR 2017

The merger of Lemminkäinen Corporation into YIT Corporation was implemented on 1 February 2018, whereby Lemminkäinen merged into YIT and Lemminkäinen Corporation ceased to exist. Due to the merger, the Board of Directors proposes that no dividend is distributed for the financial year that ended on 31 December 2017.

FINANCIAL REPORTING IN 2018

In 2018, financial reports are published as follows:

1 February 2018	Financial statements bulletin 2017
Week 8	Annual report 2017
Week 12	Financial statements 1 January–31 January 2018