



SUSTAINABILITY REPORT

2019 - 2020

MAKINEN

This MAKINEN 2019—2020 sustainability report presents the corporation's first sustainability report offering transparency to corporate stakeholders and the network. In this report, we provide information about the sustainability level of our operation. In addition to providing general information about our corporation, we report our environmental and social impacts. In this report, the reporting period is our previous fiscal year from 1 July 2019 to 30 June 2020. We use an annual reporting cycle. This GRI-based report has been prepared according to the core information requirements. GRI defined precautionary principles or external initiatives the corporation hasn't been applied during the reporting period. Contact point of report related questions: CAO, Mrs. Kirsi Orava, kirsi.orava@ismakinen.com

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Sustainability at MAKINEN is based on our strategy and values. It's essential to make sure that sustainability efforts are not only talk but they become a part of the company's daily work. I am happy about how well we progressed with our sustainability agenda although coronavirus (COVID-19) impacted heavily on our business during the last quarter of this reporting period.

In this first sustainability report, we are focusing on environmental and social responsibility. We developed our processes that create the foundation for sustainable operations and its further development. We invested in quality development, and I.S. Mäkinen Oy was granted ISO 9001:2015 Quality Certification in October 2019. We had a strong focus on health, safety, and environment (HSE) processes and practices, and on employee engagement. Unfortunately, COVID-19 caused here extra challenges in the form of temporary layoffs. In this difficult situation extra effort has been put on open and transparent communication.

During the next fiscal year, we will continue our sustainability work following the principle that sustainability is part of everything we do.

Vanhalinna, 4 November 2020



Sameli Lähdesmäki
President & CEO
I.S. Mäkinen Oy



our profile

OUR JOURNEY

MAKINEN corporation is known as one of the leading interior turnkey project contractors specializing in cabin refurbishments for cruise ships and passenger ferries operating worldwide. We provide full service for modernization and new building of cabins and public spaces.

Our responsibilities in newbuilding and refurbishment turnkey projects are the same, although every project is unique and highly customized according to the particular client's needs. We are responsible for project management and offer engineering and design support. We handle the procurement of interior materials and, depending on the project, actually produce some of the interior products. Our responsibilities also include logistics, installation, and supervisory work.

The turnkey project can cover the ship's public areas, crew areas, and the cabins. Our main focus is on the cabin refurbishment projects, and during the past fifteen years, we have refurbished over 40 000 cabins.

In our furniture production, we manufacture sofas, headboards and other custom-made furniture. Over the years, we have also delivered tens of thousands of drapery, sheers, bed skirts, decorative pillows, headboards, and other interior products for our clients all over the world.

1970s

Mr. Auvo Mäkinen started upholstering sofas in a garage.

1980s

Furniture deliveries to all shipyards in Finland (Turku, Rauma, Helsinki).

1992

The company ownership transfer, Auvo's son, Mr. Ismo Mäkinen takes over the business.

1998

The first furniture deliveries to abroad (projects of the major shipbuilding shipyards).

2000s

The collaboration with RCCL starts, establishment of Makinen Inc - local presence in Florida, USA.

2012

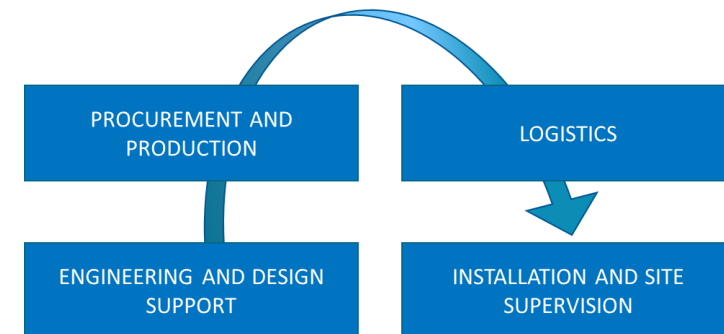
LEAN project execution to the refurbishment projects 1st in the world.

2019

The establishment of Makinen Ltd in China, the first newbuild turnkey project contracts (the series of Sunstone ships)

OUR RESPONSIBILITIES IN NEWBUILD AND REFURBISHMENT TURNKEY PROJECTS

PROJECT MANAGEMENT



OUR BUSINESS OPERATIONS TODAY

- NEWBUILD TURNKEY PROJECTS
- REFURBISHMENT TURNKEY PROJECTS
- FURNITURE PRODUCTION

our profile

VALUES AND PRINCIPLES

Our organization's values, principles, standards, and norms of behavior set the guidelines that we strictly follow. These are developed by the MAKINEN executive team.

We help our clients to execute projects in the marine industry with reliability, efficiency, and high-quality standards. We will grow together with our clients by carrying out increasingly demanding projects. We implement and develop lean processes. With a responsible and efficient way of working, we continue building our reputation as the

leading operator in the global marine industry. The corporate vision is to be the most trusted partner in the industry.

Information on values, principles, standards, and norms of behavior is communicated to employees in internal meetings and through info screens. The stakeholders outside the company can receive the information upon request.



STAKEHOLDERS

The most important stakeholder groups of our MAKINEN corporation are our customers, employees, subcontractors and suppliers. These groups form a core of our operations. We work closely with our stakeholders on the various topics of sustainability and maintain active dialogue with them. Developing and succeeding together and working closely with our collaboration partners we keep our clients (the shipowners and brands) very satisfied.

The financing institutions, banks, and insurance companies have an important role in securing the business and also enabling business growth. In our daily operations and interior projects, the fluent collaboration with the authorities (IMO, Solas, USCG etc.) and municipal administration is important to ensure successful business operations.

We are continually in contact with the schools and educational institutions of the marine industry in Finland. We offer exciting work opportunities and entry into this industry, regardless of whether students have already graduated or would still be studying.

Our team plays an active role in the Finnish Marine Industries Association. In this way, we are also strongly connected to the Finnish Maritime Cluster. Finnish Marine Industries Association and Finnish Maritime Cluster companies have regular gatherings to discuss and share the views of the industry.



* collaboration partners include architects, design and engineering offices, shipyards.

our profile

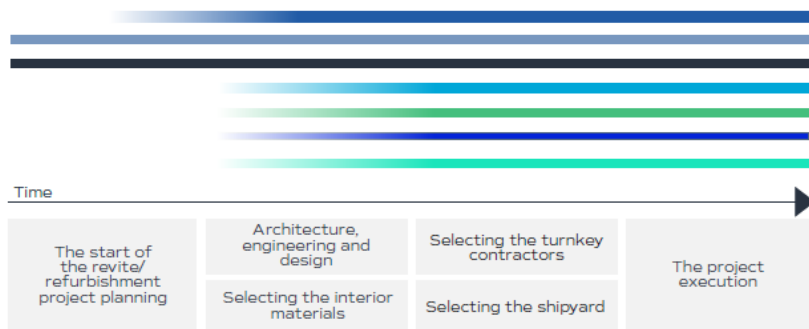
STAKEHOLDER ENGAGEMENT IN OUR PROJECTS

Sustainability is a strong influencer in today's traveling industry. In the cruise industry, the passengers are expecting more and more sustainable traveling, and the shipowners and brands are developing operations and ships to answer this need. The shipowners and brands, together with the architects, require more sustainable ship operating and shipbuilding. They expect to have more environmentally friendly ships that have been built by sustainable shipbuilding companies and the network. This requirement spread through the shipyards and turnkey project contractors to the global supply chain. And sustainable shipbuilding is a future industry that the local authorities, municipal administrations, financing organizations, and educational institutions are interested in supporting.

There are many stakeholders involved in the turnkey projects. We, our subcontractors, and suppliers are involved in architecture, engineering and design phase. We also take part in the selection of the interior materials.

THE STAKEHOLDERS' ENGAGEMENT TIMINGS IN THE TURNKEY PROJECTS

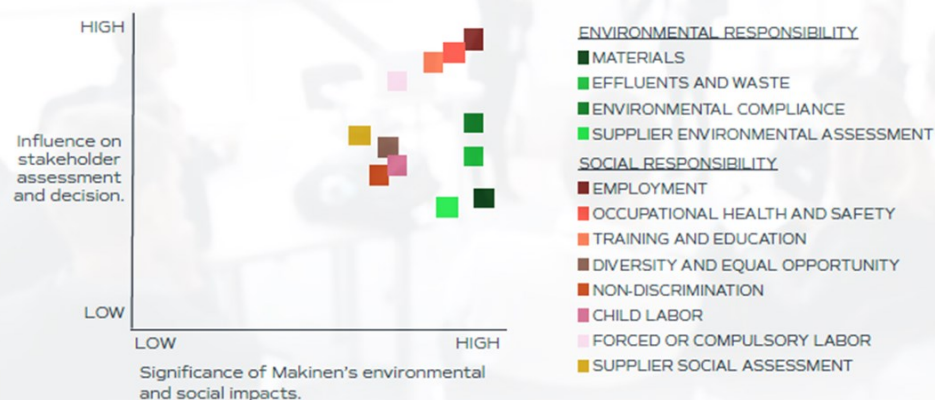
- Architects, design and
- Classification society
- Clients (owners)
- Financing institutions and banks
- Insurance companies
- Makinen
- Makinen's subcontractor



We have defined the following key material topics for the stakeholders:

- developing more environment-saving solutions (impacted during ship construction and operations): reducing the weight of the spaces, and providing more environmentally friendly materials for the clients and collaborative partners
- keeping the employees' and workers' work satisfaction at a high level and securing equal opportunities and diversity
- keeping the working environment safe and inspiring and making sure that our team members' HSE knowledge is at a high level

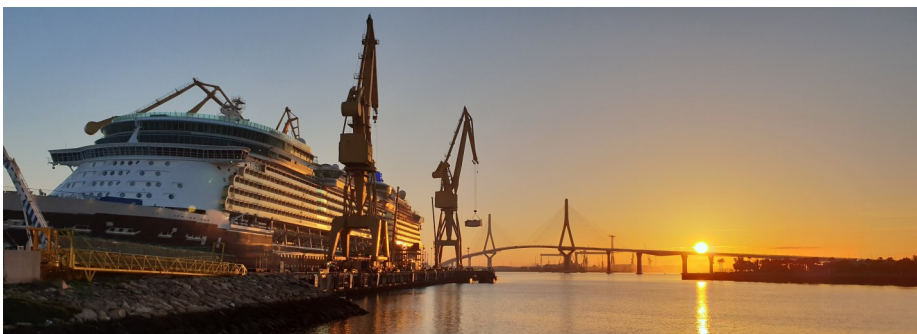
Stakeholders view and importance for the major material topics



Our corporation provides interior solutions, which have been designed and produced while thinking about the sustainability of the product's whole life cycle. Whenever possible, we offer our consulting support to our clients in the product design phase. With the right choices, the weight of the products can be reduced, and this way help to reduce the total weight of the interior area in the ship (less weight means less fuel consumption and cost savings).

our profile

We help our clients to make the right choices within the frames of the architect requirements and the rules and regulations of this industry. We keep the environmental impacts of production low and encourage our clients to choose materials produced by sustainable companies.



We're operating in an industry where the power is the knowledge and skilled employees. It is crucial for us and our client network that our operation is socially sustainable. By the laws, regulations, and our team's instructions, we guarantee our capability to offer a safe workplace to our current and future employees, a workplace where employees can develop their skills and where employee satisfaction is high.

This same goes for our supply chain—we aim to employ subcontractor companies that share equal values. We hope that our example could also guide other companies to focus on their social responsibility and increase the awareness of its importance so that in the future, the shipbuilding industry could still be seen as an exciting workplace.

**"we aim to employ
subcontractor
companies that share
equal values"**

Our goal is to offer more advanced, sustainable solutions in our interior products and turnkey project solutions. We aim to increase awareness of the importance of sustainability in our stakeholder groups and the whole network.

Each material topic works as a core target of our business units. Together with the sustainability committee, the heads of these business units work to reach goals. The management's effects on each material topics are reviewed in the regular corporate governance meetings, bringing the results on the table.

The required development work is done along with daily routines, so additional resources for the special units of these material topics have not been arranged.

Our way of working and loyal relationships with key stakeholders encourages open daily dialog. The possible complaints, feedbacks, and product defects arise in our discussions. Though this way of working has been successful, we develop ways to get this systemized.

As we are talking about a very complex construction environment and outcome, it is given that change will not happen overnight. The cruise ships have been compared to small towns with their capabilities to accommodate even over ten thousand people and offer services that a small town provides. Building these amazing environments is not just one company show - it is an outcome of collaborations by various companies.

**"it is an outcome of
collaborations by
various companies"**



We have studied the sustainability development possibilities as well as the realities of capabilities. We will focus on developing sustainability in our daily work by using more sustainable working ways (e.g., using green energy, biodiesel in our company cars, and working clothes from recycled materials). For the next reporting period, we will also focus on the impacts of our cabin refurbishment turnkey projects.

our profile

EMPLOYEES AND WORKERS

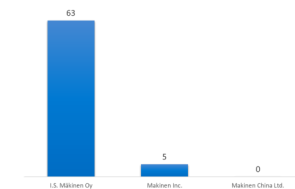
Our operations employ a significant number of employees from our subcontractor and supplier companies.

The major part of the subcontractor and supplier employees are working in projects, installation, and repair works. This causes the ratio of employees and subcontractors to change significantly when comparing time during and between the projects. During the projects, only 10–20 % of all team members are our own employees while the rest are the employees of our subcontractors.

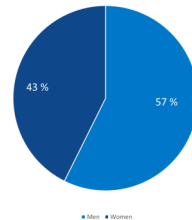
In our corporation, we respect and strictly follow the employment laws, rules, and regulations. All of our employees are covered by the required bargaining agreements. All of them are also working as full-time employees. During the reporting period, we employed 68 people. Almost all of them (93 %) were employed by I.S. Mäkinen Oy, and the rest (7 %) were employed by our Florida-based company Makinen Inc. Some of these employees were also working at our China office.

The current pandemic situation has impacted our business significantly, and as a result, we had to layoff temporarily the most of our employees.

Our employees by group's companies



Our employees / gender



THE LOCATIONS OF OUR OFFICES

- I.S. MÄKINEN OY Vanhalinna, FINLAND
- MAKINEN CHINA LTD. Haimen, CHINA
- MAKINEN INC. Pompano Beach, FL, USA

THE LOCATION OF OUR PRODUCTION

- I.S. MÄKINEN OY Vanhalinna, FINLAND

CORPORATE AND GOVERNANCE STRUCTURE

Our corporation, I.S. Mäkinen Oy, is the parent company of Florida-based Makinen Inc. and Haimen-based Makinen China Ltd. Mäkinen Oy has four owners, of which the Makinen Group is the major owner with 79,92 % ownership.

Our corporate governance structure consists of five people, of which three are women and two are men. Three members of the governance structure are in the age group of thirty to fifty years old, and two people in the age group of over fifty years.

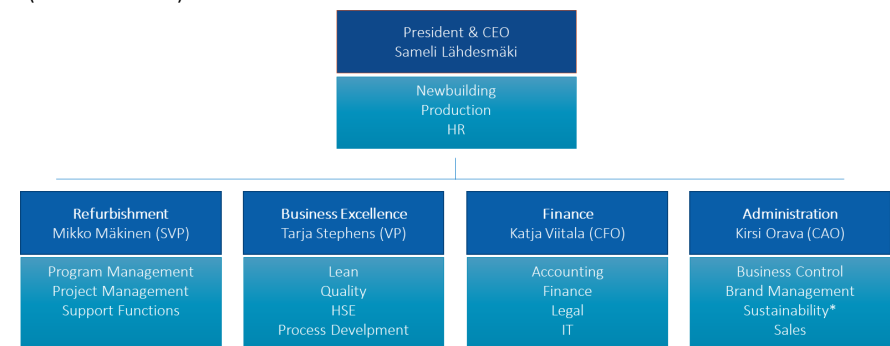
During the fiscal year 2019-2020, the corporation turnover reached over 61 million euros. The net sales of the projects were 55,5 million euros and the net sales of production 5,5 million euros. From this same period, the net costs were 53,6 million

THE OWNERSHIP (the major owners)

I.S. MÄKINEN OY (%)	
Granholm Invest Oy	19,07
Makinen Group Oy	79,92
MAKINEN INC. (%)	
I.S. MÄKINEN OY	100
MAKINEN CHINA LTD. (%)	
I.S. MÄKINEN OY	100

euros. The corporation had its own equity of 7,9 million euros and debt of 9,9 million euros.

THE GOVERNANCE STRUCTURE (BUSINESS UNITS)**



*Mrs. Kirsi Orava is leading the sustainability committee

**During the reporting period/fiscal year 2019-2020

our profile

LOCATIONS OF OUR PROJECT OPERATIONS

Our MAKINEN team offers turnkey project services and interior products for the marine industry clients globally. In our major business of refurbishment turnkey projects, the client chooses the project's operational place, the drydock. This is the place where the ship's repair, demolition, and installa-

tion work will be carried out. The drydocks and the newbuilding project shipyards are widely spread all over the world—the most significant ones for our corporation are listed below.

<u>SHIPYARD</u>	<u>LOCATION</u>
MEYER TURKU	FINLAND
NAVANTIA	SPAIN
TUAS	SINGAPORE
SEMBAWANG	SINGAPORE
GRAND BAHAMA SHIPYARD	BAHAMAS
DAMEN SHIPREPAIR	FRANCE
CHANTIER NAVAL DE MARSEILLE	FRANCE
CMHI CHINA MERCHANT HEAVY INDUSTRIES	CHINA

During the fiscal year 2019 - 2020, we completed five large refurbishment projects. Three of them were carried out at the Cadiz drydock in Spain and two at TUAS in Singapore. In addition we started the preparations of three large refurbishment projects that were then canceled due to COVID-19.

We are especially proud of our first newbuild project, expedition cruise vessel being built by SunStone Ships. On 6 September, the Greg Mortimer was named and delivered in a ceremony on the CMHI shipyard in Haimen China. Greg Mortimer was built without delays and our team was responsible for all the interior works.

The markets for our interior products are global. We deliver our sofas and other interior products to different segments: shipowners and brands, turnkey contractors, and other marine industry companies.

The corporate's supply chain consists of interior material manufacturers, suppliers and sub-contractors. The supply chain companies are located in Europe, USA and Asia. Our operations are heavily based on manpower, that has a major role in customer value creation and

RISK MANAGEMENT AND CHANGES

COVID-19 impacted dramatically on our business and shipbuilding industry during this reporting period. For fighting against the COVID-19 and other diseases onboard we launched an antimicrobial system (AMS) for shipowners and brands. By this service, we're offering self-cleaning and disinfection solutions and smart materials for guaranteeing cleaner and safer cabin environments for passengers.

Our internal working guidelines instruct us to choose work solutions that are environmental, social, and economically sustainable. In our production and projects, we choose the solutions that maximize sustainability in the project frames of our clients. This means the right interior material solutions, production, logistics, storage planning, people flow, accommodation, and operational work at the dry dock/shipyard.

Our LEAN system guarantees that sustainability is at the highest possible level in cabin refurbishment projects. This customized system minimizes the waste from our work processes and brings environmental and cost saving benefits. One example of the results is cutting down the long-distance work travel of our employees and, in this way, reducing the emissions.

I.S. Mäkinen Oy was granted ISO 9001:2015 Quality Certification in October 2019. The certification covers design, project management and management of installation of ship interior projects as well as manufacturing of related furniture.

Among these, we have developed a customized project planning and cabin planner system (IS Master) to minimize risks and increase sustainability in our refurbishment projects.

For staying the frontrunner of our industry in the future, we're not just developing our own operations and processes, but we're also encouraging our material suppliers and sub-contractors to develop more sustainable solutions. We're very happy to notice that new interesting innovations are continually introduced into the markets and we're very excited to introduce these to our clients. By these innovations and the right material choices, also the weight of the cabins can be reduced significantly. This means less weight of the whole ship, reducing fuel costs and emissions.



environmental sustainability

OUR ROLE & BOUNDARIES

During shipbuilding projects, our client works closely with the architects to determine the interior design of the areas. This includes the materials and furniture specifications of the spaces.

We're very happy to notice that, today, clients and architects are selecting more and more solutions provided by companies that promote environmental, social, and economic responsibility. Our role is to support our clients and architects in this by offering our strong knowledge and experience of materials and supplier companies.

Depending on the case, we guide our clients through selecting the right solutions based on environmental responsibility.

The final decision about a particular solution is made by the client and the architect. According to this decision, we will contract the client's chosen suppliers. In this report, we will be focusing on our own corporate environmental responsibility, excluding our supply chain.

LIFE CYCLE OF OUR PRODUCTS

We use our local Finnish supplier network as much as possible in our production. This increases the sustainability level and is also risk management wise. For these reasons, we continually discuss with our clients and architects the possibilities for using more fabrics from local or European suppliers.

We manufacture our interior products at our Vanhalinna workshop. The products are delivered from there or from our other warehouse in Turku to the shipyards for installation onboard ships.

Depending on the shipowner, when the ship's space is to be refurbished, the old furniture and products will be sold or given for reusing or recycling purposes.



IMPACTS OF TEXTILE INDUSTRY

In passenger ships' interiors, fabrics play a very important role. They create the visual atmosphere and feeling of the space. They also have many functional purposes, e.g., privacy protection, space partition, and acoustics.

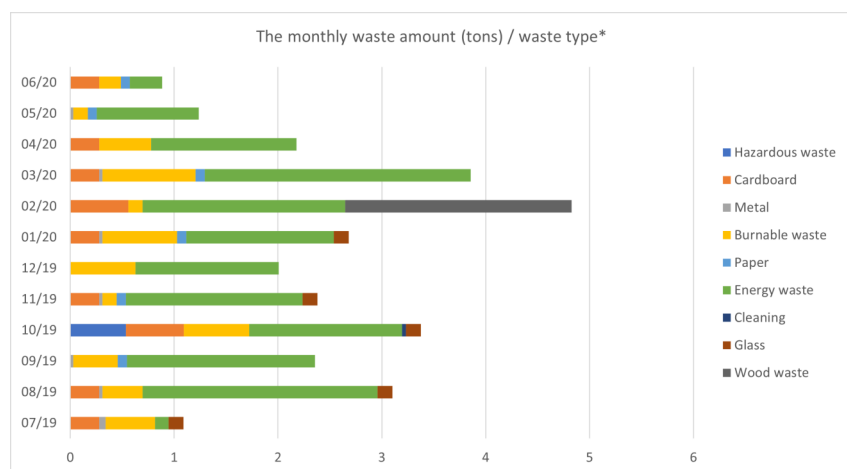
In general, the global textile industry continues to harm the environment. The main factors are high water consumption and the presence of various pollutants in the wastewater. Wastewater treatment is lacking or includes only physical treatment in underdeveloped and developing countries due to installation and operating costs. This means that a large variety of hazardous and toxic substances (e.g. dyes, heavy metals, acids, soda, and aromatic hydrocarbons) pollute precious clean water sources, in which untreated water is discharged. The only solution for this could be developing treatment processes for optimizing and reducing the amount of water and chemicals, thus also reducing treatment costs.



environmental sustainability

MATERIALS AND WASTE IN OUR PRODUCTION

Materials used in our own production can be divided into two categories: materials for producing interior products and those used for packing. During the reporting period, our production's waste amount was 29 976 tons. This includes waste materials such as fabrics, foams, metal, wood, plastics, cardboard, aerosols, solvents, paints, varnishes and glues, as well as small amounts of glass and paper.



*Waste management company's statistics

A major part of the total waste amount is determined by the project's requirements (material specifications received from the client) and timings. As we keep the stock as small as possible, the waste amount can differ a lot when comparing the production time of large interior product deliveries and the time between the projects. The largest part of the total waste is energy waste (mixed waste).

The clients select the materials which meet the strict requirements set by the authorities and visual and technical functionality. Until today, the possibility of using recycled material is Very limited, causing the need to use non-recycled raw materials.

FROM OUR WASTE—RECYCLED FUEL

In our daily operations and projects, we follow the environmental laws and regulations strictly. During the reporting period nor in our corporate history, no concerns of non-compliances with these have been raised. By our actions, we want to show an example into our global network and encourage other organizations to develop their own environmental saving way of working even more.

The non-hazardous waste of our production consists of pieces of fabrics, plastics, and foams. This non-recyclable waste is collected and handled by the waste management supplier. This waste will be made into recycled fuel for co incineration plans, replacing fossil fuels. By this, carbon dioxide emissions are reduced by 50–90%. The only hazardous waste in production is the glues. Our waste management company offers the proper collecting bins and takes care of the proper disposal of the glue waste.

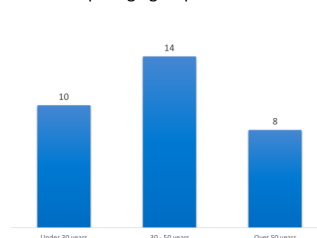


social sustainability

NEW HIRES & EMPLOYEE TURNOVER

During the reporting period, the major change in our corporation has been the fast growth of the employee number. We hired 32 new fulltime employees. All of these employees have been employed by I.S. Mäkinen Oy. The majority (43 %) of these new employees are 30–50 years old. During the same time period, five of our employees resigned; two of them were below 30 years old and three in the age group of 30–50 years old.

New hires per age groups



It is important to notice that among our own employees, we also have a large number of independent workers who work as freelancers or are working through their own company. These people are working in administration and project operations.

Parental leave and training

During the reporting period, some of our employees have taken parental leaves. All these employees have returned to work after parental leave and are still employed by our corporation. For the secure data protection (Data Protection Regulation) of these employees, further information cannot be provided in this report.

We keep our employees' skills and knowledge at a high level through regular training. During the reporting period, the average hours per employee are as follows:

male: 20 hours

female: 20 hours

administration: 20 hours



OUR HSE

We have a zero tolerance for harming people, the environment, and the community. This guides all our businesses. The entire organization makes determined and systematic efforts to prevent any possible damage.

We have created instructions for occupational health, safety, and environment (HSE). These instructions were prepared by the corporation's HSE committee, and they define three major focus areas:

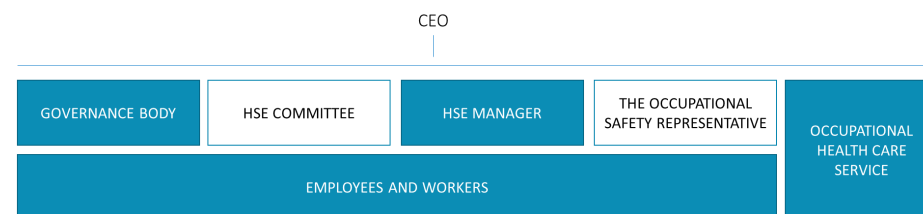
INCREASING OCCUPATIONAL SAFETY AND ZERO TOLERANCE IN OCCUPATIONAL INCIDENTS

SUPPORTING PHYSICAL AND MENTAL WELLBEING IN THE WORKPLACE

DEVELOPING OCCUPATIONAL HEALTH AND SAFETY BY MANAGEMENT AND COMMUNICATION

The committee contains several representatives from our HSE organization, including the HSE manager and occupational safety representatives:

HSE ORGANIZATION



social sustainability

The HSE manager and the governance body are responsible for compliance with the obligations. The HSE instructions are followed by the whole team—all our employees and workers. Our team takes HSE issues seriously and follows the guidelines strictly, and this is shown in our records:



All work-related illnesses

2019-2020: 0, 0 fatalities

All work-related Incidents /injuries

2019-2020: 3 small incidents, 0 fatalities

Together with the HSE committee, the HSE manager draws up an action plan for a period of two years at a time. The main HSE issues and resolutions are covered in the plan. The plan is available on the company's intranet.

The HSE committee holds regular meetings. Two meetings were held during the reporting period. In these meetings, the committee members discuss all of the workplace's safety and health issues. The minutes of these meetings are posted on the company's intranet.

We keep the HSE knowledge of our HSE group members high through regular trainings. The HSE manager is responsible for HSE co-operation and development. The manager also communicates HSE rules and legislation across the entire company. Occupational safety representatives keep their HSE knowledge updated, represent the employees in the HSE cooperative work, and participates in occupational safety assessments and inspections.

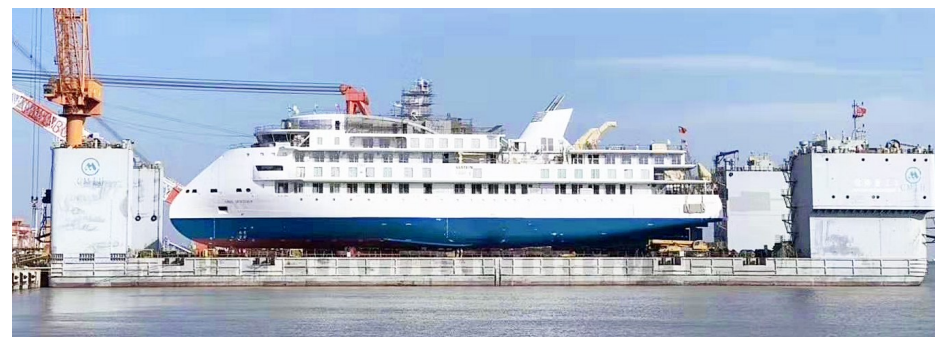
PREVENTION AND MINIMIZING RISKS AT WORK

In the Makinen corporation, we report all incidents, close calls, and identify the hazards. These reports are made immediately as these occur. According to the corporation's HSE instructions, all the team members (corporate's own employees and workers who are working under the corporation's supervision) are responsible for keeping the working environment safe (with respect to physical and mental health). The superiors are especially obligated to monitor the working environment constantly. If any of the team members notice any deficiencies or safety and health hazards, they are required to report these to superiors. The superiors report these to the HSE manager and together make the corrective actions to eliminate deficiencies and possible hazards.

We monitor our team members' wellbeing and safety in different workstations with the regular risk assessment and workplace inspections. These inspections and surveys are defined in a separate action plan. In addition to this, the Mehiläinen's occupational physiotherapist performs an ergonomic mapping of the office and production facilities.

In our corporation, maintaining order and cleanliness as well as careful and cautious care is the responsibility of everyone. All team members should follow the instructions strictly and use appropriate protective equipment on the production site. The visitors are also obligated to comply with our corporation rules.

We have set the early support model having the purpose of restoring an employee's work capacity, thereby preventing disability. We have provided this in close collaboration with the Mehiläinen.



social sustainability

EQUALITY & NON-DISCRIMINATION

We follow our Equality and Non-discrimination Plan strictly. This is a plan which all our employees and workers are obligated to follow. It sets the guidelines how people are treated and for keeping well-being and work satisfaction at a high level. During the reporting period there did not rise any incidents of discrimination nor negative social impacts in our operations.

The key principles of Equality and Non-discrimination Plan are described below.

SALARY

is always based on the job's requirement level and the results of the work. There should be no unjustified pay differentials for people with the same or equal work.

RECRUITMENT AND CAREER OPPORTUNITIES

are equal. Women and men are encouraged to apply for open positions and to develop the balanced position of women and men in different levels and units of the organization.

DEVELOPMENT OPPORTUNITIES

are available for all our employees to maintain their skills.

WORK CULTURE

is such that the reconciliation of work and non-work life is successful and also supports well-being in the workplace

ZERO TOLERANCE

There is no form of misconduct, bullying, or harassment. Our corporation has zero tolerance for the above matters

CHILD AND FORCED LABOR

When working in the heavily international shipbuilding industry, the risks of child and forced labor are always present. The supply and value chains can be heavily branched, and each branch can extend to several locations in the world. The further we go on tracking the value chain, the less transparency there is.

SUPPLY CHAIN EXAMPLES

WORKFORCE



MATERIALS



Generally, there is more transparency in the workforce supply chain. Often the chain isn't heavily branched, and the actual work happens under our direct supervision. In the material supply chain, transparency can be significantly weaker, as it can be heavily and internationally branched. This creates challenges in supervising.

SCREENING OUR SUPPLIERS

According to our subcontractor obligations and liability policy, we ask our subcontractors and suppliers to fulfill the requirements of the Contractor's Obligations Act. This ensures that contract partners have registered for tax prepayment as well as in employer and VAT registers. We also investigate whether contractors have paid taxes or taken out pension insurance, as well as what kind of collective agreement applies to the job, or what the main terms and conditions of employment are. The organization of the partner's occupational health care also needs to be reported. We also require this information from foreign companies.

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I.S. MÄKINEN OY
Tammitie 14
21410 Vanhalinna
FINLAND

www.ismakinen.com
Tel. +358 2 274 4444



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