



# PAROC SUSTAINABILITY REPORT

2017

# ENERGY EFFICIENT ENVIRONMENTS

Building energy efficient environments is both a responsibility and an opportunity. Our homes and offices play a key role in the climate change debate. Around 40 percent of greenhouse gas emissions generated by humans comes from poorly insulated homes and offices and the energy required to heat them. Specifically, insulation plays a critical role in the energy efficiency of a building and can account for up to 75 percent of the total energy reduction potential of buildings.

As a leader in building and technical insulation, Paroc is tackling this challenge as an opportunity to improve our living and working conditions, as well as help reduce the emissions we create every day. By providing better solutions, we are doing our part to mitigate climate change through more sustainable alternatives that help curb the impact of the human carbon footprint.

We created the Paroc Sustainability Report 2017 to describe how Paroc fulfils its economic, environmental and social commitments. The report provides our stakeholders and all those interested in Paroc Group with a comprehensive look into our business, our objectives, as well as our efforts to continuously improve our operations.

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Ensuring operational excellence  
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Building responsible supply chain  
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### ABOUT THIS REPORT

Paroc Sustainability Report 2017 highlights our approach to corporate responsibility and the material themes, related actions and progress made towards reaching our sustainability targets. Paroc reports on its sustainability annually. This report discusses Paroc Group operations between 1 January and 31 December 2017. This report contains Standard Disclosures from the GRI Sustainability Reporting Guidelines. The report is not externally assured. The previous report was released in April 2017. Feedback about Paroc's sustainability reporting can be sent to [group.communications@paroc.com](mailto:group.communications@paroc.com)

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# PAROC IN 2017

The eventful year marked our 80th anniversary in business. Former CEO Kari Lehtinen and current Managing Director Anders Dahlblom sum up the year of solid business performance.

# PAROC IN BRIEF

Paroc is a leading manufacturer of durable, energy efficient and fire-proof stone wool insulation solutions.

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**80 MEUR**  
EBITDA (2016: 77 MEUR)



**411 MEUR**  
NET SALES (2016: 375 MEUR)



**1,840**  
PERSONNEL

“  
**IN 2017 PAROC GROUP WAS OWNED BY CVC CAPITAL PARTNERS. IN EARLY FEBRUARY 2018, PAROC WAS PURCHASED BY OWENS CORNING.**

## NET SALES BY AREA 2017 (2016)

**21%** (22)  
FINLAND

**25%** (26)  
SWEDEN

**11%** (10)  
POLAND

**4%** (4)  
LITHUANIA

**6%** (5)  
RUSSIA

**34%** (33)  
OTHER COUNTRIES



### LOCATION MAP

- Headquarters: Helsinki
- Plants
- ▲ Sales companies and rep. offices

### PAROC IS AN INDUSTRY LEADER

Paroc is known for its innovative solutions and technical expertise and is recognized as a leading producer of high quality insulation products across the construction industry.



**PAROC'S MISSION**  
is to be an innovative and trusted partner for a sustainable built environment.



**PAROC'S GROWTH ENGINE**  
is smart insulation applications and its vision is "Better building performance for living".



**PAROC'S OPERATIONS**  
are based on the company's four values: customers, respect, innovation and performance.

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# SOLID BUSINESS PERFORMANCE IN 2017

2017 was an interesting and eventful year. From a business performance perspective, we aimed for close to 10 percent topline growth and achieved this target. We also achieved our second goal, which was to grow faster than the market.

### CEO KARI LEHTINEN LOOKS BACK AT 2017

In early 2017, we refinanced our debts and issued new finance instruments. We improved our cash flow and benefitted from the strong performance of our working capital. Our operational efficiency also improved as a result of systematic and determined work. Some of our customer survey scores, however, declined slightly, so we will step up our focus on improving the customer experience.



**OUR  
MANUFACTURING  
PROCESS MUST  
AIM TOWARDS  
ACHIEVING ZERO  
IMPACT ON THE  
ENVIRONMENT.**



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In order to ensure Paroc's future competitiveness, some difficult decisions had to be made during the year too. The closing of our factory in Oulu, Finland, was unfortunate, as it meant the loss of some 70 jobs, which is never an easy decision to make.

As a part of Paroc's growth strategy, we launched a capacity expansion program at the Trzemeszno plant in Poland, which will allow us to continue to grow with our customers in Europe. The investment program will be completed in 2019.

### BUILDING TEAM SPIRIT

We celebrated our 80th anniversary with stakeholders and customers at the 2017 FIS Nordic World Ski Championships in Lahti. Personally, this was a big thing, even bigger than I expected. Not only was this a success for our stakeholders, but it also benefited our employees. This event really pulled people together. It was a major event for us but worth the investment, as the outcome was very positive.

Looking at the results of our employee survey, we were able to see some improvements in all areas since the previous survey in 2015. However, our scores relating to how satisfied employees are with Paroc as an employer declined slightly. That said, I was pleased to see that leadership and management are more appreciated and that team spirit has improved. From a company culture perspective, having a good result for team spirit is very positive and I see that it is a key component to helping the company perform well.

### TAKING A SUSTAINABLE APPROACH

In terms of our approach to sustainability, firstly, I see our products play a big role in a much larger agenda. When our products and product systems are used correctly in the various insulation applications, they have significant impact on reducing CO<sub>2</sub> emissions. Also, very importantly, our production has set ambitious sustainability targets to reduce energy consumption, in addition to all the sites operating towards a target of zero landfill waste. Our manufacturing process must aim towards achieving zero impact on the environment.

Secondly, from the financial perspective, we act responsibly in order to be successful and create value for our shareholders. This means investments

**IT IS IN OUR  
DNA, WE WANT  
TO IMPROVE.  
EVERYTHING  
THAT WE ARE  
DOING TODAY –  
WE WANT TO  
DO BETTER  
TOMORROW.**

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for future growth and, at times, making difficult decisions to be efficient in the competitive environment. Thirdly, we look after our people. Not only from an occupational health and safety perspective but also making sure our employees see value in their work. Everything starts with people, and without an engaged, inspired and competent team you cannot expect solid results. Working together towards a common goal and having a positive impact on the working environment are critically important to any successful, sustainable business.

### ANDERS DAHLBLOM, OUR CURRENT MANAGING DIRECTOR, LOOKS AHEAD TO 2018 AND BEYOND

In October, Owens Corning signed an agreement to acquire Paroc Group from our previous owner CVC Capital Partners. The acquisition was completed in February 2018, and we stand to gain from new opportunities with a strong and respected industrial owner. Personally, I am eager to see what we can achieve together. People and growth are important to both Paroc and Owens Corning and we share similar values. For instance, sustainability is set high on Owens Corning's corporate agenda and that is positive.

#### MEGATRENDS STEERING OUR BUSINESS

Megatrends continue to influence our business. Especially, energy efficiency and sustainability have a large and positive impact on our business, providing us with new business opportunities. Digitalization will bring new and more agile ways of doing business. Globalization and urbanization are present in our everyday life.

Expectations are high regarding our digitalization efforts and we have set some clear steps to move forward. Given that

the construction industry has not been the fastest-moving industry, it is important to be open-minded and proactive to generate new ideas and innovations in response to these opportunities. Digitalization continues to be one of our focus areas in 2018. For example, we are aiming to achieve 50 percent of our orders via digital channels by 2019. We are also improving the user experience and creating new tools for our stakeholders, such as designing tools and calculators.

#### OPERATIONAL EXCELLENCE

Looking back, compared to 2016 we made improvements in 2017 regarding our Operational Excellence. Over the past year, we have made several efficiency and productivity improvement investments in our operations, which have resulted in significant cost savings. The Operational Excellence program continues as a part of our roadmap moving forward in 2018.

#### LOOKING AHEAD

In 2018, alongside the improving financial performance, we will continue our efforts to boost customer experience through continuous product development and active cooperation with our customers utilizing their valuable feedback. Focus will also be directed towards improving results in our occupational health and safety performance. We have made strong progress in our safety culture in the past years but there is still room for improvement. In this area, we will also get additional support from our new owner who has achieved an excellent HSE performance.

Environmental responsibility continues to play a significant role in our daily operations and in our development plans in 2018. We are committed to focus on CO<sub>2</sub> and waste landfill reductions, as well as continuous improvement of our Operational Excellence. It is in our DNA, we want to improve. Everything that we are doing today – we want to do better tomorrow.

# 2017 SUSTAINABILITY HIGHLIGHTS

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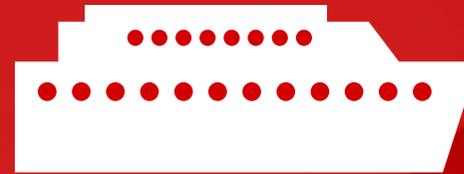
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WE RENEWED THE BES 6001 CERTIFICATION, SAFEGUARDING OUR CREDIBILITY AS A MANUFACTURER.



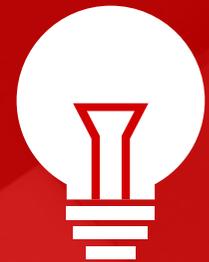
WE REDUCED THE WEIGHT OF MARINE INSULATION SOLUTIONS BY ROUGHLY 40 PERCENT SIGNIFICANTLY IMPROVING THE PRODUCTS' ENVIRONMENTAL FOOTPRINT.

**NPS 43**  
WORKING TOWARDS THE TARGET  
NET PROMOTER SCORE CONTINUES

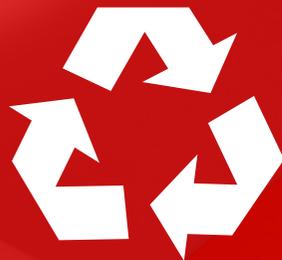


**OPERATIONAL EXCELLENCE  
DELIVERED PRODUCTION  
MEUR 2.5 DIRECT COST  
IMPROVEMENTS OVER 2016.**

WE INTEGRATED SUPPORTING OF UN SDGS INTO OUR OPERATIONS. THIS WORK WILL CONTINUE IN THE YEARS TO COME.



SALES FROM OUR INNOVATIONS INCREASED BY  
**65%**  
OVER 2016.



WE RECYCLED  
**88%**  
OF THE TOTAL  
AMOUNT OF WASTE.



**84%**  
OF SUPPLY CAME FROM  
CERTIFIED SUPPLIERS.

# STAKEHOLDERS

Paroc is committed to sustainable operations and practices. We engage in active dialogue with our stakeholders, which include our current and potential customers, employees, suppliers, owners, authorities, and associations. These key stakeholders have a direct impact on Paroc business operations.

Paroc creates value for its stakeholders through continuous dialogue and active engagement. The following table highlights the significance of our relationship with key stakeholders, any issues raised, and examples of cooperation and actions taken.

	Reasons for significance	Expectations and issues raised	Examples of cooperation and actions in 2017
<b>Customers</b>	<ul style="list-style-type: none"> <li>Paroc's business driver. By listening closely to our customers and working together to develop our cooperation, we can create new solutions, build long-lasting relationships and success together.</li> </ul>	<ul style="list-style-type: none"> <li>Product quality and safety</li> <li>Customer service</li> <li>Competitive pricing</li> <li>Transparency</li> <li>Energy efficient products</li> <li>Fire safety</li> </ul>	<ul style="list-style-type: none"> <li>Regular meetings, continuous dialogue and cooperation</li> <li>Quarterly Net Promoter Score (NPS) surveys</li> <li>Annual customer survey</li> <li>Joint R&amp;D projects</li> <li>Training sessions</li> <li>Trade shows and other customer events</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>Key enablers of Paroc's long-term strategy and growth. It is essential to maintain engaged, healthy and motivated employees to ensure continuous development and a high-performing organization.</li> </ul>	<ul style="list-style-type: none"> <li>Operational efficiency</li> <li>Customer experience development</li> <li>Career development and training</li> <li>Equal opportunity and rewarding</li> <li>Good management and supervisory work</li> <li>Well-being at work</li> </ul>	<ul style="list-style-type: none"> <li>Employee briefings and information sessions</li> <li>Annual performance and competence development discussions</li> <li>Training</li> <li>Occupational healthcare</li> <li>Biannual Paroc Pulse personnel survey</li> </ul>
<b>Suppliers and partners</b>	<ul style="list-style-type: none"> <li>In order to produce high-quality, industry-leading products, the supply chain must be solid. By choosing our suppliers carefully and maintaining a close relationship and mutual trust, we can ensure a consistently high product quality for our customers.</li> </ul>	<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> <li>Supplier screening process</li> </ul>
<b>Society and authorities</b>	<ul style="list-style-type: none"> <li>Paroc operates in a heavily regulated industry. Through ongoing dialogue with authorities and government officials, Paroc can better prepare for upcoming changes in the regulative environment, both in terms of potential risks and business opportunities (e.g. tightened energy efficiency demands for the built environment).</li> </ul>	<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>Quarry audits</li> <li>Continuous dialogue, working groups</li> <li>Pilot projects</li> <li>Projects in support of local communities (read more on page 33)</li> </ul>
<b>Owners and investors</b>	<ul style="list-style-type: none"> <li>Drivers of Paroc's financial performance and long-term growth. They have placed their trust in Paroc, and we strive to look for ways to improve and to do more with less, to generate a healthy cash flow and profits.</li> </ul>	<ul style="list-style-type: none"> <li>Value creation and return on investment (ROI)</li> <li>Health and safety of the workers</li> <li>Improvement in sustainable manufacturing methods</li> <li>Customer communications</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>
<b>Industry associations</b>	<ul style="list-style-type: none"> <li>Paroc is an active member in industry associations in all of its operating countries. Associations provide a platform for Paroc to stay on top of current industry trends and exchange ideas with peers. The associations are also an important channel to elevate Paroc's views into national and EU level decision-making.</li> </ul>	<ul style="list-style-type: none"> <li>Building standards and norms (fire safety, energy efficiency)</li> <li>Transparency and regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>Regular meetings and working groups with other association members</li> <li>Reporting about corporate responsibility according to G4 guidelines</li> <li>Participation in local initiatives</li> </ul>

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## CUSTOMER ORIENTATION DRIVES DEVELOPMENT

The customer is at the core of our values. Customer satisfaction and trust are paramount to Paroc's success; hence customer experience management is high on our agenda. Our dedication has been recognized, as Paroc was awarded second place in an annual survey conducted by the Customer Experience Professionals Association (CXPA) Finland. Paroc performed well, being the only company outside of the telecommunications industry among the top three. In total, 72 companies were evaluated in the study.

The Net Promoter Score (NPS) is Paroc's main measure to track our success and improve customer satisfaction. For 2017, Paroc's NPS was 43.

Customer interviews are carried out continuously and we get great feedback on Paroc products and product quality. We highly value the feedback we receive and develop our operations based on the direct customer feedback. For example, in 2016 numerous comments were related to our digital services and our website's user interface. During 2017, we renewed our website and positive feedback increased as a result. There are also other significant development actions based on customer feedback that are now moving forward.

## WE CONTRIBUTE TO THE DEVELOPMENT OF THE BUILDING INDUSTRY AND CONSTRUCTION PRODUCT SECTOR THROUGH SEVERAL ORGANISATIONS AND WORKING COMMITTEES.

	Industry association or international advocacy organisation	Nature of participation (board member, chair, committee membership, extra funding, strategic partnership)
<b>International interest groups</b>	EURIMA, Fire Safe Europe, EIF, EPAQ	Paroc is a board member in all of these organisations and participates in working groups.
<b>Local interest groups, industrial and business organisations</b>		
<b>Finland</b>	Confederation of Finnish Industries (EK), Finnisol, Sisäilmäyhdistys, Kattoliitto, Julkisivuyhdistys, PPT, Sisäkattoyhdistys, RT/Betoniyhdistys, RT/Eristeellisuus, RT/RT, RaSi ry, Suomen Eristäsyhdistys ry, Suomen LVI-liitto ry, VVS Föreningen i Finland fr, PSK Standardisointiyhdistys ry, Suomen Palokatkoehdistys ry, East Office of Finnish Industries.	Paroc has a Board membership and participates in working groups in Finnisol. Paroc is a Board member in Sisäkattoyhdistys, RT, RaSi ry, Suomen Palokatkoehdistys ry and East Office of Finnish Industries. In RT Paroc also participates in the working group. Paroc is a collaboration member in Suomen LVI-liitto ry and a supporting member in Sisäilmäyhdistys and Julkisivuyhdistys. In the Confederation of Finnish Industries (EK) Paroc is a member of the Energy Efficiency Committee. Paroc is a member in the other mentioned organisations.
<b>Sweden</b>	Swedisol, SIS Swedish Standards Institute, Lösullsentreprenörerna, Isoleringsfirmans förening, EMTF Energi- & Miljötekniska Föreningen, IKEM, Svenskt Näringsliv / Industrierbetsgivarna / Byggnadsämnesförbundet, IDC West Sweden AB (Industrial Development Center), Stålbbyggnadsinstitutet, Arbetsgivningen Skaraborg, Västsvenska handelskammaren, Energirådgivarna	Paroc is a Board member and participates in working groups in Swedisol. In SIS Swedish Standards Institute Paroc participates in a number of different technical committees.
<b>Norway</b>	IPF Isolasjonsproducentenes forening, NORIMA	Paroc is the Chair in IPF – Isolasjonsproducentenes forening and a member of the board at NORIMA.
<b>Denmark</b>	Mineraluldiindustriens Brancheråd (MBR)	Paroc is the chairman of the board.
<b>Latvia</b>	LATIZOL, District heating supplier Association, Latvian Building Company Association	Board membership and working group participant in LATIZOL.
<b>Lithuania</b>	Mineral Wool Producers Association, Lithuanian Technical Insulation Contractors Association, Lithuanian Green Building Council, Lithuanian Builders Association, Baltic Investors Forum	Paroc has a Board membership in Mineral Wool Producers Association and Lithuanian Builders Association. In the other mentioned organisations Paroc is a member.
<b>Estonia</b>	ESTISOL, EETL, EKVÜ, EIEL, EKT	Paroc is the Chair in ESTISOL. In the other mentioned industrial organisations Paroc is a member.
<b>UK</b>	TIMSA, TICA, ASFP	Paroc is a member.
<b>Germany</b>	GGM, Arbeitsgemeinschaft Industriebau e.V., Bundesfachgruppe der WKS-B-Isolierer, Die Deutsche Bauindustrie, Industrieverband für Bauprodukte im Metalleichtbau, IFBS Institut für bauen mit Stahl, VDI Verein Deutscher Ingenieure, VÖDU Verband österreichischer Dämmunternehmungen, Zentralverband Deutsches Baugewerbe, Fachverband Wärmedämmverbundsysteme e.V., Deutsche Gesellschaft für Nachhaltiges Bauen e.V.	Paroc is a member in the mentioned interest groups.
<b>Poland</b>	MIWO - Polish Mineral Wool Producers' Association, Polish Industrial Chamber, BCC – Polish Business Centre Club	Paroc is a Board member and participates in working groups in MIWO, and a member in the other mentioned organisations.
<b>Russia</b>	Rosizol, ANFAS	In Rosizol Paroc has a Board membership and participates in working groups. Paroc is an associated member in ANFAS.
<b>France</b>	SNI National Insulation Union	Paroc is a member.
<b>Netherlands</b>	VIB Dutch association of entrepreneurs in thermal insulation	Paroc is a member.
<b>Belgium</b>	Isol Belgium association of technical insulation on Process Industry	Paroc is a member.

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Building responsible supply chain

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# FOCUS AREAS AND PERFORMANCE

Sustainability is at the core of what we do: we enable better building performance by supplying our customers with sustainable solutions. During the year we continued to strengthen our sustainability approach in all our operations and throughout the whole life cycle of our products.

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# PAROC'S APPROACH TO SUSTAINABILITY

Sustainability is a fundamental cornerstone of our business and its constituent elements, be they strategy, R&D, or our product offerings. It is also an essential requirement for our business success and our approach to sustainability is intrinsically linked to our planning, implementation, risk management and other core business processes and functions.

Sustainability impacts all of our operations including:

Raw material extraction	<ul style="list-style-type: none"> <li>sourcing as close to our plants as possible</li> <li>using non-virgin materials whenever possible</li> </ul>
Responsible sourcing	<ul style="list-style-type: none"> <li>suppliers' operations need to align with Paroc's code of conduct</li> </ul>
Operational excellence	<ul style="list-style-type: none"> <li>energy efficiency</li> <li>material efficiency</li> <li>emissions</li> <li>waste</li> </ul>
Delivery	<ul style="list-style-type: none"> <li>environmentally friendly logistics</li> <li>installation safety</li> <li>recycling</li> <li>product quality</li> </ul>
Product development	<ul style="list-style-type: none"> <li>creating longer-lasting, safer products</li> <li>more environmentally friendly building solutions</li> </ul>
People management	<ul style="list-style-type: none"> <li>delivering a safe working environment</li> <li>engaged and motivated workforce</li> </ul>

## FOCUS AREAS FOR SUSTAINABILITY

Our comprehensive sustainability and corporate responsibility activities concentrate on the topics that are deemed the most important, or material,

# SUSTAINABILITY IS DEEPLY INTEGRATED INTO ALL ASPECTS OF PAROC'S BUSINESS OPERATIONS.

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to our business. Throughout 2017, we continued to focus on what we see as our biggest risks and opportunities, both during the year itself, as well as with an eye on the future. The results of 2017 reiterate the fact that Paroc is continuing to move in the right direction with regards to its strategy and actions. Based on an earlier Paroc Management Workshop, where themes and topics were discussed, debated and analyzed, and then weighed against the company business operations and impacts, the core material topics were validated and prioritized. These topics remained front and center throughout 2017. These five main focus areas are explained in greater detail in the following chapters. They include:

#### Innovating for a better built environment

- Safety of the built environment
- Energy efficient products
- Innovating sustainable solutions and business models

#### Ensuring operational excellence

- Energy consumption and emissions
- Operational efficiency
- Material efficiency in production
- Economic performance and profitable growth

#### Securing people's wellbeing

- Occupational health and safety
- Employee engagement, commitment and development
- Employee diversity, equal opportunities and rewarding

#### Building a responsible supply chain

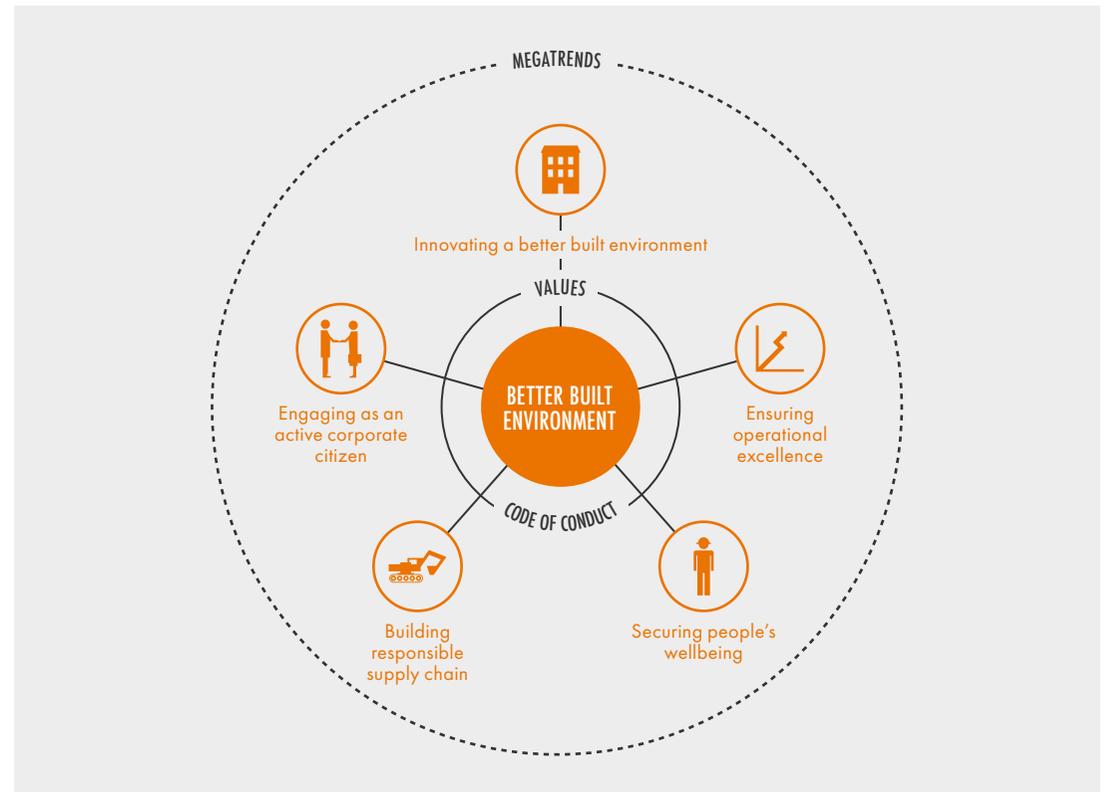
- Supply chain management
- Responsible sourcing

#### Engaging as an active corporate citizen

- Ethics and good business conduct
- Continuous stakeholder dialogue

#### THE DRIVERS OF SUSTAINABILITY

In addition to our core business requirements, our sustainability efforts are also driven by our values and company culture, and our Code of Conduct, all of which are responsible for helping deliver a commitment and a mind-set in our entire workforce to deliver responsible business. Our Code of Conduct



sets the minimum required conduct in areas, such as transparency, fairness and integrity, legal compliance, the environment and human rights. Our managing director has ultimate executive responsibility for implementation of the Code, which we cascade down through the organisation via line management and specific policies, such as the anti-bribery and -corruption policy. Furthermore, we also need to be fully aware of, and also act upon, stakeholder expectations, topical industry trends and the latest legislative changes, elements which are based upon the three main megatrends that impacted us throughout 2017: urbanization, digitalization and globalization.

#### MANAGING SUSTAINABILITY

Sustainability is deeply integrated into all aspects of our business operations. It is a permanent fixture on the managements teams meeting agenda and

there are continuing periodical in-depth reviews of essential core topics.

Overall, Paroc's main objective is to create economic added value by being an innovative and trusted partner for a long-term and sustainable built environment. Furthermore, to ensure profitable and long-term growth, throughout 2017, Paroc continued to pursue market expansion, further develop operational excellence across all facets of the company, and positively differentiate through customer experience.

#### OUR MAIN SUSTAINABILITY TARGETS

Our main sustainability targets are for responsible sourcing, as well as energy and material efficiency.

In terms of the responsible sourcing of raw materials, we started 2013 by certifying our own quarries and in May 2015, Paroc's supply chain was

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third-party verified according to BES 6001, the British standard framework for responsible sourcing. Paroc targeted and reached 60 percent coverage of direct material (stones and chemicals). With regards to the responsible sourcing and the certification of our suppliers, a new area we brought into operations in 2017 is that our traded products are now integrated to the same system and strategy, and conform to basically the same structure. In 2017, we saw further increases in certified responsible sourcing.

With regards to our production phase, we are always striving to make more out of less. In terms of our targets related to energy efficiency, Paroc is aiming to be 30 percent more energy efficient in the year 2020 in comparison to the reference year 2011. Likewise, with regard to our target for material efficiency, we are striving towards achieving the ambition of 'closing the loop' in terms of working fully within the circular

economy, and by 2030 we are aiming to reach our target of zero percent waste to landfill.

#### OUR UN SUSTAINABLE DEVELOPMENT GOALS

In September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development that includes 17 Sustainable Development Goals. Each goal has specific targets to be achieved over a 15-year timeframe from its January 1, 2016, implementation, to the year 2030. Paroc closely follows the agenda set, and with regards to the production and use phases of our product, we support the UN sustainable development goals in the chart below.

#### PAROC'S APPROACH TO SUSTAINABILITY

Summarizing the year, **Emma Hansson**, Environment and Sustainability Manager at Paroc

says, "Sustainability is the core of what we do; we enable better building performance by supplying our customers with sustainable practices and solutions. Looking back at 2017, during the year we continued to strengthen our sustainability approach in all our operations and throughout the whole life cycle of our products, from raw material extraction, toughening our targets that relate to our responsible supply chain, certified suppliers and locally sourced material, and increasing the use of non-virgin raw materials.

Through the production phase, we continually strived to make more out of less. With regards to the use phase, we continued to supply high-quality and safe products and services that were designed to save energy, reduce CO<sub>2</sub> emissions and to lower the overall cost through the reuse and recycling of the product via the circular economy."

Production phase		
No.13: Climate action		We focus on energy efficiency to reduce the impact of our operations and activities on global climate change. We carry out energy audits and use new technology to reduce energy use.
No.7: Affordable and clean energy		Our energy efficient solutions contribute to customers reducing the energy use and impact on climate.
No.6: Clean water and sanitation No.14: Life below water	 	We are striving to reduce our water footprint. Paroc reuses / recycles all of our process water internally.
No.3: Good health and well-being		Paroc is highly dedicated in terms of providing a safe working environment for all employees. Paroc has the target of zero accidents for all employees.
No.8: Decent work and economic growth		We want to attract and retain employees to enable Paroc to continue its strong growth and to continue to meet our customer and market needs. We are determined to be an economically healthy business, while at the same time minimizing the environmental impact on our local communities.
Use phase		
No.11: Sustainable cities and communities		We engage in R&D and innovation for products and services to improve and advance sustainable cities and communities.
No.9: Industry, innovation and infrastructure		We are involved in organizations on a local, national and international level aimed at improving the built environment: for example, on energy efficiency, thermal comfort and fire safety in buildings.
No.12: Responsible consumption and production		"Doing more and better with less" represents words that fit very well with Paroc's overall approach to sustainability.

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# INNOVATING A BETTER BUILT ENVIRONMENT

Paroc successfully increased the portion of sales generated by new products, known as innovation sales, by 65 percent in 2017 compared to 2016. Paroc is constantly improving and renewing its product offerings to enable our customers to succeed. Our business is in essence sustainability: our products are designed to reduce energy leakages, improve energy efficiency by reducing greenhouse gas emissions, create a fire safe environment, and provide acoustically sound surroundings for people to live in. That is what we do.

**DESIGNING FOR SUSTAINABILITY**

During the past year, exciting new solutions were launched. Through extensive research and development work, Paroc made a large contribution in terms of sustainability. **Joakim Westerlund**, Executive Director of Technology and Operations highlights, "One example is our insulation solution for marine applications. Thanks to R&D work, we have been able to significantly reduce the weight of our products."

In the ship-building industry, the main features have traditionally been fire-resistance and thermal insulation. However, the importance of lightweight solutions is increasing. "With lightweight alternatives, a lighter ship will reduce the amount of fuel being used during operations. So, we have significantly reduced the weight of marine insulation solutions, roughly by 40 percent,

**OUR PRODUCTS  
CONTRIBUTE TO  
SUSTAINABILITY  
BY CREATING AN  
ENERGY EFFICIENT,  
FIRE SAFE AND  
ACOUSTICALLY  
SOUND  
ENVIRONMENT.**

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while keeping the same fire and thermal insulation properties," says Westerlund.

"Paroc has an extremely good production process and we have excellent technology. Through our technology, our knowledge, and through the innovations we have been developing, we have been able to take big steps and work at the cutting edge of our industry when it comes to improving product properties," Westerlund continues.

Another notable example is PAROC® Sonus™, which is a partition wall product and used to improve acoustics inside the house. Joakim explains, "We have really pushed the boundaries through R&D and development solutions here. We have been able to also reduce the weight of these solutions. Reducing the weight means that we are getting more out of less. We are using less materials

and less energy to produce these products. As a result, the environmental footprint of the products has really improved."

#### SAFETY FIRST MINDSET

Paroc has focused on, and added resources into, improving the fire properties of our products. Despite extensive experience in fire safety, we pushed the boundaries further as even more emphasis was put into the research and development of solutions that can withstand extreme fire and heat. "We are already seeing the results of the work done in 2017 through new product launches, such as PAROC® FireSAFE, where we have improved the fire properties or solved problems that we have not been able to solve previously," says Westerlund.

“  
**WE HAVE ALWAYS SOUGHT TO FIND THE BEST SOLUTIONS TO CREATE ENERGY EFFICIENT BUILDINGS.**

#### CASE



### LIGHTWEIGHT SOLUTIONS FOR FIRE INSULATED DECKS AND BULKHEADS

Significant developments in production technology allow Paroc to bring lighter weights to the existing, internationally recognized marine offerings. Among the first solutions to receive the Light Marine treatment are PAROC slabs for A-class steel decks and bulkheads.

The new solutions are based on PAROC Marine Navis Slab 60, which is available in four levels of thickness, making the design easy and less complex. Offering a 40 percent reduction in weight allows shipbuilders and ship-owners to substantially benefit from lower fuel consumption; additionally, ships become more manoeuvrable.

The new PAROC products are also beneficial for the environment, as CO<sub>2</sub>-emissions will be reduced starting with the transport of the products from the factory until being installed in the shipyard and sailing on the water.

The determination of non-combustibility in accordance with IMO FTP Code Part 1 has been performed for all PAROC Marine insulations. The first PAROC Light Marine solutions were introduced in October 2017. These solutions represent only the beginning of the new lightweight product range.

The determination of non-combustibility in accordance with IMO FTP Code Part 1 has been performed for all PAROC Marine insulations. The first PAROC Light Marine solutions were introduced in October 2017.

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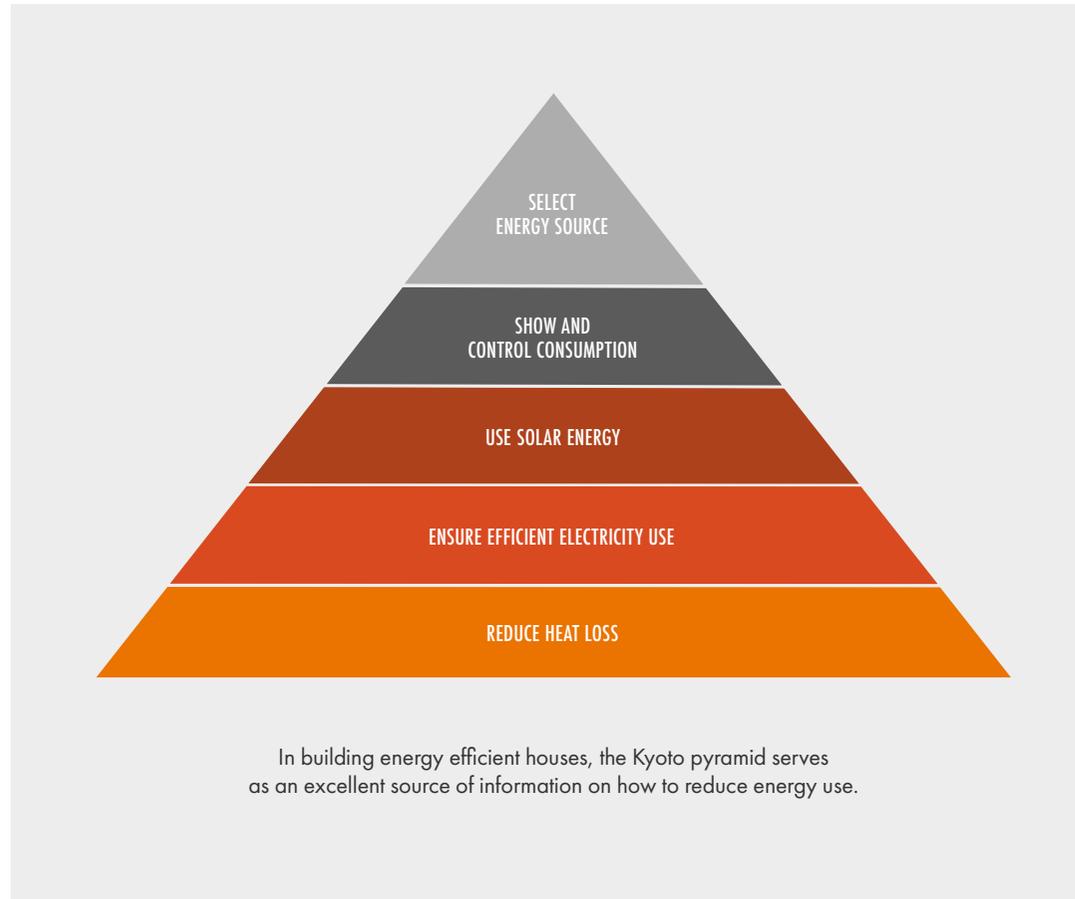
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### REALIZING THE ENERGY-SAVING POTENTIAL OF BUILDINGS

Energy efficiency continues to be extremely important in building construction. According to the European Insulation Manufacturers Association (EURIMA), the building sector is responsible for up to 40 percent of total energy use, 30 percent of raw material use, almost 40 percent of greenhouse gas emissions and up to 40 percent of solid waste generation. The single most important factor in making a building energy efficient is its insulation, which may account for as much as 75 percent of the total energy reduction potential of buildings, which equates to approximately 460 million tonnes of carbon dioxide (CO<sub>2</sub>) a year.

**Maria Mehner**, Paroc's Area Marketing Manager for Scandinavia states, "One of the best ways to reduce GHG emissions is to make sure our homes and houses are well insulated. This will help reduce our own emissions, as well as help reduce the amount of energy being produced. Having proper insulation is one of the most effective ways of reducing energy use in buildings. For example, a well-insulated home only uses 20 percent of the energy that is needed to heat a standard house."

At Paroc, the goal is to reduce these emissions. When constructing an energy efficient building, the effect on the cost of construction is only an additional 0–5 percent compared to a standard



### CASE

## COMBUSTIBLE MATERIALS MUST BE PROTECTED

In Finland, the new Fire Regulations entered into force on 1 January 2018. The new regulations will restrict, for example, the use of combustible thermal insulation in high-rise buildings by imposing strict requirements for their protection. Combustible thermal insulations include almost all plastic and wood-based insulations, which belong to fire-classes B-F. The designer of the building is responsible for complying with the Regulations. To help the designers' work, Paroc has developed a new FireSAFE product family, which provides fire tested solutions to virtually any protection need set by the new Regulations.

### PAROC® FIRESAFE PRODUCT FAMILY LAUNCHED

PAROC® FireSAFE product family provides solutions for the protection needs of all combustible materials in both external walls and roofs. It offers products for different protective classes and applications where the products also meet the mechanical properties required by different structures. There are also solutions for openings and penetrations. All Paroc solutions are fire tested and are based on non-combustible A1 class stone wool insulation. However, compared to protection, using non-combustible A class construction material is a simpler and safer solution.

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building (Source: VTT, the Technical Research Centre of Finland). The structures of an energy efficient building are slightly thicker and more compact than those of conventional houses. In addition to insulation, the energy efficiency of a building depends on several variables, such as the total window area of the house, the amount of sunshine it gets and the kind of ventilation system it uses. Building companies and contractors are making more sustainable and durable choices, as legislation across the EU is actively taking steps to reduce green-house gas emissions. Paroc is doing its part by producing fire safe, energy efficient and acoustically comfortable living and working environments for the future.

#### ENERGY EFFICIENT HOMES

Energy efficient buildings are classified as Nearly-Zero Energy Buildings (NZEB) and Zero-Energy Buildings (ZEB). Near-zero energy buildings have very high energy performance. The low amount of energy that these buildings require comes mainly from renewable sources. The level of these buildings energy performance is set nationally. The Energy Performance of Buildings Directive requires all new buildings to be nearly zero-energy by the end of 2020. All new public buildings must be nearly-zero energy by 2018. \*

“  
**INNOVATION IS NOT JUST ABOUT IDEAS. IT IS ALSO ABOUT HAVING THE KNOWLEDGE AND INSIGHT TO WHAT OUR CUSTOMERS REALLY NEED.**

Maria Mehner explains, “When we talk about very low-energy houses, near-zero energy buildings, we are referring to houses that have been defined as buildings with almost no energy consumption at all. To achieve this classification, very high demands are placed on the construction of the building, as it must be very well insulated and tightly built.”

“Insulation is the most important thing you need to think about if you wish to reduce energy use in the building. New houses, which are built to the latest standards, have been and must be built in accordance with the existing national legislation for construction,” says Maria. “But it’s not enough to only consider newly constructed buildings, we also need to renovate the existing buildings stock.”

#### ENERGY RENOVATION

There is a general European Union directive that has set the objective to reduce energy consumption by 30 percent for 2030 and requires national plans to be established for renovating the overall building stock.

Paroc has always been driven by sustainability and energy efficiency. Since the beginning, we have always sought to find the best solutions to create energy efficient buildings. It is the core of our operations. Maria states: “Our insulation is very sustainable, it is made of stone, it is noncombustible and it has a long lifecycle. We have now launched a new solution called PAROC ZERO” to help reach the NZEB level for both new and existing buildings.

#### LOOKING AHEAD

“There is potential on many fronts for us moving forward. So, making sure that we are putting the muscle power, or the brain power, into the right initiative is most critical. One can say that we are in a positive situation, with many good ideas in the funnel. We need to have constant focus and discipline in order to succeed. It is important that we, as a company, have clear processes, for instance, for optimal project management practices to take an idea to the actual launch of a product,” says Westerlund.

Joakim concludes, “Innovation is not just about ideas. It is also about having the knowledge and insight to what our customers really need. The discipline is also really important, because otherwise you just end up having a lot of ideas, but not getting them through the whole pipeline, into

#### CASE

## ADVANTAGES OF STONE WOOL INSULATION

Stone wool insulation is an easy and cost-effective method for conserving energy and protecting the environment. It also cuts down on heating costs, allows fresh and healthy indoor air and makes the building more soundproof. One cubic meter of stone wool consists of 95–98 percent of air, and it is well known that static air has very low thermal conductivity. Furthermore, stone wool repels water effectively, disrupting capillaries and is without water absorption properties. Water can, however, force its way into stone wool slabs when sufficient pressure is applied\*. That said, a wet slab dries quickly due to stone wool’s permeable structure.

\*Short-term water absorption, WS, (Wp) < 1 kg/m<sup>2</sup> (EN 1609). Long-term water absorption (partial immersion), WL(P), (Wlp) < 3 kg/m<sup>2</sup> (EN 12087)

actual new or improved products. Sustainability is what we do through our products.”

We believe that Paroc will be on the frontline in the future as well. Each day, we are analyzing both the potential and the problems, we are making improvements and investments. We are never satisfied with the status quo. So, we will continue to improve our products, for energy saving, for fire protection, and acoustics. We will also continue to push down our own energy consumption, our CO<sub>2</sub> emissions, minimizing the raw material waste, and basically, continue to make more out of less.

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# ENSURING OPERATIONAL EXCELLENCE

Operational excellence and sustainability both boil down to the same thing: getting more out of less. This is how we operate. At Paroc, we see operational excellence as the internal side of sustainability. Our products save energy, create fire-proof surroundings, help to improve living conditions, and provide better acoustics, and these are just some of the advantages our insulation products provide to end-users.

**Joakim Westerlund**, Executive Director, Technology and Operations at Paroc explains, "Operational excellence is really about making sure that we produce these products with the smallest possible environmental footprint in our own operations. We are emitting less CO<sub>2</sub> in the production process, we use less energy, we are using raw materials in the best possible way, and we are making every effort to create as little waste as possible from our own processes."

Paroc has set concrete and ambitious targets for operational excellence. "It comes back to continuing to make more out of less," continues Westerlund. "We have plans when it comes to energy efficiency and material efficiency. Those have been broken down on the plant-level, on line-level, monthly level, product groups, and so on."

Paroc has defined a roadmap with clear plans that include small improvements and bigger investments, to further improve the efficiency of its operations around the world.

**WE MAKE SURE THAT WE PRODUCE OUR PRODUCTS WITH THE SMALLEST POSSIBLE ENVIRONMENTAL FOOTPRINT.**

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### OPERATIONAL EXCELLENCE IN 2017

At Paroc, our operational excellence approach is to compare ourselves to our performance of the previous year. In general, the outcome of 2017 was more positive than in 2016, as we improved on various targets as defined in our roadmap.

Joakim explains, "One key challenge has been in our rapid growth, which is, of course, a positive challenge. However, we have been growing rather significantly in 2017. Often, our projects are rather complex, and we have very skilled personnel on our sites. Experienced employees are at the core of our operations and naturally, as our operations expand, we hire more staff. So, bringing these new people onboard and up-to-speed takes time and effort."

"The key thing is that we have a huge amount of knowledge in the organization, and a lot of very skilled people who have been able to teach and support the new ones. This puts pressure on the more seasoned people, but it is critical in order to operate effectively also at a higher utilization rate. Mentoring, work shadowing on-the-job learning and training with experts in the relevant skills and fields is critical in order to bringing our new hires onboard effectively," states Westerlund.

“  
**WE HAVE  
A HUGE AMOUNT  
OF KNOWLEDGE  
AND SKILLED  
PEOPLE WHO  
HAVE BEEN  
ABLE TO TEACH  
AND SUPPORT  
THE NEW ONES.**

In financial terms, operational excellence yielded production direct cost improvements of EUR 2.5 million in 2017 compared to 2016. This was EUR 0.8 million less than our target. On the indirect cost side, we more than offset the deviation on the direct cost side by ending up at cost improvements EUR 2.5 million positive to the full year 2017 target.

### ENERGY EFFICIENCY AND EMISSIONS

Buildings are responsible for 40 percent of energy consumption and 36 percent of CO<sub>2</sub> emissions in the EU. Some 35 percent of existing buildings in the EU are over 50 years old. Through energy renovation, we could reduce the total EU energy consumption by 5–6 percent and reduce CO<sub>2</sub> emissions by approximately 5 percent.

Emissions from buildings are largely based on two elements; energy use in the home and the production of energy provided to homes. This is where insulation plays a critical role. A properly insulated home reduces waste heat and thus also reduces demand on energy production.

In the European Union, the 2010 Energy Performance of Buildings Directive and the 2012 Energy Efficiency Directive are the EU's main

### DEVELOPMENT OF RECYCLING



2030 → 100%

2017 → 88%

2016 → 86%

2015 → 87%

2014 → 85%

2013 → 83%

External materials included in 2017 figures with marginal impact. Target for recycling is set at 100% for the year 2030.

### CASE

## GROWTH STRATEGY IN ACTION

A capacity expansion programme was launched at the Trzemeszno plant in Poland. As the construction industry outlook improves, two key macro drivers – energy efficiency and fire safety – are expected to increase the demand for insulation materials. Paroc is investing EUR 60 million to meet the expected demand growth for stone wool insulation materials.

A new state-of-the-art stone wool production line will be built, and thanks to its location the plant provides an excellent geographic proximity to Central and Eastern European markets. The new production line is expected to deliver increased capacity and improved efficiency, ultimately securing the high quality of Paroc's insulation products. When completed, the expansion programme will provide an increase in total annual production volume of building and technical insulation products by some 60–70 thousand tons.

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legislative directives covering the reduction of the energy consumption of buildings.

In December 2017, a series of measures to the current Directive were added to help accelerate the cost-effective renovation of existing buildings. Further updates are included relating to smart technologies and technical building systems, as well as automation and e-mobility.

2018 TARGETS

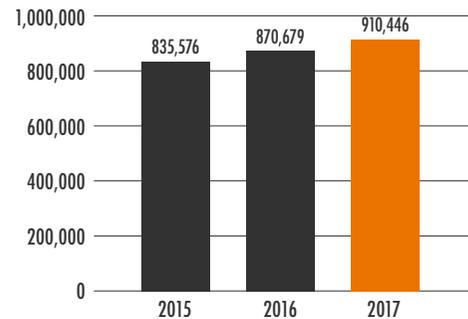
Looking at long-term targets, Paroc has set specific targets relating to energy use in the product portfolio. This also includes, for example, the amount of waste being generated in the production process. Naturally,

there are also well-defined financial targets which look at how the financial performance of our operations can be improved further.

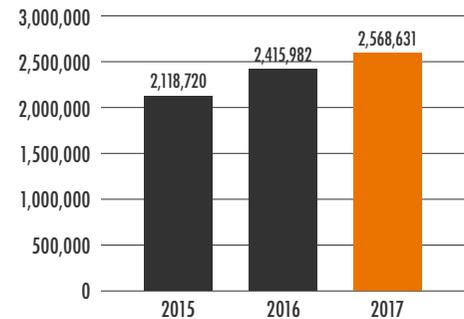
Paroc will continue to focus on improving operational excellence. "Sustainability is what we do through our products, and operational excellence is really in our DNA. I strongly believe that also in the future, Paroc will be on the frontline. We want to improve. We are doing improvement work every day. And we will also continue to push down our own energy consumption, our CO<sub>2</sub> emissions, minimizing the raw material waste, and basically, continue to make more out of less," Joakim concludes.

“ WE WILL CONTINUE TO MAKE MORE OUT OF LESS.

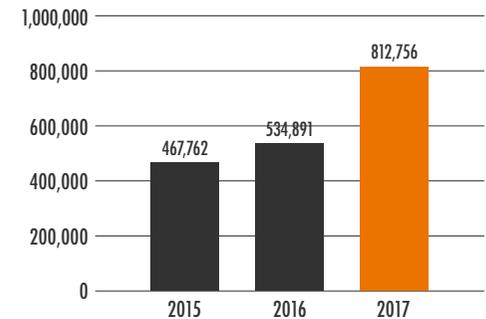
ELECTRICITY CONSUMPTION (GJ)



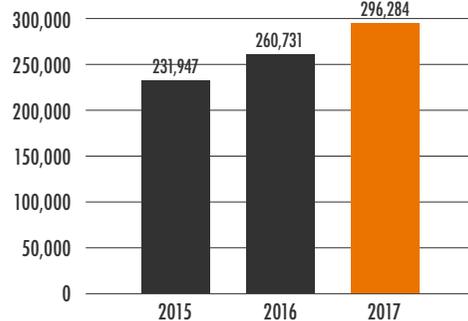
ENERGY CONSUMPTION (GJ)



MATERIALS USED (T)\*

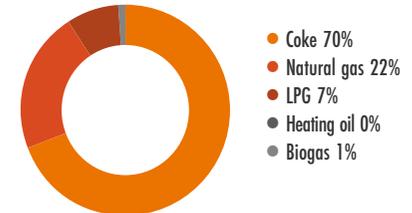


CARBON FOOTPRINT IN 2017 (GHG, T)



Emissions to air (t)	2015	2016	2017
Ammonia (NH <sub>3</sub> )	236	247	257
Carbon monoxide (CO)	2,272	1,972	306
Nitrogen oxides (NO <sub>x</sub> /NO <sub>2</sub> )	270	217	274
Particles	263	341	318
Sulphur oxides (SO <sub>x</sub> /SO <sub>2</sub> )	425	397	392
<b>Total emission to air</b>	<b>3,467</b>	<b>3,175</b>	<b>1,547</b>

FUELS USED IN 2017, %



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## OUTSTANDING EFFICIENCY IN METSÄ GROUP'S BIOPRODUCT MILL

Metsä Group built the next-generation bioproduct mill in Äänekoski in Central Finland. With a value of EUR 1.2 billion it is the largest investment in the history of the Finnish forest industry and one of the biggest industrial projects Paroc TI Finland has ever conducted.

The core of the bioproduct mill lies in the world's most efficient pulp mill. The equipment for the new mill was selected based primarily on energy efficiency, low water consumption and low emissions. Sustainability and environmental responsibility are an integral part of Metsä Group's operations and maximal energy efficiency is one of the top priorities in a bioproduct mill.

Paroc was the main insulation supplier for the bioproduct mill. We delivered pipe sections, segments, wired mats and slabs to insulation contractors operating at the site; Kymppi Group, PEPT Oy and KSPT-Insulation Oy. "We were chosen as the supplier because our customers rely on our service and ability to deliver the specified products for this huge project", states **Antti Laine**, Segment Manager, Industry.

Energy efficient and sustainable thermal insulation solutions in all parts of the industrial processes give energy saving potential and reduce CO<sub>2</sub> emissions significantly. PAROC process industry insulation were used for e.g. pipelines and pipe bridges, boilers, tanks, filters and flue ducts at the bioproduct mill.

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# SECURING PEOPLE'S WELL-BEING

The safety and well-being of our employees is critical to Paroc. We believe every employee should enjoy the work they are doing and be energized in their daily responsibilities. As proven in many studies, employees who are engaged directly, positively impact the business results of the company.

According to **Taija Lehtola**, Group Human Resources Director, "It is important that our employees arrive at work and leave work energized and safe. In practice, this means that we strive to achieve zero accidents and pay attention to the well-being of our employees. There are several initiatives underway to further improve safety and well-being at Paroc. This includes training our leaders and managers, which is something we really focused on during 2017."

"It is a win-win if an employee enjoys the work, is healthy and energized, because at the same time the company benefits from that," Lehtola continues. "If you look at it from the employees' perspective, this is sustainability: to have a good career, clear development opportunities, nice colleagues and inspiring work. I believe that good leadership enables wellbeing in teams and in the working environment in general."

**2017 IN REVIEW**

Safe working conditions, as well as equal treatment and other basic human rights, are at the core of Paroc's operations. We follow the local legislation practices and policies in all of the countries in which we

**GOOD LEADERSHIP ENABLES WELL-BEING TO FLOURISH IN TEAMS AND THROUGHOUT THE WORKING ENVIRONMENT IN GENERAL.**

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operate. Furthermore, Paroc works closely with local labor unions, both on a local as well as a Group level. We have a group-wide European Works Council with representatives from each of our production countries (excluding Russia). The Paroc European Works Council is established to guarantee the exchange of opinions and information across the national borders in Europe and increase the communication between management and employee representatives. During our yearly meeting in Skövde, Sweden, we were able to visit Volvo Truck's engine plant and learn about their safety practices.

"In 2017, Paroc closed the Oulu factory, which was very unfortunate. During this difficult period, we worked together with union members as we sought out new paths for our employees. We found a good local partner for trainings together with the union members, to help people find new paths for their careers and their life through these dedicated trainings," Taija states.

Our accident rate was the lowest ever during 2017. However, way too many accidents still occurred, often due to human factors, which could have been prevented.

In October at our Polish plant a fatal accident occurred, when an employee of a subcontractor fell while performing works related to changing skylights. Paroc employees provided immediate first aid and the emergency service was immediately called to the rescue. The victim was taken to the hospital in a fatal condition.

There is still room for improvement and the focus on health and safety continues.

"The Paroc 80th anniversary celebration, combined with the ski championships, was excellent. Many of our employees had the opportunity to go to Lahti. All employees were provided with the opportunity to participate in this event." Taija notes, "When I discussed with our service center employees in Lithuania about the possibility to go to Lahti for the celebration, they couldn't believe they could actually go to the games and travel to attend the event in person."

"This year, we have also been introducing our employees, who have been with the company for a long time, in our intranet news stories. It has been a pleasure to learn more about our long-term colleagues and share their experiences. I believe that team spirit is a strength at Paroc, something that

## CASE

### SOME 50 LEADERS PARTICIPATED IN PAROC BOOST, A GROUP-WIDE LEADERSHIP PROGRAM

During the program, leaders spent time training their practical leadership skills by participating in an intensive two-module residential program. Working in a group of peers, they gained hands-on leadership tools for confidently engaging in the range of conversations that a leaders' mandate requires, including:

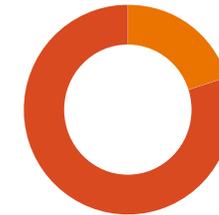
- Self-leadership and leveraging difference
- Coaching and feedback to courageously engage
- Influencing to execute strategy across Paroc

One of the participants, **Sören Eliasson**, Department Manager, Projects, from Sweden says, "Paroc Boost was a really excellent leadership training program that has given me both new ways of handling different leadership situations and a lot of new friends within Paroc! It was truly inspirational and useful for me and I will do my best to use my learnings on a day to day basis." We will continue with new Paroc Boost groups during 2018.



**I BELIEVE THAT TEAM SPIRIT IS A STRENGTH AT PAROC, SOMETHING THAT WE HAVE HAD FROM EARLY ON.**

### SICK LEAVE DUE TO ACCIDENTS



### LTIF (1) OUTCOME 2017 AND TARGET 2021



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we have had from early on. People are proud of the company and proud of our products. They like their colleagues, everyone is friendly, and the team spirit is very high.”

We believe all employees are to be treated equally, which is at the core of our Code of Conduct. At Paroc, we do not treat people differently based on their country of origin, their sex, political views or for any other reason.

At Paroc, managers and leaders alike play an important role in engaging with our employees, regardless of their location or team. As Taija explains: “One example of our efforts in 2017 to further improve the communication of safety and well-being to staff, has been our ongoing leadership training sessions for management. We have provided dedicated training to managers and leaders to help them effectively engage with employees.”

We have created a Paroc-wide leadership profile which describes how our leaders should be leading, highlighting certain areas for development. The leadership profile describes in detail the competences and behaviors we expect from our leaders. In 2017, each leader was engaged on this topic. Through local leadership training activities, we worked to strengthen the desired behaviors, and created a Group-wide leadership program to develop even better leaders. In total, 200 leaders participated in workshops that focused on how we should lead and defined what leadership profile means at Paroc. Furthermore, several local leadership trainings were conducted during the year.

FEEDBACK CULTURE AND FRIDAY BOOSTS

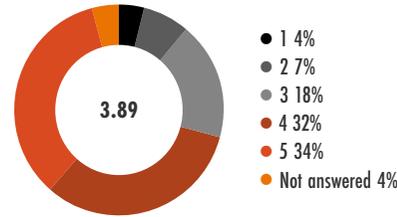
Paroc promotes a culture of feedback. From a well-being perspective, it is important to enable dialogue and open channels for feedback. To be an engaged employee, it is important that you get feedback and support on what you are doing well and what still needs to be developed, so that you can learn and put effort into the right things. This is the feedback culture and we have put emphasis on the importance of providing feedback to employees.

Employees are given the opportunity to give praise and recognition to their colleagues for their achievements. “The Friday Boost is a way to embrace your colleague and thank them for a job well done. Using our internal Yammer chat, we have hosted Friday Boosts since May 2017. These

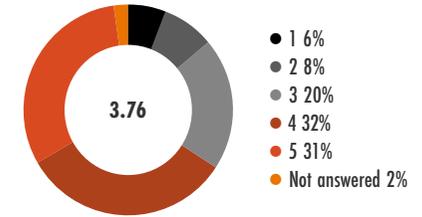


87% OF EMPLOYEES RESPONDED TO THE PAROC PULSE EMPLOYEE SATISFACTION SURVEY.

TOTAL GRADE TARGET ACHIEVED



EMPLOYEE DRIVE IS BELOW TARGET LEVEL (4.0)



Rating on a scale from 1 to 5, with 1 being poor and 5 being excellent.

PAROC GROUP TURNOVER BY COUNTRY, 2017					
Country	New employments	Ended employments	Paroc Group permanent employees 12/2017	Turnover	
FI	19	94	288	19.61%	
LT	11	13	259	4.63%	
PL	24		506	2.37%	
RU	21	3	160	7.50%	
SE	54	38	428	10.75%	

PAROC GROUP EMPLOYEE TURNOVER, 2017					
	New employments	Ended employments	Paroc Group permanent employees 12/2017	Turnover	
All permanent employees	131	149	1,703	8.31%	
By gender					
Female	22	40	305	10.61%	
Male	109	109	1,398	7.8%	
By age					
under 30	60	17	213	18.1%	
30-50	63	90	1,090	7.00%	
over 50	8	42	365	6.84%	

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are online conversations where people can say thank you to one's colleagues. This forum allows employees to highlight something a colleague has done or achieved to others in the organization. We have had over 80 Boosts since this practice was started, thus over 80 people have received praise from a colleague," Explains Lehtola.

### SAFETY, LEADERSHIP AND TALENT DEVELOPMENT

In 2017, a new development plan for Paroc employees was introduced. We believe that people are the captains of their own development: everyone takes responsibility for themselves. Paroc is committed to support employees in finding their own paths, developing their talents and actively promoting a culture of continuous development. "Employees need to know where they are going, who they are and what they need to learn, rather than leaving this up to managers and the company," Taija states. The "70-20-10" concept for employee development is used. The concept holds that employees obtain 70 percent of their knowledge from job-related experiences, 20 percent from interactions with others and 10 percent from formal educational events.

In 2017, the results of Paroc's internal employee satisfaction questionnaire, Paroc Pulse, overall fell in line with the previous years' results, with minor variations. A new index was introduced to the survey, measuring 'drive', effectively reporting how energized people are in their work. This index will be measured in future surveys, to follow how motivated and excited employees are about their work at Paroc.

Positive developments were achieved in the equal treatment category, where people felt that they are treated more equally in comparison to the results from previous years. Another strong result was recorded for leaders and supervisors, who received good marks for their job performance. According to the results, supervisors and managers are trusted at Paroc. Strong results were also given for team spirit and how well teams are working together and cooperating with other teams. The Paroc Pulse survey results also noted that customer focus had improved.

"An area where our employees see that development is needed is our innovation capability, and we have analyzed this result deeper. We are very self-critical with regards to our innovation. We see that we are doing a lot of small improvements and

AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE BY GENDER, AND BY EMPLOYEE CATEGORY*					
	Male	Female	White collar	Blue collar	Total
Finland	10.3	13.4	15.2	11.1	5,391.60
Sweden	25	30	26	28	11,055.00
Poland	20.0	24.0	23.0	17.0	6,028.00
Lithuania	14	47	42	10	5,474.00
Russia	10	10	8	12	1,612.00

NUMBER OF EMPLOYEES BY EMPLOYMENT CONTRACT AND GENDER, 2017							
	Permanent, blue collar	Permanent, white collar	Total	Temporary, blue collar	Temporary, white collar	Total	Grand total
Female	76	229	305	6	9	15	320
Male	982	416	1,398	103	19	122	1,520
<b>Total</b>	<b>1,058</b>	<b>645</b>	<b>1,703</b>	<b>109</b>	<b>28</b>	<b>137</b>	<b>1,840*</b>

\* Number of permanent active employees in 2017, end of year total 1840

COMPOSITION OF CURRENT GOVERNANCE BODY, 2018		
	Male	Female
Paroc Leadership Team	8	2

9 members are 30–50 years old, 1 over 50

innovations, but there have not been many 'major' breakthrough innovations," considers Taija.

### LOOKING AHEAD

Employee well-being is at the core of successful operations. At Paroc, we continue to focus on three key areas: safety, leadership and talent development. We believe our leaders play a strong role in the well-being of employees. We also want to continue the discussions in 2018 to help everyone find their development opportunities. We continue to push to further improve cooperation between units and teams. Ultimately, successfully managing these factors directly impacts the company's overall performance. In 2018, there will also be continued efforts to promote the feedback culture. For

example, in Finland, we will organize events where all the Paroc employees can meet each other and the topic of discussion will be well-being and new ways of working.

Beyond these targets, safety is critical to Paroc and its employees. As Taija summarizes, "We will continue to strive towards the achieving of zero accidents; that's our greatest priority. For 2018, we took the accident and sick leave rates out of the monetary bonuses. Safety is a fundamental part of our business. We want to be open and transparent, and that's something we expect from everyone in the organization working on improving safety, therefore, we are not compensating for this. We are working hard to achieve this as a basic right for our employees."



# BUILDING RESPONSIBLE SUPPLY CHAIN

Sustainability, one of Paroc's cornerstone values, is built into the company's business strategy, culture and communication. This allows Paroc to implement and optimise critical sustainability activities, like responsible sourcing and ethical standards across the entire supply chain.

The positive impact of ethical sourcing for us, at Paroc, is clear. Meeting stringent environmental requirements and the demands of stakeholders, means that Paroc must consistently strive to create a higher operational efficiency: by building a strong reputation with external stakeholders and our employees, and by securing a competitive edge.

The biggest environmental impact of Paroc's supplier operations remains the extraction and transportation of natural resources.

Paroc has in excess of 100 suppliers with regard to material that directly relates to production, such as stone wool fibre, for example, as well as in excess of 100 suppliers that relate to transportation and traded products. Furthermore, there are also suppliers that provide more indirect services like maintenance and other services. Paroc's suppliers are mostly European based, while a small percentage operate elsewhere, like in Asia.

## 2017 SAW A FURTHER INCREASE IN CERTIFIED RESPONSIBLE SOURCING

In 2015, we were awarded the BRE standard BES 6001 certification for the supply of stone wool fibre in our European production. Since 2015,

**MEETING STRINGENT ENVIRONMENTAL REQUIREMENTS MEANS WE MUST CREATE A HIGHER OPERATIONAL EFFICIENCY.**

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we have continued to further implement the work of certifying the sourcing of production materials. In 2017, we saw further increases in certified responsible sourcing. With regards to the responsible sourcing and the certification of our suppliers, a new area we brought into operations in 2017 is that our traded products are now integrated to the same system and strategy, and conform to basically the same structure. We had a target that 60 percent of the supply comes from certified suppliers according to the demand of the BES 6001 standard. We exceeded the target, as we had 84 percent of supply from certified suppliers.

#### A MANAGEABLE COMMUNITY OF SUPPLIERS

In 2015, we first implemented a roadmap, a tool created to certify our main logistics suppliers. The aim of our work since then has been to improve upon the levels of the BES 6001 certification, which requires that 60 percent of our melted production material is responsibly sourced. BRE's independent, third-party assessment of the BES 6001 certification allows for construction product manufacturers to both prove and ensure that their products have been made with responsibly sourced constituent materials. For Paroc, this standard is extensive and covers, for example, issues that relate to quality, environment and occupational health and safety.

In 2017, we were energised by the fact that we were able to improve the level of production materials certified from responsible sources and



**IN 2017, WE EXCEEDED OUR TARGET AS 84% OF OUR SUPPLY CAME FROM CERTIFIED SUPPLIERS.**

achieve a figure of 75 percent for certified first-tier suppliers (that are typically stone raw materials and chemicals). Simultaneously, in both internal and external audits, in 2017, none of Paroc's suppliers were identified as having significant actual or potential negative impacts on the supply chain in terms of labour practices or with regards to the environment.

Due to the successful 75 percent benchmark attained in 2017, in 2018, we are increasing the target to 79 percent. Looking further ahead, a long-term timeframe that takes us through to 2021, the target for the strategy period will rise to 90 percent. We will argue that this figure is a realistic one, but it will be very tough to hit nonetheless. That said, we are very performance oriented at Paroc and we like to work with tough targets. This is how we have always defined the targets.

In the last few years, Paroc has also continued to build upon the standards with regards to increasing responsible sourcing from transportation suppliers. A wider roll-out in 2017 of the inclusion of responsible sourcing requirements already at the tendering stage has allowed for solid progress to be made. At the end of 2017, the current percentage of responsibly sourced transportation was approximately 74 (82 percent)

#### AUDITING AND WIRE MESH FROM CHINA

With regards to the status of targets set in 2017 and talking about the supply chain in general – with the exception of what we are doing as a part of the BES 6001 work structure – from a sustainability point of view, we have one main specific area which is tangibly related to sustainability. The first notable story of 2017, relates to our Chinese suppliers of wire mesh. This wire mesh is a raw material that we buy because it makes part of our technical installation nets. In 2017, our target was to perform an external audit of the suppliers in China. We used DNV (Det Norske Veritas) through their China bureau. We have now received the reports and we now know what the status there is. The external audit has pointed out some improvement areas which we are now going through with the suppliers and sharing the data with them. Our intention is that we will repeat this exercise every year.

This was the first year that we did it with an external party. We have done it when we qualified



**IN 2017, NONE OF PAROC'S SUPPLIERS WERE IDENTIFIED AS HAVING SIGNIFICANT NEGATIVE IMPACTS ON THE SUPPLY CHAIN IN TERMS OF LABOUR PRACTICES OR WITH REGARDS TO THE ENVIRONMENT.**

the suppliers in our previous history. Then we did a physical audit on the individual places ourselves. With such a system in place we can follow up the development year on year. To that end, for Paroc, this really has become more 'official' in 2017, and our auditing methods conform to recognised global standards. In addition, Det Norske Veritas is very well appreciated in this area.

This comprehensive implementation of the use of external audits is an important step for Paroc in 2017. There has been a clear trend over the past 10 - 15 years that the production of wire mesh has relocated from Europe and other parts of the world and into China. In early 2018, it is evident that a clear majority of the suppliers of wire mesh imported into Europe are from China. There are only a few manufacturers in Europe. However,

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they are manufacturing the kind of wire mesh that is not according to the specifications and the demands that we have. As a result, this block of the production has been off-shored for a number of years now. This has been a general industry trend.

We have used China as a source of material for a number of years and the auditing in the region last year represents a very notable part of 2017's external auditing as a whole. This auditing is also very much

in line with our sustainable resourcing initiative. This is what we want to do.

To that end, the auditing that we carried out in 2017 is going to have an influence on how things move in 2018. For one, the gaps that we have identified in the external audit, we are communicating openly with the suppliers. We expect to see an improvement by the end of 2018 when the next external audit is being done. If

that doesn't happen, then we need to take some co-actions. We have not yet defined what the exact actions will be. We have communicated clearly to the suppliers that we expect improvements to be made in the areas highlighted in the audit.

In 2018, Paroc will be focusing the lion's share of its attention on China and Far East supplies. As mentioned previously, China and wire mesh is something that we have continuously under specific

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## RENEWING OUR COMMITMENT TO RESPONSIBLE SOURCING

Sustainability continues to be an important theme for the construction industry. Taking responsibility across the entire supply chain demands transparency. The importance of sustainability cannot be understated. In 2017, Paroc renewed its BES 6001 certification, safeguarding our credibility as a manufacturer. The renewed certification is a clear sign of our commitment to sustainability and provides reassurance for contractors and building owners of Paroc's dedication to help them meet sustainability requirements in their developments.

"The environment has always been a key consideration for us and this certification is another way of proving our dedication to sustainability. Responsible sourcing demands show our suppliers that environmental awareness is a prerequisite when cooperating with us", says Emma Hansson, Environmental and Sustainability Manager at Paroc Group.

Paroc's operating principles guide the actions of all employees and all processes are certified in accordance with current regulations and valid standards. All Paroc manufacturing plants and quarries are certified according to ISO 14001 and ISO 9001. Our Polish plant is also certified according to OSHAS 18001.

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observation. We will consider within the traded products if we have some areas where we can also do the same auditing procedures. Parts of Paroc's products come from low-cost countries like Vietnam, India and China. We have not made a decision yet whether we will do further comprehensive external audits.

That said, there are still many variables that need to be taken into account. Factors like child labour, minimum wages, if the workers can be organised into unions, making sure workers have safe places to work, and fire safety, are all areas that require our full attention. Our experience with the external audit has been so positive that we are considering expanding it to other areas, if or when we see that there is the requisite material reason for it to be done.

Generally, with regards to the politics of China in the previous year or 18 months, there is more awareness of the emissions coming from the industry generally. They are generally seen to be reducing the emissions and increasing work safety. However, we will probably see a trend in the coming years that some of the production will move away from China and perhaps come back to Europe again. The reason is that the price in China is going to increase in terms of high living standards, higher wage expectations, as well as the environmental responsibility and cost that China has to bear too.

#### 2018 AMBITIONS AND TARGETS

In 2018, we will continue with the ongoing packing optimisation project, a continually evolving task that aims to minimise the amount of packing that we use, as well as decrease the amount of packing in comparison to the previous year. We have taken big steps across previous years, but this year we will concentrate more on this area. To that end, we are taking small steps toward implementing a greater use of thinner plastics, or even plastic films, for example, when optimising the pallet structure. Furthermore, European Union short and long-term targets, and legislation that focuses on sustainability, productivity or cost efficiency, fit very well with Paroc's way of thinking. The idea, generally, in terms of improving the overall sustainability and efficiency of the supply chain, is that by looking at all the little variables and making small intrinsic improvements to each one, we can

create multiple micro-benefits that ultimately add up to a macro-sized positive impact with regards to our continual efforts to build a more responsible supply chain.

In terms of the key challenges in 2017, and how we overcame them, some examples include the ambition to have external audit and traded products be incorporated as a long-term target area. We have input in the raw materials and the traded products. Traded products are competing products to our wool products. Its helping to complete our offering, for example, the selling of tapes and fastening products: this is one concept that we see the customer is buying.

#### COMMUNICATION IS KEY

Along with the ambitious tightening of our target from 75 percent certified to 79 percent certified first tier suppliers, also explaining to the suppliers what it requires to be a qualified Paroc supplier, and why we are increasing the target by four percentage points, is going to be a communication challenge for 2018. Annual targets and stricter legislation must always be understood and put front and centre in our sustainability and supply chain operations and crucially, we need to get the suppliers to understand what are our demands now and in the future, and what happens to the suppliers if they do not comply with the rules, regulations and targets. At Paroc, we always give them a possibility to comply but if we do not see a movement to the correct direction, then we have to seriously consider if we can cooperate with such a supplier in the future. We have to be quite strict about this. But we always must give them a chance to correct their way of work based on long term cooperation and relationships. We have in excess of 100 different suppliers. It is a big challenge to get the communications through to all our suppliers successfully and with the requisite clarity.

**Patrik Ahlbäck**, Sourcing and Supply Chain Director says: "For Paroc, 2018 will be an interesting, and we believe positive year. We have been hitting the targets last year and the year before and when we started this program. But looking at the economy generally, the economy is doing quite well, and there is a big demand for commodities and materials sold on the market, many are working with high capacity utilisations as well. For some of



**WE HAVE COMMUNICATED CLEARLY TO OUR SUPPLIERS THAT WE EXPECT IMPROVEMENTS TO BE MADE IN THE AREAS HIGHLIGHTED IN THE AUDIT.**

the suppliers it is not so unreasonable that Paroc is coming in and setting these demands. I'm happy to see that we are not the only one who are chasing these targets and chasing the suppliers to be compliant. We clearly see that other companies are setting same kind of demands, which is a very good thing because then it starts to become a trend and we begin to see the raising the standards across the board."

Ahlbäck continues: "Generally, there is quite a good understanding around these things. This we have noticed during the year that we have been doing this systematic work. When you have these things in order, when the suppliers are doing things in a systematic way on the environmental side, on OHSAS side, emissions and so on, this often goes together with cost efficiency. If you have a structure in place that means you can also operate in a more cost-efficient way. Our experience is that cost efficiency and environmental aspects often go very well together. You see this change in some of the suppliers. This is a positive development in the overall mind-set."

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# AN ENGAGING CORPORATE CITIZEN

We are committed to society and do our part to add value through actions that benefit the communities in which we operate. We operate with a sustainable mindset, and want to make a positive impact that will further improve the quality of life of citizens. Paroc interacts with communities across environmental, social and economic aspects in support of energy efficiency and safety initiatives.

### CONNECTING WITH COMMUNITIES

**Emma Hansson**, Environmental and Sustainability Manager, sums up the systematic work with local communities, "We continued having local cooperation initiatives during 2017. We participate in safety and environmental initiatives, such as working with local firefighting associations. We also sponsored events, such as sports events and fire safety seminars. Obviously, safety and the environment are significant for us, but additionally, social responsibility is something we engage in as well. For example, in some of our operating countries we already have great cooperation with local schools."

### SAFETY AND EDUCATION DOMINATING COMMUNITY INITIATIVES

During the past year, we have planned and delivered projects in support of local communities across all the countries where Paroc is present. Many of our local projects are focused on safety and energy efficiency. These themes are close to our hearts and a critical part of our sustainability approach.

# WE PARTICIPATE IN ENERGY EFFICIENCY, FIRE SAFETY AND SOCIAL RESPONSIBILITY INITIATIVES.

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### COMMUNITY RELATIONS IN FOCUS DURING THE YEAR OF ECOLOGY IN RUSSIA

2017 was declared the year of ecology in Russia and Paroc took an active role in promoting it with partners and authorities, especially within the Tver region, where the Russian plant is located.

Environment, Health and Safety Manager of Tver production, **Natalya Desheva**, says that increasing employees' knowledge has been a focus area. "We constantly strive to raise awareness of our employees about the state of the environment and to understand that anyone can contribute to improving it. Various environmental events are regularly held, such as car free days or coming together to plant trees," explains Natalya.

Paroc also cooperates closely with the authorities of the Tver region on environmental issues, for example, through activities on environmental safety. "We, as a responsible manufacturer, took part in the Expert Council under the local human rights ombudsman, regarding the rights of the region's residents to a safe and favorable environment. The Expert Council's work resulted in a number of recommendations concerning environmental issues, which were then made to the government and the executive authorities of the Tver region," Natalya continues.

During the year, Paroc participated in several federal energy efficiency festivals in Tver and in St. Petersburg, for example. The goal was to educate visitors about energy efficiency and the steps

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**IN 2017,  
 WE CONTINUED  
 TO PUSH FOR  
 SAFE SOLUTIONS  
 THAT PERFORM  
 UNDER EXTREME  
 CONDITIONS.**

### CASE



### OHS TEAM DELIVERS SAFETY EDUCATION IN IZOPLIT, RUSSIA

Paroc employees Natalya Desheva, together with Sergey Osipov, Occupational Health and Safety Engineer and HR Specialist Oksana Shologon, visited the local school in Izopolit to conduct open lessons for children aged 7–15 years. Teaching the children about the Parocian motto – Safety first, the session focused on raising the children's awareness around possible dangerous situations ranging from fire safety to gas leaks, fireworks, and traffic. The children were given a set of reflective stickers, which are extremely useful on the way to and from school during the dark winter months.

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## PAROC EMPLOYEES VOTED TO SUPPORT PLAN INTERNATIONAL IN 2017, WITH A CHARITY DONATION FOR THE CAMPAIGN TO ENABLE GIRLS AROUND THE WORLD TO ACCESS SAFE AND QUALITY EDUCATION.

everyone can take to save our planet for future generations. Representatives from local government were also briefed by Paroc about the requirements for better building performance.

### CLOSING THE OULU FACTORY

The Oulu factory was forced to shut down as market demands changed and no economic grounds for continuing operations at the factory were found to exist. As a result, 64 people, including the entire production personnel were made redundant. For other activities, five positions were relocated to other Paroc offices.

Through this challenging and difficult period, we immediately started initiating measures to support the re-employment of impacted personnel. Efforts to help people with finding new jobs within Paroc, as well as outside the company through aided job searches, coaching and other measures

in close cooperation with authorities, were a top priority. **Taija Lehtola**, Group Human Resources Director, says: “Closing down the Oulu factory was very unfortunate. Market forces drove us into a situation where we were not able to continue operations there. We worked closely together with union members as we were trying to find new paths for our employees in Oulu. I believe many of the employees found a new path for their life through these trainings. Overall, it was a difficult time for everyone involved.”

### ADVANCEMENTS IN FIRE SAFETY

In case of a fire, insulation can make a significant difference. Structures with stone wool will withstand flames and heat for a longer time, maintaining the integrity of the structure and preventing collapse. This allows people more time to make a safe exit and provides emergency professionals as much time as possible to reach the location. In turn, this enhances the possibility of saving human lives and even possessions.

In 2017, Paroc has continued to push for safe solutions that perform under extreme conditions, protecting people trapped inside, and buying time for emergency services. As **Tuula Nordberg**, Building Insulation's Product Manager, says, “We still see insulation materials in the market that are combustible.”

### FIRE SAFETY AWARENESS IS GROWING

There is an ongoing debate about the fire safety of façade materials and insulations in the fall out from the Grenfell Tower fire in London. Those who are familiar with the fire testing of construction products are not that surprised, since the problem has been recognized and the matter presented to the European Commission for the past number of years. The new construction products that consist of several layers of materials are not suitable for fire classification using present fire test methods. A new European fire test method for façades that is under development, is based on the same British fire test, whereby these products have also been approved for use in buildings.

### FIRE SAFETY SEMINAR TOUR TRAVELS ACROSS FINLAND

During 2017, Paroc, together with other companies, co-hosted a series of ten seminars entitled the

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### FAIR PLAY CHANNEL OPENS UP DIALOGUE

Paroc Fair Play, our ethical reporting channel, has been available on our web pages for external stakeholders for nearly two years. A similar channel is available internally for our employees. During the last twelve months, we have received three concerns, all coming from Poland, which is where our major production facility is situated.

All cases have been addressed thoroughly and with structured analysis, together with objective external support. Some analysis has resulted in both direct and indirect corrective actions.

Cases and corrective actions have been reported to the board's audit committee and will be implemented into business processes and practices prioritizing them through assumed impact.

We strive to enforce the Fair Play function further to secure Paroc as an ethically sound and business practices-wise sustainable player in all businesses we operate in.

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'Fire Safe Construction Tour'. The purpose of the seminar tour was to raise awareness among diverse stakeholders, from regulators to designers, other professional builders, representatives of learning institutions and the like, about fire safety standards. It has become more and more important to consider fire safety as an integral part of building construction.

Tuula highlights, "Many discussions with seminar participants, such as contractors, demonstrate the confidence people have in the fire properties of stone wool. We can, in fact, guarantee heat tolerance of up to 1000 degrees Celsius. We also have solutions in which the material is expected to withstand fire for an hour or two – and in some tests, we have even achieved fire protection times of four hours. These are precious hours for the people on the scene, and can make all the difference for emergency services and rescuers." As Tuula concludes, "It all comes down to the fact that the materials have been tested and we can stand by our product, because we have done the research and development work thoroughly."

### EUROPEAN PARLIAMENT HELD FIRST DEBATE ON FIRE SAFETY IN BUILDINGS

The date of 13 September 2017, marked a defining moment in Europe, as Members of the European Parliament debated fire safety for the first time in response to growing concerns about the suitability of Europe's fire safety regulations.

As the elected representatives of European citizens, it is the fundamental duty of Members of

the European Parliament to ensure that Europeans are safe in their homes. Several Members of the European Parliament raised questions to the European Commission on its lack of progress and asked for concrete actions in areas such as the smoke toxicity of construction products, the harmonized testing regime for building facades and an EU level initiative to promote fire safety.

Paroc joined those welcoming the step towards improving the situation, as the European Commission announced its intention to establish a platform for Member States and stakeholders to discuss fire safety issues, exchange data and best practices. This is a good decision in terms of improving fire safety in buildings across Europe.

### COMMITTED TO COLLABORATION

With strong representation in both Eurima (the European Insulation Manufacturers Association) and an offshoot set up by mineral wool manufacturers, Fire Safe Europe (FSEU), Paroc is committed to driving consistent, high safety standards across its market areas. This is simply because our products are among the safest on the market and people have the right to live and work in safe environments.

Paroc is involved in Eurima's four main Committees; the Energy Efficiency Committee, the Sustainable Construction Committee, the Health and Safety Committee and the Technology and Standardisation Committee, working towards harmonized European regulations and standardization.



**WE ARE COMMITTED TO DRIVING CONSISTENT, HIGH SAFETY STANDARDS ACROSS OUR MARKET AREAS.**

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED			
EUR 1,000	2015	2016	2017
Revenues	376,092	375,738	411,535
Operating costs	221,070	220,733	259,248
Employee wages and benefits	83,730	81,175	84,989
Community investments	54	65	241
Payments to government	7,957	5,094	4,477
Payments to providers of capital	29,045	26,238	24,105
<b>Economic value retained</b>	<b>34,236</b>	<b>42,433</b>	<b>38,475</b>

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## DISTRIBUTION OF ECONOMIC VALUE ADDED TO OUR STAKEHOLDERS

### ECONOMIC VALUE ADDED GENERATED 2017 (2016)



**CUSTOMERS**

MEUR 411.5 (MEUR 375.5)

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 259.2 (MEUR 220.7)

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 85 (MEUR 81.2)

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 35.2 (MEUR 24)

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 4.5 (MEUR 5.0)

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 24.1 (MEUR 26.2)

We pay interest to lenders and owners, and by growing the value of the company we can produce better profits to our owners.

Paroc Group reports on its finances on a quarterly basis. Paroc Group financial statements are audited by KPMG and reported to the audit committee. Paroc Group also has an internal audit function, run by an internal auditor.

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We are committed to transparency and strive towards combining business advantages with social and environmental responsibility.

# MATERIAL ASPECTS AND BOUNDARIES

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The aspects and indicators have been defined according to the Global Reporting Initiative's (GRI) G4 principles for defining materiality.

The boundary for environmental indicators was set to Paroc's production countries (Finland, Sweden, Lithuania, Poland and Russia). Business travel is excluded from the environmental indicators. Economic and social indicators are reported for the whole organization.

Any changes in the indicators, their scope, and boundary or measurement methods from previous reporting will be clarified in connection with the given indicators.

G4 SPECIFIC STANDARD DISCLOSURES		
Aspect	(G4) indicators	Boundary
Innovating a better built environment		
Safety of the built environment	No GRI indicator applicable	Impacts occur outside Paroc's operations
Energy efficient products	No GRI indicator applicable	Impacts occur outside Paroc's operations
Innovating sustainable solutions and business models	Paroc internal KPI on innovation	Paroc Group
Ensuring operational excellence		
Energy consumption and emissions	G4-EN3, G4-EN6, G4-EN15, G4-EN21	Paroc Group, excl. contractors
Operational efficiency	G4-EN3	Paroc Group
Material efficiency in production	G4-EN1, Paroc internal KPI waste to landfill	Paroc Group
Economic performance and profitable growth	G4-EC1, G4-EC2	Paroc Group
Securing people's wellbeing		
Occupational health and safety	G4-LA6	Paroc Group, excl. contractors
Employee engagement, commitment and development	G4-LA9, G4-LA10, G4-LA11	Paroc Group, excl. contractors
Employee diversity, equal possibilities and rewarding	G4-LA1, G4-LA12	Paroc Group, excl. contractors
Building responsible supply chain		
Supply chain management	Paroc has BRE standard BES 6001 certification	Paroc's suppliers
Responsible sourcing	G4-EN29	Paroc's suppliers
Engaging as an active corporate citizen		
Ethics and good business conduct	G4-S05, G4-S07, G4-S08	Paroc Group
Continuous stakeholder dialogue	G4-PR5	Paroc Group

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Code	GRI content	Location	Comments
<b>General standard disclosures</b>			
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Statement from the CEO	Greetings from CEO, p. 6 - 8	
G4-2	Description of key impacts, risks, and opportunities	Greetings from CEO, p. 6 - 8, Paroc's approach, p. 13 - 15, Financial statements 2017	
<b>ORGANISATIONAL PROFILE</b>			
G4-3	Name of the organisation	Paroc in brief, p. 5	
G4-4	Primary brands, products and services	Paroc in brief, p. 5	
G4-5	Location of the organisation's headquarters	Paroc in brief, p. 5	
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	Paroc in brief, p. 5	
G4-7	Nature of ownership and legal form	Paroc in brief, p. 5	
G4-8	Markets served	Website, About Paroc	
G4-9	Scale of reporting organisation	Paroc in brief, p. 5, Financial statements 2017	Financial statements 2017 will be reported at the end of March 2017.
G4-10	Total number of employees and breakdown by employment type, employment contract, region and gender	Securing people's wellbeing, p. 27	Reported partly. Employment contracts by gender reported.
G4-11	Percentage of total employees covered by collective bargaining agreements	GRI content index	Finland: all blue collar (hourly workers) and part of white collars (salaried employees) are covered by collective agreements, coverage 54%. Part of white collars (senior salaried employees; mainly managerial/specialist positions) are covered by general agreement. Poland: all employees are covered by Remuneration Regulation i.e. bargaining agreement with the local unions (100%) Lithuania: all employees are covered by collective agreement with the union (100%). Part of the white collars (managerial positions) are excluded from the Remuneration Regulation. Sweden: Paroc has centrally negotiated collective bargaining agreements for white collars with Unionen, Ledarna and Sveriges Ingenjörer, and for blue collars with IFMetall. The agreements cover all employees in the company, whether they are members in a union or not (100%). Russia: there are no signed collective agreements between the employer and the employees.
G4-12	Description of the organisation's supply chain	Building responsible supply chain, p. 28-31	
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain	Greetings from CEO, p. 6-8	
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Financial statements 2017	Financial statements 2017 will be reported at the end of March 2017.

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G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	Paroc's approach, p. 14-15	
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation is active	Stakeholders, p. 10; Building responsible supply chain, p. 28-31	
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
G4-17	Entities included in the organisation's consolidated financial statements	Website: About Paroc > Investors	
G4-18	Process for defining the report content and the aspect boundaries	Material aspects and boundaries, p. 38	In 2015, in co-operation with an external partner we conducted comprehensive materiality analysis through benchmarking, industry practices, followed by in-depth interviews and an online-survey with our major stakeholders.
G4-19	Material aspects identified	Paroc's approach, p. 14	
G4-20	Aspect boundary within the organisation for each material aspect	Material aspects and boundaries, p. 38	
G4-21	Aspect boundary outside the organisation for each material aspect	Material aspects and boundaries, p. 38	Website
G4-22	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements	GRI content index	No restatements
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	GRI content index	No significant changes
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	List of stakeholder groups engaged by the organisation	Stakeholders, p. 10	
G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholders, p. 10	
G4-26	Organisation's approach to stakeholder engagement	Stakeholders, p. 10	
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organisation has responded to them	Stakeholders, p. 10	
<b>REPORT PROFILE</b>			
G4-28	Reporting period for information provided	About this report, p. 3	
G4-29	Date of most recent previous report	About this report, p. 3	
G4-30	Reporting cycle	About this report, p. 3	
G4-31	Contact point for questions regarding the report or its content	About this report, p. 3	
G4-32	GRI content index	GRI content index	
G4-33	Policy and current practice with regard to seeking external assurance for the report	GRI content index	The report is not externally assured.
<b>GOVERNANCE</b>			
Governance structure and composition			
G4-34	Governance structure of the organisation, including committees of the highest governance body and committees responsible for decision-making on economic, environmental and social impacts	Website: About Paroc > Paroc's Management	
Ethics and integrity			
G4-56	Description of the organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Paroc in brief, p. 5; Paroc's approach, p. 14	

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SPECIFIC STANDARD DISCLOSURES			
DISCLOSURES ON MANAGEMENT APPROACH			
DMA	Disclosures on Management Approach	Paroc's approach, p. 13-15, Focus areas and performance	
CATEGORY: ECONOMIC			
Economic performance			
EC1	Direct economic value generated and distributed	An engaging corporate citizen, p. 35-36	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Energy efficient environments, p. 2; Innovating a better built environment, p. 16-19	Reported partly.
CATEGORY: ENVIRONMENTAL			
Materials			
EN1	Materials used by weight or volume	Ensuring operational excellence, p. 22	Non-renewable vs. renewable materials not reported.
Energy			
EN3	Energy consumption within the organization	Ensuring operational excellence, p. 22	
EN6	Reduction of energy consumption	Ensuring operational excellence, p. 20, 22	
Emissions			
EN15	Direct greenhouse gas emissions (scope 1)	Ensuring operational excellence, p. 22	
EN21	NO, SO and other significant air emissions	Ensuring operational excellence, p. 22	
Compliance			
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental rules and regulations	GRI content index	No fines or sanctions in 2017.
CATEGORY: SOCIAL, LABOR PRACTICES AND DECENT WORK			
Employment			
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Securing people's wellbeing, p. 26	Not reported by region.
Labor/management relations			
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	GRI content index	In none of Paroc countries notice periods are specified in collective agreements but in all countries by local legislation i.e. Labor Code. A) Report the minimum number of weeks' notice typically provided to employees and their elected representatives prior to the implementation of significant operational changes that could substantially affect them. In Finland 2 or 6 weeks, in Sweden there is no such specified time frame, in practice it is the specified time needed for unions to understand, make own analysis and if needed an investigation during the negotiation period. In Poland 2 weeks, in Russia no less than 2 months and in Lithuania there are no notice periods for discussions with trade union in case of operational changes. Labor Code requirements need to be followed. B) Whether collective bargaining agreements are in use, please report whether the notice period and provisions for consultation and negotiation are specified in collective agreements. Not applicable in any of the Paroc (production) countries.

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Occupational health and safety			
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work related fatalities by region and by gender	Securing people's wellbeing, p. 25	Occupational diseases not reported.
Training and education			
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	GRI content index	A) Sales/Customer Focus trainings, Leadership trainings, Safety trainings, Work related process trainings, Wellbeing related trainings. B) Related to the closing of Oulu factory and other transition processes, Paroc has provided group and individual career counselling, support for job seeking and support in relocating to other Paroc locations. Also new vocational studies and establishing of own company have been among the choices supported by Paroc.
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	GRI content index	According to the Paroc Pulse employee satisfaction survey, 90 percent of white collar and 77 percent of blue collar employees received performance and career development reviews in 2017. The same group comprised of 86 percent females and 81 percent male.
Diversity and equal opportunity			
LA12	Composition of governance bodies and breakdown of employees by employee category according to gender, age group, minority group and other indicators of diversity	Securing people's wellbeing, p. 27	Breakdown of employees not reported by age groups.
SOCIETY			
Anti-corruption			
SO5	Confirmed incidents of corruption and actions taken	GRI content index	No incidents in 2017.
Anti-competitive behavior			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes	GRI content index	No cases 2017.
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	GRI content index	No fines or sanctions 2017.
PRODUCT RESPONSIBILITY			
Product and Service Labelling			
PR5	Results of surveys measuring customer satisfaction	Stakeholders, p. 10	



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