

Armacell International Holding
GmbH



Armacell's Communication on Progress Report 2011 for the UN Global Compact

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Introduction to the Armacell Group

- Our business:
Technical flexible insulation, where Armacell is the world market leader with its main brand ARMAFLEX, as the primary business; also PET foam with innovative new products for a variety of other applications
- Independent company with financially strong investors; approx. 2,500 employees worldwide representing more than 40 nations
- Manufacturing at 18 sites in 12 countries on 4 continents, with many more sales offices in additional countries (in total 20 worldwide). Head office located in Muenster, Germany



Headquarters in Muenster, Germany



Sheet line at the Muenster plant

See also <http://www.armacell.com>



Dr. Stephan Kessel
CEO Armacell Group

Statement of Continued Support

"Since signing up to 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.

As emphasized in our contributions in the International Global Compact Yearbook 2011, energy efficiency is our business. Our greatest asset are our dedicated and professional employees who identify themselves with our energy-saving, high-quality insulation products. In an increasingly complex global environment it is important that we consider ourselves accountable not only for our results, but also for the way in which these results are achieved.

In this respect, initiatives like the UN Global Compact, which is designed to help advance sustainable developments, give valuable insights.



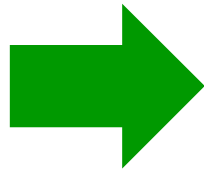
Statement of Continued Support

Against this background, we are proud to implement a specific Code of Conduct throughout our company. The information on implementing the value of integrity reflected in Principle 10 of the Global Compact, the Anti-Corruption Principle, makes up the largest part of the Code. But we clearly understand the importance of all ten of the Compact's fundamental principles, and our COP Report shows a range of different activities with respect to human rights, labor standards, protection of the environment and anti-corruption.

Armacell constantly invests in innovative, environment-friendly products and consistently high quality. Likewise, we will continuously endorse the UN Global Compact in all our business practices."

Dr. Stephan Kessel
CEO Armacell Group

Policies, Actions and Outcomes since September 2010



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

Policies, Actions and Outcomes: 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

Policies

- Armacell protects and respects international human rights
- Among the core company values are mutual esteem and integrity
- These values and our concept of ethically and legally responsible behavior are described in our Code of Conduct published in November 2011
(<http://www.armacell.com/WWW/armacell/INETArmacell.nsf/standard/F24C2B8D33873675C125794F00479C79>)
- As in the past years, we openly support the UN Global Compact in communication with our business partners and the general public



Policies, Actions and Outcomes: Principles 1 and 2

- GC principles publicly supported on our website, in speeches, in the press, in product brochures, in contact with customers and suppliers (<http://www.armacell.com/WWW/armacell/INETArmacell.nsf/standard/6A4FF7D89467FE2D80257700005C4B90>)
- Principles supported through publications
 - Articles in the German Global Compact Yearbook 2010 and in the Global Compact International Yearbook 2011: “Energy efficiency is our business”
- German Global Compact Yearbook distributed to important German customers
- The endorsement of the UN Global Compact has been incorporated in our supplier assessments. Since October 2009, every new supplier has been asked to respect the Global Compact’s ten principles
- Armacell's GC commitments incorporated into company presentation (shown to the general public, customers, suppliers and other stakeholders)

Policies, Actions and Outcomes: Principles 1 and 2

- “We support” logo used on our stationery
- Bulletins and regularly updated news regarding the Global Compact on the intranet
 - Contact persons appointed in all geographical zones who report on local activities
- Financial contribution to the Foundation for the Global Compact

Actions and Outcomes

- Our employees support the principle in their day-to-day business life
- In the past year, Armacell has not been subject to any investigations, legal cases or incidents involving Human Rights violations



Policies, Actions and Outcomes: Principles 1 and 2

- Emphasis placed on the social dimension of sustainability amongst Armacell management and employees with many local "good citizenship" projects supported worldwide, i.e. projects which help the local communities in which Armacell operates.
 - Regular donations in-kind for schools, hospitals, sports clubs and facilities for the handicapped in many plants worldwide
 - Worth mentioning: Donation of 1,500 Aqua Noodles to public swimming pools around Muenster (Germany) in October 2011
 - Project work for needy citizens in many different locations
 - North America: Participating for the third consecutive year in "Habitat for humanity" (a non-profit organization operating through local organizations), providing insulation materials and labor for the construction of housing for the underprivileged. In 2011, 5 Armacell employees volunteered to help build a house (5 hours each).

Policies, Actions and Outcomes: Principles 1 and 2

- Thailand: Donations and flood relief support for employees seriously affected by flood waters (e.g. covering rental costs for a new home, assisting with cleaning expenses).
- Panyu (China): Organizing activities among Armacell colleagues to visit elderly people in Panyu Shilou Rest Home (on every Women's Day, March 8).
- Brazil: Christmas activity
 - In 2010, distributing almost 2,000 small Christmas gifts such as footballs, plastic cars, dolls and basic food packages to poor children in Pindamonhangba. 2 employees and our truck involved.

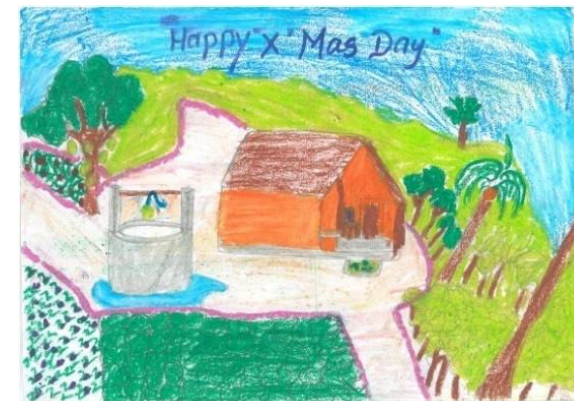


Santa Claus in Brazil, Christmas 2010

Policies, Actions and Outcomes: Principles 1 and 2

- In 2011, co-operating with a group of people called “Christmas Friends”; contributing 3,300 gifts, 2 employees from Armacell involved on December 17.
- Brazil: In 2011, as in 2010, donations made to APAE (Association of parents and friends of persons with intellectual disabilities in Brazil) in Pindamonhangba (where our plant is located).
- Ongoing programs comprise: World Vision - financial support and regular correspondence with 10 orphans/half-orphans (aged between 6 and 15) in Sri Lanka (Navithanveli) following 2005 Tsunami.

Painting by one of the children supported by Armacell – a 13 year-old girl from Sri Lanka (World Vision)





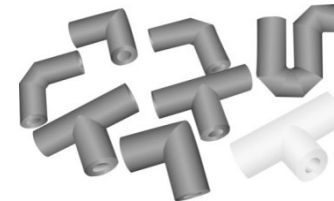
Policies, Actions and Outcomes: Principles 1 and 2

- India: As in the past, organizing blood donation camps for Armacell employees, 2 have been organized since Sept. 2010.
 - Dec. 2010: 50% of the employees participated, more than 30% actually donated blood.
 - July 2011: 60% of the employees participated, over 40% actually donated blood.
- Reinforcement of our focus on education and training
 - In and around Muenster/Germany: Organizing and sponsoring discussions, workshops and seminars for pupils and students, informing them about measures to reduce energy consumption.
 - 4 visits by school classes in 2010 (2 since 09/2010)
 - 16 visits by school classes in 2011
 - 15 internships for pupils in 2010, 12 internships for pupils in 2011
 - As in previous years, regular events for pupils and students (“Girls’ Day” (April 2011), “Bizz 4U” (Dec. 2010), “Schule und dann?” (May 2011) and participation in educational fairs in 2011 too.



Policies, Actions and Outcomes: Principles 1 and 2

- Germany (City of Gießen): Supporting the youth project “Lifetracks” (intended for teenagers who have difficulties in social interaction) with expertise and insulation material for insulating the truck on which they set off on a journey through Europe in April 2011.
- India: First Educational sponsorship for 5 employees and 10 temporary laborers completed in Oct. 2011, now planned every year.
 - After publishing an internal notice in the plant and receiving and reviewing applications, sponsorship is granted in September.
- Co-operation with non-profit organizations
 - US: Since 2009, partnering with non-profit community rehabilitation organization OE Enterprises (Hillsborough, NC, see <http://www.oenterprises.org/>) in the fabrication of insulation covers for irregularly shaped components (= fittings).
 - OE’s staff trained by Armacell to make Armaflex fitting covers.
 - OE developed detailed production protocol and explained the process to people with disabilities, they in turn produce the covers.



Policies, Actions and Outcomes: Principles 1 and 2

- Extremely positive effects for all sides accelerated in 2011:
 - Customers were extremely satisfied with the offer of a complete insulation system for their individual application needs.
 - People from OE (who might have otherwise not been able to find a job in industry) produced not only standard fittings, but also large mechanical grooved fittings with excellent quality.
 - Armacell received over 300 orders for various sizes of fittings, sales in 2011 more than doubled compared to 2010.



- Muenster (Germany): Co-operation with Westfalenfleiß in October 2011 (packing sets of fittings).

Policies, Actions and Outcomes: Principle 3

Principle 3:

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

Policies

- Respecting and protecting the employees' rights to engage in union activity and collective bargaining
- Supporting the ILO Core Conventions, adhering to internationally recognized principles including Labor Standards

Actions and Outcomes

- Worker/employee representative bodies (e.g. works councils) established in most of our plants
- Regular interaction between management and employees through various appropriate communication channels in all our plants

Policies, Actions and Outcomes: Principle 3

- Germany: At the request of employees, the employee newsletter “Armacell Intern” was introduced in August 2010 with the aim of reporting on in-house topics; published 7 times since then.
- North America: Support and participation in state and local workforce development boards to enhance skills and locate employment for the unemployed.

Policies, Actions and Outcomes: 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

Policies

- Armacell supports the ILO Core Conventions and will not do business with any organization who uses forced or child labor

Actions and Outcomes

- 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.
 - Follow-up among suppliers with changed focus: at the end of 2011/12 they are to be contacted again with special emphasis on Principle 10
- Employees issued with a contract of employment which clearly states their terms and conditions including pay rates and overtime pay arrangements.

Policies, Actions and Outcomes: Principle 6

Principle 6:

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

Policies

- Expressly mentioned in our Code of Conduct
- Range of HR Policies which support best practice in terms of labor and employment including Equal Opportunities Policy, Appraisal Procedure and Flexible Working Policy.
 - Flexible work hours where possible to facilitate work-life balance
 - Continuous concern to respect and promote the principle of non-discrimination on all levels of our Human Resources Departments worldwide
- Strict safety policy in place that is subject to continuous improvement

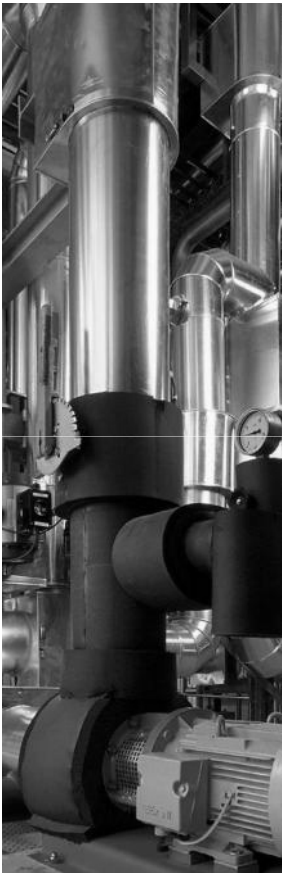


Policies, Actions and Outcomes: Principle 6

- New in 2011: System of Systematic Personnel Development with regular appraisal interviews introduced at the headquarters in Muenster. To be rolled out worldwide step by step for all salaried employees in order to identify personal development needs and training requirements.

Actions and Outcomes

- Only qualifications, skills and experience as the basis for recruitment; placement, training and advancement of staff at all levels.
 - One example: setting up English language courses on different levels that are paid for by the company for all trainees and all employees at our headquarters in Muenster: 27 participants in 2010/11, 34 participants in 2011/12.
- New Armacell Global Rewards & Recognition Program introduced in March 2011. Global system of Armacell Achievement Awards redesigned in order to recognize even better the efforts of every single employee regardless of level in the organization.



Policies, Actions and Outcomes: Principle 6

- New grades named Initiative Award (previously Inspiration Award), Leadership Award (previously Pioneer Award), and President's Global Award (previously Summit Award) presented just once a year.

- North America:

- 2010: 22 Inspiration Awards, 3 Pioneer Awards
 - 2011: 5 Initiative Awards, 1 Leadership Award

- India and Middle East:

- 2010: 1 Summit Award
 - 2011: 7 Initiative Awards (many local awards on top)

- Europe North:

- 2010: 35 Inspiration Awards, 9 Pioneer Awards
 - 2011: 8 Inspiration Awards, 18 Initiative Awards, 1 Pioneer Award

- Europe West:

- 2010: 9 Inspiration Awards, 1 Pioneer Award
 - 2011: 5 Inspiration Awards, 2 Initiative Awards

- Asia & Pacific:

- 2010: 10 Inspiration Awards, 1 Pioneer Award
 - 2011: 18 Initiative Awards, 5 Pioneer Awards,
1 President's Global Award

- Commitment to providing a safe work environment for our employees ("zero harm to people").

- Health and safety committees appointed in the plants.



Policies, Actions and Outcomes: Principle 6

- OHSAS 18001 certification for the plants in China (Panyu and Zhangjiaguang) and in India (Pune).
- Many safety practices in all our North American plants implemented over the past few years with the aim of getting certified as SHARP facilities; in 2011, SHARP certification for Mebane and Atlanta, Conover and South Holland expected to follow by 1st quarter of 2012. (<http://www.osha.gov/dcsp/smallbusiness/sharp.html>)
- In Muenster/Germany regular briefings in safety at work for all employees; in cooperation with the *Berufsgenossenschaft Rohstoffe und chemische Industrie (BG RCI)* instructing 19 new safety representatives.
- Introduction of the LEAN culture concept with continuous improvement in the whole organization in North America. To be rolled out in Europe and Asia as well in 2012, starting with Manufacturing and dependent upon understanding and involvement by all employees on all levels of the organizations.
 - Successful implementation requires that all employees are trained to change their working habits; training process already started (top-down process).

Policies, Actions and Outcomes: Principle 7

Principle 7:

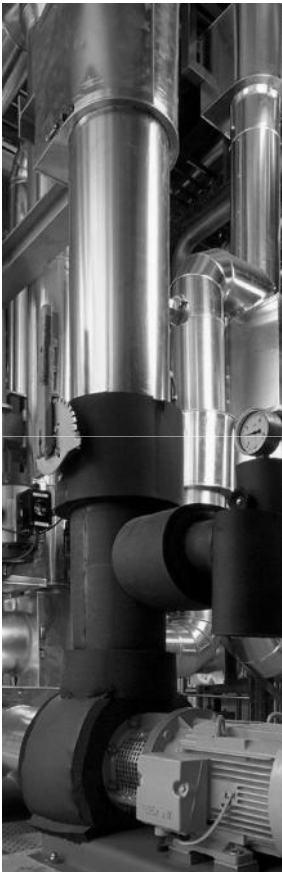
Businesses should support a precautionary approach to environmental challenges

Policies

- Environmental protection is an integral part of the 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
- Armacell commits itself to manufacturing products which pose no threat to the environment

Actions and Outcomes

- 17 out of 18 plants worldwide ISO 9001 certified, 1 plant TS16949 registered



Policies, Actions and Outcomes: Principle 7

- New in 2011: All European Armacell insulation plants environmentally certified (ISO 14001) following the certification of the Polish plant in June 2011 (i.e. Muenster (DE), Friesenhofen (DE), Begur (ES), Oldham (GB), Sroda Slaska (PL)).
- Following the certification of the Indian plant in June 2011, now 3 Asian plants ISO 14001 certified (Panyu (CN), Suzhou (CN), Pune (IN)).
- Energy-saving projects in manufacturing process:
 - Project to use natural gas to replace LPG to save heat energy implemented in Zhangjiaguang plant (China), planned for Panyu (China) in 2012.
 - In Muenster (Germany), improvement in the pollutant control equipment: consumption of natural gas on 3 production lines reduced by 30% since August 2011; installation of new energy-saving air compressors with waste heat recovery planned for 2012.



Policies, Actions and Outcomes: Principle 7

- Continuous research on Life Cycle Assessment (LCA) conducted for the first time in 2009 for the main elastomeric insulation product Armaflex, based on ISO 14040 methodology. The aim was to investigate 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: 270 times more energy saved and 500 times more greenhouse gas emissions prevented compared to production requirements.
 - Pay-back time for energy input needed to produce Armaflex just 50 days.

Policies, Actions and Outcomes: Principle 8

Principle 8:

Businesses should undertake initiatives to promote greater environmental responsibility

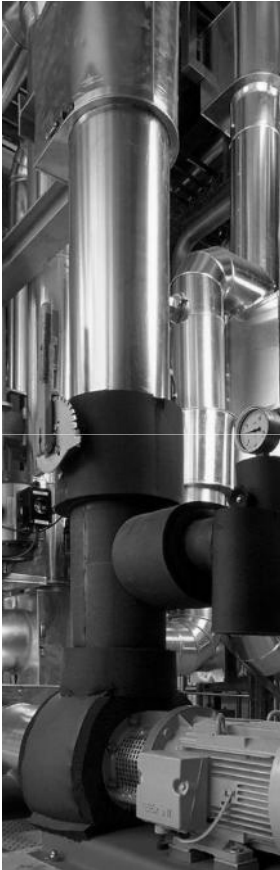
Policies

- Preserving and enhancing the quality of the environment around us as integral part of the Armacell business strategy, explicitly stated in our Environmental Guidelines
(<http://www.armacell.com/WWW/armacell/INETArmacell.nsf/standard/F26DF0CF83E1D686802576F0005F8BDB>)
and in our Code of Conduct
(<http://www.armacell.com/WWW/armacell/INETArmacell.nsf/standard/F24C2B8D33873675C125794F00479C79>)

Actions and Outcomes

- Active in appropriate associations to increase insulation standards for energy efficiency
- Membership and active participation in US Green Building Council and in numerous other national organizations targeting renewable and green energy industries worldwide





Policies, Actions and Outcomes: Principle 8

- In June 2009, the “European Industrial Insulation Foundation” (“Eiif”, see <http://www.eiif.org>) was established, with Armacell as a founding member (together with several other major insulation manufacturers and large insulation contracting firms).
 - Aiming to raise awareness of energy-saving potential which can be realized through the optimal use of insulation, especially amongst 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.)
 - Ongoing actions include
 - Communication campaign “THE INSULATOR” started in Nov. 2011,
 - Working on a European quality mark for sustainable insulation products,
 - Establishing the title of a TIPCHECK (=Quick check of technical insulation performance) certified engineer for identifying the places within a facility which bear the highest saving potential with a rapid payback, first engineers certified in Oct. 2011.



Policies, Actions and Outcomes: Principle 8

- In co-operation with Ecofys, research on the average savings potential in industry. Preliminary findings show that heat loss savings of 45% would be possible if an existing system designed with current specifications was insulated at least cost-effectively. Report to be released in early 2012 using World Environment Day (every 5th June) to stimulate awareness of environmental issues.
- E.g. Pune plant (India): As in the previous year, a tree planting program was organized, 65 trees planted in the surrounding areas of the production facility on 5th June 2011.
- Concrete training activities and seminars on the professional installation of elastomeric insulation materials provided in many different locations worldwide; special emphasis laid on environmental aspects and on correct installation of the flexible insulation material to ensure that no energy losses occur.
 - New Training Center at the company's headquarters in Muenster opened at the end of Sept. 2011, optimal conditions for application training.

Policies, Actions and Outcomes: Principle 8

- In Germany, as in the previous years, 1,000-1,200 participants including insulation contractors, specifiers / engineers, installers, trainees, construction supervisors were trained in approx. 90 seminars, not only in-house, but also in schools and workshops.
- New in 2011: training courses in Austria (1) and in Slovenia (1); strengthened training activities in Denmark and in the Baltic States.
- Further training courses for builders and designers in Russia, Poland; seminars for installers in Switzerland (1), Romania (1), Croatia (1), Serbia (3), Hungary (2), Poland.

Policies, Actions and Outcomes: Principle 9

Principle 9:

Businesses should encourage the development and diffusion of environmentally friendly technologies

Policies

- Implementing 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

Actions and Outcomes

- Following the development of formulations for the worldwide substitution of the widespread brominated flame-retardant agent decabrom-diphenylether (“deca-BDE”), which has been under discussion in recent years due to its negative environmental impact, deca was substituted step by step → completely deca-free production already achieved in 2011 for the whole of Asia and Europe where it had been used previously.

Policies, Actions and Outcomes: Principle 9

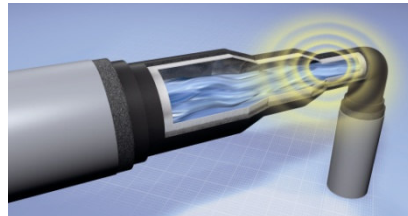


- In 2011, developing and introducing formulations that do not use brominated flame retardants.
- Next steps for R&D strategy in 2012/13:
 - Develop elastomeric foams with excellent fire behavior but without brominated flame retardants and without antimony trioxide which are suspected of being potentially carcinogenic for humans,
 - Develop formulations without MCCPs (as plasticizer),
 - Further lower the thermal conductivity of elastomerics and PET materials through new developments which will result in significant savings in terms of material consumption and in energy savings for the user.

Policies, Actions and Outcomes: Principle 9

- With the effect of zero waste generation, product developments such as 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.

- Re-using 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

- In 2011, as in 2010, we re-used 25-30% of our elastomeric by-products as valuable alternative raw materials worldwide, more than 90% in the plants in India, the United Kingdom and Saudi-Arabia.
 - Further work towards the target of zero waste generation in the production of elastomeric foams.

Policies, Actions and Outcomes: Principle 9

- New in 2010 / 2011: Armaflex Cryogenic Systems (= High-performance thermal insulation system for low-temperature environments) → advantages for the environment:
 - Considerable energy savings because of quick installation process,
 - Consistent performance: improved process control, reduced boil-off and ongoing energy savings,
 - Low-maintenance solution, inherently absorbs vibrations; protection against thermal stress and crack formation,
 - In combination with ArmaSound Industrial Systems, noise can be effectively reduced.



Policies, Actions and Outcomes: Principle 10

Principle 10:

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

Policies

- A specific Armacell Code of Conduct has been passed for Armacell for the first time and was published on November 15, 2011
 - Explicit statement to emphasize Principle 10 of the UN Global Compact
 - Value of integrity makes up the largest part of the Code
 - Integrity is one of six company values defined as a basis for working together with colleagues, business partners and the general public: mutual esteem, individual responsibility, integrity, customer orientation, quality consciousness, sustainability



Actions and Outcomes

- When introducing the Armacell Code of Conduct, our CEO wrote a bulletin published on our intranet and, in addition, sent to all our locations to be printed out and displayed on all notice boards.



Policies, Actions and Outcomes: Principle 10

- Hotline has been established for advice on ethical issues.
- The Code of Conduct, part of the CEO Bulletin and our values were also published on our homepage.
(<http://www.armacell.com/WWW/armacell/INETArmacell.nsf/standard/F24C2B8D33873675C125794F00479C79>)
- A brochure has been prepared as a hand-out for new employees upon entering the company, to be used in all our locations worldwide.
- Further actions due in 1st quarter 2012:
 - An article will be published in our *ArmaPlus* magazine in January 2012, which is intended as information for Armacell's business partners.
 - In addition, personal letters have been prepared to our suppliers worldwide communicating our anti-corruption commitment and requiring the same standards of them; letter is in line with our letters to our suppliers sent out three years ago where we informed our suppliers of our commitment and of the Ten Principles.
 - A special logo is to be created to enhance visibility of the Code.