Corporate responsibility report 2018

LEHTO GROUP PLC

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Business model

LEHTO GROUP is a Finnish innovator in the construction sector. Lehto focuses on the utilisation of the economically driven construction model it has developed. In economically driven construction, design and implementation processes have been integrated in order to achieve cost benefits. Key elements of our competitiveness include design control, the use of standardised solutions and building elements and modules prefabricated in our own factories. Lehto's goal is to build efficiently and save resources, and to reduce the material waste generated in construction.

Lehto Group's net sales amounted to EUR 721.5 million in 2018 and its operations were divided into four service areas: Business Premises, Housing, Social Care and Educational Premises and Building Renovation. At the beginning of 2019, the Building Renovation operations were merged into the other service areas. Operations continue in three service areas: Business Premises, Housing and Social Care and Educational Premises.

Lehto has eight factories that produce large roof and wall elements, bathroom and kitchen modules, housing modules, building technology centres, renovation elements, doors and windows, and fixtures. All our factories are located in Finland, and the bulk of outsourcing is contracted in Finland and the European Union.

On 31 December 2018, Lehto Group had 1,552 employees, of whom slightly under half were office workers, about a quarter factory workers and the remainder construction workers. In addition, subcontracting and hired resources are used at construction sites for specific work phases, at the start of activities and for short-term, urgent work. Of Lehto Group's personnel, more than 90% are employed under contracts for an indefinite period and fewer than 10% have fixed-term employment contracts. Fixed-term contracts are generally based on a project, replacement, summer job or traineeship. Most of Lehto's employees work in Finland. Swedish operations are handled by a team of fewer than ten people.

Thanks to its efficient factory construction, Lehto Group is able to reduce building and housing costs and offer people reasonably priced homes with excellent travel connections even in growth centres. In 2018, Lehto completed 2,159 new apartments. In addition, 31 new business premises and 28 social care and educational premises were completed in 2018. In building renovation, two developer-contracted renovation projects, two basic renovation projects and 16 pipeline renovation projects were completed in 2018.

Responsibility focus areas and management

THE BUILT environment has a major impact on the development of the urban landscape. The trend in urban development is towards sustainable housing, mobility and services. Vast amounts of materials are moved in construction, from land masses to a variety of products and coatings. The construction industry has a

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major role in reducing the carbon footprint and cutting down on waste. The construction cluster is Finland's largest employer and many young people work in the industry. The construction industry is also heavily male-dominated.

Responsibility is one of the values guiding Lehto's operations. The key elements of Lehto's competitiveness — design control, the use of standardised solutions and building elements and modules prefabricated in our own factories — comprise the solid core of our responsibility efforts. Lehto's goal is to build efficiently while saving energy and resources, to reduce the material waste generated in construction, and to be a good employer that is fair to everyone.

Lehto Group's corporate responsibility comprises three focus areas: responsible construction, personnel wellbeing and responsible business conduct. The company defined indicators and targets for these focus areas during 2018.

The CEO is responsible for Lehto Group's responsibility and the CFO heads up responsibility reporting. Operational responsibility work is managed on a decentralised basis according to key focus areas, primarily by the HR Director, Sourcing Director and Legal Counsel. The Executive Board regularly monitors the development of the key indicators of responsibility.

Lehto Group reports to external stakeholders on its responsibility in connection with annual reporting and complies in its reporting with the requirements laid down for non-financial information in the Accounting Act.

This report deals with the required issues as follows:

ACCOUNTING ACT REQUIREMENT	LOCATION IN THIS REPORT
Description of the business model	Business model
Environmental matters	Responsible construction
Employee-related matters	Personnel wellbeing
Social responsibility	Personnel wellbeing
Human rights	Responsible business conduct, personnel wellbeing
Anti-corruption matters	Responsible business conduct

Responsible construction

RESPONSIBLE construction is one of Lehto's three focus areas in responsibility and it involves environmental impacts in particular. The greatest environmental impacts of buildings arise during their use, but the solutions that affect them are already made at the design and construction phase. A key role in the reduction of environmental impacts is played by methods to measure and control energy and water consumption as well as the education of the building users to adopt energy- and environment-saving practices.

The key environmental impacts during construction include:

- consumption of natural resources such as energy, materials and water
- impacts on human health and natural diversity (e.g. the harmful effects of chemicals on humans, organisms, soil and waters)
- waste and emissions, including liquid and gaseous emissions (e.g. carbon dioxide)

Economically driven construction utilising optimally standardised solutions and construction elements and modules prefabricated at the company's own factories boost the efficiency of Lehto's operations and also seek to reduce environmental loading. Factory production improves, for instance, the efficiency of logistics and reduces emissions from transport, as elements and modules are transported in large batches and fewer transport runs are required.

The key indicators of responsible construction were defined in 2018: waste recycling rate and share of electricity accounted for by renewable energy. The objective for 2018 was to define indicators and the baseline in accordance with the available information. The baseline for the waste recycling rate is 20%*. Lehto will start to measure the share of electricity accounted for by renewable energy in 2019. The first indicators will be published in connection with 2019 annual reporting.

At Lehto Group, the CEO is ultimately responsible for environmental issues. Responsibility for practical environmental management is assigned as follows: EVPs of the service areas for construction; the factory production manager for factory production; and the Group Sourcing Director for centralised purchasing. Environmental issues are discussed in the management teams as part of normal business management and development.

In Lehto Group's business, the risks of major environmental damage are low. Local damage may be caused if a limited amount of chemicals is released into the environment or in the event of a fuel leak of a machine operated at a construction site, for example. These risks are managed using standardised practices and guidelines at factories and sites.

Special protection of endangered species is implemented on a case-by-case basis in cooperation with the authorities in order to avoid negative construction-phase impacts on the environment.

From the perspective of environmental protection, zoning and construction are guided by the Nature Conservation Act. The authorities provide regulations for nature protection in the zoning phase, if needed. If there are populations of endangered animals and/or plants in the planned area, the area may not be zoned for building use.

*Covers about 80% of wastes; the information is based on figures from the service provider

Personnel wellbeing

EMPLOYEES are the most important asset for Lehto Group's growth strategy. The HR plan based on the company strategy takes into account the changes occurring in the Group's operations that have an effect on the structure, number and professional skills of the personnel. Most recruitment needs arise from new tasks, and only some recruitment is replacement.

The construction industry is sensitive to business cycles. Any need for reduction in the labour force caused by economic fluctuations is evaluated carefully and comprehensively. For persons at risk of losing their capacity to work or being dismissed, the company seeks to take advantage of vocational training in accordance with the training plan. In layoff or redundancy situations, we seek to use the possibilities provided by change security to help the situation of employees under threat of redundancy.

On the basis of the company's economically driven operating model, the proportion of inhouse personnel covers a major part of the work, especially in factory production. Lehto Group uses subcontracting and hired resources mainly at construction sites for specific work phases, at the start of activities and for short-term, urgent work.

One of Lehto Group's key indicators for responsibility and the most important indicator for HR issues, social responsibility and human rights is lost time accident rate. Lehto Group prioritised occupational safety as a special focus area in 2017 and continued efforts to improve safety in 2018. The company's policy is that all employees in production-related work must have a valid Occupational Safety Card. In addition, the Group arranges training on occupational safety and first aid. Through preventive measures and training, Lehto Group seeks to prevent accidents at work and influence employees' attitudes. Lehto has three employees who work full time on maintaining and developing occupational safety.

The Group's objective is that every day is an accident-free day and that the construction sites and factories are orderly and safe. In 2018, the lost time accident rate of the Group was 43 (LTI1 index). Due to a change in the measurement method, the figures for 2017 and 2018 are not comparable. As from 2018, lost time accident rate is measured using the LTI1 index (accidents leading to absence from work of more than one day per million hours worked) and the indicator is reported in connection with annual reporting.

Lehto Group's HR and training plan is based on the company's growth strategy and serves as the basis for HR planning as well as creating guidelines for employee competence maintenance and development. Lehto Group is positive towards employee competence development and supports it in a variety of ways. In 2018, Lehto had two comprehensive personnel training programmes: Career Promise and Management Academy.

Career Promise is a trainee programme that aims to secure the personnel number required by our growth strategy with the help of students in the field. The trainee programme also strengthens the deployment of the economically driven operating philosophy among the personnel. The Group is committed to employing 5% of the personnel number as students from different fields of study and offering them trainee and summer jobs during their studies, as well as providing them with topics for their theses or diplomas to the extent possible. The Group also commits to hiring the employees obtained through the trainee programme when they graduate, if allowed by the company's production-related and financial situation and upon their successful completion of the trainee programme. Last year, Lehto offered employment to 153 students. In 2018, Lehto also participated in the Responsible Summer Employer campaign.

The Management Academy is divided into two coaching programmes. Management Academy I is completed by all white collar employees. Management Academy II is aimed at employees in a supervisory role or in charge of project management.

Lehto Group seeks to be a good and fair employer for everyone. Lehto Group's personnel is committed and turnover is not particularly high. In 2018, employee turnover was 3.5%. We measured our employees' job satisfaction with an extensive personnel survey. The results show that we are rated AA according to People Power®, outperforming the Finnish general norm. The survey indicates that the company's strengths are its fair and equal treatment of employees and listening to personnel in decision-making. In addition, the respondents felt that senior executives are trustworthy and they also want to recommend Lehto as an employer, which is one of the key indicators of job satisfaction. The identified development targets were outlays on the high quality of products and services, communicating about the strategy, cooperation between units and the visibility of the company's values and objectives in day-to-day work.

The objective of Lehto Group's occupational health care action plan is

- to ensure safe and healthy work, working environment and work community
- the prevention of occupational health hazards and harmful health effects
- employees' self-motivated maintenance, improvement and monitoring of their working and functional capacity
- preventing illness at different phases of a career.

The action plan includes preventive occupational health care services and medical care at a general practitioner level beyond the statutory requirements, with an emphasis on occupational health.

Occupational health care services focus on preventive measures (60%) and medical care (40%). The company is investing in the adoption of a model to monitor sick leaves and the deployment of an early-support model throughout the Group in cooperation with occupational health care services. Sickness absences in 2018 amounted to 4% (2017: 3%).

Lehto Group's HR and training plan as well as the equality and non-discrimination plan are updated on an annual basis, and they form part of operations planning. Equality and non-discrimination are monitored through the gender, age and regional distribution. In 2018, women accounted for 13% of personnel, 0% of the Executive Board and 20% of the Board of Directors. The age distribution of personnel is presented in the table:

Under 30 years of age	36%
30–39 years	27%
40–49 years	18%
Over 50 years	19%

Lehto considers it important to employ people all around Finland, not just in growth centres. For instance, 150 new employees started out in factory operations in 2018. All in all, 426 people worked in factories at the end of 2018, of whom 423 were permanent employees and three on fixed-term contracts. The company's locations in 2018 are shown in this map.

HR management is a Group-level function that supports, steers and serves the business units. Personnel matters are regularly discussed at the initiative of the HR Director in the business unit management teams, where the adequate level of human resources is evaluated especially with regard to the growth strategy objectives. Lehto Group's HR management is responsible for ensuring that legislation, HR policies, local agreements and operating models as well as the fair and uniform treatment of employees are implemented and that they are followed in every Group business unit.

The following potential responsibility risks related to personnel, social responsibility and human rights have been identified: accidents, burnout, discrimination, harassment and neglect of terms and conditions of employment. These risks are managed by means of, for instance, occupational safety training, appropriate HR policies, agreements, operating models and an action plan for occupational healthcare.

Responsible business conduct

LEHTO GROUP is committed to respecting human rights in its operations and to promoting their implementation. The company inducts its personnel to combat corruption and other illegal practices. The content and scope of the training is partly dependent on the employee's role. In purchasing, for example, operating practices are continually developed to ensure that corruption and other unethical operating models can be combated increasingly effectively in the subcontracting chain.

Lehto Group seeks to prevent the occurrence of abuse generally acknowledged as a problem in the construction industry by carefully following compliance processes. The processes aim to ensure that the company management and all employees as well as the company's partners comply with applicable laws, regulations, internal guidelines and ethical values.

Lehto Group complies with the means adopted in the construction industry to combat the grey economy. Reverse charge VAT in the construction industry effectively reduces the potential for fraudulent activity in long subcontracting chains. All Lehto Group contracts require the use of construction site tax numbers and personal IDs. In addition, all Lehto employees and those working on site must wear a photo ID, such as a Valtti card, and keep it visible at all times. Lehto maintains a list of those working on site and requires everyone entering its sites to go through the check-in gate. Lehto submits this list to the tax authorities every month.

Lehto and its cooperation partners have also adopted Fair Play Rules, which agree on a shared vision to enhance responsibility in cooperation over and above the statutory requirements. The rules take into account, for instance, requirements concerning corruption, employee wellbeing and respecting the environment and property. Cooperation partners must inform Lehto's contact person immediately if they notice or suspect activities that are illegal or contravene ethical principles. Cooperation partners can also contact Lehto anonymously. The notification is forwarded to the Group's Legal Counsel and the Chair of the Audit Committee of the Board of Directors.

The scope of the training on the ethical guidelines and the scope of the ethical guidelines in procurement agreements are key indicators of responsibility defined in 2018. Ethical guidelines for employees and goods suppliers were drafted in 2018. In addition, a training course on the ethical guidelines was completed in late 2018. It will be launched in early 2019. The company will start monitoring the scope of the training on the ethical guidelines in 2019. These guidelines will be appended to new subcontracting agreements. The first results will be published in connection with 2019 annual reporting.

Violations of the guidelines and suspected abuse can be reported by discussing the matter with one's closest supervisor or their supervisor. The Group's Legal Counsel is responsible for initiating investigations into the reported cases together with the Group's CEO. In addition, Lehto Group launched a project to develop internal reporting mechanisms in 2018. Development of the new reporting channel took longer than expected. In addition, Lehto wanted to include development ideas created during the project. The launch of the channel was thus slightly delayed. The reporting channel will be deployed in the first quarter of 2019 together with the launch of the training on the ethical guidelines.

Lehto Group's risk management policy is described on the company's Internet site (https://lehto.fi/en/investors/corporate-governance/risk-management/).

Key figures for responsibility

LEHTO'S RESPONSIBILITY FOCUS AREAS, INDICATORS AND RESULTS 2018

Focus areas	Indicators	2018 actions	2019 objectives
Responsible construction	Waste recycling rate *	Baseline defined, recycling rate 20 %	45 %
	Share of electricity accounted for by renewable energy	Indicator defined	Baseline defined
Personnel wellbeing	Lost time accident rate**	Baseline defined, LTI1=43	Decreases
Responsible business conduct	Ethical guidelines, scope of training	Guidelines drafted	All personnel trained
	Scope of ethical guidelines in procurement contracts	Guidelines drafted	100 % of new contracts

*Covers about 80% of wastes; the information is based on figures from the service provider

**LTI1 = accidents leading to absence from work of more than one day per million hours worked

Development of responsibility

THE BUILT environment plays a major role in curbing climate change and improving social development and wellbeing. In addition, stakeholders have a constantly growing need to be informed about responsibility issues.

Lehto Group wants to act in line with its values and is continuing to develop its responsibility efforts and open, transparent responsibility reporting. In 2018, Lehto focused strongly on internal work to develop indicators and targets. In 2019, in addition to its internal work, the company intends to turn its attention to listening to stakeholders more actively.

Lehto will continue its work in the three defined focus areas for responsibility: responsible construction, personnel wellbeing and responsible business conduct. The company is making further outlays on promoting occupational safety and developing responsible tools and processes for responsible business practices. In addition, the company is launching a new personnel training programme, the Production Academy, in spring 2019.

Lehto Group wants to do its part in mitigating climate change and is developing new opportunities, particularly in the Housing business. Towards the end of 2018, the company announced its Carbon Neutral 2030 development project (https://lehto.fi/cision/lehdon-hiilineutraali-2030-kehityshanke-kamppailee-ilmastonmuutosta-vastaan/), which aims to create innovations for carbon neutral housing construction and research Smart & Clean solutions. Project implementation will begin in 2019.