

# Annual Report 2017





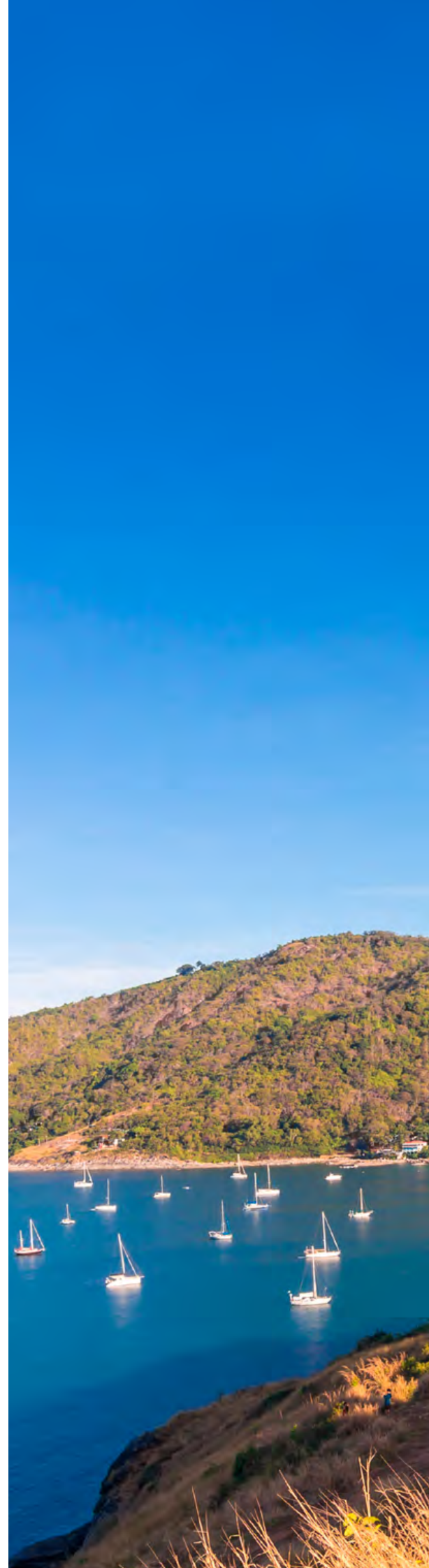




# Corporate responsibility

A strong social commitment has been at the heart of Hempel's values since the company was founded in 1915.

In 2017, we formalised our commitment to corporate responsibility by signing the UN Global Compact, sending a strong signal to our stakeholders regarding our commitment to deliver trusted solutions in all aspects. By signing, we have committed to reporting annual progress on our initiatives within human rights, labour, the environment and anti-corruption. The following pages describe our development within these important areas and provide information as required by the Danish Financial Statements Act §99a and 99b.



# Ethical behaviour

True to our values, we are committed to conducting business respectfully and ethically at all times, and without compromising our integrity.

We expect the highest level of transparency and ethical behaviour from all Hempel employees and business partners, irrespective of where in the world they work and what is considered usual in local business practice. We continuously strive to develop and enforce good ethical standards in all of our business operations. If anything falls short of our standards, we correct the issue in a firm, swift and dedicated manner.

### Building a strong Compliance function

In 2017, we continued our internal investigations into inappropriate practices in relevant regions, with the assistance of external global advisors from the audit and legal industries. As a result of these investigations, we uncovered inappropriate sales practices in a number of offices, mainly in Asia-Pacific. These were self-reported by Hempel A/S in April 2017 to the Danish State Prosecutor for Serious Economic and International Crime. We made, and will continue to make, substantial investments to prevent compliance issues or anything similar from happening in the future.

- In 2017, we released an updated Employee Code of Conduct to make it clear what is expected of our employees in different business situations. As part of this, we launched a tailor-made Code of Conduct eLearning for more than 3,800 employees, reaching a 100 per cent completion and pass rate. Employees without a Hempel email address will complete Code of Conduct training in 2018.
- We introduced a new Hempel Ethics Hotline, operated by an external partner, in early 2017. The hotline can be used by any stakeholder, both internal and external, and reports can be made anonymously. At the end of 2017, the hotline was available in almost all Hempel countries. It will be made available in the remaining countries, where legal approvals are pending, in 2018. In 2017, we received 53 whistleblower reports from 19 countries. We consider the substantial increase in reporting activity to be proof that our reporting channel is working and that employees and

other stakeholders are committed to the highest level of transparency and ethical behaviour.

- We introduced an online collaboration site and hotline called ComplianceHelp, where employees can seek guidance and ask for help on specific matters.
- We strengthened our Ethics Committee, which now consists of: the Group Chief Financial Officer; Group Chief People and Culture Officer; Group General Counsel; Head of Group Internal Audit; and the Compliance and Corporate Responsibility Director. The Ethics Committee evaluates the handling of all whistleblower cases and makes critical decisions in regard to cases.
- We further expanded the Group Internal Audit function. The Group Internal Audit function has a reporting obligation to the Audit Committee of the Board of Directors.

### Ensuring compliance across the Hempel globe

In order to ensure compliance across our global organisation, our regional offices and Group functions work together closely. As part of this work in 2017, our Legal, Group Internal Audit, Finance and Compliance functions formed a Global Compliance team. The team conducted roadshows in 2017, visiting every Hempel region to give intense compliance training to members of senior management. We also appointed a Regional Compliance Officer in every region to further embed compliance in every corner of Hempel’s business.

In addition, we continue to conduct regular internal audits. Our Executive Management Board reviews the findings from each audit and corrective actions are taken where needed.

### Whistleblower statistics

	2017	2016
Incidents reported to Ethics Hotline	2	0
Compliance cases reported 1 January to 31 December	51	19
• hereof substantiated*	13	10
• hereof not substantiated*	18	9
• cases under investigation*	20	0
<b>Total</b>	<b>53</b>	<b>19</b>

\*Status as of 2 March 2018

# Health & safety

In 2017, our health and safety performance did not meet expectations and our target of zero incidents was not achieved.

Our incident rate was 1.98 in 2017. This result was disappointing. At Hempel, we care about safety, and we promote a healthy and safe work environment for all of our employees and business partners. This commitment is anchored in our values and reflected in our Code of Conduct, in which we ask all employees to look for safer ways to work.

## Safety Excellence

In 2017, we developed and launched a comprehensive Safety Excellence programme to break the negative trend in our statistics. This is a Group-wide approach that consists of a number of very operational elements, such as 'safety walks', training, risk assessments and our new '8 Ways' model, which describes eight safety rules that everyone must follow.

In October 2017, we launched Safety Excellence at our production facility in Dallas, in the US. Employee feedback,

from shop floor to senior management, was highly positive. We will continue to roll-out Safety Excellence across all remaining Hempel factories during 2018. The programme will also be used to support other parts of our business, including our Services organisation and R&D centres.

## Phasing-out red raw materials

We want our product portfolio to be fully sustainable. This can only be achieved by managing our raw materials. Therefore, it is essential that we choose raw materials that are safe for our employees, customers and the environment. We use a Raw Material Matrix to evaluate raw materials in our products, and we classify materials as red, yellow or green. Red raw materials can be severely damaging to health or the environment. Lead chromate, for example, which is used in some products to produce a yellow, orange, red or green colour, has been linked to long-term health problems. In 2017, we set the goal of reducing consumption of red raw materials by 5 per cent per litre of product produced. By the end of 2017, we had managed to phase out lead chromates completely and a number of other red raw materials, achieving a total reduction of 32 per cent.

We will continue with this work in 2018 and ensure the safe use of all hazardous raw materials in our products.



## I will...

- Maintain my working area to the agreed (6S) standard
- Respect and use all designated walkways
- Follow all safety signs, safety rules and procedures
- Only use equipment that I am trained & authorised to use
- Never work under the influence of drugs or alcohol
- Always wear the appropriate Personal Protective Equipment
- Act responsibly at all times
- Stop work if I see unsafe conditions or unsafe behaviour





# Environment

At Hempel, we care for the environment. Our care for the environment is shown through our product stewardship, and our continued work to reduce the environmental impact of our operations.

When considering the direct environmental impact of our own operations, we were challenged in 2017. Our target to reduce our relative CO<sub>2</sub> emissions from energy consumption was not met, and energy consumption increased overall. The increase was driven by a number of different factors, such as imple-

mentation of waste gas treatment in our Chinese factories, automation of process steps and a general update of ventilation in several of our factories.

To help break this trend, we launched a programme to install power monitoring technology across our production sites. The introduction of energy meters, software and supporting infrastructure allows us to evaluate total electricity consumption and how energy is being used. With access to specific real-time energy data, we can make informed fact-based decisions on how we can further optimise our facilities and continually improve. In 2017, power management capability was installed at seven of our largest production units. We will cover our remaining factories in 2018. In 2017, we also initiated a number of energy saving activities, and we expect to see the full effect from these in 2018 and onwards.



## Local focus: Malaysia focuses on waste

As part of our waste reduction initiatives in 2017, we challenged our production units around the world to come up with an initiative to reduce waste onsite and prepare a short video demonstrating the concept. This resulted in 16 entries from across the Group, with ideas ranging from the reuse of waste materials to reducing waste at source.

Our site in Malaysia was selected as the overall winner, where they had successfully reduced paint can disposal. Overall, the video challenge generated seven new initiatives that will be rolled-out across our business.



## Local focus: Hull receives 'Coatings Care' environmental award

In 2017, our Crown Paints production site in Hull won the British Coatings Federation's Coatings Care Overall Best Performer Award. The British Coatings Federation is part of a worldwide umbrella programme for the paint and printing ink manufacturing industries, and in the UK it is managed by member companies. The Coatings Care Overall Best Performer Award is presented to the company that has demonstrated best-in-class performance across a range of key performance indicators. These include accidents and incidents, energy consumption, waste and recycling, volatile organic compound emissions, personnel management and communications.



# Health, safety and environmental data

In 2017, we engaged a third-party auditor to independently review our health, safety and environmental data. This extensive programme helped us increase data quality and evaluate our data management processes. As our health, safety and environmental data in 2017 is more accurate than previous years, we have not included historical data in our Annual Report 2017. The programme also revealed gaps in our documentation for waste and, therefore, the waste indicator is not part of this report. We will continue to improve our data quality and processes in future. Additional indicators,

including waste, and an independent auditor's statement, will be included in future reports when data quality improves.

## **Accounting principles**

The health and safety indicators in scope cover all Hempel employees and the environmental indicators in scope cover all activities at locations where we have production. This covers 26 factories and 10 R&D facilities in 22 countries, referred to below as 'Hempel sites'.

If we acquire or divest a business or close down a facility, we adjust our baseline and add or remove the indicator as appropriate to ensure year-to-year comparability.

## **Lost time accident frequency**

Lost time accidents are defined as the number of occupational accidents resulting in at least one day's absence following the day of the accident per one million working hours for full-time employees. Only accidents regarding employees employed directly or supervised by Hempel are reported. Accidents occurring when commuting to or from work are not included. All lost time accidents are registered in our SharePoint system.

The number of working hours used to calculate the lost time accident frequency is based on the number of full-time employees working for Hempel, multiplied by the OECD average for actual working hours of 1,763 hours per employee per year (2016).





### Consumption of red raw materials

A red raw material is defined as a raw material classified according to the United Nations' Globally Harmonised System as:

- Carcinogenic, mutagenic or reprotoxic (CMR) in category 1A/1B
- Acute toxic category 1, 2, 3
- Very pollutant to the environment: persistent, bioaccumulative and toxic (PBT) or very persistent and very bioaccumulative (vPvB)

The consumption of red raw materials is a subset of all raw material consumption used in Hempel's production with the above classification, which is monitored and compiled in our ERP system. The consumption of red raw materials is calculated as kg of red raw materials registered as used per 1,000 litres of product produced.

### Energy

Hempel uses four sources of energy in its production: electricity, fuel, heat and gas. All energy consumption at Hempel sites has been consolidated based on invoices.

### Carbon footprint

*Scope 1* covers direct emissions originating from Hempel sites. *Scope 1* emissions are linked to the energy used in the form of fuel (fuel oils and natural gas) used by Hempel (see above). The consumption of fuels is converted to CO<sub>2</sub>

emissions by applying relevant Greenhouse Gas Conversion Factors for Company Reporting from the Department for Environment, Food & Rural Affairs (Defra) in the UK for the relevant year.

*Scope 2* covers indirect emissions from purchased electricity and district heating at Hempel sites. The consumption of electricity and district heating is converted to CO<sub>2</sub> emissions by applying the location-based conversion factors from the International Energy Agency (2016 & 2017) and Defra (2016 & 2017, v1.0) databases.

#### Data table

What	2017
Lost time accident frequency (number/1,000,000 working hours)	1.98
Energy consumption (kWh/1,000L paint produced)	274
Consumption of red raw materials (kg/1,000L paint produced)	8.47
<b>Carbon footprint</b>	
Scope 1 (tons CO <sub>2</sub> /1,000L paint produced)	0.02
Scope 2 (tons CO <sub>2</sub> /1,000L paint produced)	0.10