



Annual Report 2015





Integrating HSE into R&D

Paints are, by nature, sustainable products, as they prolong the service life of structures and equipment. However, we believe that a prolonged life is not enough, so we constantly work to develop safer and more environmentally sustainable solutions. In this work, we focus on a number of areas:

- Increasing resource efficiency (raw materials, energy and finished products)
- Increasing functionality, such as improving energy efficiency or combatting the spread of bacteria
- Reducing the amount of VOC used

In 2015, we further integrated Health, Safety and the Environment (HSE) into our R&D work and developed a new HSE strategy that includes a number of goals for R&D. As part of this work, we developed a raw material matrix based on the GHS (Globally Harmonised System of Classification and Labelling of Chemicals) framework that enabled us to phase out a number of hazardous materials from our formulations in 2015.

In addition, we reformulated a number of our products to reduce the content of hazardous materials. In the Container segment, for example, we reformulated seven products to reduce VOC content below 420 grammes per litre. In addition, we developed waterborne formulations in order

to be ready for the VOC Convention System, which is being introduced by the China Container Industry Association and specifies water-based coatings for containers.

Ongoing collaboration with the Technical University of Denmark

One of the goals of our R&D work is to anticipate the future needs of our customers and develop new ways to meet these needs. As part of this work, we have a longstanding collaboration with the Technical University of Denmark. Following the success of this collaboration, we are now collaborating with other universities around the world. In addition, we work closely with suppliers, customers and other external organisations – some of which are outside the coatings business – as we believe this will better enable us to develop solutions that meet the challenges of the future.



Corporate responsibility

We are committed to conducting business with care for people, the environment and society.



We believe that as a global company, we have a responsibility to drive sustainable business practices around the globe. This is an essential aspect of our commitment to corporate responsibility. We do not only follow legislation and standards: we do what we believe is best for our customers, our employees and the wider world, and extend that through our corporate responsibility standards and policies to all our offices, suppliers and distributors, wherever they are in the world.

As well as making good business sense, this commitment to absolute consistency and the desire to constantly chal-

lenge business practice in order to improve is a fundamental part of our company. Our founder, J.C. Hempel, was a visionary business leader and humanitarian who believed that a company has a responsibility to its staff, the environment and society in general. The company he founded has changed considerably over the last 100 years, but his guiding principles remain at the heart of everything we do.

The Corporate responsibility section of this report provides an account of our initiatives in the area of CSR, as well as additional information as required by the Danish Financial Statements Act (Årsregnskabsloven) §99a and §99b.

Ethical behaviour

We are committed to working responsibly and ethically at all times, both in terms of how we conduct business and the products and services we offer.

We comply with all relevant laws and regulations in the countries and regions where we operate. However, we believe that being a reliable and respected business partner means more than just compliance, so we have company policies in place to ensure that all our operations – from HSE to recruitment – meet our high internal standards.

Established policies drive compliance

To give our employees guidelines for dealing with customers, suppliers, each other and any other business partner, we have a Code of Conduct and Business Ethics Policy. We run regular training programmes to ensure that our employees fully understand and follow these guidelines at all times. In 2015, employees with email followed Code of Conduct training online, with a 95 per cent completion rate. Warehouse and factory staff will be trained in 2016.

We introduced a Diversity and Equal Opportunity Policy in 2014 and a Human Rights Policy in 2015. These ensure that we treat our employees and other stakeholders with respect, and our Human Rights Policy also lays out our zero-tolerance policy towards child labour.

Our HSE Policy has been developed over many years. It ensures that our businesses and operations, wherever they are in the world, comply with international and local regulations, as well as our own high internal standards.

Ensuring compliance in all Hempel locations

We operate in more than 80 countries. In order to ensure that all Hempel offices and places of work meet our high standards, we conduct regular internal audits that cover every aspect of our operations, from legal compliance, HSE management and human rights to internal controls and our own standard procedures.

On average we carry out 25 internal audits per year. Our Executive Group Management Team reviews the findings from each audit and develops corrective actions where needed.

In addition, we audited five toll manufacturers in 2015. We also introduced a new due diligence screening tool and we began a risk assessment programme for our agents and distributors. In 2015, we focused this work on two regions, and will extend it to all our regions over the coming years.

Health & Safety

As a company that uses chemicals, we have an increased responsibility to ensure the safety and health of our employees and customers.

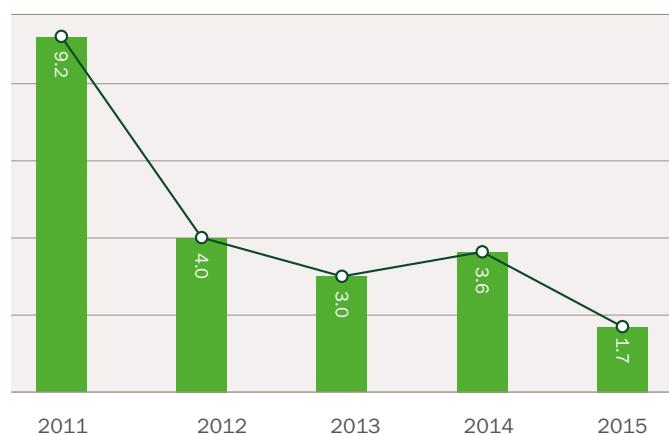
The safety of our employees and customers is our no.1 priority. Our Group HSE Standard applies to all Hempel sites around the world and has been developed over many years to ensure that we continually work to improve conditions for employees, reduce the risk of accidents and give our customers comprehensive safety information.

In addition, we have a global OHSAS 18001 certification that covers nine Hempel sites.

The focus on zero accidents

We want to operate without accidents, both at Hempel sites and at external sites where our employees work. An accident is defined as an on-the-job injury that results in at least one day's absence. Although we have not yet reached our goal of zero accidents, we are moving in the right direction. In 2015, there were just 1.7 accidents per 1 million working hours, the lowest in our company's history.

Number of accidents
per 1 million working hours



Safety training

We always strive to ensure the safest working conditions possible, and conduct regular training for our employees. In 2014, we developed new training programmes in Personal Protection Equipment and Static Electricity, which is the most common cause of fires in the coatings industry. All our factory employees underwent training in these programmes in 2015.

6S implementation in Mexico

Our offices, factories and warehouses are continually looking for ways to improve efficiency and safety. One example of this in 2015 was 6S implementation at our warehouse in Veracruz, Mexico.

6S is a process methodology that improves efficiency, effectiveness and safety by organising the workplace based on how people work. The comprehensive project covered all areas of the warehouse, from the offices to packing areas and forklift truck bays. Although there has never been an accident at the warehouse, the project also incorporated a number of aspects designed to improve safety, such as reorganising safety equipment and creating special walking paths for employees and visitors. Following the success of the project in Mexico, 6S will be rolled out to other Hempel warehouses and factories over the coming years.

Did you know...?

6S is a methodology that was originally developed in Japan as one of the techniques required for Just in Time manufacturing. It is structured around six words: sort, set, shine, standardise, sustain and safety.

Environment

We believe that our work should contribute to a better environment. We invest in developing advanced products that help our customers achieve their environmental targets, including reducing their impact on the climate, and we continually strive to reduce emissions and waste from our own operations.

Our HSE Policy ensures we continually work to reduce the environmental impact of our operations. The Policy applies to all Hempel sites, and we have a comprehensive HSE management system that continually monitors our environmental performance.

Moving towards global ISO certification

All our established factories and a number of our other sites are included in our Quality Management System and are certified according to ISO 9001. In addition, 27 of our sites are certified according to the ISO 14001 environmental standard, including 13 factories. Our goal is to have all our factories ISO 14001 certified by 2020.

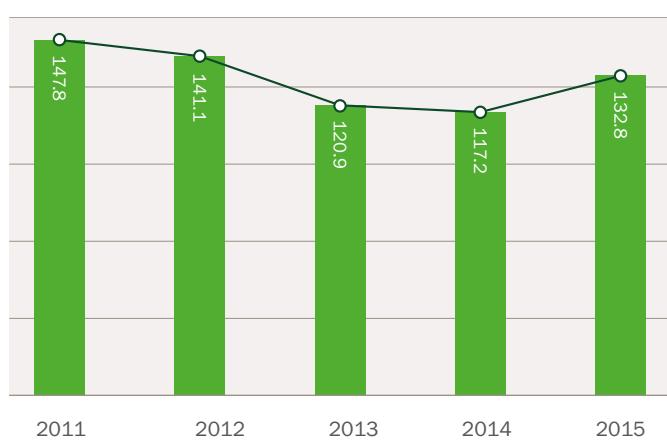
- 45 sites certified under our global ISO 9001 certificate
- 4 additional sites individually ISO 9001 certified
- 27 sites certified under our global ISO 14001 certificate
- 2 additional sites individually ISO 14001 certified
- 9 OHSAS 18001 certified sites

Focus on energy consumption

As part of our work to continually reduce our emissions and impact on the climate, we monitor energy use at all our production units and take measures to reduce energy consumption whenever possible. Thanks to these efforts, we have achieved stable energy use per ton of product manufactured over the past five years, despite increasing the amount of automated equipment in our factories.

In 2015, total energy use in our factories increased by 13 per cent compared to 2014. This was primarily due

Total energy in kWh
per ton of product manufactured



to our factory in Jeddah, Saudi Arabia, which runs on a diesel generator due to a lack of external power. An external power supply is expected during 2016. Other contributing factors include an increase in automated equipment at our factory in India and the factory expansion in Malaysia.

Reducing waste

As a company that handles chemicals, we have an obligation to ensure that our waste is managed appropriately. We divide waste into two categories: 'hazardous waste' requires special disposal treatment; 'other waste', such as metal and plastic, can for the most part be recycled. Our efforts in this area have seen us steadily reduce waste output per ton of product manufactured over recent years.

Total waste in kg
per ton of product manufactured



However, the amount of both hazardous and other waste we produced per ton of product manufactured increased slightly in 2015, due to clean-up operations connected with the relocation of two of our factories.

Phasing out lead around the world

Our Group HSE Policy ensures that we follow all relevant legislation. New European legislation requires the phase out of lead in paints, and we successfully phased out lead from our European product assortment in 2015. Legislation in other parts of the world does not require the phase out of lead in paints. However, we are committed to phasing out lead across the globe. Our Decorative assortment is already lead-free worldwide and we introduced a new lead-free tinting system for industrial and marine products in 2015.

Helping customers reduce energy consumption

We work closely with customers to help them improve coating process efficiency, which not only helps them reduce costs but also reduces their overall energy consumption. In the wind energy industry, for example, our two-coat system for wind turbine towers reduces drying times by approximately 30 per cent compared to equivalent three-coat solutions. This helps tower manufacturers drive down costs by reducing bottlenecks and increasing throughput. It also helps them reduce energy consumption in drying halls, leads to lower VOC emissions and reduces waste.

In 2015, we introduced a new combined primer and mid-coat that enhances our two-coat system by further improving UV stability when used as a topcoat.

The award-winning earthbalance® programme

Our Decorative organisation in the UK, Crown Paints, won the prestigious *Grifchan Partnerships Sustainable Business Award* at the Lloyds Bank National Business Awards in 2015. Launched in 2008, the earthbalance sustainability programme has at its heart a target to reduce Crown Paints' greenhouse gas emissions by 25 per cent by 2020. The programme focuses on driving sustainable business practices, particularly in manufacturing, with emphasis on innovation and staff engagement.

Procurement

We source raw materials from around the world, and strive to ensure we have an ethical and efficient supply chain at all times.

As a company, our aim is to work only with suppliers who share our business values. We expect all our suppliers to work with respect for their employees and the environment, and our Supplier Policy clearly states what we expect of our partners.

Our Supplier Policy Questionnaire was extended in 2015 to include human rights. As a result, human rights due diligence is now included when we screen potential suppliers.

Third-party auditing of raw material suppliers

All raw material suppliers are approved by Group Procurement, and individual raw materials are approved by Group R&D. To ensure our materials come from a responsible source, selected raw material suppliers are audited by a third party every year. If the supplier does not meet our criteria or refuses to participate in the audit, we request that the supplier develops and implements a corrective action plan, and we conduct an onsite visit if required. So far, only one supplier has failed to disclose information regarding their operations. The supplier has been suspended.

