

Armacell International Holding
GmbH



Armacell's Communication on Progress Report 2010 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, and PET foam with innovative new products for a variety of other applications
- Independent company with financially strong investors; about 2,300 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



New sheet line at the Muenster plant

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

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.

In 2010, our economic environment continues to be challenging. Therefore it is important to explore the substantial opportunities in our markets for new technologies. We stand for innovative sustainable solutions – for the good of our business partners, our employees and the communities in which we operate. As before, Armacell will always conduct business in a way which is both ecologically and socially sustainable.

In our business, the key issue is energy efficiency. We not only engage ourselves in the marketing and sale of products targeting energy conservation worldwide. We continually optimize our elastomeric insulation products and, through effective associations, raise awareness for



Statement of Continued Support

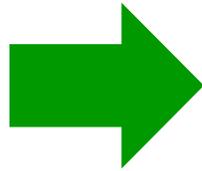
energy-saving potential amongst industry and governments, thus making an even more far-reaching contribution to building a sustainable future.

We clearly understand the importance of all ten of the Compact's fundamental principles. In recent months, a Corporate Culture Task Group has been initiated at our headquarters in Muenster. This task group will clearly define our corporate values, rework our corporate principles and establish an Armacell Code of Conduct. This will not only strengthen our corporate culture, but at the same time help us to initiate appropriate actions in compliance with all four principle issue areas.

We will continue to endorse the UN Global Compact as an integral part of our daily business."

Dr. Mark E. Harakal
CEO Armacell Group

Measures and practical actions since 2009



**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 that is subject to continuous improvement
 - Commitment to providing a safe work environment for our employees ("zero harm to people")
 - In 2009, a competitive safety award system introduced within North America, Asia & Pacific, and Europe ("Lowest Recordable Accidents") and also worldwide ("Zero Lost Time Accidents"), first awards granted in 2010:
 - Safety awards for
Atlanta Plant for North America
Pune Plant for Asia & Pacific
Thimister Plant for Europe
 - Global Safety Award for plant with most hours without a lost time accident:
Conover Plant (US)



Measures and practical actions: Principles 1 and 2



- Necessary training, resources and processes to achieve this goal
 - Health and safety committees appointed in many plants; new in 2010: Poland
 - 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 2010, we applied already for Mebane, Conover and Atlanta, the other two facilities will follow later on (see <http://www.osha.gov/dcsp/smallbusiness/sharp.html>)
- Great emphasis laid on the social dimension of sustainability amongst Armacell management and employees
 - GC principles publicly supported on our website, in speeches, in the press, in product brochures, in contact with customers and suppliers
 - Armacell's GC commitments incorporated into corporate presentation (shown to the general public, customers, suppliers and other stakeholders)
 - In 2010, internal communication improved
 - On the intranet, bulletin and regularly updated news regarding the Global Compact
 - Contact persons appointed in all geographical zones who report on local activities

Measures and practical actions: Principles 1 and 2

- 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
 - Project work for needy citizens in many different locations
 - North America: Participating in "Habitat for humanity", providing insulation materials and labor for the construction of housing for the underprivileged. In 2009, 18 employees (4 hours each) helped to build a house.
 - Brazil: In summer 2010, contributing donations to APAE (Association of parents and friends of persons with intellectual disabilities in Brazil) in Pindamonhangba (where our plant is located).
 - India: Organizing a blood donation camp among Armacell employees in June 2010. Over 50% of the employees participated, over 40% actually donated blood.

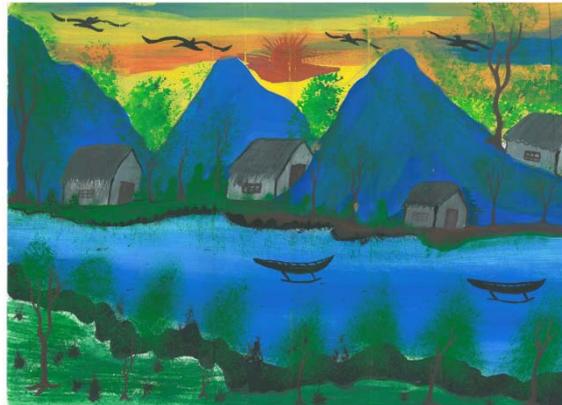
Measures and practical actions: Principles 1 and 2

- Brazil: Christmas activity; distributing almost 5,000 small Christmas gifts such as footballs, plastic cars, dolls and basic food packages to poor children around Pindamonhangba.



Santa Claus in Brasil

- First aid in catastrophes as well as supporting long-term recovery programs



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

- Ongoing programs comprise: World Vision
Financial support and regular correspondence with 10 orphans/half-orphans (aged between 5 and 14) in Sri Lanka (Navithanveli) following 2005 Tsunami.



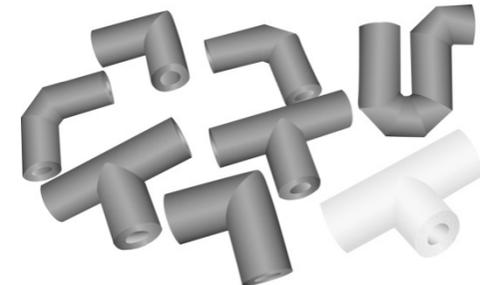
Measures and practical actions: Principles 1 and 2

- Switzerland: CHF 1,500 donation for earthquake in Haiti on national donation day organized by Swiss Solidarity
- 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 for reducing energy consumption
 - 6 visits by school classes in 2009
2 visits by school classes until September 2010
 - 17 internships for pupils in 2009, 12 internships for pupils until September 2010
 - As in the years before, regular events for pupils and students (“Girls’ Day”, “Bizz 4U”, “Schule und dann?”) and participation in educational fairs in 2010 too
 - India: Supporting “Jeevan Asha Day Care Center” project in a suburb of Mumbai (170 km from Pune); start: April 2010
 - Target group consists of children from marginalized and poor families that do not send their children to school, school dropouts and non-schooling children

Measures and practical actions: Principles 1 and 2



- Project purpose: providing care and elementary education in a safe, non-formalized environment. Ideally children are enrolled in municipal schools after one or two years in the program.
 - Sponsorship: individual donors and companies like Armacell
 - Armacell's involvement:
providing funding for teacher's salary quarterly
list of possible direct activities drawn up, decision after summer vacation
- US: Partnering with non-profit community rehabilitation organization "OE Enterprises" (since 2009) 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



Measures and practical actions: Principles 1 and 2

- Positive Effects:
 - In the end, fitting covers produced by people who would otherwise not be able to find a job in the industry
 - For Armacell alone this would have been too time-consuming
 - Customers' needs satisfied



- India: Educational sponsorship for 5 employees and 10 temporary laborers
 - After publishing an internal notice in the plant and receiving and reviewing applications, sponsorship will be granted in September 2010

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

- 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
- 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 every second month
- North America: Support and participation in state and local workforce development boards to enhance skills and locate employment for the unemployed

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 that a follow-up and intensified survey will be organized every 3rd year: we believe an overall confirmation rate of 70% is a good basis for the next follow-up
- 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
 - 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 work-life balance
 - Continuous concern to respect and promote the principle of non-discrimination on all levels of our human resources departments worldwide
 - Specific training course for staff in Poland in June 2010
- 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: 39 participants in 2009/10, 34 participants in 2010/11



Measures and practical actions: Principle 6

- Global system of Armacell Achievement Awards in place that recognizes the efforts of every single employee regardless of position, race/ethnicity, country of origin or gender; graded as Inspiration Award, Pioneer Award or Summit Award (the latter presented just once a year) according to the significance of the achievements
 - North America:
 - 2009: 2 Inspiration Awards
 - 2010 YTD: 21 Inspiration Awards, 3 Pioneer Awards
 - India and Middle East:
 - 2010: 1 Summit Award (to Vilas Bakshi, Head of Sales & Marketing Middle East)
 - Europe North:
 - 2009: 11 Inspiration Awards, 1 Pioneer Award
 - 2010 YTD: 18 Inspiration Awards, 7 Pioneer Awards
 - Europe West:
 - 2010 YTD: 1 Pioneer Award
 - Asia & Pacific:
 - 2009: 28 Inspiration Awards
 - 2010 YTD: 10 Inspiration Awards, 1 Pioneer Award



Measures and practical actions: Principle 7

Principle 7:

Businesses should support a precautionary approach to environmental challenges

- 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
 - 15 out of 18 plants worldwide ISO 9001 certified, 1 plant TS16949 registered (2 further plants planned by end of 2010)
 - In addition, 6 of our plants (Muenster (DE), Friesenhofen (DE), Begur (ES), Oldham (GB), Panyu (CN) and Suzhou (CN)) ISO 14001 certified; 2 further plants planned by end of year 2010, 3 further plants planned in 2011
- ➔ We aim to certify all locations in accordance with the international environmental standard ISO 14001

Measures and practical actions: Principle 7



- In addition, in China and Thailand special smoke treatments installed to eliminate noxious smells from the manufacturing process (significant environmental benefits), the biggest implemented in Panyu (China), successfully running since May 2010
- Armacell commits itself to manufacturing products which pose no threat to the environment
- Resource-conscious plant management, e.g. in Muenster (headquarters) 2010
 - Replacing 200 inefficient printers, copiers and fax machines with 65 units of certified “environmentally friendly” printer equipment (“Der Blaue Engel”, “Energy Star”)
 - New waste disposal contract: recycling all waste materials from the production (including thermal recycling of part of production waste)
 - As in the years before, separate recycling of all transport packaging

Measures and practical actions: Principle 7



- Continuous research on Life Cycle Assessment (LCA) conducted 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 energy savings and 500 times greenhouse gas emissions reductions 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 every second year (next time in 2011)

Measures and practical actions: Principle 8

Principle 8:

Businesses should undertake initiatives to promote greater environmental responsibility



- Active in appropriate associations to increase insulation standards for energy efficiency
- 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
 - Working on a European quality mark for sustainable insulation products



Measures and practical actions: Principle 8

- Striving to establish a university degree for insulation engineers who would be qualified as Insulation Energy Appraisal Managers
- Founding member (1998) of EuroACE , the European Alliance of companies for Energy Efficiency in Buildings, which works together with European institutions to help Europe move towards a more sustainable pattern of energy use in buildings
(<http://www.euroace.org>)
- Membership and active participation in US Green Building Council
- Membership in numerous other national organizations targeting renewable and green energy industries worldwide



Measures and practical actions: Principle 8

- 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.
 - In Germany, as in the years before, 1,000-1,200 participants such as insulation contractors, specifiers / engineers, installers, trainees, construction supervisors were trained in about 90 seminars, not only in-house, but in schools and workshops as well
 - Further builders' and designers' training courses in Russia (every month), installer seminars in Switzerland (2), Romania (1)
 - In Switzerland, one course for apprentices in 2010 up to now

Measures and practical actions: Principle 9

Principle 9:

Businesses should encourage the development and diffusion of environmentally friendly technologies

- 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
 - In 2009, developing PVC-free and halogen-free formulations in both rubber and plastics with the aim of reducing additives which contain halogens
 - In 2010, Armacell succeeded in replacing critical phthalates that are under general discussion for their hormone-like properties with well-tested substances
→reduction of phthalate plasticizers by 90% worldwide
 - 3% reduction of total halogen level in our base formulas



Measures and practical actions: Principle 9

- Following the development of formulations for the worldwide reduction of the widespread brominated flame-retardant agent deca-BDE (“deca”) that is under discussion due to its possible environmental impact, the goal is to achieve deca-free production for the whole of Asia and Europe:
 - In 2010, further reduction of deca which will be phased out in 2012
- Next steps for R&D strategy in the future:
 - Develop completely halogen-free, but at the same time flame-retardant, PET foams
 - Develop low halogen/no halogen elastomeric foams with excellent fire behavior
 - Further lower the thermal conductivity of PET materials and elastomerics through new developments which will result in significant savings in terms of material consumption and in energy savings for the user
 - Work towards the target of zero waste generation in the production of elastomeric foams

Measures and practical actions: Principle 9

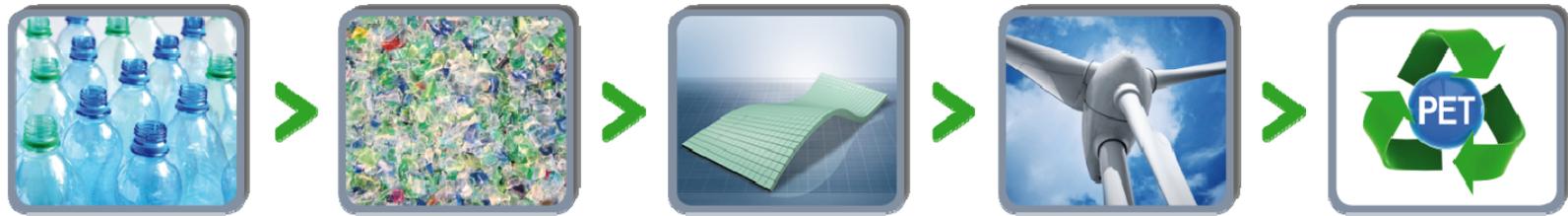
- In respect of zero waste generation, product developments such as ArmaSound: trim material that cannot be re-worked back into the process may be re-engineered into a high-performance acoustic foam, resulting in a "win win" scenario for the environment

- 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 2010, we re-use 25-30% of our elastomeric by-products as valuable alternative raw materials worldwide (cf. 2009: approx. 20%), more than 90% in the plants in India, the United Kingdom and Saudi-Arabia.
- At the ISO 2010, the leading European exhibition for insulation materials and technology, the new thermal acoustic insulation systems were chosen as one of the best products at the trade fair. Armacell is the first manufacturer to offer insulation systems which provide both noise control and thermal insulation even on cryogenic pipelines.

Measures and practical actions: Principle 9



- Environmentally friendly product innovation in 2009/10: Resource-efficient PET foam core developed for the composite materials industry
 - PET foam cores used in transport, wind turbine construction and shipbuilding
 - Manufactured from the recycle of PET bottles, our product ArmaFORM PET AC is itself 100% recyclable (cradle-to-cradle principle)
 - Same product properties as PET foam cores manufactured from primary raw materials
- Further advantages of PET foam cores for the environment:
 - Energy-efficient production and recycling
 - Energy-efficient application, i.e. low weight suitable for lightweight constructions: compared to traditional materials lower input power required

Measures and practical actions: Principle 10

Principle 10:

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

- Concrete work on establishing an Armacell Code of Conduct including anti-corruption policies since May 2010, embedded in the project group “Corporate Culture”, driven by HR department worldwide
- Corporate Culture project group aims at
 - Strengthening and in some cases re-establishing Armacell’s corporate culture
 - Developing corporate culture in such a way that employees’ willingness and ability to change grows
 - Implementing the defined values by establishing a Code of Conduct and other guidelines (e.g. for the leadership)
 - Finalizing the project by end of year 2010 / 1st quarter 2011





Measures and practical actions: Principle 10

- Our Code of Conduct will provide a clear set of values that suits our business; no discrepancy between the values defined in policies and the values experienced by the employees
- Our Code of Conduct will also define minimum standards: how to deal with
 - conflicting interests
 - company assets
 - our business partners
 - confidential information
 - superiors and staff members