

# PAROC 2014

PAROC IS AN INNOVATIVE AND TRUSTED PARTNER FOR A SUSTAINABLE BUILT ENVIRONMENT

# PAROC'S REPORTING



## SUSTAINABILITY REPORT

Paroc Group's fourth sustainability report is made in accordance with the Global Reporting Initiative (GRI) guidelines for reporting on sustainable development and is published annually. The first Book of Sustainability included the years 2009–2011, and it was published in November 2012. The previous Book of Sustainability was for 2013 and was published in April 2014.



## STAKEHOLDERS

The key audience of this report includes investors, analysts, customers (including distributors, contractors, developers, planning engineers, architects, subcontractors, building financiers and owners), authorities, media and Paroc personnel.



## KEY PERFORMANCE INDICATORS

In the definition of key performance indicators for this report, sustainability and technical protocols of GRI have been applied. Paroc follows the application level C in the GRI G3.1 guidelines.



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## REPORTING SCOPE

Paroc's products have an overall positive impact on the environment due to the benefits during the product's use phase. The negative environmental impacts of our operations occur in procurement, production, distribution and installation. The boundaries for environmental indicators include Paroc's production countries excluding Russia (i.e. Finland, Sweden, Lithuania and Poland). Business travel is excluded from the environmental indicators. The highest impact comes from the core production process. Economic and social indicators are reported for the whole organisation. Any changes in the indicators, their scope, and boundary or measurement methods from previous reporting will be clarified in connection with the given indicators.

# PAROC IN BRIEF

For more than 75 years now, we have worked passionately to offer sustainable solutions and innovative products that enable our customers to build efficiently and with high quality. As a pioneer in the insulation industry, Paroc aims to fulfil the changing demands today's world sets for the environments we build. Sustainable and durable choices ensure fire safe, energy-efficient and comfortable living and working environments for the future too.

## WHAT WE DO

Paroc Group is the leading insulation producer and supplier in Finland, Sweden and the Baltics. Our stone wool products include building insulation, technical and marine insulation, sandwich panels, and acoustics products. By testing and piloting various concepts, from energy saving renovations to passive houses, we aim at reducing buildings' energy consumption and emissions, increasing fire and moisture safety and improving the comfort of living. Our customer base is diverse, ranging from contractors, dealers, industrial builders and architects to single-family home builders.

We employ over 2,000 people in 14 countries across Europe and Russia. Until February 2015, the Group was owned by a number of institutional investors, with a minority shareholding owned by our employees. In October 2014, funds advised by CVC Capital Partners signed an SPA to acquire Paroc Group. The deal was closed in February 2015.

## HOW WE DO THINGS

Our mission is to be an innovative and trusted partner for a sustainable built environment, and it guides all our actions as a company. By challenging current ways of working, we improve our business and constantly look for new innovations, both small and big. We develop ourselves and the entire construction industry by being open in our operations, innovating together with customers and sharing insight.

We bring together highly experienced professionals as well as bright new talents to ensure that our customers have access to the best possible expertise in the field. By inspiring others we can make a true difference towards a better built environment.

KEY FIGURES	2012	2013	2014
Net sales, MEUR	430.3	433.1	417.5
EBITDA excl. unusual items, MEUR	72.6	79.7	77.4
% of net sales	16.9	18.4	18.5
Depreciation, amortisation and impairment, MEUR	28.7	29.4	31.3
EBIT excl. unusual items	43.9	50.3	46.1
% of net sales	10.2	11.6	11.0
Total assets, MEUR	645.4	657.3	577.8
Net debt <sup>1</sup>	280.0	282.2	393.8
Cash flow from operating activities	43.9	59.8	18.4
Investments <sup>2</sup>	37.2	58.6	25.5
Personnel, 31 Dec	1,964	2,033	2,021

<sup>1</sup> Defined as non-current and current loans from financial institutions net of transaction costs incurred and finance lease liabilities minus cash and cash equivalents  
<sup>2</sup> Include additions to intangible assets, to property, plant and equipment and to available-for-sale financial assets.

**418**

MEUR  
Net sales

**14**

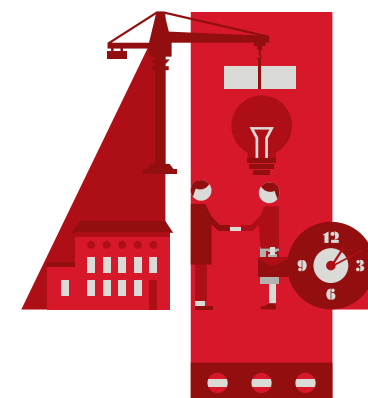
COUNTRIES  
Presence in Europe

**12%**

Improvement in energy efficiency since 2011

**2,021**

EMPLOYEES



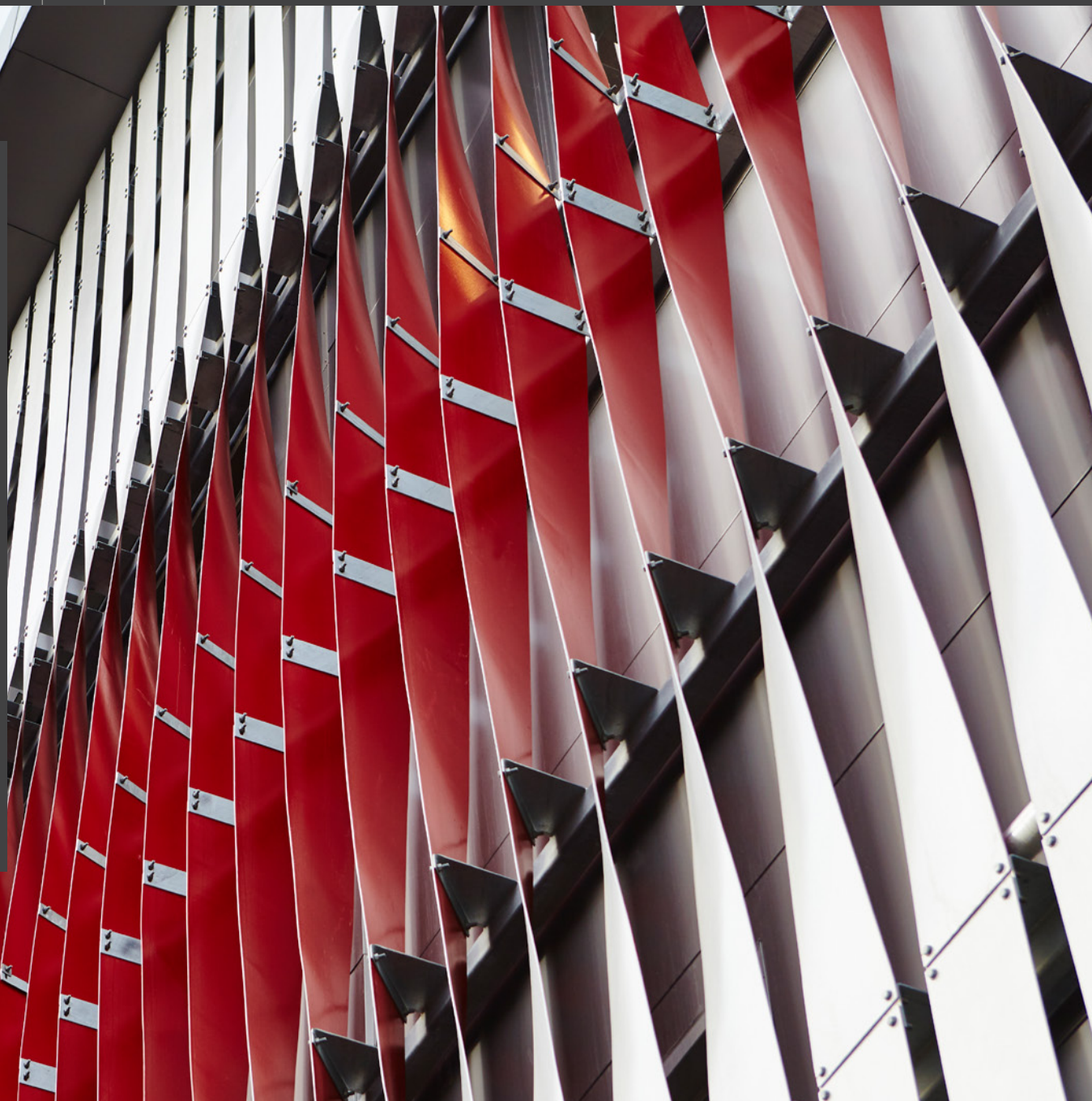
## VALUES

*Customer  
Respect  
Innovation  
Performance*



## PAROC UP CLOSE

Paroc has designed its strategy, organisation and corporate responsibility management to meet the challenges and opportunities of a world that puts increasing demands on sustainability and efficiency. Continued achievements in internal efficiency and market innovations in 2014 are two of the main reasons behind CEO, Kari Lehtinen's optimism for the future.



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We will continue with our growth strategy by increasing sales volumes and through smart investments.



## GREETINGS FROM OUR CEO

After an eventful year impacted by the unstable economic situation in Europe, the CEO of Paroc Kari Lehtinen is optimistic about the company's growth opportunities. Paroc will continue to invest in innovative products and services to answer the increasing demands for sustainability and efficiency.

### HOW WOULD YOU SUM UP PAROC'S PERFORMANCE IN 2014?

Our expectations for 2014 were somewhat higher than our actual performance. Most European countries suffered very modest or even negative economic growth and as a consequence the building and construction sector growth, if any, was also very modest. In 2014, Finnish residential building activity sank to the levels of the early nineties. We did not reach our annual growth target of nine per cent, but by improving our operational efficiency, we achieved a decent result.

The effect of the Russian economic situation was barely visible in 2014. In fact, in Russia we exceeded our targets and achieved 40 per cent growth in local currency. In Russia our order book looked good at the beginning of the year 2015. We have made successful recruitments and our factory is working at full capacity. However, towards the end of last year, Russia's unstable geopolitical situation started to be visible in the level of local construction activity and reflected on Eastern Europe in the form of a slowdown in construction. We are certainly keeping a close eye on how the situation evolves, and have plans for all outcomes.

The adverse currency impact on our total result was substantial. Weaker local currencies (particularly Swedish Krona, Norwegian Krone and Russian Rouble) accounted for EUR 8.5 million of our EBITDA decline at the comparable exchange rate in 2013. The significant effect of the negative exchange rate was partially offset by switching to our Russian operating model, which is based on local production, lower energy prices and lower sales, as well as tightening general and administration costs.



**WHAT WERE THE MAIN ACHIEVEMENTS OF THE YEAR?**

We refinanced the company's debts by successfully issuing a high-yield bond of EUR 430 million in May, 2014. This new finance instrument secures our financing until 2020. After May, we focused on the change in ownership. In October, we completed arrangements for the acquisition of Paroc Group by the funds advised by CVC Capital Partners. The deal was closed in February 2015, after approval by the European Commission competition authorities.

On an operational level our biggest accomplishment was a major improvement in our internal efficiency. We have set a target to reduce our energy consumption by 30 per cent by 2020 as compared to 2011, and we are almost halfway there. During 2014 alone, the decrease in our energy consumption corresponded to the CO2 emissions of almost 2 million family cars.

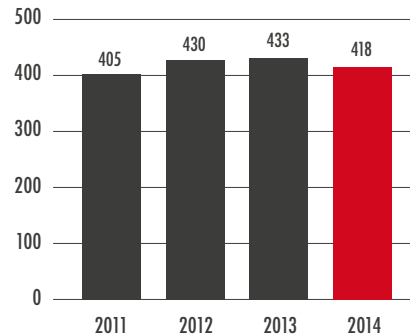
During the year, we actively and successfully communicated the unique qualities of our products, supported by studies, fire tests and campaigns. The strongest spokesperson of our product is the product itself: stone wool insulation is non-combustible, a property that can save lives. It is crucial that legislators and people making construction decisions have the most reliable and current information available.

We're also really excited about the new customer focus programme we started to develop during the year. Implementation began in early 2015 and included concrete indicators to help us measure our progress in customer satisfaction.

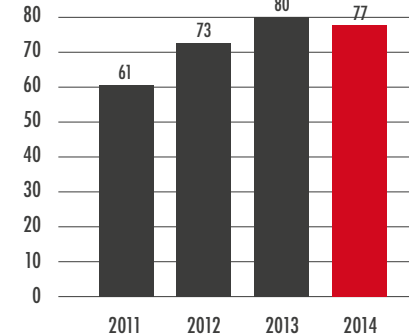
**IN TERMS OF CORPORATE RESPONSIBILITY, WHERE DO YOU SEE PAROC'S BIGGEST OPPORTUNITIES AND CHALLENGES?**

The trends most affecting our industry are urbanisation, sustainability and energy efficiency requirements. We see all these as opportunities too. The tightening regulation regarding buildings' energy efficiency provides us with opportunities for product development and for increasing demand for our products and services, both in terms of new buildings but increasingly also in terms of energy renovation. There's a need for innovative services, partnerships and concepts to determine the most cost-efficient ways to renovate existing residential buildings, offices and storages. And so to meet Europe-wide energy efficiency targets according to the commitments of EU countries.

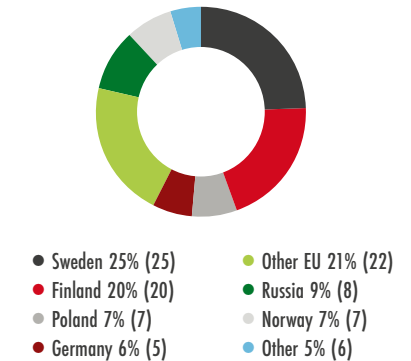
NET SALES 2011-2014, MEUR

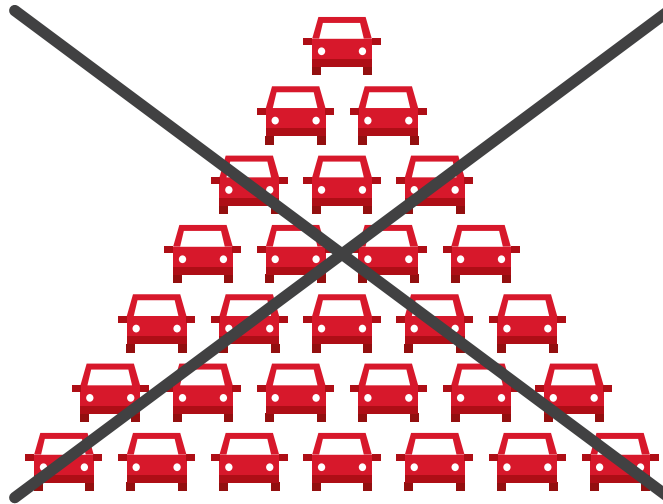


EBITDA 2011-2014, MEUR



NET SALES BY AREA 2014, % (2013)





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During 2014 alone, the decrease in our energy consumption corresponded to the CO<sub>2</sub> emissions of almost 2 million family cars.

Improving the efficiency of our own production has a significant effect on our own operational costs, not to mention the environmental benefits. We have managed to diminish our carbon footprint with energy improvements and waste recycling, and we're striving to achieve our zero waste-to-landfill target. However, our biggest impact on the environment comes indirectly from our products, and that's undeniably a positive one.

Our risks are more linked to the financial prospects as well as to how the political and financial situation in Russia evolves. We are constantly monitoring the required financing of our business to avoid liquidity risk. Credit risk is being reduced with customer credit insurance and by monitoring the development of customers' profitability. We have made investments plans in Russia, and now it's a question of when it will be possible to proceed with the next step. In the long term, construction will definitely pick up speed in Russia as well – it is a big market that offers us significant growth potential.

In terms of our personnel, the closing of our Lappeenranta production site is an inevitable and regrettable reality. In February 2014, we ramped down one of the building insula-

tion lines and moved its production to our existing factories in Finland. Most of our technical insulation production has now been transferred to our Swedish factories in Hällekis and Skövde. About half of the 250 employees will continue in Lappeenranta until 2016, which is when the factory will be closed for good. Some employees have moved to other positions inside Paroc and some have retired, so the needed number of lay-offs was fortunately smaller than expected. Our Lappeenranta employees are a priority when we have new openings within the company.

#### HOW IS PAROC AIMING TO MAINTAIN ITS POSITION AND ACHIEVE GROWTH IN THE FUTURE?

The European economy is showing small signs of invigoration, so we are expecting the construction industry to recover slowly from its long descent. The weakening of the Euro, low oil prices and the European Central Bank's bond-buying programme are expected to provide a boost for the European economy.

As for Paroc, we will continue to implement our growth strategy by increasing sales volumes and well-considered investment decisions. Technical Insulation (TI) is one of our

strategic business divisions, as it produces tailor-made products that are relevant on a global scale, not only in local business. We are expecting growth in TI from outside our core markets, that is, the whole of Europe.

In addition, we are constantly developing our own efficiency and seeking to boost our business through innovations. Our aim is to be the forerunner in our industry, always providing our customers with new products, services and concepts. We now have a structured and focused process to help innovations live up to their fullest business value.

Last but definitely not least, we continue our good work in taking care of our employees. In 2014, we implemented many of the measures that were initiated based on our 2013 employee survey. This was reflected in the smaller accident rate and fewer sick leave absences. There is still some dispersion between units, and the work to achieve top results continues. Good and transparent leadership and safe work conditions are the key to employee well-being, and this we also aim to provide. It is solely in the hands of our competent professionals whether or not we will keep on track towards growth. There isn't a doubt in my mind that we will!

# MEGATRENDS DRIVING PAROC'S BUSINESS

We have defined Paroc's strategy to make use of the opportunities and avoid the risks associated with our operating environment. Global megatrends are shaping the business environment and offer us further opportunities. We have defined sustainability, urbanisation, globalisation and climate change as the most relevant megatrends for our business.



## SUSTAINABILITY

EU policies, such as the Construction Products Regulation, Eco Design Directive and Green Public Procurement, are steering the construction industry towards more sustainable production and operations.

Sustainability is an enabler of profitable growth and a driver of innovation as well as a requirement from our customers. Safe products enhance fire safety and energy efficiency and provide us with business opportunities.



## GLOBALISATION

Modern means of communication, internet especially, bring people, products and services closer to one another. Even though the construction sector is still very fragmented from the regulations point of view, thanks to globalisation more and more solutions and services can be introduced in more than one country which offers positive economies of scale.



## CLIMATE CHANGE

The Directive on the energy performance of buildings (EPBD) requires that by 2018 all new public buildings must be near zero energy and all existing public buildings over 500 m<sup>2</sup> must display energy performance certificates. Member states must ensure that all new buildings are close to zero energy by 2020.

The European Commission has established a long-term objective of decreasing the CO<sub>2</sub> emission levels for the building sector by 88–91% in 2050 as compared to 1990 levels. According to Eurima, the only way to meet this target is through 80% reduction in energy use in the built environment by 2050, to be achieved through intense renovation of the EU building stock. In addition, insulation may account for as much as 75% of the total energy reduction potential of buildings; approximately 460 million tonnes of CO<sub>2</sub> per year.



## URBANISATION

As more people are migrating to urban areas, risks and convenience factors of buildings become more apparent. Traffic causes more noise and pollution, and the risk of fires increases. As people spend over 90% of their time indoors it is important to ensure good acoustics, healthy indoor air, functional design and safe surroundings. Buildings use 40% of all energy in the EU, and offer enormous energy saving potential.



# STRATEGY

Paroc's strategy can be summarised in one sentence: we create customer benefits through growth, innovation and sustainability.

2015

2020

## SHORT-TERM STRATEGY

In the short term, key drivers for our business are the increasing demand for renovation solutions and growth opportunities offered by emerging markets. We aim at increasing our sales volumes and gaining new market areas with our

strategic business divisions, especially Technical Insulation. In addition, customers continuously require new and improved solutions and services, which drives innovation within our company. In order to remain competitive, we strive for continuous

efficiency development in our operations through optimising energy use and continuous improvement processes (CIP).

Our strategy is built on five focus areas, for which we have set specific targets.

## LONG-TERM STRATEGY

Paroc's long-term growth strategy is based on the following paths: market expansion, product and services innovation and efficiency. In the long term, we will seek growth through acquiring new customers in emerging markets, extending our

presence in current markets through efficiency and cost competitiveness, as well as offering new value-added innovations for current and new customers in all markets.

### CUSTOMER FOCUS: INCREASING CUSTOMER SATISFACTION

By increasing customer satisfaction and our reputation as the preferred partner in the industry, we are able to secure profitable business and realise our growth plans.

### GROWTH: 9% ANNUAL GROWTH

A nine per cent annual growth rate will ensure the ability to develop and expand our operations and maintain economic profitability. Profitability enables further development and the possibility to innovate, invest and operate sustainably.

### SUSTAINABILITY AND EFFICIENCY: 30% MORE ENERGY EFFICIENT

We can contribute to environmental sustainability and efficiency by reducing energy use and emissions. Our aim is to be 30% more energy-efficient in our own processes by 2020 compared to the base year 2011. We also help our customers be more sustainable by offering them fire-safe, long-lasting and energy-efficient solutions.

### PEOPLE: 0 ACCIDENTS

Employee safety and well-being is a priority for us. Our long-term target is to reach zero accidents and the trend has been positive ever since we set the target in 2011.

### INNOVATION: INCREASING SHARE OF ANNUAL GROWTH COMING FROM INNOVATIONS IN PRODUCTS AND SOLUTIONS

Innovations often have environmental and safety benefits and create economic opportunities for us and our customers. During the past year, we have invested in creating a systematic innovation process.

## YEAR HIGHLIGHTS

### JANUARY

- Paroc and the Technical Research Centre of Finland (VTT) organised a fire safety test on external wall construction insulated with Paroc's stone wool insulation. The stone wool insulated exterior wall structures achieved fire resistance of up to two hours against fire occurring on the outside.

### FEBRUARY

- Paroc pilots for nearly zero energy single-family house renovations moved forward. Air tightness tests conducted by VTT proved that it is possible to improve an old house airtightness from outside of the building significantly by using renERGIA renovation panels.

### MARCH

- Production of a new product PAROC Hvac Lamella Mat AluCoat Fix started in Poland.
- Paroc introduced PAROC Conci, the solution for improving air tightness in buildings, in the Baltic market.

### APRIL

- renERGIA renovation panel launched at Nordbygg construction fair in Sweden.

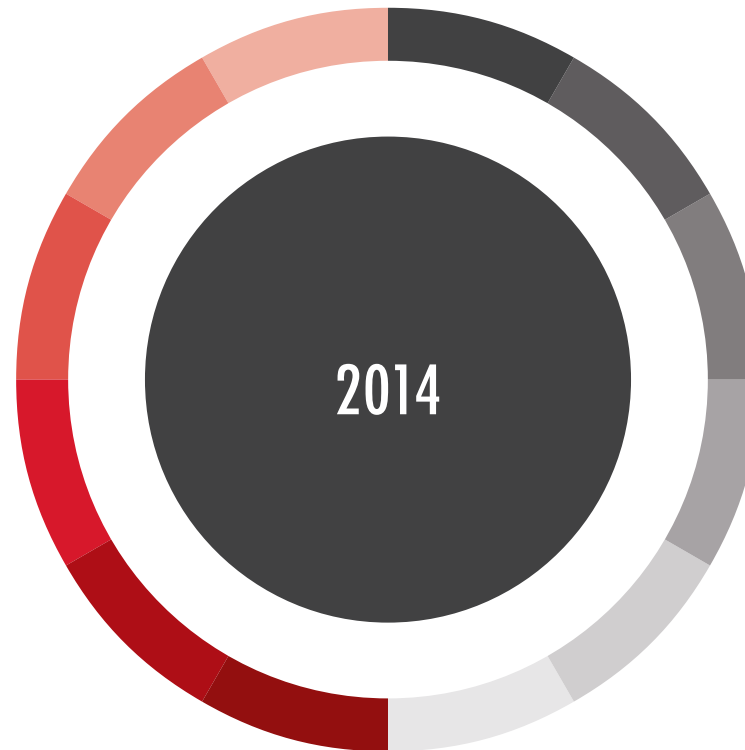
### MAY

- Paroc Group Oy announced pricing of senior secured notes offering. The demand for the notes was strong in the credit market, and the refinancing provides Paroc with flexibility and a solid platform to continue the development of business until the year 2020.
- Paroc launched new fire protection and prevention products in the ISO 2014 fair in Cologne, Germany. The new products included GreyCoat, a fire protection solution

for pipe penetrations that resists fire for up to two hours. The revolutionary energy-saving and sustainable solutions provide effective insulation and protection for advanced technical equipment in case of fire.

### JUNE

- Paroc innovation was recognised and Paroc Poland awarded the European Medal for PAROC GreyCoat System during the 25th edition of the European Medal Competition. The European Medal is a non-commercial, nationwide project in Poland coordinated by Business Centre Club to promote the European Union idea in the Polish business community.



### OCTOBER

- PAROC PROOF roofing lamella system was launched in Sweden, Denmark and Finland. PAROC PROOF features a smart packaging solution to remove the need for palettes and so reduces the amount of waste materials and storage space. PROOF was an immediate success in Finland and its popularity is also growing in Sweden. Feedback from customers has been very positive, especially on the planning of the packaging, product quality, and health and safety considerations related to the product's life cycle.
- Paroc Group and CVC Capital Partners announced the successful acquisition of Paroc for approximately EUR 700 million. The CEO of Paroc, Kari Lehtinen commented that CVC offers Paroc a depth of experience and a strong track record with value-creating investments, as well as expertise in the building materials sector in the Nordic region. Behind the acquisition decision was CVC's strong belief in Paroc's success, expansion opportunities and reputation amongst customers deriving from high-quality products and innovative solutions.

### DECEMBER

- The non-combustible, energy-efficient stone wool insulation slab PAROC Linio 10 received the Lithuanian product of the year award. In the award ceremony, Algirdas Butkevicius, the Prime Minister of Lithuania, handed the award to Paroc's plant manager Jonas Liubertas.
- The recycling concept Rewool qualified as Skanska's top ten finalists of Deep Green Challenge in Sweden. The competition aimed at identifying new green technological solutions and services to achieve "deep green construction". The target was to find and implement building projects that have close to zero environmental impacts in terms of energy, climate, materials and water.

# PAROC DIVISIONS AND BUSINESS UNITS

Paroc has production facilities in five countries and sales companies and representative offices in 14 countries across Europe. Today, Paroc is the leading insulation supplier in Finland, Sweden and the Baltics.



**LOCATION MAP**

- Headquarters
- Production plants
- ▲ Sales companies and representative offices



PAROC Cortex used in Helsinki Exhibition Centre Hall 7 walls.



Technical insulation solution used in Vantaa Energia waste power plant.

**BUILDING INSULATION**

Building Insulation offers a wide range of products and solutions for all types of buildings and various customer groups. Building insulation is mainly used for thermal, fire and sound insulation of exterior walls, roofs, floors, basements, intermediate floors and partitions. Acoustic products include sound absorbing ceilings and wall panels as well as industrial noise control products. Main customers are dealers, contractors and the industry.

The general market situation in 2014 was challenging in several markets, deriving partly from the geopolitical crisis in Europe. This affected especially Belarus and Finland, but also the Baltics and some other European markets. On the other hand, the Swedish market has been developing well, with a strong increase in new housing construction. The Baltic region has shown a positive development especially in terms of renovation.

In 2014, Building Insulation further expanded its offering by launching the PAROC PROOF roofing lamella system, RenERGIA for energy efficient renovation for single family houses and the PAROC Cortex One solution for wooden high-rise buildings. Building Insulation is a market leader in the Finnish,

Swedish and the Baltic markets, and aims to expand its offering and foothold in Germany and Russia.

**TECHNICAL INSULATION**

Technical Insulation supplies value-added products used for thermal, fire, sound and condensation insulation in residential and non-residential building (HVAC), industrial processes and pipe work, ship structures and original equipment manufacturing (OEM). Customers include dealers, OEM manufacturers, shipyards and insulation contractors in HVAC, industrial and marine activity on a local as well as global scale.

The operating environment was more turbulent than the previous year due to the economic downturn and the Russian crisis. However, Technical Insulation managed to improve its position in Europe especially with HVAC solutions. The division also saw significant efforts in becoming more customer-oriented by offering more technical support services and training for customers.

In 2015, the division is further seeking growth through innovations and new product launches. Growth is expected from industrial investments and marine, which is showing a positive outlook.



### PAROC PANEL SYSTEM

Paroc Panel System sandwich panels are lightweight steel-faced panels, with a core material of stone wool. The fire-safe panels are used in façades, partitions and ceilings in public, commercial and industrial buildings. The main customers are contractors and OEM customers, but Panel System's services are used also by architects, designers and building owners.

Apart from Norway, the slower market conditions caused a drop in Panel System's revenue in Finland, Germany and Scandinavia. The price competition and a reduction in order intake affected the first half of the year, but the business improved towards the end of the year. In 2015, growth is expected from Sweden as well as exports from outside the Nordic countries.

During the year, the division continued to focus on developing the fire safety of its solutions, and conducted several fire tests. Technology development of Panel System products continued successfully, with the objective of producing safe living and working environments, preventing losses and protecting the environment from hazardous emissions in the event of fire. In addition, the division launched a new package for all its products that is more environmentally-friendly and easier to recycle.

### RUSSIA

Russia business unit consists of business operations of Building Insulation and Technical Insulation, production operations in Russia and local support functions. The business unit started a new production line for technical insulation at the end of 2014, and can now serve its customers more broadly in both building insulation and technical insulation solutions.



Paroc Built-on solution used in Ica Barkarbystaden, Sweden.

The Russian operations exceeded all expectations by growing as much as 40 per cent. Building insulation products' turnover grew by 51 per cent and technical insulation by 13. However, due to the financial situation, the market began to show signs of slowdown towards the end of the year.

The Russian situation is estimated to continue to be quite challenging in the short term. Larger construction projects will probably be delayed, and the market could

decrease between 10 and 15 per cent. According to assessments, the market should recover by 2017 with an optimistic increase of 5 per cent.

### BASE

Base Production is responsible for all line production, factory activities, production technology and technology development. The division is also responsible for R&D activities related to production technology and stone wool properties. The seven Base Production

Base Production progressed well with the Group energy efficiency target, and by 2014 efficiency has been improved by over 12 per cent when compared to the base year 2011.

facilities are located in Finland, Sweden, Lithuania and Poland. Base Production supplies end products to Building Insulation and products for further processing to other Paroc divisions.

In 2014, the Continuous Improvement Paroc initiative progressed well, and the target of involving at least 40 per cent of plant personnel in structured problem solving activities was met. In addition, the number of lost time accidents was reduced by 35 per cent compared to 2013.

Base Production progressed well with the Group energy efficiency target, and by 2014 efficiency has been improved by over 12 per cent when compared to the base year 2011. Internal efficiency was improved through increased innovations, and as much as 25 per cent of operational efficiency improvements in 2015 is expected to come through internal technology innovations.

In 2015, Base Production will place further effort on staying on track with the energy efficiency target, and aims to reach 16 per cent reduction in 2015 as compared to 2011. In addition, the journey towards zero accidents continues, and the goal is to reduce lost time accidents by one third in 2015.

# STAKEHOLDER ENGAGEMENT

We are in close cooperation with our most important stakeholders, and we take into account their needs and views when developing our business operations. The most important stakeholders have been selected based on their impact on Paroc's business operations and, on the other hand, the impact Paroc's operations have on the stakeholders.

The frequency of active dialogue with stakeholders varies depending on their needs and concerns, and the engagement channels used.

The table below describes Paroc's key stakeholders and issues raised by different stakeholders. Also, listed are the actions and different channels through which Paroc engaged with stakeholders in 2014.

STAKEHOLDER ENGAGEMENT 2014		
	Topics and concerns raised	Examples of engagement actions in 2014
Customers	<ul style="list-style-type: none"> <li>Product quality and safety</li> <li>Customer service and experience</li> <li>Innovation</li> <li>Competitive pricing</li> <li>Close and transparent cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Regular meetings, continuous dialogue and cooperation</li> <li>Customer Experience study</li> <li>Joint R&amp;D projects</li> <li>Customer feedback channels, surveys</li> <li>Training sessions</li> <li>Trade shows</li> <li>Continuous development of Paroc website</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Customer communications</li> <li>Customer visits, meetings and negotiations</li> <li>Customer events and trainings</li> <li>Industry trade fairs, local trade fairs</li> <li>Continuous development of corporate website</li> </ul>	<ul style="list-style-type: none"> <li>Employee briefings and information sessions</li> <li>Regular performance and competence development discussions</li> <li>Training sessions, such as Self-Leadership programme</li> <li>Occupational healthcare</li> <li>Biannual Paroc Pulse personnel survey</li> <li>Well-being at work projects, eg. vouchers for sports and culture</li> </ul>
Suppliers and partners	<ul style="list-style-type: none"> <li>Mutually benefiting long-term partnership</li> <li>Economic sustainability</li> <li>Paroc's responsibility and reputation</li> <li>Transparency</li> </ul>	<ul style="list-style-type: none"> <li>Working according to set Paroc policies</li> <li>Joint continuous improvement of processes</li> </ul>
Society and officials	<ul style="list-style-type: none"> <li>Transparency</li> <li>Engagement and local presence</li> <li>Social and environmental responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Support for local initiatives, such as training sessions on fire safety and energy efficiency</li> <li>Sponsorship and donations</li> <li>Continuous dialogue, working groups with authorities</li> <li>Pilot construction projects</li> </ul>
Media	<ul style="list-style-type: none"> <li>Transparency and up-to-date information</li> </ul>	<ul style="list-style-type: none"> <li>Media briefings and interviews</li> <li>Press releases and success stories</li> <li>Events and excursions to Paroc's sites</li> </ul>
Owners and investors	<ul style="list-style-type: none"> <li>Company growth and value creation, return on investment</li> <li>Transparency and regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>Financial reporting, quarterly briefings and webcasts</li> <li>Q&amp;A sessions, one-on-one meetings</li> </ul>
Industry associations	<ul style="list-style-type: none"> <li>Building standards and norms (fire safety, energy efficiency)</li> </ul>	<ul style="list-style-type: none"> <li>Regular meetings and working groups with other association members</li> </ul>
ORGANISATIONAL ACTIVITIES		
	Organisation	Nature of participation
International interest groups	EURIMA, Fire Safe Europe, EIF, EPAQ	Paroc is a Board member in all of these organisations and participates in working groups.
Local interest groups	Confederation of Finnish Industries (EK), Finnisol; Swedisol, SIS Swedish Standards Institute, Lösullsentreprenörerna, Isoleringsfirmornas förening, EMTF Energi- & Miljötekniska Föreningen (Sweden); IPF Isolasjonsproducentenes forening (Norway); LATIZOL (Latvia); Mineral Wool Producers Association, Association of Housing Modernisation, Lithuanian Technical Insulation Contractors Association (Lithuania); ESTISOL (Estonia); TIMSA, TICA (UK); GGM, Arbeitsgemeinschaft Industriebau e.V., Bundesfachgruppe der WKS-B-Isolierer, Die Deutsche Bauindustrie, Industrieverband für Baustysteme im Metalleichtbau, IFBS Institut für bauen mit Stahl, VDI Verein Deutscher Ingenieure, VÖDU Verband österreichischer Dämmunternehmen, Zentralverband Deutsches Baugewerbe, Fachverband Wärmedämmverbundsysteme e.V. (Germany); MIWO (Poland); Rosizol (Russia)	Paroc is the Chair in ESTISOL, IPF Isolasjonsproducentenes forening and has a Board membership in Finnisol, Swedisol, LATIZOL, Mineral Wool Producers Association, Lithuania, Association of Housing Modernisation in Lithuania, MIWO and Rosizol. Paroc participates in working groups in Finnisol, Swedisol, LATIZOL, MIWO and Rosizol. In the Confederation of Finnish Industries (EK), Paroc is a member of the Energy Efficiency Committee.
Industrial organisations	Kattoliitto, Julkisviuyhdistys, PPT, Sisäkattoyhdistys, RTT/Betoniyhdistys,RTT/RT, RaSi ry, Puuyhdistys (Finland); District heating supplier Association, Latvian Building Company Association; Lithuanian Builders Association; EETL, EKVÜ, EIEL (Estonia); Polish Industrial Chamber	Paroc is a Board member in Sisäkattoyhdistys, RT, RaSi ry and Puuinfo. In RT Paroc also has a working group participation. Paroc acts as a member in all the other mentioned industrial organisations.
Business organisations	East Office of Finnish Industries, Sisäilmäyhdistys (Finland); Baltic Investors Forum (Lithuania); EKT (Estonia); BCC (Poland)	Paroc is a Board member in East Office of Finnish Industries and a member of the other mentioned business organisations.



# MATERIALITY

The sustainability topics and indicators introduced in this report reflect Paroc's economic, environmental and social impacts. The selection of material sustainability topics is based on knowledge accumulated in daily business with customers, meetings with key stakeholders as well as through in-house enquiries and employee satisfaction surveys during 2011–2012. The main mineral wool industry companies were also benchmarked on their sustainability thematic and reporting.

This process has enabled us to identify our main sustainability topics, which also helps formulate our strategy: customer, growth, people, sustainability and efficiency, innovation. The strategic focus areas are all connected: profitable growth and customer

satisfaction is reached by efficient use of resources and creating innovative products, which can only be achieved by maintaining healthy and motivated employees. For the strategic focus areas we have also set concrete targets and we strive to continuously improve our performance.

To maintain customers' confidence we promote responsible business conduct throughout the company. We also expect this from our suppliers, and insist on our personnel and suppliers abiding by applicable laws in all our operating countries.

The GRI's materiality analysis principles have resulted in a materiality matrix as shown in the figure below. As from 2015, Paroc will report according to GRI G4 guidelines.



LEVEL OF CONCERN FOR STAKEHOLDERS	Very high			Economy Customer satisfaction Anticompetitive behaviour	
	High		Greenhouse gas and other air emissions Water footprint	Health and safety / injury rate Energy and material use Waste	
	Medium		Organisational profile		
	Low				
		Low	Medium	High	Very high
LEVEL OF CONCERN FOR PAROC					

# CORPORATE RESPONSIBILITY MANAGEMENT

## CORPORATE GOVERNANCE

Paroc's corporate governance system complies with the laws of Finland, Paroc Group's Articles of Association and the Nasdaq OMX corporate governance recommendations concerning publicly listed companies.

## CEO'S DUTIES

CEO together with the General Meeting of Shareholders and Board of Directors are responsible for the governance and operations of Paroc Group. The supreme decision-making body is the Annual General Meeting of Shareholders.

The implementation of the Group strategy, including the sustainability agenda, is the responsibility of the CEO. The CEO manages and develops the Group's operations in accordance with the provisions and guidelines laid down in the Limited Liability Companies' Act and the Articles of Association and as issued by the Board. The CEO regularly reports to the Board on the Group's operational performance and financial position.

## BOARD OF DIRECTORS' DUTIES

The Board of Directors is responsible for the company's management and for the



appropriate organisation and supervision of the company's assets and business operations. The Board makes all major decisions regarding operating policies, strategies, capital expenditure, organisation and funding, as well as approves the company's values and policies and oversees their application in practice.

Sustainability is an integral part of Paroc's strategy and as such, sustainability issues are coordinated by the Board of Directors. There is no one person separately appointed responsible for corporate responsibility issues within the Board.

→ [www.paroc.com/corporategovernance](http://www.paroc.com/corporategovernance)

**RISK MANAGEMENT**

The purpose of risk management at Paroc Group is to support the values, strategy and continuity of operations of the Group. Paroc's risk management is based on an organisation-wide approach for identifying, assessing,

managing, and monitoring material risks. The divisions and support functions manage risks as part of their day-to-day business operations, and follow up on risk treatment action plans quarterly.

The CEO has the overall responsibility for the management of risks in Paroc Group. The CEO and other executives identify and monitor risks, develop and coordinate risk management activities and update the Group's risk profile. The Board of Directors deals with the most significant risks and evaluates the efficiency of risk management at least once a year. The risk assessment and the risk treatment action plans are updated annually. The effectiveness and quality of Paroc Group's risk management is monitored through internal and external audits as part of the regular auditing programme.

The most relevant financial risks for Paroc are interest rate risk, currency risk, commodity price risk, liquidity risk and credit risk.



**OUR OPERATING PRINCIPLES**

**SUSTAINABILITY**

guides our daily operations and actions with stakeholders.

**PEOPLE, CUSTOMERS AND PROFITABLE GROWTH**

We develop our people, operations and solutions proactively. This is driven by our customers' needs and enabled by profitable growth.

**INNOVATION MANAGEMENT**

creates value for our customers and stakeholders.

**STAKEHOLDER CONFIDENCE**

is earned through transparent communication.

Sustainability is integrated in Paroc strategy and target-setting: we are committed to economic growth, we strive for efficiency in own operations, and aim to become an accident-free workplace. Our values – Customer, Respect, Innovation and Performance – are the basis for all operations in Paroc, and form an important part of our operating principles.

**MANAGEMENT SYSTEMS**

All of Paroc's manufacturing sites and divisional operations have been certified according to the ISO 9001 quality management system. Building Insulation, Technical Insulation and Base Production operations as well as divisional operations have also been certified with the ISO14001 environmental management system. The ISO 14001 certificate applies to environ-

mental aspects which Paroc can be expected to influence, such as emissions, waste handling, utilisation of natural resources and energy efficiency. Both of the certificates encompass the whole service chain from manufacturing to sales, and Paroc's active quarries are also covered.

Paroc has also started a Responsible Sourcing project in the beginning of 2015 that aims at increasing suppliers' awareness of Paroc's demands on corporate responsibility. As a first step the project aims at including at least 60 per cent of stone wool constituent materials under certification in 2015.

The Paroc site in Poland is certified with the OHSAS 18001 occupational health and safety management system. The OHSAS 18001 requirements are taken into account in developing OHS processes throughout the Group.



## 2

## FOCUS AREAS AND PERFORMANCE

A commitment to meeting stakeholder expectations and the latest industry regulation in a wide range of applications drive Paroc's efforts in innovation, people development and continuous improvement in operational efficiency and safety. Paroc pursues a similar level of responsibility in its supplier operations.



## PARTNERS IN EXTREME CONDITIONS

Some of Paroc's customers work in industries that set extreme requirements for products. A good example of this is the shipbuilding industry: the standards set for safety and comfort are exceptionally high. Take, for example, cruise ships. People come there to relax and enjoy themselves, but in case of an emergency there's virtually nowhere to escape. This is why the products used in these conditions need thorough testing, continuous product development and the best materials.

The shipbuilding industry uses many kinds of prefabricated products: insulation for cabins, panels, fire doors, and ventilation machinery. Manufacturers of these products often require customer-specific, tailored solutions. Finnish Parmarine Ltd is one of the world's leading manufacturers of ship fire doors, and has cooperated with Paroc ever since the 1980s.

"Our partnership with Paroc has been long and fruitful – Paroc has considerable expertise in the marine industry and excellent personnel. They also support us in our product development," says Risto Kallio, Vice President of Parmarine's Ship Fire Doors business unit. The unit produces mainly A class ship fire doors, that are designed to prevent fires from spreading within the ship.

“

Paroc has provided us with testing facilities in their Parainen factory, which is important as we can test materials beforehand.

### ECONOMIC CRISIS HAD ONLY MINOR EFFECTS

The Ship Fire Doors unit was saved from severe hits during the economic downturn – the shop's order book has been strong during the financial crisis that has raged throughout Europe. According to Kallio, ship fire doors are a niche business, but a truly global one. "Our biggest customers are in Germany, France, Japan and Finland. We also deliver fire doors, for example, to South Korea and Australia, so the European financial crisis did not affect us as much."

The company has been producing fire doors for ships for more than 25 years, and has a solid foothold in the industry. "We are involved one way or another in about 65 per cent of all cruise vessel shipbuilding projects globally. Throughout our history, we have produced tens of thousands of fire doors in luxury cruise ships and cargo ships. However, we're more focused on cruise ships, as they can have more than 1,500 A class fire doors, as compared to only 50 on a cargo ship," Kallio explains. Smart strategic focusing and a mile-long list of references have ensured Parmarine's position among the leaders in the industry.

### SUPPORT FROM PAROC IN FIRE TESTS

As each shipbuilding project is unique, there's a demand for continuous product development and frequent fire testing. The products and structures used in ships must be tested and approved according to the rules and regulations of the International Maritime Organisation (IMO), which functions under the United Nations.

In order to get the certification, the same materials must be used in the production phase as was used in the supervised test situation. The classification society will also oversee the production to ensure that all materials are certified. "In that sense, we are sort of married to Paroc," Kallio laughs.

Parmarine's ship fire doors are all certified and fulfil the regulations set out by the European Union Marine Equipment Directive and major classification societies. Certification, however, is a robust and expensive process, which not all manufacturers are willing to go through. Each test costs about 15 to 20 thousand euros, and with so much at stake in one test, it is important that everything goes as planned in the test situation. "Paroc has provided us with testing facilities in their Parainen factory, which is important as we can test materials beforehand," Kallio says. With the best materials and finest experts, Parmarine is set to maintain its leading position and keep securing people's lives at sea for the next 25 years and beyond.



**RISTO KALLIO**  
Vice President  
Parmarine Ship Fire doors

## CUSTOMER SATISFACTION – A KEY DRIVER FOR INNOVATION AND SUSTAINABILITY

Our responsibility to customers is to respond to their needs with high-quality, sustainable products and services that increase their competitiveness. This drives our own innovation and attractiveness to new and existing customers. In 2014, we continued programmes to improve product quality, delivery performance and logistics and took the decision to make Net Promoter Score (NPS) our main customer feedback process and KPI going forward.

As builders and developers, contractors and distributors, engineers and architects, financiers and owners, our customers feel the effects of the global megatrends that are behind increasing requirements for energy efficiency and safety. So as well as high-quality, cost-effective products, today's customer also values sustainable solutions, like green buildings and recycling services, that preserve the safety, health, longevity and aesthetic value of their assets.

The need for our customers to be both competitive and increase their sustainability performance is a key driver for our product and service innovations, which in turn attract new customers. → Innovation

Customer satisfaction and reputation is therefore a key element for Paroc to achieve profitable growth and have the resources to further invest in innovation and sustainability. One of our strategic targets and main customer Key Performance Indicators for 2015 is to increase customer satisfaction.

### NET PROMOTER SCORE

To ensure customer satisfaction, we want to listen, learn and respond to what customers think of us. Customers naturally give us valuable feedback as part of ongoing communication through visits and meetings, project collaboration, events and training. Together with annual customer satisfaction surveys, these have told us what they like about us – innovation, collaboration, delivery accuracy and trust – but also what is not so good. Based on these findings, during 2014, we pursued improvement programmes in product quality, delivery performance and logistics.

One of our strategic targets and main customer Key Performance Indicators for 2015 is to increase customer satisfaction.

In 2014, we took the decision to apply one common process for collecting customer feedback going forward – Net Promoter Score (NPS) – a continuous customer loyalty metric that allows benchmarking. During October and November, 2014, we ran an NPS pilot project in Finland and Sweden, covering customers from all three divisions. The pilot's data was in line with findings from earlier customer surveys, suggesting that Paroc commands a strong position in the market and in many areas is the preferred supplier. In 2015, we will implement NPS in more countries, gradually expanding coverage to all Paroc markets. Early in 2015, Paroc launched a long-term customer focus programme that will see systematic work towards NPS and other customer targets. It will be one of the year's key programmes within the company.

Responding to customer feedback through continued improvements in our products and our operations leads to new technology and product innovations. → Innovation

As well as being a part of our stakeholder responsibility, this keeps us competitive and attractive to new and existing customers alike.



# DISTRIBUTION OF ECONOMIC VALUE ADDED TO OUR STAKEHOLDERS

## ECONOMIC VALUE ADDED GENERATED 2014 (2013)



### CUSTOMERS

MEUR 417.9 (MEUR 433.6)

We offer our customers high-quality, reliable and sustainable insulation products, solutions, know-how and services which help them reduce their environmental footprint.



## DISTRIBUTION OF ECONOMIC VALUE ADDED



### SUPPLIERS AND PARTNERS

MEUR 256.2 (MEUR 260.0)

We purchase raw materials, products, services and know-how from our partners, creating jobs and enabling long-term development of business and know-how together.



### PERSONNEL

MEUR 93.5 (MEUR 96.7)

We are a significant employer, operating in 14 countries. We train and develop our personnel's competence and invest in health, safety and well-being of our employees.



### INVESTMENTS

MEUR 25.5 (MEUR 58.6)

We invest in new markets to gain growth. Our investments are also directed at research and development as well as improving operational efficiency.



### PUBLIC SECTOR

MEUR 7.7 (MEUR 5.7),  
community investments  
MEUR 0.1 (MEUR 0.7)

We pay income taxes according to local laws and regulations. We also work together with associations and provide training to stakeholders to promote sustainable construction.

Our sponsorships are directed at local activities.



### OWNERS AND INVESTORS

MEUR 124.4 (MEUR 14.6)

We pay interest to lenders and owners, and by growing the value of the company we can produce better profits to our owners. In 2014 Paroc Group paid a dividend of EUR 102.3 million to its parent company.

# OPERATIONAL EXCELLENCE THROUGH INNOVATION AND CONTINUOUS IMPROVEMENT

Innovations are at the core of Paroc's business: they play a key role in our growth strategy, differentiate us from competitors and ensure our position as a frontrunner in the industry. Through our innovation culture and continuous improvement programme, we are able to achieve sustainability in all our operations.

As one of Paroc's key focus areas, innovation as both a process and a core element in our culture has gone through a major revitalisation during the past years. In 2014, the development work started to bear fruit. We have implemented a systematic value-based portfolio management process, which enables us to direct resources to those projects that have the best value potential.

In practice, the process enables a better forecast of a project's concrete outcomes before the project has been initiated. The process has already been implemented in each division through innovation managers and their teams. As a result, the number of processed ideas increased from about 60 in 2013 to 671 in 2014 – a four-digit percentage growth.

## CAMPAIGNS AND FACTORIES TO CREATE A CULTURE OF INNOVATION

We also took steps to advance a culture of innovation within the company. As in 2013, we organised a Group-wide innovation campaign to raise people's interest to innovate small and big improvements and service concepts. In 2014, the theme for the campaign was digitalisation.

To further boost innovation in 2014 we started running specific, thematic innovation processes on identified challenges. The process is based on workshops, brainstorming and feasibility assessment, and aims at pushing innovations rapidly from concept phase all the way to a project proposal phase that includes an evaluation of the business potential. Based on the innovation factory results, the value potential of these front-end ideas has been very promising. At the time of writing, at least one of the ideas has proceeded to the project implementation phase.

In addition, we use incentives and target-setting at a personal level to encourage our employees to innovate.

## CONTINUOUS IMPROVEMENT MEASURES FULLY IMPLEMENTED

At Paroc, we aim at streamlining our ways of working through the Continuous Improvement Paroc programme (CIP) to ensure a sustainable working culture aligned with our business strategy. The programme is built on four different blocks: performance management, visual factory, systematic problem



solving and autonomous maintenance. We also apply the 5S framework to create a safe and efficient working environment.

These methodologies help individuals understand their role in the company with regards to our strategy, targets and performance. They also simplify processes and standards, as well as help solve problems and prevent them in the future. In addition, through autonomous maintenance we can ensure better performance of our machinery.

As part of this, we have defined KPIs for each plant and are auditing them twice a year. To ensure stable progress, we aim at continuing with the audits even after the project, which came to a close in the end of 2014. After the project, the CIP tools will be applied in Paroc in everyday work.

## INNOVATION PROCESS

The offering and technology creation process at Paroc is based on a systematic process stage-gate innovation model. The process has the following phases:

- Idea collection and processing is done on a divisional level, where a decision forum decides whether an idea passes on to the next phase.
- Feasibility study develops the idea further into a concept to find out whether the idea can be delivered in practice and whether it can be profitable. This phase is also for further refining and development of the idea, including business model and earning logic.
- Project plan is done for ideas that pass the feasibility study and support Paroc's strategy. The detailed plan lowers the risks of failure, and must be accepted by the division's management team in order for the project to proceed.
- Development project implementation phase is the execution of the project plan.
- Project closing and evaluation is done after the project's benefits and deliverables have been identified.
- Commercial evaluation can be done after the product or service has been on the market for three years for improved products and five years for new products or services.

## INNOVATION IS AT THE HEART OF PAROC'S ABILITY TO PROVIDE THE BEST INSULATION SOLUTIONS FOR TOMORROW TOO

Innovations from our own employees and through cooperation with others are the lifeblood of our competitiveness and the source of continuous improvement for our customers, society and the environment. In 2014, we stepped up ways to encourage our own people to contribute ideas.

### INNOVATIONS THAT HELP OUR CUSTOMERS TO IMPROVE PEOPLE'S LIVES AND THE ENVIRONMENT AROUND US

As efforts to increase innovation began to show clear results in 2014, we documented and processed numerous ideas to either provide our customers with new products and solutions or to improve internal efficiency through technology innovation. During 2014, around 200 documented ideas were collected from people in Base Production alone. In 2015, we expect that around a quarter of all operational efficiency improvements will come from internal technology innovations. Below are some of the 2014 initiatives that have improved our efficiency and innovations that have enriched our portfolio.

### INNOVATIONS THAT ENRICHED OUR PRODUCT PORTFOLIO

In 2014, we created PAROC PROOF, a high-quality lamella roofing product, which has a smart packaging solution to remove the need for palettes and so reduces waste

materials and storage space. PROOF was an immediate success in Finland and its popularity is also growing in Sweden. Feedback from customers has been very positive, especially on the planning of the packaging, product quality, and health and safety considerations throughout the product's life cycle.

Our Building Insulation division further expanded its offering with, for example, renERGIA for energy efficient renovation of single family houses and the Cortex One solution for wooden high-rise buildings. Our renZERO concept for energy efficient renovation of single family houses (including renERGIA element) was featured in Skanska's "Deep Green Challenge" contest for sustainable construction. PAROC Linio 10 – a rendered façade insulation slab of non-combustible stone wool – was awarded gold medal as product of the year in Lithuania.

Our Technical Insulation division introduced several products during the year; a new solution based on a standard product for the fire protection of pipe penetrations through

During 2014, around 200 documented ideas were collected from people in Base Production alone.

walls and decks to prevent fire from spreading PAROC Hvac Section AluCoat T; a self-adhesive lamella mat for thermal insulation of ventilation ducts PAROC Hvac Lamella Mat AluCoat Fix; and the development of a solution for fire protection of ventilation ducts for the Polish market PAROC Hvac Fire Mat and PAROC Hvac Fire Mat GreyCoat.

During 2014, Paroc Panel System introduced new packaging for use with all our panel products. Feedback has been positive as the new packaging solution provides better protection for the panels and contains fewer materials, thereby improving the ease of recycling the packaging.



## IS EUROPE PLAYING WITH FIRE?

Lately, the European Union has made significant efforts to modernise and standardise regulation concerning the health and safety of Europeans. In the process, however, one key aspect has not received the attention it deserves: buildings' fire safety. Current safety measures simply do not correspond with reality. In addition to deaths and injuries, the monetary costs related to fires in the EU amount to over EUR 126 billion annually.

There has been a considerable change in the way we build and furnish our homes and public buildings, which has led to an increase in the fire load of buildings. Every year more than 4,000 people are killed and 70,000 people are injured by fire and smoke in Europe. The

means to improve fire safety do exist – the challenge is to get contractors and builders to employ them.

Even though there have been significant developments and innovations with regards to fire safety of building materials, the lack

of regulation and out-dated testing methods fail to take these developments into account or contribute to their use in the industry. “Fire safety regulations and standards for buildings and construction products seem to have failed to keep pace with the innovations that regularly revolutionise the industry,” says Juliette Albiac, Managing Director of Fire Safe Europe, a broad based alliance of fire experts, fire fighters, European associations and international companies striving to improve fire safety in buildings all across the EU. “It is time for policy makers to take fire safety seriously.”

### STANDARDISED REGULATION THROUGHOUT EUROPE

People spend more than 90 per cent of their time indoors, and 90 per cent of fires in the EU happen in buildings. In the event of a fire, the average time it takes for firefighters to arrive at the scene is between 8 and 15 minutes. However, a small fire can become a blazing inferno in less than 3 minutes, leaving a dangerous gap in between. The time for evacuation could be increased by using materials that are non-combustible and that can withhold fire. However, because fire safety regulations vary considerably from country to country and the use of combustible materials has increased, the safety of buildings has actually decreased. With European-wide, standardised regulation the situation could be improved and the safety of Europeans enhanced.

In addition to creating unified standards, their realisation should be monitored by using certified workers and conducting inspections. In order to bring the standards up-to-date, better testing methods are needed. “In the EU, construction products are governed by the Construction Products Regulation (CPR). The basis of the CPR is fundamentally sound, but the fire safety test methods it refers to have not

been revised since 2002, and are based on data from no later than 1994,” Albiac reports.

Moreover, the tests have limitations in their ability to predict the performance of material in real, large-scale fires because testing is conducted in situations that simulate small-scale fires and do not take the increased fire load into account. Therefore, classifications based on these tests do not give builders and consumers a comprehensive image of the safety qualities of the material. For example, the toxicity of smoke that combustible building material releases into the air is not currently measured, even though smoke is the cause of more than half of the fire-related deaths in Europe. Without proper data, consumers are unable to choose the safest material.

### ENERGY EFFICIENCY AND SAFETY COULD BE ACHIEVED SIMULTANEOUSLY

The European Commission has set targets for the energy efficiency of buildings: by 2018, new public buildings and by 2020, all new buildings need to reach near-zero energy levels. In addition, all existing public buildings over 500m<sup>2</sup> must display energy performance certificates in 2018. This means that in the near future there is a need for renovation and the use of high-quality insulation and building materials.

This offers the perfect opportunity to improve and standardise fire safety testing methods and regulation, and put them into action. “This exciting period of change and renovation offers the EU an unprecedented opportunity to act and improve the fire safety of its built environment,” Albiac points out. “Fire represents one of the oldest and most menacing threats to daily life and must not be sidestepped.”

If the process is started now, fire safety can be greatly improved in parallel with the creation of energy savings, and Europeans can enjoy safe and comfortable surroundings.



**JULIETTE ALBIAC**

Managing Director  
of Fire Safe Europe



It is time for policy makers  
to take fire safety seriously.



Fire Safe Europe organised a fire test in partnership with the Faculty of Civil Engineering of the University of Zagreb.



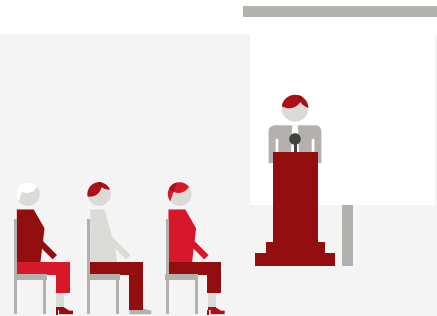
### FSEU FIRE SAFETY SEMINARS

In 2014, Fire Safe Europe organised two fire safety seminars including large-scale testing of insulation materials in façades.

The first one was held in Croatia, in partnership with the Faculty of Civil Engineering of the University of Zagreb, while the second one took place in Espoo, Finland, in partnership with the Finnish Fire Protection Association, the Finnish Association of Fire Fighters and the Finnish Association of Fire Officers.

In Croatia, the tests aimed to demonstrate the performance of different types of insulation systems in high-rise buildings. The results were striking: the sample fitted with combustible insulation was completely burned out within 15 minutes, releasing an abundance of black smoke. The sample covered exclusively with non-combustible insulation contained the fire and remained structurally undamaged.

The sample with combustible insulation and a non-combustible fire barrier above the source of the fire delayed the spread of the fire for 10 minutes. However, when the blaze "jumped" this barrier, the same black smoke and furious flames of the first wall occurred. The tests highlighted the shortcomings of the



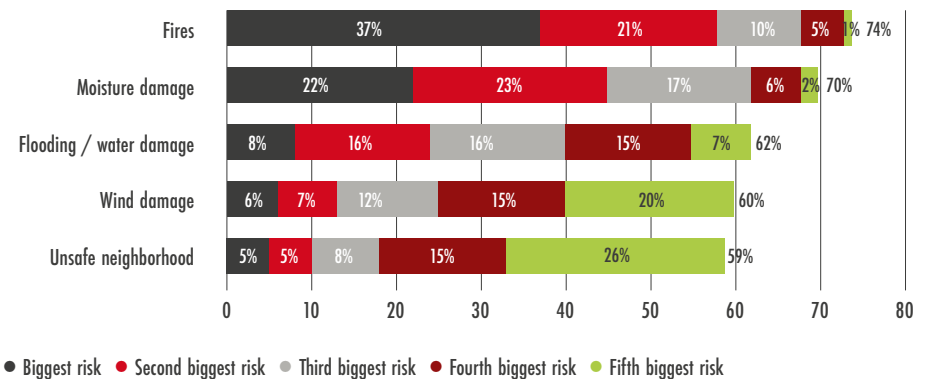
current EU testing regime for facade solutions given that there is no harmonised large-scale European test to ensure that only systems that meet rigorous fire performance criteria should be allowed on high-rise buildings.

In Finland, the tests aimed to promote a better understanding of the potential effect of facades on the spread of fires through live fire demonstrations. The demonstrations included four simultaneous large-scale room corner fire tests, according to ISO 9705 standard, with four different insulation materials. The results supported the opinion that facades do indeed contribute to the spread of fires in large or high-rise buildings, depending on the types of materials used. The tests showed the weaknesses of current European test practices when it comes to fire safety, which do not correlate with the real-life façade fire situation. It also brings into question the current fire classification system for building products, which is not adequate for all the materials tested.

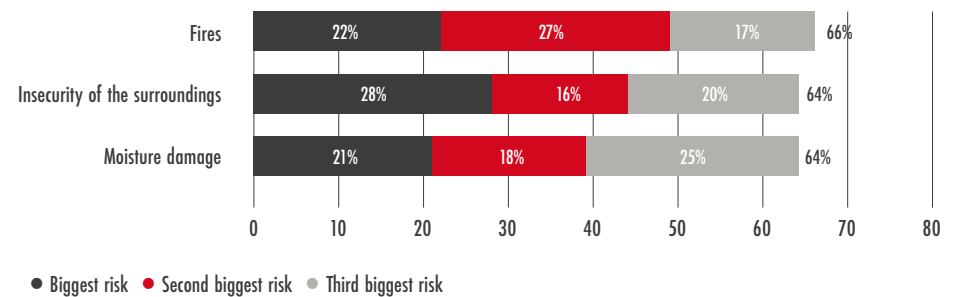
→ For more information on fire safety in buildings read FSEU's call to action on [www.firesafeeurope.eu](http://www.firesafeeurope.eu)

### PEOPLE FEAR FIRES THE MOST

Contrary to the public discussion about health risks in built environments, IROResearch report reveals that Finnish people consider fires as the biggest threat to their health and safety. The study was conducted in February 2014 and covered 1,000 respondents. 37 per cent of people think that fire is the biggest risk at home when asked about health and safety of the whole family.



Although moisture damages and indoor air problems in schools and office buildings have controlled the public discussion in Finland during the past few years, the respondents still feel that fire poses the biggest or second biggest health and safety threat in public built environments as well.



After these results, it is surprising that only a minority of respondents is interested in learning more about the fire safety of their built environment. In addition, 56 per cent of the respondents think that the Finnish legislation on fire safety is extensive enough.



## EXTENDING RESPONSIBILITIES DOWN THE VALUE CHAIN

For Paroc, addressing responsibility in the supply chain goes deeper than merely demanding product quality or proof of an environmental management system. We aim to reduce the impact of raw material extraction across all responsibility issues.

### RESPONSIBLE MINING IN OUR OWN QUARRIES

Responsible sourcing of raw materials is of great interest to our stakeholders. We continue to operate six active quarries, all in Finland. Although administration, planning and quality control is in Paroc's hands, these quarries employ a number of subcontractors for mining services. We initiated internal and external audits, and expanded the scope of ISO 9001 and 14001 certification, to cover all quarries by the end of 2013.

The main safety level indicator for our quarries are inspections made by the Finnish Mining Authority (Finnish Safety and Chemicals Agency, Tukes) and their assessment report, which includes a safety level grading. The Mining Authority also invites the Regional State Administrative Agency (AVI) and the local Fire and Rescue Service to make occupational health and safety and fire safety inspections respectively. The Centres for Economic Development, Transport and the Environment (ELY Centres) also make periodical environmental inspections on our quarries.

To ensure a high level of safety for people and the environment, we continue to have both external and internal audits in two to three quarries every year. As in recent years,

**In 2015, every one of our quarries will have been audited both internally and externally at least once during the certification period of three years.**

through preventative safety measures we avoided any major incidents, accidents or spills in our quarries during 2014.

During 2014, we made internal and external auditing a part of normal operations and conducted internal audits at the Parainen and Mäntyharju quarries and external audits at the Salo and Parainen quarries. We also continued to carry out safety walks together with subcontractor representatives and third parties. For 2015, we have scheduled further internal audits at the Oulu and Lapinlahti quarries and external audits at the Metsäsianniemi, Mäntyharju and Savitaipale quarries, thereby ensuring every quarry will have been audited both internally and externally at least once during the certification period of three years. Continuous improvements during 2015 will



include, for instance, tying personal incentives for people in key roles to safety targets.

Our sustainability thinking is reflected in the good relations we strive to build with local communities close to our quarries and consideration for the ecosystem, including forward planning for potentially ending quarry operations.

**THE NEXT STAGE IN OUR COMMITMENT TO SUPPLY CHAIN RESPONSIBILITY**

In addition to our own quarries, we buy stone as a final product from other companies. There were no significant changes to the structure of our sourcing of direct materials compared to previous years. We are increasingly moving from the use of natural raw materials (stones) to non-virgin materials like steel slag and other products when feasible. We aim to source local melt raw materials whenever possible. According to the building certification system BREEAM's definition, we can claim that more than 60% of our stone raw material is responsibly sourced.

We pursue the same GRI responsibility issues with our suppliers as we report on in our own operations. Our biggest impact in the supply chain in terms of people and the environment is in basic raw materials and transportation. Part of our responsible sourcing project therefore strives to have a certified supply chain according to BRE standard. We encourage our suppliers to follow local recycling practices, both in raw material supplies as well as packing materials, such as plastics and pallets.

To date, we have typically assessed suppliers' ethical and environmental performance either in conjunction with visits – where other issues, such as quality and process improvements as well as total cost are also raised – or when an ethical or environmental concern has arisen. In 2014, we made prepara-

tions for the next stage in our commitment to responsible sourcing of raw materials; a more systematic approach to assessing our supplier requirements.

In 2014, we made a feasibility study into setting up a more proactive and frequent supplier audit process. Going forward, as part

of the cooperation with our external auditing partner, we will define focus areas for special attention, which may include raw materials and so require more in-depth assessment of our supplier performance. In early 2015, we will launch a responsible sourcing project to develop the procedures and tools to assess suppliers.

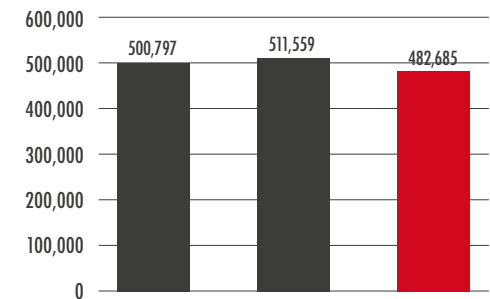


**TRANSPORTATION AND TRAVEL PRACTICES**

Regarding transportation, we continued rolling out Delta project, an initiative started in 2013 to harmonise and develop logistics services. Good results were achieved by continued implementation of smarter services that meet customer needs, such as optimizing truck capacity utilisation and compressing stone wool products in packages up to 60% of their original size. With plants close to our market areas, we are able to reduce the need for long-distance deliveries.

Means to reduce the impact of travel on the environment include a car policy that has reduced the CO2 limit of our cars by 20 g/km and increasing internal use of on-line teleconferencing tools to favour remote meetings over unnecessary travel. In the case of necessary business trips, we encourage people to prioritise direct flights over flights with stopovers.

**MATERIAL USE (T)\***



\* Including stone raw material and chemicals

# OPERATIONAL EFFICIENCY BY REDUCING ENERGY CONSUMPTION AND WASTE

Efforts to improve operational efficiency by reducing energy consumption and waste in our production processes positively impact both our own operational costs as well as our environmental footprint. The constant improvements we explored and implemented during 2014 further reduced both direct and indirect energy consumption and kept us on track to reach our 2020 energy reduction targets.

## ENERGY EFFICIENCY TARGETS AND ACHIEVEMENTS IN 2014

Paroc has a target to reduce its energy consumption by 30 per cent by 2020 as compared to 2011. Towards the end of 2014, we reached nearly half of our 30% target and therefore we are confident that we can reach the target, but not complacent. During 2014 alone, the decrease in our energy consumption corresponded to the CO<sub>2</sub> emissions of almost 2 million family cars. But it will get increasingly tougher to make progress and will require us to think out of the box in new process design.

Melting is the most energy intensive part of stone wool production. In our Base Production division, reducing heat loss therefore represents one of the biggest potential improvement areas in operational and energy efficiency. In 2014, we continued to reduce heat loss by continuously optimizing melt units. Going forward we will look at energy consumption increasingly in other parts of the production process, such as flue gas treatment and curing oven.

The energy audits we initiated during 2012 were completed for all of our plants during

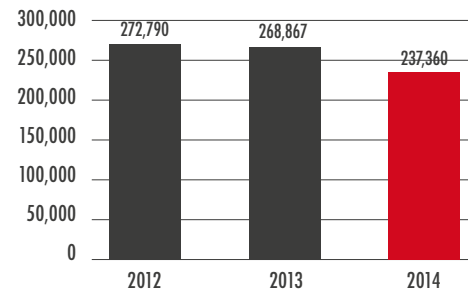
2014. This was a proactive move by Paroc a year ahead of the requirements laid down in the EU energy efficiency directive. Based on the findings of our audits, we created and began implementing annual improvement targets that engage our people to think energy-wise, contribute ideas through our innovation processes and so achieve further energy savings in everyday energy use.

## DIRECT AND INDIRECT ENERGY CONSUMPTION FURTHER REDUCED

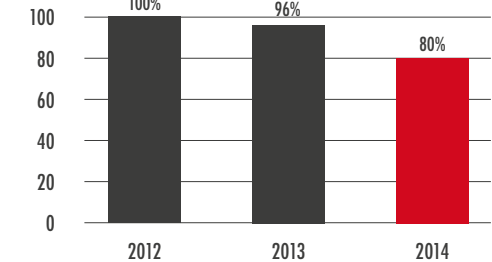
Paroc once again reduced both its direct and indirect energy consumption in 2014. In direct energy consumption the figure dropped from last year and was 86% compared to 2012 figures. In indirect energy consumption, a further drop from last year meant 91% compared to 2012 levels. Savings in direct energy are understandably easier to achieve than in indirect, as saving electricity typically means investing in low-energy equipment.

Regarding use of renewable energy in our operations, we have used biogas generated at municipal landfills for several years. The proportion is quite stable; just 1% of our total

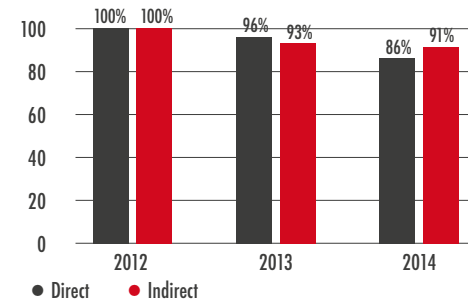
CO<sub>2</sub> FOOTPRINT: TOTAL GHG (T)



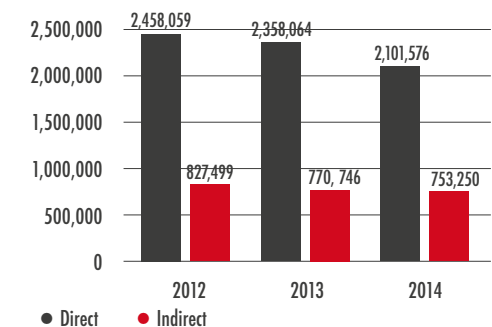
REDUCING CO<sub>2</sub> / EMISSION PER PRODUCED TONNE, RELATIVE 2012



DIRECT AND INDIRECT ENERGY CONSUMPTION, RELATIVE 2012



DIRECT AND INDIRECT ENERGY CONSUMPTION (GJ)



energy consumption consists of renewables. Use of landfill gas is in part limited by its availability. For instance, in Lappeenranta access to this form of energy is no longer available.

## 2015 PLANS FOR OPERATIONAL EFFICIENCY

We will continue to implement actions based on the findings of our energy audits from 2013 and 2014. An example of this

is a development project called MIPS in our Technical Insulation division. MIPS concentrates on the minimization of density deviations in pipe sections. Achieving less density variation in production means that we can meet product specifications with a smaller margin and thus increase efficiency through process improvements. Even small improvements in this area allow significant decrease in yearly production costs.





**RAW MATERIALS EFFICIENCY**

For us, raw material efficiency means aiming to use less virgin raw material and substituting it by reusing and recycling our own waste. Due to the very specific chemical demand for biosolubility, it is very challenging for stone wool production to actually find residues suitable for our production. To an increasing amount, we are recycling other industry waste, for instance slags, in order to substitute rare stones. Paroc has increased its use of recycled materials by 4% since 2013, thereby decreasing its use of virgin raw material by a corresponding amount.

**WASTE TO LANDFILL PROJECT REFOCUSES ON RECYCLING**

In our waste to landfill efforts, which targets zero waste landfill, we achieved a significant drop from 2013 levels, with 2014 levels at 91% of 2012 figures, and put Paroc back on course. Our Hällekis plant has achieved only 2% waste that ends up as landfill. Comparing landfill to produced tons, we achieved a 1% improvement over the previous year.

In central Europe external waste recycling is common. Stone wool waste is readily recycled in both cement kilns and used as additives for building brick production. In order to prioritize internal waste recycling of own waste, we changed the focus of development work to concentrate on our own capability to recycle materials. Although we still aim to avoid landfill, we also introduced a new KPI for recycling, namely “Waste out from plant”, which targets 100% use of plant resources and is followed up on a monthly basis. In turning our attention to our own recycling processes, we are building a solid basis for future utilization of process waste internally. During 2014, we secured the ability to recycle excess stone

We introduced a new KPI for recycling, “Waste out from plant”, which targets 100% use of plant resources and is followed up on a monthly basis.

wool (briquetting) at all but one of our sites and therefore improved our readiness to tackle recycling challenges in the years ahead.

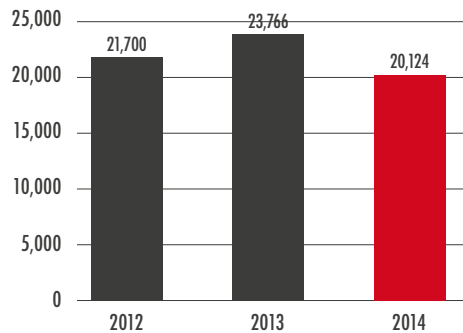
In 2014, we managed to achieve a 4% overall improvement in waste recycling compared to 2013. With new recycling possibilities in place we anticipate major improvement in the future, which may as much as double the amount of our process waste we are able to recycle.

We not only recycle and reuse waste within our own production, but also at the customer’s building site. The partnership we initiated with L&T in 2013 to help our customers reduce construction site waste, was followed in 2014 by cooperation with Ragn-Sells in Sweden for recycling panel core and metal separately. This programme made it to the final of Skanska’s competition “Deep Green Challenge” for sustainable construction. We offer all customers the opportunity to recycle clean stone wool waste upon agreement at our nearest plant.

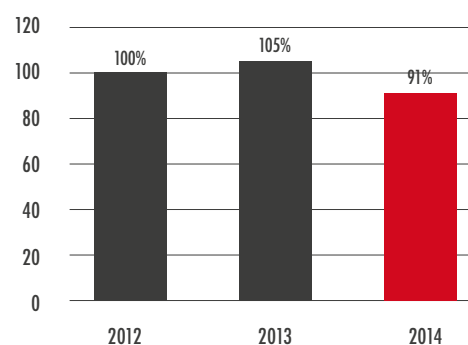
**EMISSIONS FURTHER REDUCED**

We know that for each tonne of CO<sub>2</sub> generated in the production of stone wool, about two hundred times that is saved by the thermal insulation properties of that stone wool over 50 years. Regarding greenhouse gases, in 2014, we continued to reduce emissions and our CO<sub>2</sub> footprint by reducing use of energy, with 2014 levels just 86% those of 2012.

TOTAL WASTES TO LANDFILL (T)\*



REDUCING WASTE TO LANDFILL, RELATIVE 2012



\* ca. 5% per produced tonne

## SAFETY IN MINDS AND MANNERS

Safety has become a priority to Petri Freman, who works as the Chief Shop Steward of Paroc's Base production in Parainen. Having held a number of positions during his 13 years of employment, Freman has seen the factory from many angles and witnessed the company's progress in safety first hand.

Paroc's stone wool plant in Parainen has about 135 employees. For Freman, the starting point is that every one of them gets home healthy and unharmed after each workday. After the rise of safety as a key focus area at Paroc, the prospects for this have improved significantly. "The most visible change is the improved personal protective gear and devices. In addition, thanks to safety regulations and instructions that were validated at the beginning of the decade, our working methods have become a lot safer," says Freman.

Paroc's strength as an employer is the low turnover in workforce, which derives from the company's stability even in tough market situations. Many employment contracts have lasted a lifetime, starting from summer work and ending at retirement. "Even with a 13-year career at Paroc, I am still far from being the most experienced employee here. In terms of safety, it works to our advantage that people are familiar with their colleagues and the factory, and maintain strong professional competence in their own fields."

### EXCEPTIONAL SITUATIONS REQUIRE PROACTIVE TRAINING

Due to the high level of professionalism in everyday work, the highest risks concerning safety arise in exceptional situations. For example, during maintenance work the

surroundings are demanding as the machines are running in tandem. Freman continues: "The daily production of stone wool has not caused injuries leading to days absent for as long as I can remember. However, external workers are often needed for maintenance projects, and they must be guaranteed the same level of safety as our own workers. We have tackled this challenge by organising whole-day training before all major projects. Nowadays, we also provide safety training for everyone entering the factory, which is an important improvement."

Training is a vital part of the routine also for Paroc employees. The maintenance crew covers the safety issues of different work tasks thoroughly in their weekly and monthly meetings. Specific training has upgraded safety in tasks that are done on a daily basis. Paroc has utilised the increased availability of courses to offer its employees more training than that required by law. In addition to the mandatory fire and occupational safety courses, Paroc provides courses in lifting work, hydraulics, tyre pressure and first aid, to name a few.

### BIG SHIPS TURN DIRECTION SLOWLY

Besides being a strength, low staff attrition can pose challenges as people may be resistant to change. According to Freman, tightened

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In terms of safety, it works to our advantage that people are familiar with their colleagues and the factory, and maintain strong professional competence in their own fields.



**PETRI FREMAN**  
Chief Shop Steward

safety instructions were not accepted without hesitation. Freman laughs: "As my predecessor wisely put it, 'the amount of wool produced was the number one priority for decades, which is why safety cannot replace it in a matter of days.' It's easier for new employees to adopt this safety culture. However, I have started to see a change in attitudes. Even the stubborn "old-timer" Finns are realising that safety is an important part of their expertise."

Active orientation towards safety has also increased the number of safety observations from the employees. This has lowered the number of incidents which has led to fewer injuries. "We have many channels through

which safety issues can be reported: myself as the Chief Shop Steward, the Occupational Safety Representative, Occupational Safety Committee and morning meetings," says Freman and promises: "As long as an issue is reported, it will not be left unheeded." All observations are documented and the information about them is accessible to all.

So far, efforts to increase safety through changes in working methods and attitudes have created great results: the Parainen factory had zero accidents that led to absence in 2014. Everyone got home safe, which makes growing pains worthwhile. But the work continues every day, in every plant.

## OCCUPATIONAL HEALTH AND SAFETY – RELENTLESS WORK TO PROTECT OUR PEOPLE

The health and safety of our employees is of the highest priority and critical to our success, reputation and role in the world. In 2014, our continuation of preventative work and dedicated programmes saw a decline in lost time accident rates by 25% and an increase in company-wide appreciation for safety. Furthermore, we successfully implemented a Group-wide OHSE system for reporting incidents and tracking progress.



Healthy living and a safe environment is one of the main purposes of the products we produce. So it is only fitting that we have made Occupational Health and Safety (OHS) the number one priority for our employees. We know that healthy people, happy in a safe working environment, are a precondition for innovation, growth and the success of our company.

### MINIMIZING RISKS THROUGH PREVENTATIVE MEASURES IN KNOWN AREAS

We take a preventative approach to minimizing safety risks and include all organisation levels and functions in continuous improvement initiatives to increase consistency across our sites. In addition, we provide dedicated and general training on a wide range of OHS topics and track the perception of working conditions, working methods and personal competency in our bi-annual employee opinion survey (next survey 2015).

At Paroc, the biggest risks to employee safety are in maintenance and service work. In those jobs the working conditions can often be challenging and the tasks very complex. Proper planning of the worker's role and how he or she carries out the work safely both minimises risks and makes for a smoother work process.

Paroc products are safe to handle. Nevertheless, in line with recommended safety practices we regularly monitor personal exposure to the emission of potentially harmful substances. We have established a robust and systematic risk assessment process and conduct periodic health inspections on all employees exposed to potential emissions.

### LOST TIME ACCIDENT RATES DECLINING

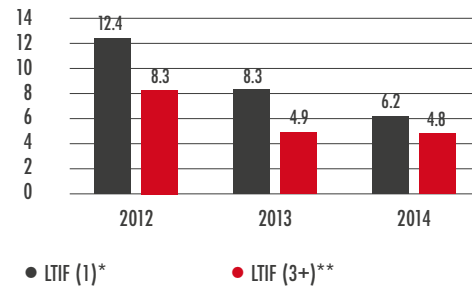
Our main strategic target in OHS is to reach zero accidents. In 2014, our lost time accident rate declined by 25%, from 8.3 to 6.2 accidents per million hours worked with no fatal



accidents. The number of sick leave absences also declined. These achievements were in part due to measures introduced as a result of our employee opinion survey in 2013. We continued the practice of safety walks with observers coming from shop floor right up to the CEO. Cross-functional participation has proved to generate fresh pairs of eyes for hazard identification.

Improving safety is about small preventative actions in every location. Learning to look at the workplace specifically from the safety angle has initiated many improvement suggestions, reflected in our safety slogan “Think before acting”. In 2014, we recorded over 50% more personal safety initiatives and safety notes than in the previous year. Among the many safety improvements introduced were better traffic arrangements, such as route markings, additional traffic signs and mirrors to the crossroads, as well as upgrading tools to safer models. Meetings between staff and management, as well as safety committee work, was supported by health care professionals to deepen expertise and spread good practices across the organisation. During the year, we

**ACCIDENT FREQUENCY**



\* Accident resulting in one day's absence from work  
 \*\* Accident resulting in more than three days of absence from work

also introduced more hands-on elements into our safety, health and well-being training programmes to make them more interactive. We also held a “Safety Day” event at our Tver plant in Russia, using competitions to help staff increase their knowledge of first aid, fire safety and OHS in general. All this has helped to raise employee awareness, involvement and engagement in these topics to a new level. This is reflected in the increase of the Group's safety KPI index, SAF (Safety Activity Frequency containing safety notes, safety walks and safety moments) from 63 in 2013 to 82 in 2014.

**A QUANTUM LEAP IN REPORTING INCIDENTS AND MONITORING PROGRESS**

In the beginning of 2014, we implemented the first stage of our new OHS management system ‘OHSE Monitor’, which proved to be a quantum leap in how we manage common safety processes across the whole Paroc Group. Designed according to the principles of the OHSAS 18001 standard, this system provides easy entering and processing of events, sends automatic emails on incidents and deviations, and enables real-time and transparent follow-up of deviation reports. As a result, we have managed to significantly increase the number of documented events and actions, share information throughout the whole organisation and better able to track our progress in OHS.

In 2015, we are planning to update our vision for health and safety to further strengthen core practices and build a culture of proactive engagement in safety. One aim of this is to increase consistency across our divisions. Paroc intends to further revise and develop its practices in fire safety, monitoring of circumstantial hazards (especially in chemical safety), contractor safety processes and OHS support to functions outside production.

# PERSONAL AND PROFESSIONAL DEVELOPMENT HELPS OUR EMPLOYEES TO REALISE THEIR FULL POTENTIAL

In a fast-changing world, it is essential for the health of our organisation, well-being of our staff and competitiveness of our customer offering to support the development of people's competencies through extensive training. We also help our people to realise their full potential through systematic performance management and by efforts to develop the right working environment and culture.

Skilled and motivated employees form the basis for successful business. We develop the personal and professional skills of our people through a competency framework, a wide portfolio of learning solutions and regular performance management. We made excellent progress in responding to the results of our 2013 employee opinion survey. For example, our Base Division reached a target to close 85% of their 405 actions by the end of June, 2014. This included actions, such as the development of internal communication channels, job descriptions, maintenance tools and support from matrix organisations.

**LEARNING SOLUTIONS**

We support competency development based on people's individual needs for current work and future career plans. To promote continuous learning, each employee annually reviews his or her competencies and related

action plan during a development discussion with his or her manager.

Examples from our extensive training portfolio include self-leadership, sales, soft skills (such as influencing, feedback and communication) and health and safety. Some of these are available as global and local versions and carried out as group workshops, classroom and project development assignments, webinars, as well as coaching and mentoring.

In 2014, Paroc logged up the highest amount of training and development activity for several years as measured by the number of participants or different programmes available. Examples include:

- Self-Leadership programme; a major new development to help office workers work more efficiently, prioritise their work and develop their personal ways of working.



- Sales leadership training for all sales managers and a sales training programme for all sales teams in the company to support the strategic goals of customer focus and innovation in the customer interface.
- Cross-training of people for increased flexibility in production on different machines in our Technical Insulation division. This follows the transfer of most of the production equipment from Lappeenranta to our locations in Hällekis and in Skövde.
- Intensive executive development course for our Russian leadership team as well as a self-leadership programme under the theme “Paroc Take-off”.
- Performance management.

A key element in continuous learning and development is providing feedback and guidance to each team member on a regular basis. Every employee, including plant workers, has the opportunity for at least one annual development discussion with his or her manager. Targets are set together with the manager, and link in to strategic priority areas, such as OHS, customer focus and innovation. We have an annual bonus scheme for white collar workers, which takes into account business and individual performance, and separate bonus schemes for blue collar workers in production sites. Annual salary reviews also take performance into consideration.

Managers are trained to support target setting, feedback and performance assessment processes and tools, through dedicated leadership training and team development programmes. We have systematically improved our talent management processes for the managerial positions during past years. For 2015, Paroc has plans to encourage more systematic talent management on all levels of the organisation.



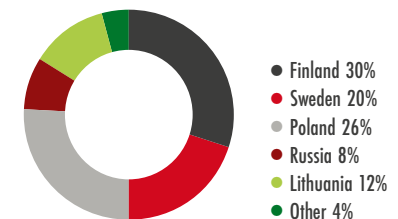
**SUPPORT FOR PEOPLE'S CAREERS**

Paroc supports lifelong learning by catering for the employee's long-term career aspirations and developing the right working environment and culture. At the end of 2014, Paroc began work on an Employer Branding programme to explore what attracts and retains workers and where the company can improve.

In the event of job reductions, Paroc is committed to supporting impacted employees

as they seek redeployment within the company or prepare for new opportunities outside the company. About half of the 250 employees at our Lappeenranta site will continue on there until 2016, when we are due to complete the closure process started in 2013. Some employees have already moved to other positions inside Paroc or retired, thereby reducing the number of lay-offs originally expected by almost 50 at the time of writing (March, 2015).

**PERSONNEL BY COUNTRY, %**



## TOWARDS SAFER WORKING ENVIRONMENTS FOR FIREFIGHTERS

The safety of buildings and firefighters's working conditions go hand in hand. The development of building standards has, however, been of concern during the past years. The use of combustible building materials has increased as has the amount of furniture and electronics inside buildings. These elements together constitute a serious fire risk that threatens people's homes and workplaces, as well as pose a serious health risk for firefighters in their work.

The Finnish Emergency Services College conducted a study in June 2014, which revealed that firefighters consider combustion gases, inflammable insulation materials and increased amount of moveables to be the hindering their work most. People's consumption mania is difficult to affect, but choosing smart building materials already in the construction phase can make a real difference.

"Lately, the way we build and live has changed, and this has had a negative effect on firefighters's work. Combustible materials speed up the spreading of the fire as well as releases toxic gases in the air. This in turn means that firefighters must use a considerable amount of time for preparations, such as making sure that the building structures are solid. The consequence is that the actual rescue work and firefighting becomes slower," says Kim Nikula, the President of the Finnish Association of Fire Fighters (SPAL).

### WHERE TO START?

One of the first things to improve the health and safety of firefighters is to take a good look at the current building standards. Paroc

is collaborating with the Finnish Association of Fire Fighters to improve the health and safety of firefighters in Finland and the whole Europe. The aim is to promote buildings' fire safety and create high-class, uniform and up-to-date fire safety standards for buildings. Through Fire Safe Europe, the topic is getting the attention it deserves throughout the continent.

The current regulations are insufficient, and the same applies to testing standards used to classify materials. For example, toxic gases are tested in circumstances that differ greatly from real life situations where fires are often larger and more mature.

Up-to-date information about material qualities and better standardisation would lead to enhanced know-how among builders and consumers, reducing the risk of nasty surprises for firefighters in their daily work.

"Influencing the development of better fire safety standards is one of the means to promote safe building and healthier working conditions for our members. With better standards we also aim to decrease the exposure of firefighters to toxic gases that cause cancer", Nikula says.



**KIM NIKULA**  
CEO  
Finnish Association  
of Fire Fighters

photo: Mauri Reihonen / Compic

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Influencing the development of better fire safety standards is one of the means to promote safe building and healthier working conditions for our members.

Fire safety was the main theme in Paroc's marketing communications during 2014.



# THREE BURNING ISSUES FOR PAROC'S FIRE SAFETY AGENDA

There are three key issues, which are consequently shaping our agenda in fire safety. We are also addressing these issues in our own various activities, such as fire tests on our own products and research with firefighters.



Firstly, we support the tightening of fire regulations. Increased use of combustible insulation and thicker insulation as well as the higher quality of movable property have significantly increased the fire load of buildings. As a result, the time required for people to evacuate a burning building has been cut down drastically from 15 minutes to 3–5 minutes. These changes have not yet been taken into account in current regulations.



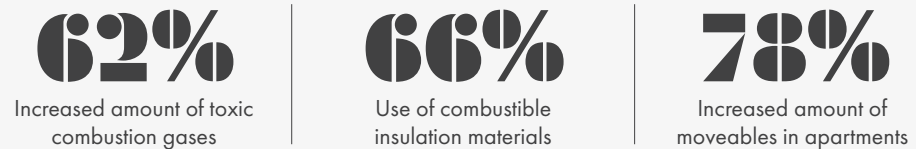
Secondly, there is a need to update the testing standards of building materials. Current fire classification ratings of building materials are based on a room fire scenario where the source of ignition is, for example, a burning waste basket. The fire classification of insulation materials should be based on a fire where the material's reaction is tested in realistic conditions, i.e. after a flashover.



Thirdly, there should be widespread use of certification to ensure safe fire-proofing. In construction, the installer of the fire protection is responsible for the quality and functionality of the building material's fire safety. Even if the installer has good plans, it is still necessary to confirm fire-proofing functionality in practice through installer certification and fire authority inspections.

## STUDY CONCLUSIONS

### FACTORS HINDERING FIREFIGHTERS' WORK



### FIREFIGHTERS' SOLUTIONS FOR OCCUPATIONAL SAFETY

- 1.**

Improving buildings' fire partitioning
- 2.**

Increasing the use of non-combustible materials
- 3.**

Using door closers in high-rise buildings

93% of firefighters\* state that stone wool would be their choice of insulation

\*397 Finnish firefighters responded to the Finnish Emergency Services College study



## GRI

Paroc publishes its sustainability report annually as part of its commitment to stakeholder transparency and sustainable development. This is the company's fourth report, which has been produced in accordance with application level C of GRI's G3.1 guidelines.

# GRI INDEX

- Fully reported
- Partially reported

Profile Disclosure	Disclosure	Level of reporting	Page	Remarks / direct answer
<b>Profile disclosures</b>				
<b>1. STRATEGY AND ANALYSIS</b>				
1.1	Statement from the most senior decision-maker of the organisation.	•	4–5: CEO's review	
1.2	Description of key impacts, risks, and opportunities.	•	4: CEO's review Financial Statements	
<b>2. ORGANISATIONAL PROFILE</b>				
2.1	Name of the organisation.	•	2: Paroc in brief	
2.2	Primary brands, products, and/or services.	•	2: Paroc in brief 10–11: Divisions and business units	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	•	10–11: Divisions and business units	
2.4	Location of organisation's headquarters.	•	10–11: Divisions and business units	
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	•	10: Divisions and business units	
2.6	Nature of ownership and legal form.	•	2: Paroc in brief	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	•	10–11: Divisions and business units	
2.8	Scale of the reporting organisation.	•	2: Paroc in brief	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	•	2: Paroc in brief	
2.10	Awards received in the reporting period.	•	9: 2014 Highlights	
<b>3. REPORT PARAMETERS</b>				
3.1	Reporting period.	•	1: Paroc's reporting	
3.2	Date of most recent previous report.	•	1: Paroc's reporting	
3.3	Reporting cycle.	•	1: Paroc's reporting	
3.4	Contact point for questions regarding the report or its contents.	•	Back cover	group.communications@paroc.com
3.5	Process for defining report content.	•	13: Materiality	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	•	1: Reporting scope	

3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	•	1: Reporting scope	Russia is excluded from the following environmental figures: energy & emissions, effluents and waste. Paroc sales offices are excluded from OHS indicators. All production locations are included in OHS results.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	•	GRI index	No changes during the reporting period
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	•	GRI index	All changes are explained in connection with the given information
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	•	GRI index	No changes during the reporting period
3.12	Table identifying the location of the Standard Disclosures in the report.		GRI index	
<b>4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT</b>				
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	•	13–14: Management of CR	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	•	paroc.com/corporategovernance	<a href="http://www.paroc.com/about-paroc/paroc-group/corporate-governance">http://www.paroc.com/about-paroc/paroc-group/corporate-governance</a>
4.3	For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	•	36: GRI	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	•	GRI index	Dialogue between employees and the management is maintained through national co-operative bodies organised according to local legislation and collective agreements. Dialogue with shareholders is maintained through board meetings.
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	•	2: Paroc in brief 13–14: Management of CR paroc.com: mission and values	
4.13	Membership in associations and/or national/international advocacy organisations.	•	12: Stakeholder engagement	
4.14	List of stakeholder groups engaged by the organisation.	•	12: Stakeholder engagement	
4.15	Basis for identification and selection of stakeholders with whom to engage.	•	12: Stakeholder engagement	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	•	12: Stakeholder engagement	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	•	12: Stakeholder engagement	

Performance indicators				
ECONOMIC PERFORMANCE				
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	•	18: Distribution of economic value added	
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	•	5–6: CEO's review	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	•	5–6: CEO's review	
ENVIRONMENTAL PERFORMANCE				
Materials				
EN1	Materials used by weight or volume.	•	25: Supply chain	
Energy				
EN3	Direct energy consumption by primary energy source.	•	26: Operational efficiency	
EN4	Indirect energy consumption by primary source.	•	26: Operational efficiency	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	•	26: Operational efficiency	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	•	26: Operational efficiency	
Emissions, effluents and waste				
EN16	Total direct and indirect greenhouse gas emissions by weight.	•	25: Operational efficiency	
EN20	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and weight.	•	38: GRI	
EN21	Total water discharge by quality and destination.	•	GRI index	Paroc uses water only for sanitary and catering purposes.
EN22	Total weight of waste by type and disposal method.	•	26: Operational efficiency	
Products and services				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	•	19–20: Innovation and continuous improvement	
Compliance				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	•	GRI index	We have ongoing legal proceedings against the Finnish tax authority concerning Paroc Group transfer pricing. The appeals court resolution is expected during 2015
Transport				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	•	25: Supply chain	

SOCIAL PERFORMANCE				
Employment				
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.	•	36: GRI	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	•	36: GRI	
LA8	Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	•	30: Professional development	
Training and education				
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	•	30: Professional development	
Diversity and equal opportunity				
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	•	36: GRI	
Society				
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	•	GRI index	Paroc has ongoing legal proceedings against the Finnish tax authority concerning Paroc Group transfer pricing. The appeals court resolution is expected during 2015
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	•	GRI index	Paroc has not received significant fines or sanctions for non-compliance with laws and regulations during 2014. The legal proceedings concerning transfer pricing is expected to be resolved during 2015.
SO9	Operations with significant potential or actual negative impacts on local communities.	•	24–25: Supply chain	
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	•	24–25: Supply chain	
Product responsibility				
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	•	17: Customer satisfaction	

EC1 KEY ECONOMIC INDICATORS (EUR 1,000)			
	2012	2013	2014
Revenues	431,255	433,602	417,934
Operating costs	266,681	259,957	256,227
Employee wages and benefits	94,433	96,731	93,537
Community investments	275	690	77
Payments to government	4,867	5,658	7,729
Payments to providers of capital	17,047	14,558	124,382
Economic value retained	47,952	56,008	-64,018

EN 20 EMISSIONS TO AIR (T)			
	2012	2013	2014
Ammonia (NH <sub>3</sub> )	268	356	259
Carbon monoxide (CO)	2,378	1,843	2,287
Nitrogen oxides (NO <sub>x</sub> /NO <sub>2</sub> )	225	290	267
Particles	296	305	368
Sulphur oxides (NO <sub>x</sub> /NO <sub>2</sub> )	538	842	428
Total emissions	3,705	3,279	3,609

EN3 DIRECT ENERGY CONSUMPTION (GJ)			
	2012	2013	2014
Biogas	25,169	19,413	18,503
Coke	1,834,619	1,772,462	1,526,253
Heating oil (Light fuel oil)	151,941	133,836	85,343
LPG	118,648	109,434	118,380
Natural gas	322,481	322,919	325,340
Total	2,452,859	2,358,064	2,101,576

LA1 PAROC PERSONNEL			
	2012	2013	2014
Total workforce	1,964	2,033	2,021
White-collar	695	736	756
Blue-collar	1,269	1,297	1,265
Males	1,645	1,716	1,684
Females	319	317	337
Temporary workers	129	164	90
Permanent workers	1,835	1,869	1,931

EN4 INDIRECT ENERGY CONSUMPTION (GJ)			
	2012	2013	2014
District heat	34,657	58,647	28,736
Electricity	753,581	768,852	742,010
Total	788,238	827,499	770,746

LA 7 ACCIDENTS AND SICK RATES			
	2012	2013	2014
3+ Accident Rate	1,419	836	828
Accident frequency (1)	12.4	8.3	6.2
Accident frequency (3+)	8.3	4.9	4.8
Fatality rate	0	0	0
Severity Rate %	0.19	0.12	0.13
Sick % all employees	3.6	3.6	3.3
Sick % blue-collar	4.4	4.6	4.2
Sick % white-collar	1.6	1.6	1.6

#### **WARRANTY DISCLAIMER**

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#### **CONTACT INFORMATION**

Paroc Group Marketing &  
Communications  
P.O. Box 240,  
FI-00181 Helsinki, Finland  
Phone +358 46 876 8000  
[group.communications@paroc.com](mailto:group.communications@paroc.com)



Paroc Group | P.O. Box 240 | FI-00181 Helsinki,  
Finland Phone +358 46 876 8000 | [www.paroc.com](http://www.paroc.com)