

Annual Report 2016





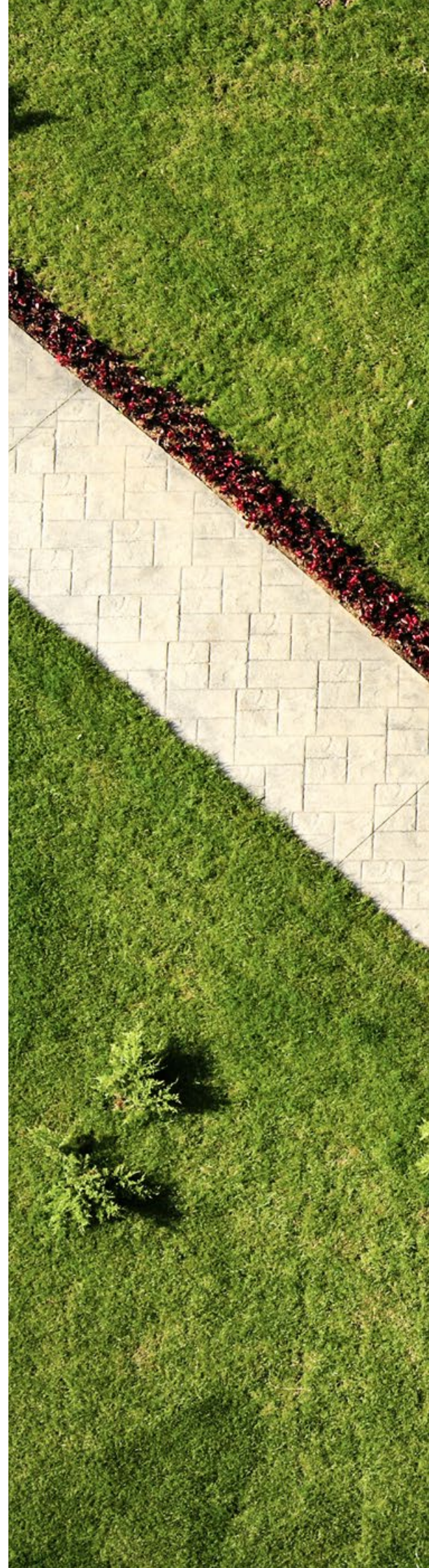
Corporate responsibility

At Hempel, we believe that good business and care for people, the environment and society can go hand-in-hand.

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 more than just follow legislation and standards. We do what we believe is best for people, the environment and society, and extend that through our own high standards and policies to all our offices, wherever they are in the world.

As well as making good business sense, this 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.

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



Ethical behaviour

From how we deal with each other through to the products and services we provide to customers, we are committed to working responsibly and ethically at all times.

We are committed to complying 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 (Health, Safety and the Environment) to recruitment – meet our high internal standards. If anything fails to meet our high standards, we are quick and firm to react in order to correct the issue.

Ethical policies for all employees

We have a number of policies in place that provide guidelines for our employees' behaviour. These include our Diversity and Equal Opportunity Policy, our Human Rights Policy – including our zero-tolerance policy towards child labour and forced labour – and our Business Ethics Policy. Together with our Code of Conduct, these policies give our employees guidelines when making decisions and dealing with customers, suppliers, each other and any other business partner. We regularly run training programmes to ensure that these guidelines are understood.

In 2015, all employees with corporate email followed Code of Conduct training online, including business ethics and human rights. All warehouse and factory staff were given Code of Conduct training in 2016. Combined, these two sets of training had a pass rate of 97 per cent.

Ensuring compliance in all Hempel locations

We have operations in more than 80 countries. To ensure that all our offices and places of work meet our high standards, we conduct regular internal audits, covering different aspects 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 Management Board reviews the findings

from each audit and corrective actions are developed where needed. In addition, we regularly audit toll manufacturers.

We have a risk assessment programme in place to ensure we evaluate, mitigate and monitor potential risk to the company, including HSE risk, safety risk and risk concerning business ethics. (See page 30 for more information.)

Strengthening our compliance function

Hempel does not accept inappropriate practices or violations of internal rules. They are a direct attack on the integrity of Hempel's customers, culture, values and employees. We decided to strengthen our compliance culture in 2016. This involved several changes, including the following.

- We will consistently and repeatedly communicate from the top of our organisation that Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first.
- We replaced our internal whistleblower system with a new Hempel Ethics Hotline, operated by an external partner. The new Hempel Ethics Hotline will become operational in early 2017 in some countries. It will become operational in other countries once legal approvals have been received.
- We established an Internal Audit function. The head of Internal Audit will join Hempel in early 2017. The Internal Audit function will have a reporting obligation to the Audit Committee of the Board of Directors.

2016 Whistleblower statistics¹⁾

Category	Number of cases reported	Substantiated cases	Closed cases
Theft	2	1	2
Accounting	2	2	2
Bribery	9	5	9
Conflicts of interest	1	0	1
Employment	3	1	3
Commercial disagreement	2	1	2
Total numbers of cases	19	10	19

1) The table shows cases reported in 2016 only, although cases may have been closed after that date.

Health & safety

Our goal is to have zero accidents.

Our HSE Policy covers all our businesses and operations, and states that we must continually work to improve working conditions for our employees and safety for our customers.

In order to strengthen our focus on HSE, we created a new HSE & Risk department in 2016. The key focus areas for the department are to:

- Support the Group with regulatory issues
- Drive towards safer raw materials
- Measure and deliver carbon footprint reduction
- Drive towards ZERO accidents
- Support the Group with clear strategic and operational risk assessments

More factories included in our ISO certification

All our established factories and a number of our warehouses and sales offices are included in our Quality Management System and are certified according to ISO 9001. In 2016, our factory in Jeddah in Saudi Arabia was ISO 9001 certified. In addition, our factories in Argentina, India and Conroe (USA) were certified according to the ISO 14001 environmental standard in 2016. Our goal is to have all our factories ISO 14001 certified by 2020.

- **49** ISO 9001 certified sites
 - **1** new production site added in 2016
- **32** ISO 14001 certified sites
 - **3** new production sites added in 2016
- **9** OHSAS 18001 certified sites

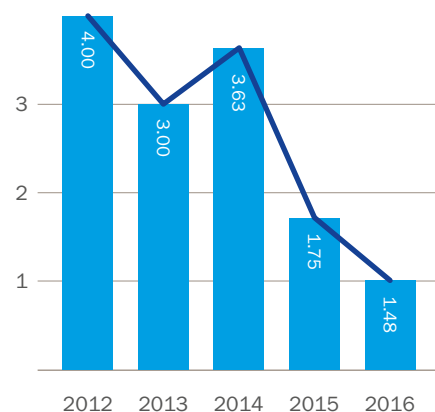
The focus on zero accidents

At Hempel, we believe that any accident is one too many. Our goal is 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 from work. We have not yet reached our goal of zero accidents, but we are moving in the right direction.

6,000

We are around 6,000 employees, united by our desire to protect our customers' most valuable assets.

Number of accidents per 1 million working hours





20

A truckload of our coatings leaves one of our factories roughly every 20 minutes.

Environment

Our products prolong the service life of structures and equipment, and so help reduce their overall impact on both the environment and the climate. But we believe we can do even more.

At Hempel, we take the global challenge of climate change seriously. We invest in developing products that help our customers achieve their environmental targets, including reducing their impact on the climate. At the same time, we continuously strive to reduce energy, waste and emissions from our own work. Our HSE Policy states that we must continually work to reduce the environmental impact of our operations, and our HSE management system enables us to continually monitor our environmental performance.

Reducing emissions by 12 per cent by 2020

Our goal is to reduce CO₂ emissions from energy consumption by 12 per cent per litre of product produced by 2020 compared to 2015. In order to achieve this, we launched an energy programme in 2016, focusing on reducing energy consumption in our factories and offices around the globe.

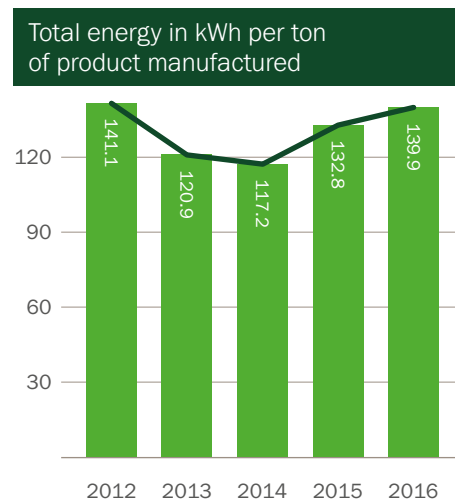
Our energy programme includes performing energy audits to develop accurate energy-use forecasts for different facto-

Successful energy saving campaign in R&D

We began an energy saving campaign in R&D in Denmark in 2016 that included behavioural awareness, investing in a new control system for ventilation, replacing energy consuming equipment, installing LED lights in some offices and rebuilding climate-controlled spray cabinets.

The campaign reduced energy consumption in a number of areas:

- Heating: 8 per cent
- Heating water: 6 per cent
- Electricity use: 28 per cent



ries. We then use this information to establish targets for each factory. While this work is still in the preparatory stage, we have already identified a number of energy reduction programmes for the next three years. These include installing meters and low-energy LED (light-emitting diode) lights in all Hempel factories; improving control and monitoring of our HVAC (Heating, Ventilation and Air Conditioning) systems; and running awareness campaigns designed to make employees more aware of energy use.

In 2016, total energy use per ton of product manufactured increased by 5 per cent compared to 2015. This increase was primarily due to:

- Newly acquired factories in the US (acquired as part of our acquisition of Jones-Blair) and the Netherlands (acquired as part of our acquisition of Schaeppman), as well as our newly opened factory in Russia, were included in our energy statistics for the first time. Energy consumption per ton of product produced at these factories is higher than the Group average
- Our factories in Dammam, Saudi Arabia and Singapore produced less than in 2015. This increases the energy used per ton of product manufactured because much of the energy used at a factory is fixed – such as energy for lighting, heating and ventilation – and so does not alter if less product is produced

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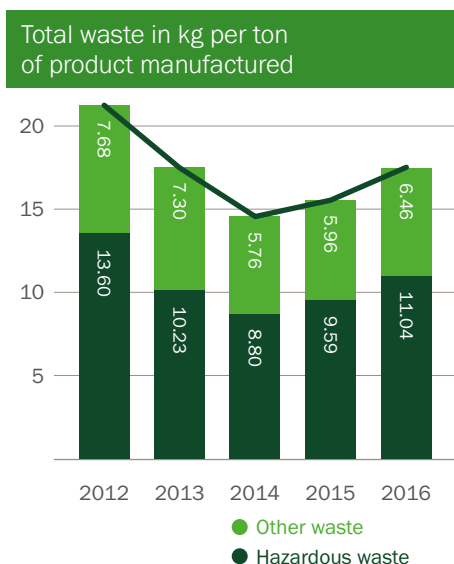
We were the first company to develop a two-coat system for wind turbine towers. Compared to equivalent three-coat solutions, the system reduces energy consumption, emissions and waste during application by around 30 per cent.



- Our factories in Kunshan and Yantai in China increased the use of air treatment systems in order to further reduce stack emissions
- Greater automation at our new factory in Vietnam

Managing 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’, which requires special disposal treatment; and ‘other waste’, such as metal and plastic, which for the most part can be recycled.



The amount of waste we produce per ton of product manufactured increased in 2016 by 15 per cent for hazardous waste and 8 per cent for other waste. This increase was primarily due to:

- Newly acquired factories in the US (acquired as part of our acquisition of Jones-Blair) and the Netherlands (acquired as part of our acquisition of Schaeppman), as well as our newly opened factory in Russia, were included in our waste statistics for the first time. Waste production per ton of product produced at these factories is higher than the Group average
- Waste clean-up operations at our US factory acquired as part of the Blome International Inc. acquisition
- Relocation and clean-up operations at our factories in Singapore and Dammam, Saudi Arabia
- Waste clean-up operations at our factory in Bahrain
- Stock clean-up operations at our factory in Portugal
- Increased waste from our factories in Guangzhou and Yantai in China

In 2017, we will initiate a cross-functional project with the aim of reducing waste from our production.

Adopting the Paint Formula Stewardship Policy

Due to the fact that our products contain chemicals, we have an increased responsibility towards the environment. As part of this responsibility, we work continuously towards using safer raw materials in our products.



In 2016, we voted in favour of the CEPE's (the European Council of the Paint, Printing Ink and Artists' Colours Industry) new Paint Formula Stewardship Policy. The policy outlines the risk associated with the use of dangerous and potentially dangerous substances in paint, and recommends whether or not a substance can be used. We are fully committed to following all CEPE recommendations on the use of dangerous substances. In many cases, this means removing certain substances from our coating formulations before official legislation comes into force.

As a consequence of this commitment, we will phase out coal tar, aromatic amines and lead on a global scale by the end of 2017.

Reducing emissions from the global shipping fleet

Shipping is a more environmentally friendly way of transporting goods than many of the alternatives. However, moving a ship through the water still requires vast amounts of fuel, which leads to significant emissions. A supramax bulk carrier, for example, can burn around 25 tons of fuel a day. Special hull coatings reduce a vessel's fuel consumption and associated emissions – and, as fuel is the largest cost item for most vessels, this has a significant impact on a ship operator's bottom line as well as their environmental performance.

These special hull coatings improve a vessel's hydrodynamics by preventing marine organisms, such as barnacles and

algae, from clinging to the vessel's hull. According to the Low Carbon Shipping Consortium, the shipping industry would pump an additional 384 million tons of CO₂ and 3.6 million tons of sulphur dioxide into the atmosphere each year without them.

High-performance hull coatings use either the controlled release of biocides or the friction-reducing properties of silicone to combat fouling. We consider silicone-based products the best alternative on the market from an environmental and performance perspective. However, both coating types must be carefully specified for each vessel, based on the vessel's expected trading routes, speeds and activity levels. If the vessel changes trading patterns or is idle for an extended period, the performance of the hull coating can drop significantly.

Our fouling defence hull coating Hempaguard® is the first product on the market to combine the smooth surface of a silicone coating with the efficient release of biocides in a single coat. This means it can continue to perform if a vessel changes trading patterns or stands idle, giving our customers much greater trading flexibility. This enables Hempaguard to minimise speed loss, and deliver savings in fuel and associated emissions of 6 per cent on average over the entire docking interval – which is significantly higher than most conventional hull coatings – while releasing 95 per cent less biocide than biocide-control coatings.