

Armacell's Communication on Progress Report for the United Nations Global Compact 2009



17 September 2009

Introduction to the Armacell Group

Our business

- Two business units:
Technical Insulation for thermal applications - where Armacell is the world market leader with its main brand ARMAFLEX – and acoustic applications, and Technical Foam with innovative new products for a variety of other applications
- About 2,500 employees worldwide representing more than 40 nations
- Manufacturing at 19 production sites in 12 countries around the world, with many more sales offices in additional countries. Head office located in Muenster, Germany



Statement of Continued Support



Dr. Mark E. Harakal
CEO Armacell Group

"Since joining the UN Global Compact in 2006, the Armacell Group has been consciously supporting this initiative with its best efforts, advising all our stakeholders to respect our self-commitment and to encourage business associates to join the initiative.

When I took over the management of Armacell at the end of 2008, all markets were already suffering from the economic crisis. For Armacell, which is also hit by the global recession, this means that we need to use our resources even more effectively. At the same time, we are facing climate change and the growing need for energy worldwide. For these reasons, we are investing in key operations such as Research and Development.

The key issue is energy efficiency. In working towards optimizing our insulation products and increasing the awareness of energy-saving potential amongst industry and governments we make our contribution to the environmental challenge."

Statement of Continued Support

"As in the years before, our responsibility for sustainable development does not confine itself only to environmental issues. In the future, we will also reinforce our focus on education and training programmes internally and externally.

We clearly understand the importance of all ten of the Compact's fundamental principles and will further strive to initiate appropriate actions in compliance with all four principle issue areas.

We will continue to endorse the UN Global Compact because we regard its principles as fundamental guidelines for the sustainable development of our business. They represent the ethical basis on which we will conduct business."

Dr. Mark E. Harakal
CEO Armacell Group



Measures and practical actions since 2008



**Measures, practical actions
and outcomes in support of the
UN Global Compact**



Measures and practical actions: Principles 1 and 2

Principles 1 and 2:

Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses

- Strict safety policy in place
 - Commitment to providing a safe work environment for our clients, suppliers and employees ("zero harm to people")
 - Necessary training, resources and processes to achieve this goal
- Amongst Armacell management and employees there is great emphasis on the social dimension of sustainability:
 - Public support of GC principles on our website, in speeches, in the press, in product brochures, in contact with customers and suppliers (here: "Armacell Global Sourcing Vision and Strategy")
 - Incorporation of Armacell's GC commitments overall into corporate presentation (shown to the general public, customers, suppliers, and other stakeholders)



Measures and practical actions: Principles 1 and 2

- Support of more than 40 local "good citizenship" projects worldwide, i.e. projects to support the local communities in which Armacell operates. Some prominent examples are:

- Regular donations in-kind for schools, hospitals, sports clubs, and facilities for the handicapped in many plants worldwide



100 ArmaSport mats donated to an elementary school in Maasmechelen / Belgium

- Starting in spring 2008, planning, organizing and sponsoring sports programmes for street children in Pindamonhangba / Brazil; at the moment the programme is being re-organized because of the sudden death of organizer and a new licence is being requested from the authorities



Measures and practical actions: Principles 1 and 2

- Support of project work for needy citizens in many different locations, e.g. North America
- Organizing and sponsoring discussions, workshops and seminars for pupils and students in and around Muenster/Germany
 - 3-4 visits by school classes in 2008 and 2009
 - 18 internships for pupils in 2008, 19 internships for pupils until Sep. 2009
- First aid in catastrophes and support of long-term recovery programmes
 - Ongoing programmes comprise: World Vision
 - Financial support and regular mail correspondence with 10 orphans/half-orphans (aged between 4 and 11) in Sri Lanka following 2005 Tsunami



Measures and practical actions: Principles 1 and 2



Collecting and transporting donations in Pindamonhangba, Brazil

Examples for first aid in catastrophes 2008/2009 comprise:

- Financial aid after the heavy earthquake in Sichuan Province, China in May 2008 to the Chinese Red Cross working in the area (€10,000), to affected Chinese fellow employees and to school reconstruction funds (€15,050), €10,000 of which raised by Armacell employees worldwide
- Extensive help after the heavy floods in Santa Catarina State (Brazil) in December 2008: Armacell Brazil organized and collected more than 57 tons of donations (water, food, and clothes) from employees and customers in Pindamonhangba and São Paulo and provided 3 trucks to bring the goods to the South

- ▶▶ Preparations are being made to focus our global combined efforts on a few key projects with consistent and continuous communication to employees, customers and shareholders about progress / achievements.

Measures and practical actions: Principle 3

Principle 3:

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

- No hindrance to establishment of worker/employee representative bodies (e.g. works councils)
- As a matter of fact, works councils are established in most of our plants
- Regular interaction between management and employees through various appropriate communication channels in all our plants



Measures and practical actions: Principles 4 and 5

Principle 4:

[Businesses should uphold] the elimination of all forms of forced and compulsory labour

Principle 5:

[Businesses should uphold] the effective abolition of child labour

- Employees worldwide trained or instructed to comply with these principles
- Since the beginning of 2007, Armacell has initiated and rolled out a project covering its suppliers worldwide, informing them about our support of the UN Global Compact's ten fundamental principles:
 - Final result of the project (summer 2008):
More than 800 suppliers, among them all of our raw material and packaging suppliers, were contacted. 70% of them confirmed in writing that they specifically comply with the Global Compact's Principles 4 and 5 and/or sent corresponding guidelines



Measures and practical actions: Principles 4 and 5

- It has been decided to organize a follow-up and intensified survey every 3rd year: we believe an overall 70% confirmation rate is a good base for the next follow-up
- the endorsement of the UN Global Compact has been incorporated in our supplier assessments. From October 2009 onwards, every new supplier will be asked to respect the Global Compact's ten principles



- ▶▶ **As in the past, we will continue to work on getting confirmation from our suppliers worldwide, our particular focus is on the TOP 50 suppliers.**

Measures and practical actions: Principle 6

Principle 6:

[Businesses should uphold] the elimination of discrimination in respect of employment and occupation

- Our personnel departments worldwide have been and continue to be very sensitive to this issue
 - Flexible work hours where possible to facilitate life/work balance
- Continuous concern to respect and promote the principle of non-discrimination on all levels of our human resources departments worldwide
- Only qualifications, skills and experience as basis for recruitment; placement, training and advancement of staff at all levels
 - One example: establishment of English language courses on different levels that are paid for by the company for all trainees and all employees at our headquarters in Muenster: 34 participants in 2008/09, 39 participants in 2009/10
- Global system of Armacell Achievement Awards in place that recognizes the efforts of every single employee regardless of race/ethnicity, country of origin or gender



Measures and practical actions: Principle 7

Principle 7:

Businesses should support a precautionary approach to environmental challenges

- Environmental protection is an integral part of business strategy
 - Environmental guidelines are in place in all our companies & manufacturing plants: all Armacell employees worldwide are to behave responsibly towards the environment and conserve natural resources on and off the job
 - 15 out of 19 plants worldwide ISO 9001 certified (2 further plants going to apply until the end of 2009/1st half of 2010)
 - In addition, 7 of our plants ISO 14001 certified; in 2010 three further plants plan to apply for ISO 14001
- ▶▶ **In the long term, all locations to be certified in accordance with the international environmental standard ISO 14001 certificate**



Measures and practical actions: Principle 7

- Armacell commits itself to manufacturing products which pose no threat to the environment
- In-company environmental protection in the production process:
 - In Muenster (Germany), Armacell's largest production plant worldwide, an innovative thermal oxidation system with regenerative heat recovery (RTO) installed in 2007
→ reduction of measurable air pollutants by approximately 90%, that means ten times lower than stipulated by law
 - In 2008, new cooling compressor installed in Muenster which leads to a reduction of energy consumption in cooling processes of 25%
 - In February 2009, new position of EHS manager introduced in Muenster, since then, further training of all employees regarding safety and health protection until the end of the year, safety and fire protection from now on part of training for all apprentices



Measures and practical actions: Principle 7

- Further research in project on **Life Cycle Assessment (LCA)** for the main elastomeric insulation product Armaflex based on ISO 14040 methodology, with the aim of investigating systematically its environmental impact, relying on data from all Armacell production facilities and markets worldwide
 - Energy balance: taking an average service life of 20 years, 140 times more energy saved through the use of Armaflex than needed for its production, transport and disposal
 - Product's carbon / climate footprint: 150 times more CO₂ emissions prevented over an average lifetime of 20 years than emitted while being produced
 - In heating applications, where a service life of 30 years can be assumed, even better ecobalance with 270 times energy savings and 500 times greenhouse gas emissions savings as compared to production requirements
 - Pay-back time for energy input needed to produce Armaflex just 50 days
 - Regular updates are carried out and will be reported next year



Measures and practical actions: Principle 8

Principle 8:

[Businesses should] undertake initiatives to promote greater environmental responsibility

- In June 2009, foundation of the “European Industrial Insulation Foundation” (“EiiF”, see <http://www.eiif.org>), with Armacell as a founding member (together with several other major insulation manufacturers and large insulation contracting firms)
 - Aims to increase awareness of energy-saving potential by the optimal use of insulation, especially amongst the industry and governments (up to now, energy efficiency in buildings has received a lot of attention whereas the importance of industrial insulation for energy efficiency has been vastly underestimated)
 - Planned actions include
 - publication of the energy-saving potential of sustainable industrial insulation projects
 - co-ordination of European activities to increase energy efficiency among the industry



Measures and practical actions: Principle 8

- collection of best practice examples
 - co-operation with international and national associations fighting the climate change
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- Concrete training on the professional installation of elastomeric insulation materials provided by Armacell to 1,000-1,200 participants such as insulation contractors, specifiers / engineers, installers, trainees, construction supervisors every year in about 90 training seminars, not only in-house, but in schools and workshops; special emphasis laid on environmental aspects and on correct installation of the flexible insulation material to ensure that no energy losses occur



Measures and practical actions: Principle 9

Principle 9:

[Businesses should] encourage the development and diffusion of environmentally friendly technologies

- Implementation of a worldwide R&D strategy based on principles of sustainability and environmental protection with specific research aims, including constant further development of product formulations that pose no threat to the environment
 - In 2009, development of PVC-free and halogen-free formulations in both rubber and plastics with the aim of reducing additives which contain halogens
 - In 2009, following the development of formulations for the worldwide reduction of the widespread brominated flame-retardant agent deca-BDE (“deca”) that is under discussion for possible environmental impact:
 - Reduction of deca in Europe by 20%, compared to 2008
 - Reduction of deca in China by 90%, compared to 2008



Measures and practical actions: Principle 9

- Development of thermoplastic products 100% based on recycled material

- ▶▶ **In 2010, the goal would be deca-free production in Asia and Europe and reduction of halogen level by 5%; furthermore, phthalate softeners that are under general discussion for their hormone-like properties should be reduced by 90% worldwide**

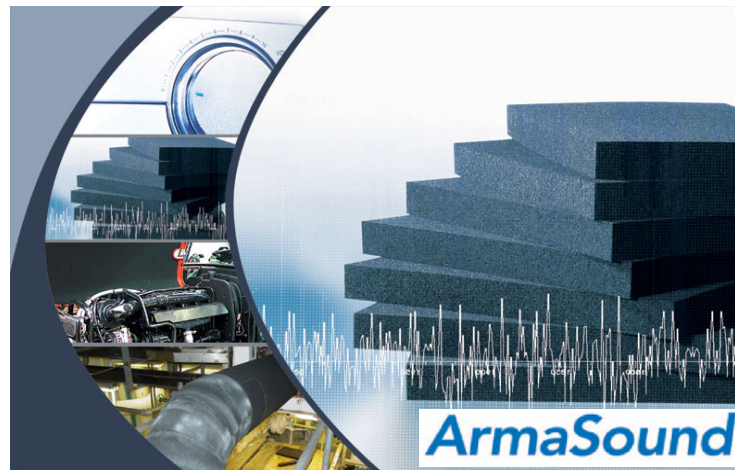
- Armacell targets a goal of zero waste generation in the production of its elastomeric foams

- In this respect, product developments like 'ArmaSound': Trim material that cannot be re-worked back into the process may be re-engineered into a high performance acoustic foam, resulting in a "win win" scenario for the environment



Measures and practical actions: Principle 9

- Re-use of waste materials reduces impact of disposal, while at the same time offering a solution for noise pollution
- Reduced weight and thickness compared to traditional systems allow for additional energy savings in application, while offering improved acoustic performance



- ▶▶ **Currently, we re-use 20% of our current scrap worldwide through the production of ArmaSound. Next year, we plan to use at least 40% of our scrap.**

Measures and practical actions: Principle 10

Principle 10:

Businesses should work against corruptions in all its forms, including extortion and bribery

- Our personnel departments worldwide are sensitive to this issue
- We carry out unannounced internal audits, also supported by external specialists, to ascertain and certify that we are corruption-free

