

2019



LEHTO GROUP PLC

Corporate Responsibility Report



Corporate Responsibility Report 2019

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Cover: Lehto launched an ecological wooden apartment building concept in spring 2019

Facts of 2019

1.

We introduced **an annual plan for occupational safety** that highlights the safety theme of the month and the previous month's accident statistics.



2.



Waste recycling rate

27%

3.

We launched **Deco – an ecological, industrially produced wooden apartment building concept** that offers customers an even greater level of customisation



4.

We launched **Fair Play Rules** training for personnel, and made it a part of every new employee's induction.



Deco - wooden block of flats – cleaner way of living!

Quality, cosy and affordable

Lehto Deco homes are constructed in industrial components mainly in factories under standardised and controlled conditions.

Deco wooden block of flats are combined with ecological, high-level architecture and quality way of building



All Deco homes are equipped

- apartment based ventilation
- water based floor heating
- integrated energy efficient kitchen appliances with high quality
- energy and water saving tap water equipment
- tall windows for natural light
- building automation system (BAS)



Business model

LEHTO GROUP is a Finnish innovator in the construction sector. Lehto seeks to make construction faster, more affordable, and higher in quality. Key elements that enhance our productivity and competitiveness are design control and the use of standardised building elements and modules that are 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 totalled EUR 668 million in 2019. At the beginning of the year, our operations were consolidated into three service areas: 'Business Premises', 'Housing' and 'Social Care and Educational Premises'. Lehto also restructured its management team during 2019. Lehto has factories in five municipalities. They produce large roof elements, wall elements, bathroom and kitchen modules, housing

modules, building technology centres, renovation elements, doors and windows, and fixtures. The largest units are located in Oulainen and Hartola. All our factories are located in Finland, and the bulk of our outsourcing is contracted in Finland and the European Union.

On 31 December 2019, Lehto Group had 1,266 employees, of whom slightly under half were office workers, about a quarter factory workers, and the remainder construction workers. Subcontracting and hired resources are also used at construction sites for specific work phases, during start-ups, and for short-term, urgent work. In the Lehto Group, about 87 per cent of employees have permanent employment contracts and about 13 per cent have fixed-term employment contracts. Fixed-term contracts are generally used for projects, substitute

positions, summer jobs or traineeships. Most of Lehto's employees work in Finland. Our Swedish operations are handled by a team of fewer than ten people.

Thanks to our 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. Lehto completed 2,872 new apartments in 2019. 31 new business premises and 28 social care and educational premises were also completed in 2019. The Complete Renovation business area was wound up in early 2019 and merged into other service areas, including pipeline renovations. In the future, new complete renovation projects will only be undertaken selectively and on the condition that the renovation is related to new construction projects or is a significant part of a larger commercial entity.



Lehto seeks to make construction faster, more affordable, and higher in quality.

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 plays a major role in reducing construction’s 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 that guides Lehto’s operations. The key elements that enhance Lehto’s productivity and competitiveness — design control and the use of standardised building elements and modules that are prefabricated in our own factories — also form the 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 responsibility of business practices.

The CEO is responsible for Lehto Group’s responsibility and the CFO for responsibility reporting. Operational responsibility work is managed on a decentralised basis in accordance with our key focal areas, primarily by the HR Director, Sourcing Director and Legal Counsel. The management team monitors trends in the key indicators of responsibility.

Lehto Group reports to external stakeholders on its responsibility in connection with annual reporting, and our reporting complies 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 issues	Responsible construction
HR issues	Personnel wellbeing
Social responsibility	Personnel wellbeing
Human rights	Responsibility of business practices, personnel wellbeing
Anti-corruption activities	Responsibility of business practices





Responsible construction

RESPONSIBLE construction is one of Lehto's three focus areas in responsibility and it involves environmental impacts in particular. Buildings have the greatest environmental impacts when they are in use, but the decisions that affect these impacts are made during the design and construction phases.

The emissions of construction can be significantly reduced during the design phase. For example, material choices can favour more environmentally friendly alternatives without causing a significant rise in costs. Decisions on energy solutions made during the design phase will determine a building's energy use for decades to come. It's already possible to construct buildings that not only use very little energy, but also produce almost all the energy they need themselves in an environmentally friendly way.

The location of housing also has indirect environmental impacts that arise from commuting in particular. If new housing is built in an urban environment close to good public transport connections, there will be less need to use private cars.

Methods to measure and control energy and water consumption play a key role in reducing environmental impacts, but it is also important to educate building users, so they will adopt energy- and environment-saving practices.

The key environmental impacts during construction include:

-  Consumption of natural resources such as energy, materials and water
-  Material waste
-  Impacts on human health and biodiversity (such as the harmful effects of chemicals on humans, organisms, soil and water)
-  Waste and emissions, including liquid and gaseous emissions (such as carbon dioxide)

We improve our productivity with economically driven construction that employs highly standardised technical solutions and operating methods, and by using prefabricated elements and modules manufactured in our own factories. This improved productivity will also be reflected as a reduction in environmental burden. For example, factory production boosts the efficiency of logistics and reduces emissions from transport, as elements and modules are transported in large batches and fewer delivery runs will be required. Material waste is also considerably lower in factory production than in on-site production.



Lehto wants to proactively promote carbon-neutral construction. In late 2018, we launched our Carbon Neutral 2030 development programme.

Lehto wants to proactively promote carbon-neutral construction. In late 2018, we launched our Carbon Neutral 2030 development programme. This five-step programme seeks to create carbon-neutral innovations for housing construction, and research solutions that promote Smart & Clean technology. The project will initially focus on Helsinki and Tampere. Progress towards our Carbon Neutral 2030 goals will form an integral aspect of our efforts in the Housing business area during 2020.

The two key indicators for responsible construction are the waste recycling rate and the share of electricity accounted for by renewable energy. The waste recycling rate improved compared to the previous year and was 27%* in 2019 (2018: 20%). The share of electricity accounted for by renewable energy was 76%**.

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 routine 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, for example, in the event of a fuel leak from machinery on a construction site. These risks are managed using standardised practices and guidelines at both factories and construction sites.

Carbon dioxide emissions from construction contribute to climate change. Lehto's climate risks can be considered to include an increased flood risk and extreme weather conditions that may impact both

zoning and the operational capacity of factories and construction 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 waste; the information is based on figures received from the service provider*

***Covers about 90% of purchased electricity; the information is based on figures received from the service provider and calculations based on these figures*

Personnel wellbeing

EMPLOYEES are the most important asset for Lehto Group's growth strategy. The HR plan based on our strategy takes into account any changes occurring in the Group's operations that have an effect on the structure, number and professional skills of Lehto personnel.

The construction industry is sensitive to business cycles. Stabilisation in the industry manifests itself as replacement recruitment. Business cycles led to a reduction in demand for human resources during the year. If employees are at risk of losing their capacity to work or being dismissed, Lehto takes advantage of local employment office services and vocational training in accordance with our training plan. In the case of layoffs or redundancies, we use the possibilities provided by

change security to improve the situation of employees under threat of redundancy.

Lehto held two major rounds of employee cooperation negotiations during the year. The employee cooperation negotiations in the summer concerned factory production and resulted in a reduction of 70 person-work years in the form of layoffs and redundancies. The employee cooperation negotiations in the autumn concerned factories, the Social Care and Educational Premises service area, the Group's renovation business and the parent company. The autumn negotiations resulted in a reduction of 143 person-work years in the form of layoffs, redundancies and switches to part-time contracts.

ENHANCING OCCUPATIONAL SAFETY A PRIORITY

The accident rate is one of Lehto Group's key indicators for responsibility and the most important indicator for HR issues, social responsibility and human rights. Lehto Group prioritised occupational safety as a special focal area in 2017 and has continued efforts to improve safety.

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 construction sites and factories are orderly and safe. In 2019, the accident rate for the Group as a whole was 29 (LT11 index) (2018: 43). Since 2018, the accident rate has been measured using the LT11 index (accidents leading to absence from work of more than one day per million hours worked) and this indicator is reported in connection with annual reporting.

Our 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.

In 2019, we arranged one-day safety park training sessions that covered the entire production, business premises, and housing construction organisations. These training sessions focus on giving examples of accidents and discussing them in a real-life environment. Safety issues have also been added to the training provided by the Management Academy and Production Academy.



Lehto Group seeks to prevent accidents at work and influence employees' attitudes.



We actively wanted to raise employees' awareness of safety issues by introducing an annual plan for safety at work. The annual plan has a monthly theme suited to each season, and the associated materials will be distributed in both online channels and on-site breakrooms. A report on the previous month's accidents will also be given in conjunction with the monthly theme. Safety briefings form part of our on-site safety activities. These meetings go through accidents and near-miss situations, and cleanliness and tidiness are also discussed. Whenever a new construction site opens, we hold a safety start-up meeting and conduct follow-up visits throughout the project.

As part of Lehto's safety principles, all personnel are informed of major accidents and the safety guidelines relating to the accident in question are also updated for use on site. We aim to go through every serious accident (such as a fall) immediately and find new ways to prevent such incidents. For example, an element fell from the fifth floor on one of our sites in 2019. After this, we informed personnel and immediately updated our element installation instructions.

PERSONNEL WELLBEING AND COMPETENCE DEVELOPMENT

Lehto Group's HR and training plan is based on the company's growth strategy. It serves as the basis for HR planning and also creates guidelines for employee competence maintenance and development. Lehto Group is positive towards employee competence development and supports it in a variety of ways.

Lehto had four comprehensive personnel training programmes in 2019: Lehto's Induction Programme,

Career Promise, Management Academy and Production Academy. The Induction Programme is divided into four stages: increasingly more-advanced induction sessions are carried out before employment, immediately on starting work, within 1–3 months and within 3–6 months. Units are responsible for induction training, with support from HR.

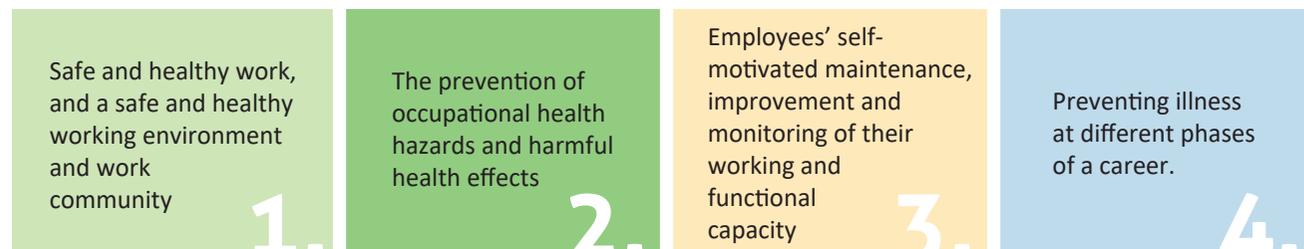
Career Promise is a trainee programme that seeks to secure the number of personnel required by our growth strategy with the aid of students in the sector. The Group is committed to employing 3–5 per cent of our payroll as students from different fields of study and offering them trainee and summer jobs during their studies, as well as providing them with topics for their theses or diplomas whenever possible. Lehto offered jobs to 129 students in 2019.

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

Production Academy is a new training programme that has been launched to support on-site activities. It focuses on mobilising new practices arising from industrial production and the operating models of economically driven construction philosophy.

Lehto Group seeks to be a good and fair employer for everyone. Lehto Group's personnel are committed and turnover is not particularly high. In 2019, our employee total turnover rate was 26% (2018: 36%). In late 2018, 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 job satisfaction report was published on Lehto's recruitment website to increase transparency for potential employees. The development targets we have identified for 2019 were: investments in high-quality products and services, strategy-related communications, cooperation between units, and the visibility of the company's values and objectives in everyday work. We have progressed towards these goals by revising the content of our Induction Programme, Academy offering, and supervisor training.

The objective of Lehto Group's occupational healthcare action plan is



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. Sickness absences in 2019 totalled 3.3% (2018: 4%).

HUMAN RESOURCES MANAGEMENT AND IDENTIFIED RISKS

HR management is a Group-level function that supports, steers and serves our business units with named HR business partners. HR matters are regularly discussed by the Group management team and in business unit steering groups. Lehto Group's HR management is responsible for ensuring that employment legislation, HR policies, local agreements and operating models, and the fair and equal treatment of employees are implemented and complied with in every Group business unit.

Lehto Group's HR and training plan and equality and non-discrimination plan are both updated on an annual basis, and they form part of our operational planning. Equality and non-discrimination are monitored through gender, age and regional distributions. In 2019, women accounted for 15% of personnel (2018: 14%), 0% of the management team (2018: 0 %) and 20% of the Board (2018: 20%). The age distribution of personnel is presented in the table below:

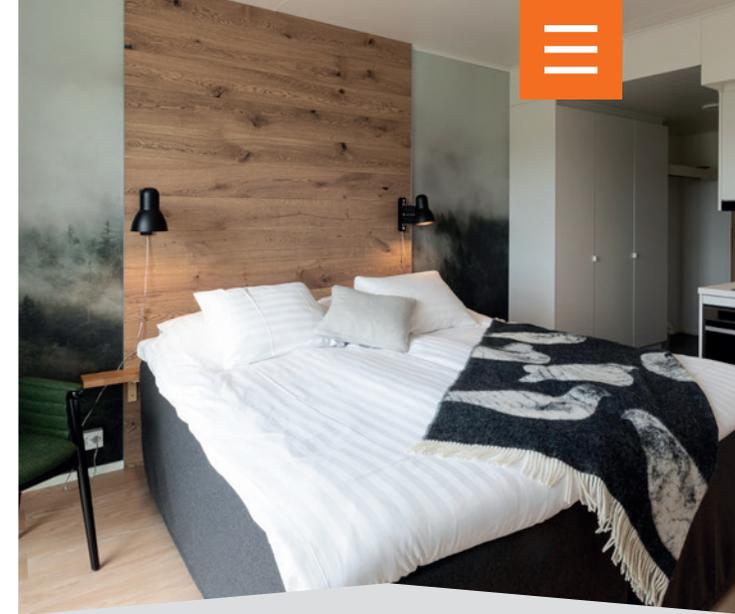
■ Under 30 years of age	31%
■ 30–39 years	29%
■ 40–49 years	19%
■ Over 50 years	21%



Lehto considers it important to employ people all around Finland, not just in growth centres. The geographical distribution of Lehto's business locations in 2018 is shown in the diagram below.



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



CASE | Developing responsibility:

A WOODEN HOTEL FOR RESPONSIBLE CONSUMERS

The Kide Hotel, which has just opened on the Iso-Syöte fell, responds to current trends, as today's travellers want to make responsible choices. Kide is built from Finnish wood and is heated using geothermal energy. It is a digital, smart and energy-efficient hotel that showcases the strength of future provincial construction. The room modules (that is, the different-sized rooms) used at the Kide Hotel were manufactured in factories, where they are protected from the weather and elements. They were then delivered to the construction site in an almost-ready state to be installed on the pre-cast foundations. The roof was also mounted in one day, so there was no opportunity for varying weather conditions to damage the buildings.



Responsibility of business practices

LEHTO GROUP is committed to complying with legislation and regulations, and to otherwise conduct our business in an ethical and responsible manner that respects and promotes human rights. We train all personnel using a common induction programme to combat corruption and other illegal practices. Some personnel also attend more extensive task-specific training courses. For example, procurement meetings regularly cover how to fight corruption and other unethical operating models in the subcontractor chain.

We train all personnel using a common induction programme to combat corruption and other illegal practices.

The scope of our training on ethical guidelines and the scope of the ethical guidelines in procurement agreements are two of the key indicators of responsibility that we defined in 2018. Our ethical guidelines training package – Fair Play Rules – was announced in early 2019, when it was made part of our induction training for all new employees. 640 people (around 50 per cent of all personnel) completed this training during the year.

Lehto also has a public code of conduct for our partners, which you can read here. We have appended the code of conduct to all new procurement contracts signed in

2019, and the code of conduct has also been sent to our existing partners. The guidelines take into account requirements concerning issues such as corruption, employee wellbeing, and respecting property and the environment. Cooperation partners must inform Lehto's contact person immediately if they notice or suspect activities that are illegal or contravene code of conduct or 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.

Lehto Group complies with the measures adopted in the construction industry to combat the grey economy. 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. In 2019, Lehto linked the use of the Valtti card to salary payment, thereby further increasing transparency on construction sites.

Lehto Group complies with the measures adopted in the construction industry to combat the grey economy.

Lehto Group carefully follows compliance processes in order to prevent the occurrence of abuse generally acknowledged as a problem in the construction

industry. We are continually enhancing and developing our processes with the aim of improving management's, employees' and our partners' understanding of the importance of this issue.

Lehto personnel can report violations of the guidelines and any suspected abuse by discussing the matter with their supervisor or closest supervisor, or via the reporting (reporting or whistleblowing channel) channel that was opened at the beginning of 2019. The Group's Legal Counsel, in collaboration with the Group's CEO, is responsible for initiating investigations into any reported cases. Investigations were launched into two suspected cases during 2019, and these cases were still ongoing at the turn of the year. Our goal is to improve general awareness of the existence of our reporting (or whistleblowing channel) channel through communications and by including the topic in a variety of training programmes.

Lehto received a warning from the Council of Ethics in Advertising concerning the Lehto Profit campaign in spring 2019. We have instigated corrective measures and reviewed marketing ethics in detail within our marketing and communications organisation.

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

- ▶ **Lehto Group's Fair Play Rules** (in Finnish)
- ▶ **Lehto Group's risk management policy**

Key indicators of responsibility 2019

PRIORITIES	INDICATORS	2019 OBJECTIVE	2019 RESULT	2020 OBJECTIVE
Responsible construction	Waste recycling rate*	Increases	27%	70%
	Share of electricity accounted for by renewable energy**	Baseline defined	76%	Increases
Personnel wellbeing	Lost time accident frequency***	Decreases	LTI1=29 significant decrease	LTI1 < 15
Responsibility of business practices	Ethical guidelines, scope of training	All personnel trained	52 % of personnel trained	All personnel trained
	Scope of ethical guidelines in procurement contracts	100% of new contracts	100 % of new contracts 63 % of existing contracts	100% of new contracts 100% of prior to 2019 framework contracts and annual agreements

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

**Covers about 90% of purchased electricity; the information is based on figures received from the service provider and calculations based on these figures

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

Developing responsibility

RESPONSIBILITY is one of the values that guides Lehto's activities, and in 2020 we will continue our work in the three focal areas that have been defined for responsibility: responsible construction, personnel wellbeing, and responsibility of business practices.

Occupational safety will continue to be an integral part of our social responsibility. Our aim is to further reduce accidents at work and improve the safety level in all of our operations. We will continue to mobilise the safety-enhancing processes and models that we have developed, and will also make further investments in safety training for personnel both on- and off-site.

New rules on protection for whistleblowers will come into force in the EU in 2021. The new rules will require the creation of secure reporting channels in all organisations, including private companies. During 2020, Lehto will update its own reporting (or whistleblowing channels) channels for reporting misconducts and abuses so as to comply with the new EU Directive.

Lehto's Carbon Neutral 2030 programme is progressing as planned, with revisions made on the basis of customer and stakeholder interviews. Our long-term objective is to significantly reduce the carbon load caused by construction and make carbon-neutral construction a profitable business.

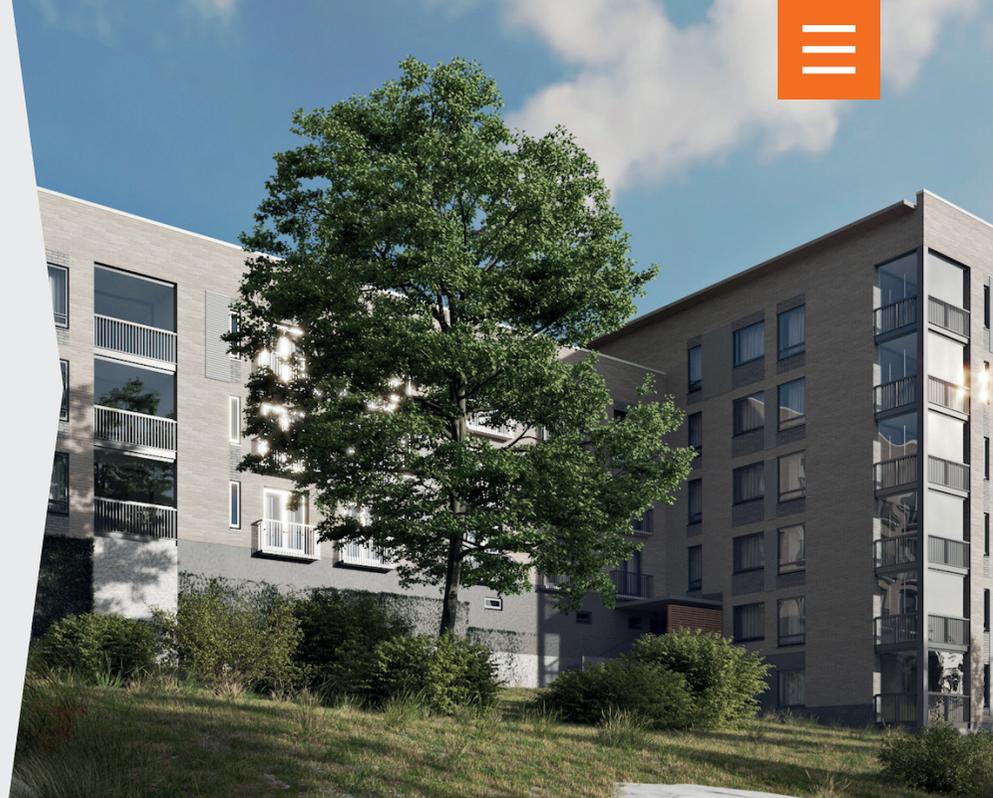
[Lehto's Carbon Neutral 2030 programme](#) (in Finnish)



CASE | Responsible construction in everyday life:

WALNUT TREE GETS ITS OWN SPACE ON AN APARTMENT BUILDING PLOT

This tree – playfully referred to as ‘Finland’s most expensive tree’ – grows on the aptly named ‘Helsinki Walnut’ plot (As Oy Helsingin Jalopähkinä). Lehto is developing the plot for its Nero apartment buildings, but space for the Manchurian Walnut has been left in one corner of the construction site. This walnut tree in the Pukinmäki district is one of Helsinki’s 31 protected natural landmarks. A ‘natural landmark’ means a special natural feature whose damage or defacement is prohibited by law. Lehto has planned the location and shape of the apartment building to ensure that there is sufficient space for the protected tree. About one fourth of the plot has been allocated to the tree, and the locations of both the apartment buildings and the construction site have been carefully planned with experts. By order of the City, the tree’s living conditions may not be compromised either during or after construction. Lehto has, for instance, made sure that the site has been adequately watered during construction.



CASE | Responsible construction in everyday life:

FACTORY CUTOFFS BACK INTO CIRCULATION

Gypsum board is being recycled at factories. Almost every Lehto Components factory returns its gypsum board cutoffs to the supplier. The gypsum boards are supplied by Knauf, which also accepts returns of production cutoffs. About 1–2 cubic metres of gypsum board cutoffs are generated in production per day. The gypsum board cutoffs are collected by the truckload and then delivered to Knauf’s factory in Kankaanpää, where they can be reused.

Window frame cutoffs are returned to the supplier. The window and balcony door line at Lehto’s factory in Oulainen manufactures windows for Lehto buildings from pre-shaped materials, cutting them into the correct dimensions. Cutoffs from the window and door frames manufactured at the factory are sent back to the supplier in Poland. Rehau’s processing plant in Poland melts them down into pellets that can later be recompressed into new products.





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