

First ROCKFON ceiling factory in North America

- New Transformation Programme
- Promising outcome of COP21
- Russian challenges

ROCKWOOL NEWSLETTER

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FIRESAFE INSULATION



Dear shareholder,

As I write, the stock markets of the world are taking yet another tumble, with data from the Chinese economy as well as falling oil prices continuing to worry decision-makers in the global economy. Compared to that setting, the ROCKWOOL Group has been favoured with more positive developments. Some, thanks to our own efforts and others given to us by the outside world.

Let me start with the recent UN Climate Conference in Paris, in which the participating countries at the 21st session of the Conference of the Parties (COP21) succeeded in drawing up an agreement that most observers regard as positive (see p. 12). Our assessment of the Paris Agreement is also cautiously optimistic. This is not so much due to any binding commitments, of which there are very few, but rather because we believe in the continued public pressure on governments to live up to the ambition expressed in the desire to limit global temperature increase to 1.5° Celsius.

In a couple of years, we can hope to see the benefits of stronger climate policies in the building sector. A sector that currently represents around one-third of global CO₂ emissions.

Another recent positive event was our expectation of better results for 2015, which we presented to the stock market on 12 January. These improved results are thanks to both efficiency improvements and to decreased costs in raw materials and energy. It is nice to see that we are slightly ahead in the implementation of our Transformation Programme (see p. 3) and were already able to reap the first benefits in 2015. The programme will continue to be one of our top priorities in 2016.

A further focus in 2016 comes from our plans to expand our ceilings activities in North America. In November 2015, we announced the decision to build a local ceiling plant next to our existing insulation factory in Mississippi (see p. 6). The plant is expected to open in 2017, and will provide the basis for our accelerated expansion in North America – one of the biggest markets for suspended ceilings in the world. We have high



expectations for this market, which is currently not familiar with all the advantages of our ROCKFON ceilings.

However, not every market is expanding, and we have experienced major challenges in the important Russian market. The market contracted in 2015, and the same challenges are expected to continue in 2016 (see p. 10). Nevertheless, we stay firmly committed to our leadership position in Russia where we are still profitable. Moreover, our experiences show that we often manage to come through similar challenges as a stronger supplier.

On this positive note, I would like to take this opportunity to thank you for your continuing commitment to ensuring the success of the ROCKWOOL Group, and wish you a positive and prosperous 2016.

Jens Birgersson, CEO

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New Transformation Programme to improve **competitiveness and profitability**

In September 2015 a new Transformation Programme was launched with the overall objective to make the ROCKWOOL Group more agile and cost efficient and thereby outperforming the general market growth and enhancing profitability.

To lift the operational performance of the ROCKWOOL Group to a new level a business Transformation Programme has been launched. Prior to the launch a thorough analytical process was completed – and a large potential for rationalisation was identified in relation to untapped scale advantage.

“With the new Transformation Programme we want to make the ROCKWOOL Group a leaner and more customer-oriented organisation that is both more agile and cost efficient,” says CEO Jens Birgersson and underlines the importance of the changes:



The Transformation Programme at a glance

- **Simplifying the organisation** – The organisation has been restructured making it simpler with fewer layers and a leaner but more powerful headquarter. The local anchoring through regional based insulation companies and globally structured Systems businesses has been maintained.
- **Resetting geographical priorities** – The geographical priorities have been revisited with sharpened focus on Europe, Russia and North America and reduced ambitions in Asia.
- **Strengthening operations** – Procurement, Pricing & Product Management and Customer Experience is being strengthened to increase performance.
- **Restructuring Group Management** – To drive the change and reflect the new geographical priorities, Group Management has been strengthened with new members and changed responsibilities.



ROCKWOOL headquarters in Hedehusene, Denmark.

→ “We are the global leader of the stone wool industry and our profitability should better reflect this position. Only then can we sustain our investments in the future, exploiting the unique set of properties of stone wool to create a more sustainable society with energy efficient, comfortable and safe buildings.”

“The first thing we have done is to make the organisation more simple by reducing hierarchical layers, eliminating overlapping activities and establishing a more globally driven organisation model.”

CEO Jens Birgersson

A transformation with many dimensions

Overall the Transformation Programme focuses on simplifying the organisation, strengthening operations and resetting geographical priorities. And the transformation is already well on its way.

“The first thing we have done is to make the organisation more simple by reducing hierarchical layers, eliminating overlapping activities and establishing a more globally driven organisation model. Furthermore, we have initiated a number of processes to strengthen key areas within procurement, pricing and product management as well as customer experience – in order to leverage our scale, optimise our product portfolio and better meet customers expectations,” says Jens Birgersson.

“Another major transition is our renewed geographical focus. Europe is still a main focus area and Russia also remains an

Expected financial impact

When fully implemented by 2017, the programme aims at delivering an EBIT improvement in the range of EUR 50 million per annum. In 2016 a positive impact of EUR 20 million is expected.

The programme will incur restructuring and impairment costs of around EUR 45 million. It is expected that more than half of the restructuring costs will be included in the 2015 accounts. The Group's full year EBIT forecast, before restructuring and impairment charges, remains unchanged.

New financial ambitions

For the period 2016-2018 new financial ambitions have been presented:

- Organic sales growth 2-4% per annum
- Gradual improvement of EBIT margin to 10% in 2018
- Gradual improvement of Return on Invested Capital to 14-15% in 2018

As a boundary condition, the Equity ratio shall remain above 60% to counterbalance high operational leverage and cyclical end markets. The realisation of the goals is based on the assumption that no major acquisitions take place.

important future growth market despite the current economic challenges. In North America we will continue our expansion and pursue a high profitable growth within all major business areas. However, in Asia the ambition level has been adjusted

The new Group Management

To drive the necessary changes and reflect the new geographic priorities, the top management structure has been changed as follows:

Business areas



Systems: Is headed by **Thomas Kähler**, previously Managing Director of ROCKWOOL Scandinavia.



Insulation North East Europe including Russia: Is headed by **Henrik Frank Nielsen**, previously head of Europe Division.



Insulation Central Europe: Is headed by **Volker Christmann**, previously Managing Director of the insulation companies in Germany, Benelux and Austria.



Insulation South West Europe and Insulation Asia. These two geographical units are headed by **Gilles Maria**, former CFO.



In North America, the insulation activities are under the direct leadership of the Group CEO **Jens Birgersson** with the local Managing Director reporting in.

Group functions



Bernard Plancade, previously Managing Director of the Insulation companies in the South Europe region, has been appointed member of Group Management responsible for Group Operations & Technology.



Mirella Vitale, previously working for Vestas, has been appointed member of Group Management and is in charge of a new Group function combining the areas of Marketing, Communication and Public affairs, as of 1 February 2016.



Kim Junge Andersen, previously working for Hempel, has succeeded Gilles Maria as of 1 January as CFO heading Group Finance, Legal and IT.



Camilla Grönholm will be heading Group HR. Camilla has been a member of Group Management since 2012.

and combined with a more selective approach in terms of targeted segments and countries.”

To support the new set-up the top management group has been restructured and new members have been appointed to strengthen the ROCKWOOL Group.

“The restructuring of the management group has already become effective. Our new CFO Kim Junge Andersen heading Group Finance, Legal and IT started in January and the last piece of the puzzle fell in to place as we welcomed our new Senior Vice President of Marketing, Communication and Public Affairs, Mirella Vitale, on 1 February,” says Jens Birgersson.



At the offices of AES Energy in Washington DC, USA, ROCKFON ceiling solutions have been used to achieve high acoustic comfort.

Continued growth calls for first ROCKFON factory in North America

Plans to build the first ROCKFON ceiling panel plant in North America were recently announced and soon the first sod will be turned on the site in Mississippi. The ROCKFON ceiling business is experiencing increased demand and the North American market is expected to deliver continued growth the coming years.



With expectations of continued growth in the coming years, the ROCKWOOL Group in November announced the plans to build the first ROCKFON manufacturing facility in North America - located next to the existing insulation manufacturing facility in Mississippi.

The new facility will be the fifth ROCKFON manufacturing facility in the world, extending global capacity and meeting the growing demand for ROCKFON ceilings in North America.

"We have very high ambitions for our expansion into the North American ceiling market and the investment in a new plant demonstrates that we are long-term committed to the region," says John Medio, Managing Director of ROCKFON North America.

Delivering total ceiling systems

The demand for ROCKFON ceiling products has increased

"The customers in North America do not want to go to different suppliers – they want total ceiling systems from one supplier. With the merger we are able to offer just that and the popularity of our systems has resulted in both positive growth and increased market share in North America."

John Medio, Managing Director of
ROCKFON North America.

considerably since the ROCKFON business acquired and merged with the global, US-based ceiling company Chicago Metallic two years ago.



→ Combining ROCKFON stone wool and specialty metal ceiling panels with Chicago Metallic suspension systems, the ROCKFON business can now offer simple and easy solutions for suspended ceilings.

“The customers in North America do not want to go to different suppliers – they want total ceiling systems from one supplier. With the merger we are able to offer just that and the popularity of our systems has resulted in both positive growth and increased market share in North America,” says John Medio.

Trend towards new product offerings

The journey does not stop here. With a turnover of USD 1,500 million the North American ceiling market is one of the largest in the world and holds great potential to the ROCKFON business.

Today, the market is dominated by wet felt ceilings and stone wool ceiling solutions are relatively new. However, there is a clear trend in the market towards ceiling solutions that favour ROCKFON offerings.

“Our products provide a comprehensive suite of desirable properties, and we are meeting very positive response to our products from contractors, distributors, architects and end users,” says John Medio. “Smoother aesthetics, acoustic comfort and light weight tiles are important factors in today’s market, and this is something we can deliver.”

Facts about the ROCKFON business

- The ROCKFON business is the largest business area of the Systems Division
- Systems Division covers the ROCKWOOL Group’s non-insulation activities
- Systems Division reached a EBIT ratio of 12.4% in 2014
- Sales within Systems went up 27.2% in 2014 compared to the year before, mainly carried by the acquisition of the US-based Chicago Metallic

The expansion into North America

The ROCKFON business has been operating in North America since January 2013. With the acquisition of Chicago Metallic in October 2013, the company provides customers with a complete ceiling system. Its product offering combines ROCKFON stone wool and specialty metal ceiling panels with Chicago Metallic suspension systems.

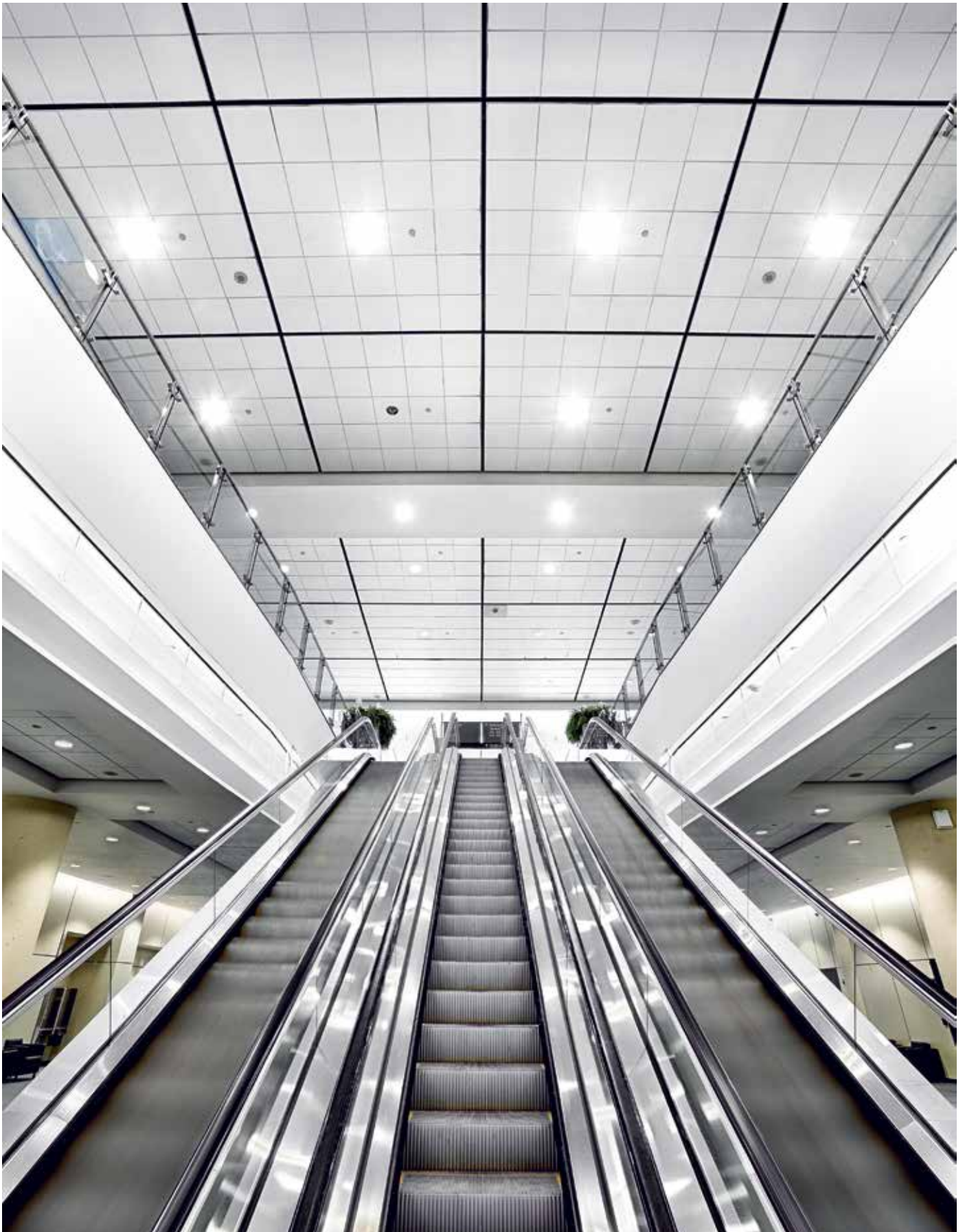
The ROCKFON business and the strong growth in North America has been one of the main drivers of the ROCKWOOL Group’s successful development of the non-insulation activities in Systems Division.

About the new ROCKFON factory

The new facility will be located in connection with the existing insulation factory in Mississippi and is expected to employ around 100 people. Construction of the new ROCKFON facility will begin in early 2016, with production expected to begin in 2017. Once completed, the new manufacturing facility is anticipated to span 12,000 square meters and the site allows room for future expansion. The new facility represents an initial investment of approximately USD 40 million (EUR 36 million).



The ROCKWOOL Group’s insulation manufacturing site in Mississippi. The new ROCKFON factory will be located adjacent to the current facility.



The South Building in the Metro Toronto Convention Centre in downtown Toronto, Canada, has been renovated with ROCKFON ceiling products to achieve both a modern look and a modern performance.

Russian challenges

The Russian insulation market is down by more than 15%. However, due to a strong brand position and a rapid adaption to the new situation, ROCKWOOL Russia has maintained its leading position and a profitable business in the market.

The Russian business environment has been turned upside down the last couple of years. Only a few years ago the expectations for the market growth were high – today the falling oil prices, high inflation and the crisis in Ukraine has made it harder to run a profitable business in the largest country in the world.

For the insulation business the market experienced a decline in 2015 by more than 15%. However, ROCKWOOL Russia holds its leading position in the market not least due to a strong brand position and a rapid adaption to the new situation.

“Since the market started to slow down in late 2014 we have focused on reinforcing the brand, adapting the organisation and keeping spends at a minimum. Furthermore, we have made a dedicated effort to improve production efficiency in



“Since the market started to slow down in late 2014 we have focused on reinforcing the brand, adapting the organisation and keeping spends at a minimum. Furthermore, we have made a dedicated effort to improve production efficiency in order to compensate for the high inflation.”

Managing Director of ROCKWOOL Russia, Marina Potoker.



Given the circumstances, the residential building sector is still doing fairly well in Russia. Here is a new residential complex in Saint Petersburg equipped with ROCKWOOL facade systems (ETICS).

order to compensate for the high inflation,” says Managing Director of ROCKWOOL Russia, Marina Potoker.

Even though the new economic situation has reduced construction activities considerably, not everything is standing still in Russia and there are still growth pockets to be found. In 2015 ROCKWOOL Russia increased the sales in facades for high rise buildings by double-digit percentage points measured in square metres. And with a population of more than 146 million people, many poorly insulated buildings and a severe climate, the fundamental demand for insulation remains high in society.

“In the major cities you still see cranes and building sites and the residential market is still performing fairly well. People have continued to invest in apartments and houses even though the trend points down. The crisis has hit the commercial and industrial segments harder,” says Marina Potoker, who also states that the new situation has toughened the competition:

“Even if times are tough now, the new competitive environment is not necessarily a disadvantage to us in the long run. We have a strong position and we will continue to develop this so we stand even stronger when the market comes back. New interesting opportunities might emerge from this situation,” says Marina Potoker.



The ROCKWOOL Group participated in a number of COP21-related activities in Paris. Here CEO Jens Birgersson is speaking at the World Efficiency Congress in October.

Pressure on European energy legislation

European energy policy activities could be heating up. The UN climate agreement from Paris in December last year has sent a clear signal that the future should be based on green energy. Meanwhile, the EU Commission is working to hammer out legislation to reduce greenhouse gas emissions by 40% by 2030 as part of the efforts to implement the European Energy Union. Vice President Claus Bugge Garn provides an update on the current situation and what the future may hold.

The world is at a turning point. This is the conclusion of the UN climate agreement adopted by 195 countries in December in Paris. In 2050, the use of fossil fuels must be close to a total phase-out in order to reach the agreement's goal of a fossil-free world by the year 2100. This ambition also applies to countries in the EU, and the EU has set an ambitious target of reducing carbon emissions by 80-95% by 2050 in comparison to 1990.

"If the EU is to reduce carbon emissions this much, it will require action by member states. They must implement national legislation on the conversion of their energy production away from fossil fuels such as coal, oil and gas to renewable energy sources, as well as on supporting a more efficient use of the energy. Both of these instruments are necessary. Otherwise, the green transition will be far too

expensive,” says Vice President Claus Bugge Garn, who is head of Group Public Affairs.

EU wants a common ground

In addition to the climate agreement, the EU Energy Union will also play a central role in Europe’s efforts to establish common ground on energy.

“The thought of an European Energy Union is a few years old. The idea originally came from then Polish Prime Minister, Donald Tusk. Tusk wanted a common European Energy Union to eliminate Europe’s dependence on energy from Russia. For example by negotiating common gas agreements with Russia, establishing agreements with other neighbouring countries and integrating distribution networks across borders within the EU,” explains Claus Bugge Garn.

The idea was picked up by the new Commission, but the proposal for an energy union that is on the table in Brussels today is much more far-reaching than Tusk’s original ideas. The Commission itself says that the Energy Union will ensure cheap and climate-friendly energy. This will be achieved through concrete initiatives that support a higher security of supply, a fully integrated energy market, reduction of carbon emissions, development and innovation, and improved energy efficiency. The ROCKWOOL Group follows the implementation of the climate agreement and the Energy Union closely.



Retrofitting the 11-storey residential block, Wilmcote House in Portsmouth, UK, with use of external wall insulation means residents can occupy the building while the construction is going on.

Energy consumption in Europe

Buildings account for more than 40% of energy consumption in the EU. Two-thirds of this energy is used for heating, cooling and ventilation.

There are approximately 210 million buildings in the EU and Europeans spend 90% of their time indoors.

70-90% of Europe’s buildings are inefficient and 35% are more than 50 years old. As a result, millions of European buildings do not meet today’s energy standards and indoor climate requirements.

In 2013, Europe’s energy imports totalled EUR 400,000 million. The majority of gas imports came from Russia.

“Both the climate agreement and the Energy Union can have a positive impact on the demand for ROCKWOOL products in the European and global markets. When nations introduce strict energy requirements and subsidy schemes, it boosts energy renovation activities. For example, in France the government gives homeowners a 30% tax deduction for energy improvements, and this is highlighted by our development in the market,” says Claus Bugge Garn.

National implementation is crucial

Initiatives, such as the one launched in France, have not yet been embraced by all countries. There are countries where the progress towards a legislation that reflects the framework adopted at EU level has been much slower.

“The challenge of the EU legislation and energy initiatives is that they are frameworks. This means that the individual member state determines how to comply with the framework defined collectively by the countries, making it difficult to assess the potential market impact of the political measures in advance. If asked to summarise what the climate agreement and Energy Union will mean for the ROCKWOOL Group, I would say that I have a positive view. Nevertheless, the critical element is implementation by the member states,” concludes Claus Bugge Garn.

The world transfers from black to green

The adoption of the UN climate agreement in Paris is good news for companies like the ROCKWOOL Group that produce solutions to assist the green transition. We have asked Christian Ibsen, director of Denmark's green think tank CONCITO, to give his view on the outcome in Paris.

"It's a historic political agreement. In the future we will view the agreement in Paris as the turning point where the world unequivocally established that the future is green. Never before have all the countries of the world admitted that the fossil era is over," says Christian Ibsen in no uncertain terms when describing what happened in Paris in December. Christian Ibsen has followed international climate negotiations closely for more than ten years, including as a lead negotiator for Denmark and the EU.

Companies led the way

According to Christian Ibsen, the commitment and leadership of the business world paved the way for the Paris-deal. This contribution helped politicians recognise that the green transition is already well underway outside of the negotiation rooms.

"In the past five to ten years it has become clear that private companies are charting the course. Many companies have seen that, on the positive side, the climate issue creates new business opportunities, while on the negative side it can disrupt their current activities if no action is taken. The corridors in Paris were teeming with executives during COP21, all of whom insisted on the need for a clear legislative framework.

CONCITO – Denmark's green think tank

The ROCKWOOL Group is a founding member of CONCITO and has a seat on CONCITO's board of directors. Chair of the board is former EU-commissioner and minister, Connie Hedegaard. CONCITO is based on the premise that climate policy targets can only be achieved through a new partnership between politicians, the business community and citizens – state, market and civil society. Therefore, all of these sectors are represented in the think tank.



Christian Ibsen, director of Denmark's green think tank CONCITO.

This framework will now become a reality, giving companies an assurance about the direction the world is moving in, enabling them to make long-term investments in sustainable initiatives," says Christian Ibsen.

Clear targets for reductions

The national CO₂ reduction plans submitted by each country comprise a central component of the agreement. Of the 195 countries that have signed the UN Climate Convention, 187 have announced plans for limiting their carbon emissions. According to the agreement, these plans will be revised every five years to incorporate new and more ambitious targets. Critics of the agreement point to the fact that the countries' plans are voluntary and do not force them to establish national programmes for improving energy efficiency, developing a sustainable energy supply, etc. Although this can be a challenge, Christian Ibsen believes that the agreement is good news for the companies that deliver green solutions.

"For the first time, the countries' governments have announced what they intend to do over the next 10-15 years. This means that they have national ownership of these efforts

Leaders of the COP21, United Nations Climate Change Conference celebrate reaching a global agreement on 12 December 2015.



The Paris climate agreement

- The average global temperature increase must be kept well below two degrees. Efforts must be made to limit the temperature increase to 1.5 degrees.
- The countries must draw up plans for reducing their carbon emissions. The plans will be updated every five years. The countries' targets must be increased with time.
- The countries must also report once every five years on their progress towards reaching the goals of the climate agreement. The first assessment will be conducted in 2018, even though the agreement does not take effect until 2020.
- Global carbon emissions must balance out at zero by the end of this century, which means that emissions from fossil fuels must be phased out by around 2050.
- Beginning in 2020, at least USD 100,000 million per year will be available for climate initiatives in poor countries.

and view them as an important part of the development of their nations. The targets can be translated into specific investment plans, which opens up new opportunities for businesses. The countries have a need for concrete solutions to help them reach their reduction targets, and this is what the businesses offer," says Christian Ibsen.

The cities of the future are integrated energy systems

Danish companies have long been at the forefront of developing green technologies. This position can be maintained in the future, but according to Christian Ibsen, companies must expect increased competition and must explore what a fossil-free world will look like. The agreement will significantly change the

way we think about homes, infrastructure and the supply of water and energy.

"To reach the ambitious target of a fossil-free world, you have to imagine a completely different society. In 2050 there will be ten billion people on Earth and seven out of ten will live in the cities. We will no longer have an independent water supply, energy supply or infrastructure. Everything must be coordinated into integrated systems. This also applies to our homes, which will become an element of the city's overall integrated system. Energy supply and the overall infrastructure system in cities must be efficient and based on renewable energy sources to keep carbon emissions down," says Christian Ibsen.

New state-of-the-art production facility inaugurated in Denmark



Head of Systems Division (former Managing Director of ROCKWOOL Scandinavia) Thomas Kähler, Danish Prime Minister Lars Løkke Rasmussen and ROCKWOOL Group CEO Jens Birgersson cuts the ribbon to the new production facility.

In September 2015 the ROCKWOOL Group opened a new state-of-the-art production facility at its factory in Northern Jutland, Denmark.

“With this investment, we achieve three things at once: We strengthen our position in the market with even better quality and enhanced competitiveness, we ensure Danish jobs and we maintain a sustainable model with production close to the market, avoiding resource-intensive transport of our

products,” said Thomas Kähler, former Managing Director of ROCKWOOL Scandinavia, at the inauguration in September.

After seven difficult years the Danish construction industry is again in growth, so the upgrade is right on time: “We expect that the slowly emerging growth in construction in Denmark will continue, increasing the demand for insulation and our innovative insulation systems,” said Thomas Kähler.



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