



Annual Report 2018

CVR no. 21518018

Hempel Foundation
Amaliegade 8
DK-1256 København K

Date: 05.04.2019
Chairman: Richard Sand

Contents



4	The Hempel Foundation	13	Education	39	Foundation governance
6	Management's statement	25	Science	44	Business-related activities
7	Board of Trustees	28	Nature	48	Letter to stakeholders of the Hempel Group
8	Strategy & direction	31	Donations by application in 2018	52	Independent auditor's report
10	Year in review	34	Good initiatives that live on	54	Financial statements

The Foundation

Hempel Foundation
Amaliegade 8
1256 Copenhagen K
Denmark

Tel: +45 4527 3074
Fax: +45 3315 6044

CVR no. 21518018
Financial year: 1 January – 31 December

Board of Trustees

Richard Sand, Chair
Leif Jensen, Deputy Chair
Kim Dam-Johansen
Birgitte Hagemann Snabe
Lars Aaen
Britt Meelby Jensen
Martin Bøgsted, Elected by the employees
Louise Krüger Kofoed, Elected by the employees
Claus Juul Petersen, Elected by the employees

Executive Management

Anders Holm
Executive Director, Grant Areas and Administration

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

The Hempel Foundation

Owner of the Hempel Group
and **dedicated to making
a difference**

Copenhagen Dome
– A Socio-Economic
Centre of Excellence.

The Hempel Foundation is a commercial foundation dedicated to making a difference. The Foundation is the sole shareholder of the Hempel Group – a world-leading supplier of coatings – and a committed philanthropist within the fields of education, sustainable coatings technology and sustaining biodiversity.

The Hempel Foundation was established by Jørgen Christian Hempel, the founder of the Hempel Group, in 1948. The main purpose of the Hempel Foundation is to provide and maintain a solid economic base for the Hempel Group. The stability of ownership ensured by the Foundation provides a long-term framework for the continued prosperity of the Hempel Group.

About Hempel A/S

Hempel's coatings protect and decorate man-made structures, equipment and homes. It operates in more than 80 countries, and has over 6,500 employees, 28 factories and 12 R&D centres around the globe.

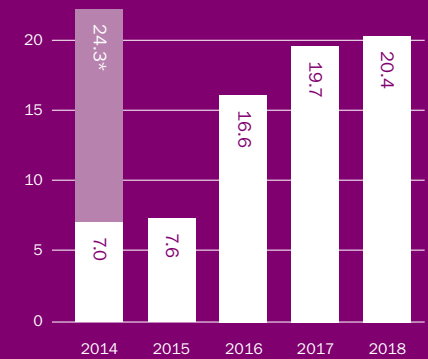
The Hempel Foundation's secondary purpose is philanthropic: To make a positive, sustainable difference around the globe based on the principles set down in the trust deed. We have a strategic focus on three areas. Firstly, empowering children living in poverty to learn. UNESCO estimates that 264 million children and youth are out of school globally, including 61 million children that should have attended primary school. As a result, they have little chance of building a better future for themselves. With past and current projects, we will reach 130,000 children with quality education – and our work continues with new partnerships to empower children to learn.

Secondly, the Hempel Foundation facilitates scientific research into coatings technology.

Coatings extend the lifetime of man-made structures and equipment, or give any given surface a certain function or look. Through our support, we want to help make coatings more efficient and more environmentally sustainable for the benefit of science, the industry and the common good.

In 2018, the Foundation decided to initiate a third strategic focus area: The critical and urgent task of sustaining the planet's valuable biodiversity. Starting from 2019, the Foundation will work to sustain some of the planet's most important and valuable nature and strive to raise awareness of one of humanity's biggest challenges.

Donations (EUR million)



* Special donation for Hempel Student Residence to mark the 100th anniversary of the Hempel Group.



66

organisations supported in 2018



24

countries worldwide commitment

Management's statement

Kgs. Lyngby, 5 April 2019.

The Board of Trustees and the Executive Director (Management Board) have today considered and adopted the Annual Report of the Hempel Foundation for the financial year 1 January – 31 December 2018.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Foundation's financial statements give a true and fair view of the assets, liabilities and financial position at 31 December 2018 of the Foundation and of the results of the Foundation's operations and cash flows for 2018.

In our opinion, the Management's Review includes a true and fair account of the develop-

ment of the Foundation's operations and financial affairs, the profit for the year and the Foundation's financial position together with a description of the principal risks and uncertainties that the Foundation faces.

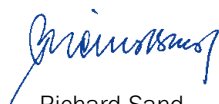
The Annual Report has been submitted for adoption at the Board Meeting.

Executive Management



Anders Holm
Executive Director,
Grant Areas and Administration

Board of Trustees



Richard Sand
Chair



Leif Jensen
Deputy Chair



Kim Dam-Johansen



Birgitte Hagemann Snabe



Lars Aaen



Britt Meelby Jensen



Martin Bøgsted
Elected by the employees



Louise Krüger Kofoed
Elected by the employees



Claus Juul Petersen
Elected by the employees

Board of Trustees

Richard Sand
Chair



Leif Jensen
Deputy Chair



Kim Dam-Johansen



Birgitte Hagemann Snabe



Lars Aaen



Britt Meelby Jensen



Martin Bøgsted
Elected by the employees



Louise Krüger Kofoed
Elected by the employees



Claus Juul Petersen
Elected by the employees



Executive Management

Anders Holm
*Executive Director,
Grant Areas and Administration*



Information about each Board member's background, competencies, election period, etc. can be found at hempelfoundation.com/Hempel-foundation/Board-of-Trustees

Strategy & direction



Bolivia

The Hempel Foundation is the guardian of both the legacy and the financial means accumulated by the present and former employees of the Hempel Group. It is a great responsibility to ensure that this legacy endures and that the financial resources are used responsibly to provide real impact in accordance with the trust deed. The Foundation's model approaches this responsibility with transparency and humble professionalism, and we follow all principles for good governance in foundations.

Our donation strategy

Since 2017, the Hempel Foundation's strategy has been refined with the purpose of achieving an even greater impact. We divide our donations into two distinct areas. In the strategic section, we work in partnership with others to create catalytic impact within three fields: education, sustainable coatings technology and biodiversity. In the applications section, we provide donations by application to support great initiatives that bring about positive change.

Biodiversity is a new field in the strategic section. The Hempel Foundation's goal is to effectively sustain and develop some of the planet's most valuable nature to help secure biodiversity and ensure a sustainable planet for the future. This is described further on page 28.

Different types of impact

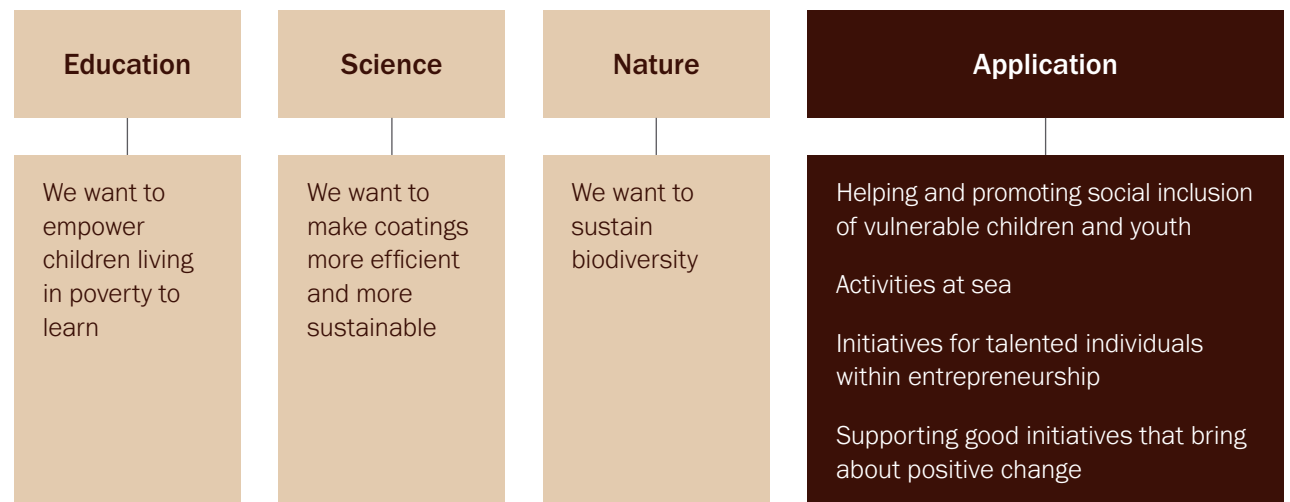
At the Hempel Foundation, we are dedicated to making a difference – but that difference can take many forms. Changing a young girl's life by giving her the chance to learn to read cannot be compared to a scientific breakthrough in the reuse of chemical waste or engaging young people through the sport of sailing. The work of the Foundation covers very different spheres and holds very different promises. In this way, we have different types of impact on different areas within our trust deed.

Doing most good

In the strategic section, we maintain that no matter the project, the field of work or the

It is not enough
that it feels good
– **it has to do good.**

Philanthropic strategy



- Fields of strategic partnership
- Fields of donation by application

organisations supported, we aim to have the maximum positive impact. Maximum impact in a Hempel perspective is ensuring that the sum of our and our partner's assets is bigger than the two. The donations must create a positive change.

That is why we focus on working in partnerships, on sustainability, on impact assessment and quality solutions.

To make sure that impact is at the centre of the Hempel Foundation's work, we continue to refine and improve our efforts through evaluation and quality assessment. It is not enough that it feels good – it has to do good.

The sustainability of the strategic philanthropic work relies partly on a steady level of donations. The Hempel Foundation's model entails both a significant financial reserve and returns on the Foundation's own investments. That enables us to sustain a steady donation level that should hopefully not be impacted too much in the future by varying annual financial results.

Year in review

Dedicated to making a difference.

In 2018, we developed a new website for the Hempel Foundation that focuses on how we work and why. We are dedicated to making a significant positive impact in areas that we believe are important. But we also want to share what we learn with others, to complement the impact of our work.

The United Nations Sustainable Development Goals

In 2018, the UN Sustainable Development Goals broke through a glass ceiling. They are no longer reserved for non-government organisations, charities and wealthy benefactors; in 2018, they were adopted by a broader range of businesses, companies and organisations. According to Consultancy.org, a global average of 40 per cent of international businesses are reporting according to the goals.

At the Hempel Foundation, we see the Sustainable Development Goals as valuable common ground for

all segments of business, where private companies, legislative organisations and non-government organisations including foundations can unite to provide future generations with a more sustainable world. And, we will benchmark our – and our partners’ – results against the indicators that the Foundation is committed to in our support of the Sustainable Development Goals.

Education

The Hempel Foundation’s strategic area of education was strengthened in 2018. This enabled a tripling of donations, as well as the creation of a new role within the Hempel Foundation, the Manager of International Partnerships, who supports the Foundation’s work in taking an even more coherent, analytic and impact-driven approach to empowering children living in poverty to learn. We launched a new approach to our work within education and entered four new partnerships during the year. We are very excited to be able to

use what we have learned about educating children in need over the past eight years, as we look to continue our strategic work in this area.

Science

Coatings (also known as paints with a function) are not only used to enhance the aesthetic appearance of the world we live in. They also protect and prolong the service life of our buildings, equipment and infrastructure. The Hempel Foundation Coatings Science and Technology Centre (CoaST) at the Technical University of Denmark (DTU) was officially inaugurated on 14 March 2018. The centre continues to grow in staff and during the year an Advisory Board and a quality assessment framework were established, and initial steps were taken towards creating the necessary foundation for CoaST’s work within the Sustainable Development Goals.



Nature

Loss of biodiversity and climate changes are probably the two biggest environmental problems the human race is facing. Both have immense consequences for the planet but they are also connected. Loss of biodiversity accelerates climate changes. The consequences of loss of biodiversity are less known and often overlooked. Diversity in natural species is dropping at an alarming rate. According to WWF (2018), we have seen an average decline of 60 per cent in the size of populations of mammals, birds, fish, reptiles, and amphibians in just over 40 years. If this continues, the consequences for both nature and people will be devastating. That is why the Hempel Foundation committed itself in 2018 to working strategically with sustaining biodiversity with a focus on some of the planet's most valuable natural habitats.



Education

The core elements of the Hempel Foundation's strategy for education

We seek innovative solutions with opportunities for scale

Innovative solutions that can be scaled, including an intelligent use of technology, are necessary to solve the current learning crisis by enabling more children living in poverty to access quality education in an effective and cost-efficient way.

We build strong partnerships

We continuously pursue opportunities to form partnerships with organisations that are driven by and share our ambition of innovation. We commit ourselves to the entire process, from defining critical issues to developing new models for reaching common goals.

We motivate by inclusion

To achieve the best possible impact, we strive to activate and include all relevant resources within our projects and beyond – and hope to motivate and inspire others to break the barriers to education.

We evaluate and share knowledge

To continuously enhance the impact of our philanthropic investments, we give priority to the systematic evaluation and sharing of our learnings.

In 2018 we **strengthened our organisational foundation** to ensure continued high quality in the projects we support

We approved four new partnerships

We saw recurring **positive results from our ongoing projects** around the world

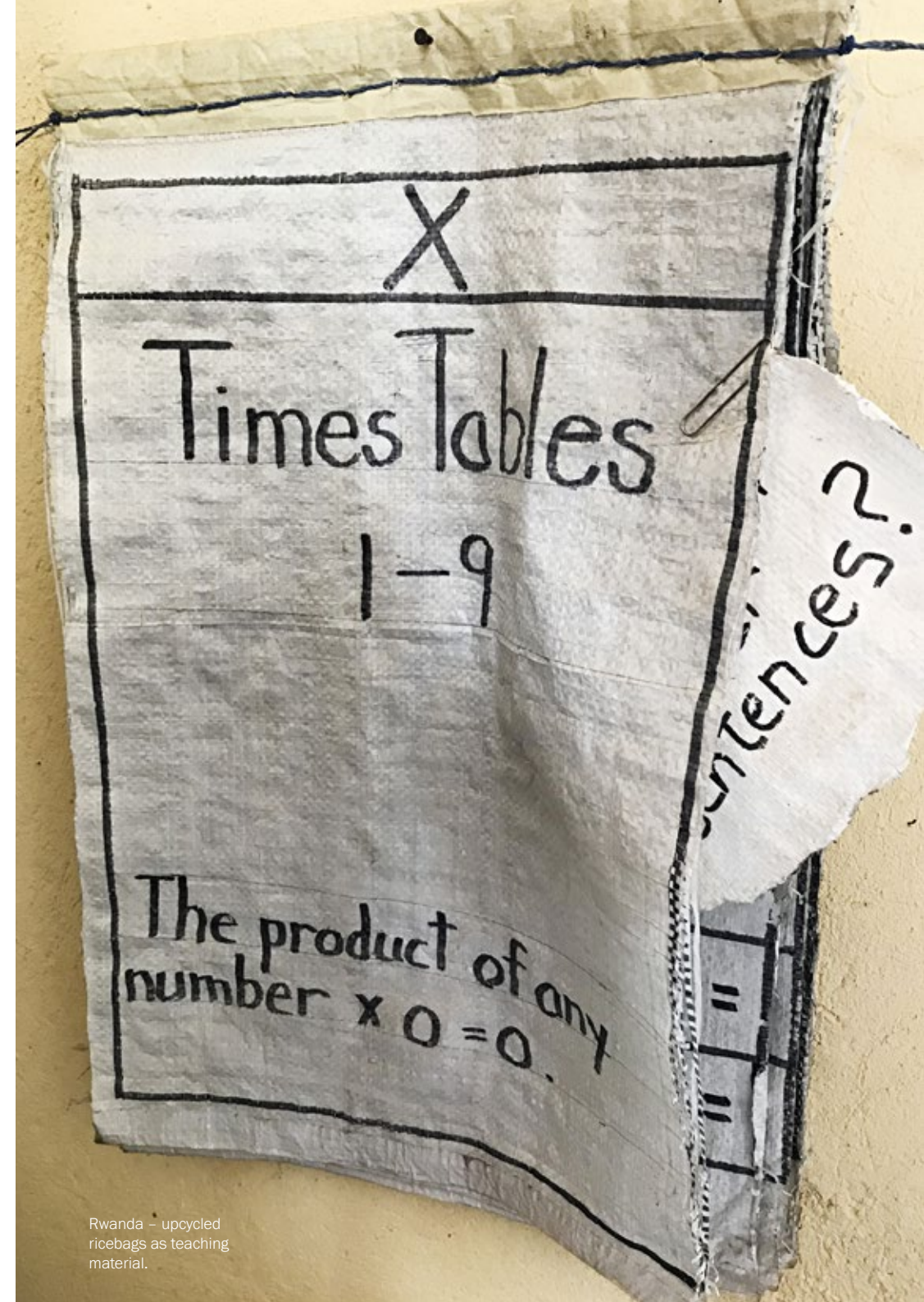
Enabling children in need to attain their right to a basic education continues to be a massive challenge globally. Many countries have made great progress in recent decades in terms of getting children enrolled in school. However, millions of children continue to be left without access to school or with education of very poor quality.

The Hempel Foundation is committed to doing what is possible for us to help solve just a fraction of the global education challenge and we are increasing our efforts in terms of both the financial investments we make and the way we engage with partner organisations.

The Foundation took some important steps to support our commitment to empowering children to learn in 2018, see above.

The education challenge in numbers

264 million children and youth are out of school globally, including 61 million children that should have attended primary school. (UNESCO)



Rwanda – upcycled ricebags as teaching material.

Strengthening our organisational foundation

4 QUALITY EDUCATION



Aligning with the United Nations Sustainable Development Goals

The stated ambition of Sustainable Development Goal 4 is to ensure quality education for all. The work of the Hempel Foundation is closely aligned with global efforts in this area.

In the coming years, we will track the results of our work in relation to this global goal and work with partner organisations to ensure the high-quality evaluation and documentation of results.

New approach for engaging with partner organisations

In the Foundation's efforts to empower children living in poverty to learn, we have always worked closely with partner organisations, as we believe this can increase the positive sustainable impact

of our work. Building on this experience, in 2018 we completed the process of reviewing what we believe should be at the core of any future partnership, and we have now refined how we select and work with partner organisations.

In addition to evaluation and knowledge sharing, the Hempel Foundation will strive to build strong partnerships, promote innovation with opportunities for scale, and act as a convening force to engage relevant resources to help solve the global education challenge.

Sustainable impact

In the future, the Foundation will increase its focus on achieving a sustainable impact and will create greater alignment between its work and global efforts to achieve the Sustainable Development Goals. In practice, this will mean that we take a leap forward in terms of the type of projects that we support. Today, our guiding principle is to support projects that make the most visible difference. This will shift to supporting programmes that foster the most impactful positive change.

The emphasis on catalytic impact and change is a challenge for both us as a foundation and the partners we work with. It requires innovation and an even deeper understanding of the push and pull factors that influence education in the

countries and regions where we work. Thanks to our past experience and our stronger organisational set-up, we are motivated to take on this challenge with our partners and confident about what we can achieve together.



The Sustainable Development Goals

On 25 September 2015, the 193 countries of the UN General Assembly adopted the 2030 Development Agenda titled:

"Transforming our World: the 2030 Agenda for Sustainable Development"

The agenda has 17 global goals. Quality Education is number 4.

ART 2030 – Danish high school students



Four new partnerships

Increasing our positive impact through larger donations within education

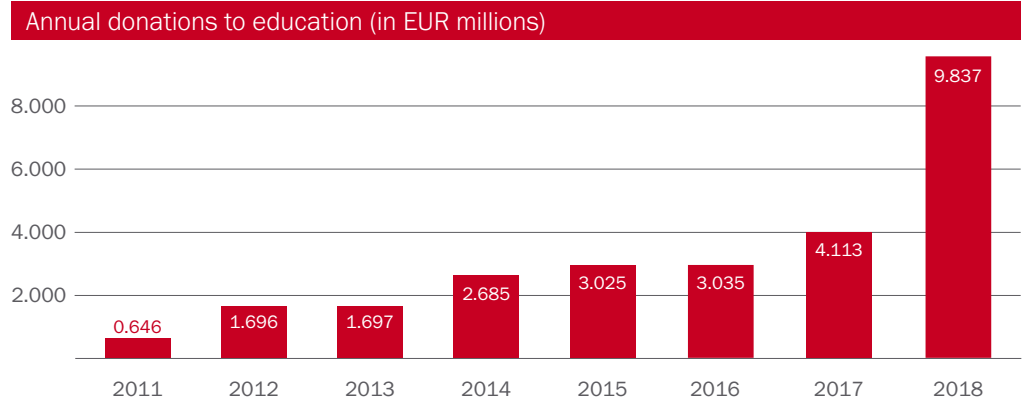
Focusing resources on fewer but larger collaborations allows the Hempel Foundation to co-create projects and engage in strategic quality assurance, which we believe will yield better results for the children we support.

Therefore, in 2018, the Foundation embarked on a consultative process with a number of international non-governmental organisations to identify a new set of partnerships for the Hempel Foundation. As part of this process, both existing partner organisations and potential new partners were invited to submit suggestions for collaboration.

Based on these suggestions, we selected the organisations assessed as being most relevant and they were asked to develop concept notes around specific education barriers.

As a result, in October 2018 the Hempel Foundation decided to enter into strategic partnerships with UNICEF, Save the Children, Oxfam IBIS and SOS Children's Villages and during 2019 we will launch new projects in South Africa, Rwanda, Guatemala, Bolivia and Bangladesh, while also strengthening existing projects in Ethiopia, Somaliland and Tanzania.

In total, the Foundation donated EUR 9.8 million to the four new partnerships in 2018, which is the largest annual donation towards education made by the Foundation to date. In the coming years, we expect annual donations to education of up to EUR 8 million.



The Foundation donated EUR 9.8 million to education in 2018

Positive results from our ongoing education projects in 2018

Making a tangible and significant difference for many children around the world

Our commitment to empowering children living in poverty to learn has always been driven by an aspiration to make a positive difference for children with few opportunities.

In a world where 61 million children do not go to school, our footprint may be small but the results the Hempel Foundation has achieved are tangible, leading to significant positive change. So, while we are excited to embark on new projects in 2019, we can also reflect on some positive results from existing projects in 2018.

Hempel Foundation education projects

New

Bangladesh

2019-2022 *Save the Children*

Empowering girls through education

New

Bolivia

2019-2022 *Oxfam IBIS*

Empowering children through intercultural gender transformative education

New

Guatemala

2019-2022 *Oxfam IBIS*

Empowering children through intercultural gender transformative education

New

Rwanda

2019-2022 *UNICEF*

Girls' education

New

South Africa

2019-2022 *UNICEF*

Girls' education

Argentina

2015-2019 *Leer Fundacion*

Quality basic education

Bolivia

2015-2018 *Oxfam IBIS*

Access to quality basic education

Brazil

2015-2018 *Ecos do Futuro*

Ser & fazer (See & do)

China - Shanghai

2017-2020 *Save the Children*

Quality basic education

China - Yunnan

2015-2018 *Save the Children*

Quality basic education

Ethiopia

2017-2021 *SOS Children's Villages*

Access to primary education

Ghana

2012-2018 *Oxfam IBIS*

Access to quality basic education

Greenland

2018-2022 *Consortium*

Kivitsisa – raising levels in Greenland's public schools

Indonesia – West Timor

2017-2020 *Save the Children*

Making early education matter through books and community action

Sierra Leone

2014-2019 *Oxfam IBIS*

Transforming learning in community schools

Somaliland

2017-2021 *SOS Children's Villages*

Access to primary education

Tanzania

2016-2021 *SOS Children's Villages*

Access to primary education

Peru

2016-2019 *Axis*

Quality education for indigenous children in Peru

South Africa

2017-2019 *Vuleka*

Quality basic education

Uganda

2016-2019 *Save the Children*

Accelerated basic education for out-of-school children

Vietnam

2015-2021 *UNICEF*

Strong start in Life and smooth transition

Since 2011 and including our new partnerships in 2018 we will reach and support more than **130,000 children**





Perspectives from Vietnam

How results from one project are helping set the agenda for new countrywide education legislation

The Hempel Foundation has been working with UNICEF since 2015 to increase learning opportunities for children from ethnic minority groups in Vietnam by promoting mother tongue based bilingual education. Documentation shows that children who receive education in their mother tongue from an early age perform better throughout their education. However, only a few children from ethnic minority groups are provided with this opportunity in Vietnam. Perhaps this is about to change.

14-year-old Vang Thi Thu Ha studied at one of the schools later supported by the Hempel Foundation in the Lao Cai province, where she received an education in her mother tongue before the Foundation entered the project. After completing primary school, Ha passed the entrance exam to the best lower-secondary school in the district and received a full scholarship from the government.

In September last year, Ha was invited by UNICEF to speak at the annual meeting of the National Congress. The national education legislation is being reviewed and updated, and UNICEF wanted Ha to share her experiences. One of the key points that Ha brought to the table was that those of her friends who did not receive education in their mother tongue had much greater difficulty learning and often felt isolated in school due to language barriers.

In 2019, an updated national education legislation will be presented in Vietnam. Hopefully, the input from Ha and documentation of the results of our work with UNICEF in Lao Cai province will mean more children will have the same opportunities that Ha had. Ha was one of the first to benefit from bilingual education - prior to the Hempel Foundations engagement. She

serves as a great example of the value of mother tongue based bilingual education.

The Hempel Foundation will continue to work with UNICEF in Vietnam until 2021.





Guatemala



Guatemala



Guatemala

During the year, projects were completed in **Bolivia, China and Ghana**. All three projects have been evaluated.

The evaluations show that we have **achieved positive results**, and have also given us some key learning points to take forward into **our future work**.



Ghana

Ghana

In Ghana, we have worked with Oxfam IBIS since 2012 to provide children living in rural areas with access to school. So far, this project has enabled around 2,200 children to attend school who would not otherwise have been able to do so, and many more children will attend the schools in the years to come.

Of these, 1,200 children have passed grades 1 to 3. In addition, 252 of the children who were enrolled in the first four schools built six years ago in 2012 completed grade 6 in 2018. Out of

2,200 children have been enrolled in the 12 schools that were built as part of the project between 2012 and 2018.

these 252 children, 227 are continuing their schooling at a junior high school.

This is a remarkable result when taking into consideration the hardship these children have to endure to attend junior high school. Most must leave their family home and live alone in towns far from the family village, which shows how dedicated the children are to obtaining an education if given the opportunity.

In terms of long-term impact, the final evaluation shows that the project has been crucial in strengthening the children's abilities, giving them greater opportunities beyond reading, writing and maths skills. The evaluation found that access to schools has increased pride within the villages and had a positive effect on the children's

general behaviour. There has also been a change in perception regarding early marriage: Parents have become more aware of the value of attaining a basic education and therefore encourage girls to finalise their education before getting married.





Bolivia

Bolivia

In Bolivia, we have worked with Oxfam IBIS since 2012 completing two projects (from 2012 – 2015 and from 2015 – 2018). The latest project increased learning opportunities for more than 10,000 children across 87 schools. The vast majority of these 10,000 children are indigenous and do not speak Spanish as their first language. Nevertheless, teaching was previously conducted in Spanish and most learning material was written in Spanish, which had a direct negative impact on the indigenous children's learning outcomes.

The project strengthened the ability of more than 600 teachers to conduct teaching in both Spanish and indigenous languages such as Aymara. In addition, the project introduced new bilingual learning material as well as new child friendly teaching practices. As a result hereof the children's reading and writing skills have improved substantially.

76

per cent of the targeted children in grade 3 were able to read and write numbers up to 50, create short sentences, recognise and read phonemes in Aymara and tell stories about their culture appropriate to their age after the project. Before the project that figure was 18 per cent.



China

China

In China, we worked with Save the Children between 2015 and 2018 to improve the learning environments in basic education for approximately 4,500 poor and ethnic minority children aged 6-13 years in Yunnan. These children lacked a supportive and holistic environment for them to grow up and learn in and often graduated school with limited directly applicable skills.

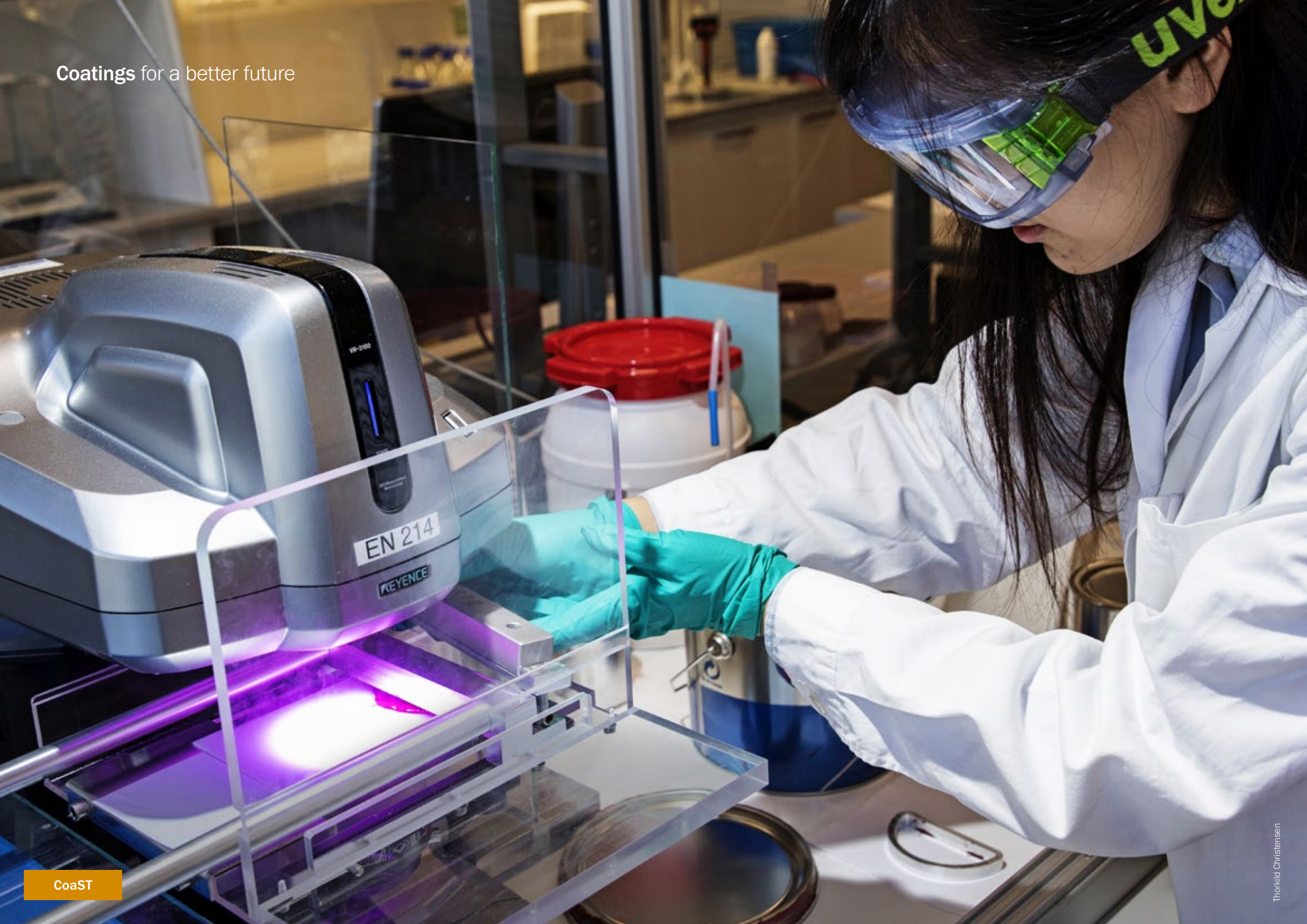
The project sought to improve the learning environment in basic education by introducing child-centred methodologies and increasing awareness of children's rights and child protection. The project also enhanced the children's self-confidence, adaptability to school life and motivation to learn by teaching life skills in school and encouraging parents to support their children's education.

80

per cent of the teachers trained during the project demonstrated improved skills in classroom management and child-centred methodology. Furthermore, 7 out of the 10 schools targeted by the project improved their ranking compared to other schools in the local area, indicating that the better learning environments have enhanced learning outcomes.



Coatings for a better future



Science



CoaST (The Hempel Foundation Coatings Science and Technology Centre) opened in 2017 at the Technical University of Denmark's (DTU) Department of Chemical and Biochemical Engineering, and was inaugurated in March 2018. By the end of the year, the staff included a core of three scientific and two technical, two administrative staff, together with nine PhD students, two postdoctoral students, two engineers and three research assistants. The leader of the centre is professor and Head of Department, Kim Dam-Johansen.

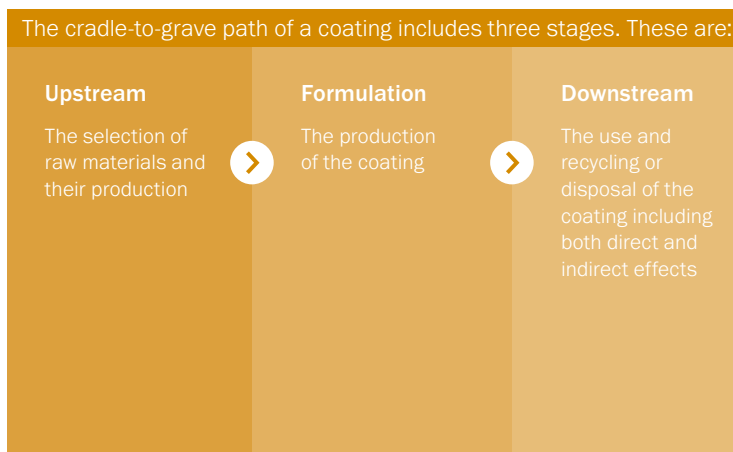
New Advisory Board

The Hempel Foundation's ambitions for CoaST are high. The independent research centre's vision is to be a globally leading centre for research, innovation and education in coating technologies with an increased sustainability profile. To help the Foundation qualify and

assess the progress of research, an Advisory Board was created in 2018. The Advisory Board consists of Jakob Thomsen (former CEO of Maersk Oil, and Chair of the Advisory Board), Klavs F. Jensen (professor at MIT), Mikko Hupa (professor and rector at Åbo Akademi University) and Lars Petersson (COO of Hempel A/S).

Coatings for a better future

CoaST's research covers coating technologies from raw materials and formulation through to testing, production and application. In the broader perspective, the centre supports the development, production and use of coatings with improved sustainability profiles over the lifetime of the coating.



The environmental footprint of these three stages is weighted: upstream (50%), formulation (10%) and downstream (40%).

(Ref: T. Mash, 'Sustainability in the Coatings Industry, What Lies Beyond "Business as Usual" Improvements?', PCI Magazine, 01 04 2015)

To reduce coatings' environmental footprint, new and better solutions to a number of challenges are needed, including:

- How to replace current raw materials with more environmentally friendly and sustainable alternatives
- How to minimise and recycle waste coatings
- How to make coatings more effective and thereby prolong the lifetime of the objects and structures they protect
- How to build more functions into coatings such as hull coatings that improve hydrodynamics and so reduce a ship's fuel consumption and emissions and thereby increase efficiency (i.e. avoid wasting materials, energy and money) or antifouling coatings with inherent sensing and self-cleaning functionality, which is able to detect and detach biofouling without using biocides.

CoaST and the Sustainable Development Goals

In 2018, the Hempel Foundation asked CoaST to actively address the United Nations Sustainable Development Goals and to report annually on the relevance to the goals of its research.

Examples of present research projects in CoaST that actively address coating technology relevant to the Sustainable Development Goals include:

- Early detection of coating degradation at sea, which is designed to increase the lifetime of hard to reach structures, such as offshore wind turbines, by enabling early detection of failure in their anti-corrosive coatings.
- Levelling and drag force studies for antifouling coatings, which aim to increase the fuel efficiency of marine vessels in order to minimise the environmental footprint of marine transportation and protect marine life.
- More efficient testing methods for intumescent coatings, which aim at optimisation of hydrocarbon intumescent coatings for personal protection i.e. coatings that prolong the time before a burning building collapses and therefore provides longer escape time for people and valuable assets.

Projects started in CoaST in 2018 (alphabetical order)		Collaboration
Catalytic coatings	Post Doc	CHEC
Coating degradation detection and monitoring under marine conditions, including corrosion and coating breakdown	Previous Research Assistant, now PhD and MSc	
Coating with inherent sensing functionality based on dielectric elastomers	PhD	DPC
Computer-aided design of coatings	PhD	KT Consortium and AT CERE
Formulation	MSc	Hempel A/S
Intumescent coatings	Post Doc	Hempel A/S
New coating systems for durable and highly resistant coatings	PhD	DPC
Production	2 MSc and 1 Research Assistant	Ystral GmbH and Hempel A/S
Quantification of internal stress in coatings	Research Assistant	
Role of additives on anti-corrosive performance of organic coatings	Research Assistant	
Structure property relationships in coatings	PhD	DPC and Hempel A/S
Substitution of critical raw materials in heavy-duty coatings using a thermodynamic approach	PhD	KT Consortium and AT CERE



Nature

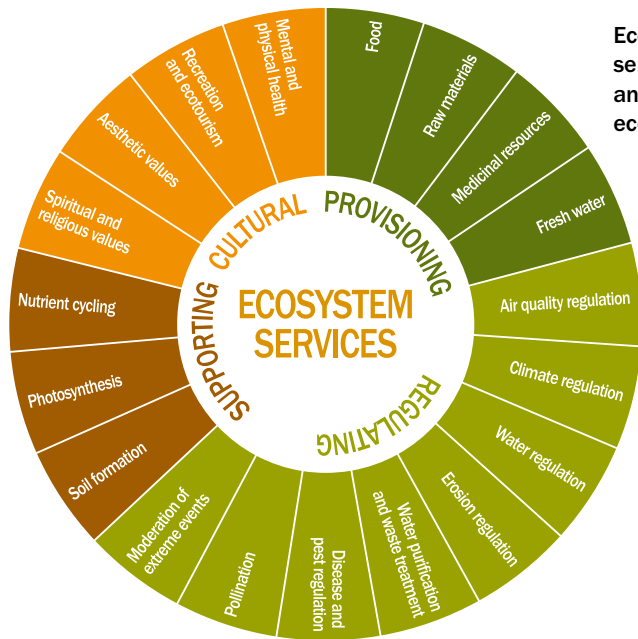
Sustaining biodiversity in some of the planet's most valuable natural habitats.

Rainforest with high biodiversity.

Protecting nature for the long perspective.

We have chosen our new strategic focus area because...

- It is happening at an extremely fast rate: According to WWF (2018) there has been an average decline of 60 per cent in the size of populations of mammals, birds, fish, reptiles, and amphibians in just over 40 years. The loss of species today is estimated to be between 1,000 and 10,000 times higher than the natural extinction rate.
- It has incomprehensible consequences: According to Convention on Biological Diversity at least 40 per cent of the world's economy and 80 per cent of the needs of the poor are derived from biological resources. Biodiversity ensures clean water, clean air, food and protection from global climate change.
- It is irreversible: Once a species is extinct, it will never return.



Ecosystem services provide value as direct and indirect contributions of ecosystems to human well-being.



The Hempel Foundation wishes to do its very best to help protect our planet. The generations of today should sustain and protect nature and biodiversity for the generations to come.

The Foundation works with a long-term sustainable perspective in its philanthropic work. We seek long-term, sustainable changes that endure when our presence is no longer needed. Contrary to this, the dramatic loss of biodiversity is mainly driven by humanity's desire for immediate payoff, in many cases by people with no obvious alternative. The consequences in the long run are devastating.

Consequently, the Hempel Foundation has decided to work actively to cease the loss of biodiversity through nature conservation and development of ecosystems that support this.

Forests have been chosen as the primary scope of our work, as the great unspoiled forests of the world contain some of the most extensive and valuable species and the greatest biodiversity. Deforestation currently results in the loss of forest the size of Italy each year. The direct long-term return from ceasing deforestation is considerable and surpasses most other fields covered by the United Nations Sustainable Development Goals.

For eight years, we have been working on a global primary education agenda and have gathered valuable experience and developed our own approach to project development and assessment. To work strategically with sustaining biodiversity, the Foundation will apply this experience and some of the approaches.

Biodiversity:
The variety of life found in a place on Earth. (Britannica)

The picture is from the International Rescue Committees 'Vision Not Victim' programme, which enables adolescent girls to envision a positive future for themselves and - by sharing their ambitions - create change in their own lives and communities. The picture shows Sifa, age 15, whose vision is to become a journalist.

“The United Nations belongs to the people of the world. (...) UN Live has the potential to offer a platform for all of us, particularly our youth, to connect with the United Nations and engage on the issues that matter to us. With UN Live, we can all engage and be part of the change we want to see.”

*Kofi Annan, Former Secretary-General
of the United Nations*



Donations by application in 2018

The Hempel Foundation donated EUR 3.1 million

in 2018 to 66 organisations that applied for support to realise great initiatives that bring about positive change. Here are some of them.

UN Live - The Museum for the United Nations

UN Live will be a worldwide museum to connect people everywhere to the work and values of the United Nations. It aims to function as a catalyst for global efforts towards achieving the Sustainable Development Goals.

In 2018, the Hempel Foundation decided to help make this global mind-changing initiative come true. At this early stage, it is very important to have a global CEO on board who can help finish the necessary fundraising and set a clear direction and a strong public profile. The Hempel Foundation has ensured

the initiative has the financial resources for its global CEO for the first two years, after which point the position can be covered by the institution's own budget.

In March 2019, Molly Fannon, former Director of International Relations, Smithsonian Institution, will be joining as the very first UN Live CEO.

Red Cross Youth holiday camp.



Improving the lives of young people

The Hempel Foundation works with organisations that support the thousands of vulnerable children and youths in Denmark and Greenland who find themselves excluded from society to various extents and for various reasons. The Foundation supports organisations that provide support to children and youths in fields outside public social welfare. Here are some of the social projects we supported in 2018.

A safe space for children of abused women

The Hempel Foundation supported the establishment of a children's library and activity room at The Danish Women's Society's new crisis centre in the heart of Copenhagen. The centre was inaugurated on 20 April 2018 by HRH Crown Princess Mary of Denmark, and all the rooms are already occupied.

Guidance for neglected children

At BørneTelefonen, a children's helpline run by the charity Børns Vilkår (Children's Welfare), volunteers give children anonymous guidance to help them cope with loneliness, bullying, friendship troubles and child-parent relationships. Due to an increase in callers, we will support an extension of the helpline's opening hours in 2019.

Julemærkefonden (Christmas Seal Foundation)

Most children who start at one of the Christmas Seal Foundation's children's homes carry the heavy emotional baggage brought on by bullying, loneliness and low self-esteem. Their stay in the home gives them a much-needed sense of grounding in a community of solidarity, support and care. For many, it is a game changer for their self-esteem and social life.

Tickets for vulnerable children and young people

By giving children and young people from vulnerable families cultural experiences, they will have something to look forward to, as well as something to share with classmates and teachers in school. In cooperation with The Blue Planet in Copenhagen, the largest aquarium in northern Europe, we give vulnerable children and young people positive experiences that would otherwise be normally out of their reach.

A week filled with good experiences

In cooperation with Danish Red Cross Youth, we have established a new holiday camp for some of the most vulnerable children in society. At the camp, the children get a break from their difficulties and diagnoses, and they get recognition, exciting experiences, new role models and opportunities to make new friendships and memories for life.

Continuous support of The Mary Foundation

In 2018 the Foundation continued its support as the operational partner to HRH Crown Princess Mary of Denmark's Foundation, the Mary Foundation, thereby supporting a charitable foundation working in the field of social inclusion of children.



Renovation of the training ship Danmark

The Danmark has been a training ship and an institution in Danish maritime culture since 1933. Today, 80 ship assistant trainees travel the world on the Danmark each year to learn about the challenges of the sea and to obtain practical and technical experience.

The ship must go through an extensive renovation to prepare it for future endeavours. The Hempel Foundation donated towards the renovation, which will take place in 2019.

“Our mentor guided us when we had difficult decisions to make. He was very available and had some great ideas to expand the business. At the same time, he pushed us to achieve more and get things done, which is good. He has been – and still is – very valuable to Tiimo.”

Helene Nørlem, Partner and Co-founder at Tiimo, an assistive technology app for people who need structure and visual guidance in everyday life.

Good initiatives that live on

In previous years, the Foundation has made multiannual donations to **great initiatives** that are still very much alive. Here is a status on three of them.



Start-up Mentors, powered by the Hempel Foundation

The Hempel Foundation was involved in initiating Venture Cup's Mentor Programme in 2014. Since then, the programme has helped students at Danish universities get a foothold in the business community. The Hempel Foundation supports the programme because we believe it is important to promote a strong start-up culture in Denmark and provide young students with the best opportunities for starting their own businesses.

The programme currently includes around 400 mentors who help a broad range of start-ups within different industries and in various phases of their business development. Over the next two years, it plans to upscale the programme by expanding and diversifying its mentor network.

In 2018, the Foundation extended its support for another two years with a donation.





Youngsters on water.

YOUNGSTERS

POWERED BY HEMPEL FOUNDATION

“What makes YOUNGSTERS so great and unique is that you can ride the waves no matter how much sailing experience you have.”

Participant in 2018

YOUNGSTERS – a new saying in the Danish sailing community

The idea behind YOUNGSTERS is to create a sailing culture and environment with activities for young sailors, with the goal of establishing the first sailing league for young people in Denmark.

YOUNGSTERS has completed its first year with great success. Young people from across Denmark participated in three sailing camps in three different locations. Some participants were Olympic aspirants; others had never sailed before. In all the camps, the young participants were largely responsible for creating and facilitating the camps themselves.

During the camps, the young teams raced against each other and the winning two teams competed in the second division of the existing Danish sailing league, which is usually for sailors over 23 years of age. In fact, one of the YOUNGSTERS teams won a race against the older and more experienced sailors.

Three new YOUNGSTERS camps will be held in 2019 to attract more young sailors and continue the development of the young sailors who took part in 2018.

In 2017, the Hempel Foundation supported YOUNGSTERS with a donation running for three years.



ART 2030 - performance in New York, US.



Creating enduring connections with the United Nations Sustainable Development Goals

With art as the driving force and young people as the target audience, ART 2030 is focusing on some of the world's biggest challenges and how we can solve them.

During 2018, ART 2030 featured performances of Lilibeth Cuenca Rasmussen's project *Tow with the Flow* at Roskilde Festival in Denmark, the National Gallery of Denmark and at New Design High School in New York, US. The project was based on co-creation and realised in cooperation with Danish and American high school students.

In the UN City – a regional United Nations hub – in Copenhagen, the project YES by Yoko Ono invited 500 active contributors to commit to achieving the Sustainable Development Goals by writing 'yes' in their own language.

Over the coming years, ART 2030 will keep inspiring and engaging young people to convey the project's message to more school classes and educational institutions.

The Hempel Foundation supported the development of the organisation with a donation in 2017-2018.

Hempel provides coatings
for offshore windmills.



Foundation governance

The Hempel Foundation's Trust Deed defines the overall principles for the Foundation's activities. In addition, the Hempel Foundation is governed by a set of Rules of Procedure for Board work and an Annual Wheel for planning work during the year.

Based on the Trust Deed, Rules of Procedure and the Annual Wheel, the Board of Trustees considers the Hempel Foundation to be in full compliance with the legislation and to basically comply with all recommendations from the committee for good governance in commercial foundations.

Regarding the recommendations from the committee for good governance in foundations, the Board of Trustees has made a full report, which is available at: www.hempelfonden.dk/redegoerelse-for-god-fondsledelse-2018

Purpose of the Foundation and ownership structure of Hempel A/S

According to the Trust Deed, the Hempel Foundation's primary purpose is to provide and maintain a solid economic base for Hempel Group companies, and to ensure that the companies are able to operate on a sound business and financial basis. This is of greatest importance, since the Foundation is 100 per cent owner of the Hempel Group companies.

A second purpose of the Foundation is, in accordance with the Trust Deed and the policies and priorities adopted by the Foundation, to support charitable purposes. The Foundation has been able to increase this activity in recent years.

Board of Trustees

The Hempel Foundation is administered by a Board of Trustees comprising 5-7 members elected by the Foundation and 3-4 members elected by employees.

The Foundation's Trust Deed states that the Board is a self-electing entity. Elections take place annually. Board members appointed by the Foundation are elected for a three-year term, and may be re-elected. The three-year term is stipulated in the Trust Deed, with a view to maintaining satisfactory continuity in the Board's activities. The Chair and Deputy Chair are elected from among the Board members, each for a three-year term.

Board members must be no more than 65 years of age when elected for the first time. The age limit for Board members elected by the

Foundation is 70 years, subject to an extension to 75 years in special circumstances. The members appointed by employees are elected under Danish legislative provisions for employee representation on boards of directors and, accordingly, are elected for a term of four years.

Under the Trust Deed, the following requirements apply to Board members appointed by the Foundation:

- A majority cannot at the same time be Board members of Hempel A/S.
- A majority should preferably be current or former Hempel employees or somehow involved with the Hempel Group over many years.
- At least two of the members must have international business experience.

The Board of Trustees has additionally set targets for gender representation for members

elected by the Foundation. In April 2018, a new female Board member joined the Board of Trustees and a declared target was achieved in that a minimum of two of the Board members appointed by the Foundation are female.

The Board of Trustees has also decided that competencies within charitable donations, commercial business, and financial investments should be present among members of the Board.

The Chair and the Deputy Chair of the Board monitor and assess the composition of the Board and its performance on an ongoing basis, in consultation with individual Board members and the Board as a whole. Once a year, the Board performs a formalised internal Board evaluation in accordance with the detailed recommendations from the committee for good governance in commercial foundations.



Detailed information on Board of Trustee members can be found at: www.hempelfoundation.com/hempel-foundation/board-of-trustees

This evaluation aims to ensure that the required commercial, investment and personal skills, as well as competencies regarding charitable donations, are available among the Board members appointed by the Foundation.

All new Board members appointed by the Foundation are selected through a structured process based on the above-mentioned evaluation, as well as any specific needs for additional competencies on the Board. A professional executive search firm is used for external searches. To meet the specific requirement stipulated in the Trust Deed that certain Board members must preferably have been involved with the Hempel Group, the Chair and Deputy Chair use a regularly updated list of potential candidates, which is presented to the Board members appointed by the Foundation for evaluation and selection.

The Foundation has elected and established an Investment Committee made up of Board members for the preparation of the Board's higher-level decisions regarding the Foundation's financial investments, among other things, as well as evaluating portfolio managers.

The Foundation has also elected and established a Donations Committee. The Donations Committee examines and evaluates the high number of applications the Foundation receives every year, many of which are for

large and complex projects. The final decisions on donations are, in accordance with an agreement made within the Board, made by all Board members and not only by the Board members appointed by the Foundation (ref. Commercial Foundations Act § 64). The final decision on the total amount of yearly contribution to donations is also taken by all Board members. For preparation of specific purposes, the Board of Trustees can decide to establish ad hoc committees, which are dissolved when the specific tasks are completed.

Finally, the Board has also appointed from among its members Board members according to the trust deeds of the three related Foundation entities: the two Hempel Employee Foundations and the Hempel Cultural Foundation.

The Chair of the Board is entitled to speak on behalf of the Foundation and the Board. The Executive Director of the Foundation is entitled to inform the media concerning facts related to his fields of responsibility; other statements to the media must only be given after approval by the Chair.

Meetings, committees and remuneration

The Board of Trustees generally holds 5-6 all-day meetings a year. Two of these meetings take place as soon as possible after the completion of the Foundation's half-yearly and

annual financial statements. The Board of Trustees has a continuing involvement in the Hempel Group's operations on an overall strategic level, with a view to maintaining the required degree of consultation and consensus between the two entities.

The Investment Committee usually holds 5-6 meetings a year with each of the Foundation's four different portfolio managers, as well as meetings on strategic investment issues. The Donations Committee generally holds four meetings each year.

Members of the Board of Trustees are paid a fixed annual remuneration that must not be above what is deemed to be usual in relation to workload, nature of the job and competencies involved. As is customary, a higher level of remuneration is received by the Chair (+200%) and Deputy Chair (+50%). Except for the Chair, members of the Investment Committee and the Donations Committee receive a fixed annual remuneration for committee work.

Remuneration is decided by the Board of Trustees on an annual basis, using a structured process that takes into account: the amount of working hours spent by the Board members; the overall responsibilities of the Board members and activities carried out by the Board members; the purpose of the Foundation as well as the total activities of the Foundation; the leading role of the Board

members and their major responsibility in relation to the overall leadership of the Hempel Group; the Board members participation in all major and strategic decisions in the Hempel Group; and the income derived by the Board members from other positions in the Group.

To further support the correct handling of decisions on remuneration issues, the Board members additionally, and from a critical standpoint, make sure that the suggested remuneration is reasonable in relation to the overall interest of the Foundation, as well as comparable to the level of remuneration in other commercial foundations of some similarity. This work includes peer group benchmarking, which is carried out by an independent external consultancy.

It is the firm commitment and aim of the Board at all times that the Foundation and the Group will not accept costs or remunerations to Management and Board members and other kinds of administrative costs that do not support and strengthen the purpose of the Foundation as well as its charitable donations.

The total remuneration paid to the Board in 2018, including remuneration for work on Board committees, was EUR 442,630. The base remuneration paid to each Board member in 2018 was EUR 33,580.

Conflicts of interest

The Foundation is committed to ensuring that all persons involved in its investment and donation processes possess the requisite skills. The Foundation is committed to avoiding any

potential conflict of interest, in order to ensure the integrity of decisions made regarding investment proposals and donation applications.

All decisions are made in accordance with common conflict of interest principles. In practice this means that no Board member or Foundation employee can take part in any decisions in which they may be deemed to have a material personal interest.

Social responsibility

Regarding the Hempel Foundation's social responsibility, an account is available on the Foundation's website:

www.hempelfonden.dk/en/

who-we-are/governance in accordance with the Danish Financial Statements Act § 99a



Business- related activities



The Hempel Foundation's business-related activities include ownership of the Hempel Group companies and investments in financial assets and properties.

The Hempel Foundation's most important and significant investment is the ownership of Hempel A/S and its subsidiaries worldwide. Net income from this was EUR 50 million in 2018, compared to EUR 41 million in 2017. Please refer to the list of Hempel Group companies on page 76.

Investment strategy

The Hempel Foundation's Board of Trustees has set down overall guidelines and policies for investing in different types of assets. It has an Investment Committee that prepares decisions on the Foundation's investment activities; however, the Board as a whole makes the final decision regarding investments and investment activities.

Financial investments

- A conservative financial investment strategy with a limited risk appetite is adopted

focusing on absolute return and avoiding losses in the medium term. The majority of investments are in listed securities that can be redeemed within a few days.

- Financial investments in bonds, shares, etc. are managed by professional external portfolio managers. The split of the management of the portfolio among four portfolio managers is intended to increase the risk-adjusted net return of the total portfolio.
- In order to better manage risk, the Hempel Foundation has established ethical guidelines for portfolio manager's handling of financial investments. They are expected to follow the United Nations-supported Principles for Responsible Investment (PRI) or make investments according to corresponding principles taking into account other



Keldskov, Denmark.

The Hempel Foundation has decided to **divide investments into:**

- Financial investments
- Property investments
- Direct investments

assessments regarding environmental, social and governance (ESG) factors.

Property investments

The Hempel Foundation owns the property located at Amaliegade 8 in central Copenhagen, built in 1785-88 as part of the newly established residential district next to the Royal Castle. Amaliegade 8 was acquired by J.C. Hempel in 1933 and was the headquarters for the Hempel companies before they relocated to Lundtofte, north of Copenhagen, in 1972. The Hempel Foundation remained in Amaliegade 8 and today it has offices and meeting rooms in this building.

The Hempel Foundation is also the owner of the property Lundtoftegårdsvej 91 in Lyngby, where the Hempel Group's headquarters and one of its R&D departments are located. The construction of a new

R&D department started in November 2018 and is expected to be finalised in the summer of 2020.

Hempel Invest A/S, a 100 per cent owned subsidiary of the Hempel Foundation, has also made the following significant property-related investments:

- Acquired site in Lundtofte to construct further HQ office facilities for the Hempel Group in 2019 and 2020
- Full ownership of two forests located in Denmark
- Shares in a listed real estate property company.

Direct investments

Direct investments are investments in shares, private equity and alternative investments. The Hempel Foundation and Hempel Invest A/S have made direct investments with minor ownership in:

- Shareholdings in SME companies
- Private equity investments
- A social impact investment: The Hempel Foundation was among the very first investors in Den Sociale Kapitalfond Invest (SKFI) in 2017.

Net financial income

2018 was a challenging investment year with high volatility in financial markets and negative return on the major stock markets. A turbulent geopolitical environment contributed to negative returns, although our external portfolio managers took different tactical approaches to the development. The net financial income from the Hempel Foundation's investment portfolio resulted in a negative return of EUR 7.3 million in 2018, compared to net financial income of EUR 9.4 million in 2017. The fully owned subsidiary Hempel Invest A/S had a positive return of EUR 8.9 million on investments (2017; EUR 1.6 million).

Financial report of the Hempel Foundation

The outcome of the Hempel Foundation's activities in 2018 is considered satisfactory. The net profit after tax for 2018 was EUR 42 million compared to EUR 50 million in 2017.

Net profit in 2018 was influenced by a special item of EUR 13 million in the accounts of Hempel A/S.

The Hempel Foundation's total revenue for 2018 decreased to EUR 1,688 million compared to EUR 1,853 million in 2017.

For 2019, the outcome is expected to be satisfactory. The financial situation of the Foundation is considered satisfactory.

Subsequent events

No significant events have occurred subsequent to the balance sheet date that are considered to

have a significant influence on the evaluation of the Annual Report for the Hempel Foundation.

The compliance case in the subsidiary Hempel A/S reported to SØIK was resolved in early 2019. Refer to Letter to Stakeholders of the Hempel Group and note 5.6.





HEMPEL

HEMPEL

HEMPEL

HEMPEL

Letter to stakeholders of the Hempel Group

The Chair and the CEO of Hempel A/S wrote a joint Letter to Stakeholders in the annual report of Hempel A/S 2018 which the Hempel Foundation would like to share in its original form.

Our transformation into an industry-leading company continues.

Hempel is now almost halfway through its major transformational journey, which we started back in 2016. We are strengthening our organisation and culture significantly, building a company that will become one of the leaders in the consolidation of the global coatings industry. Our goal is clear: To become a true industry leader in our core business areas. Like any major change, our transformation will take time. However, 2018 has confirmed that we are making very strong progress in all of the most important areas and now have the necessary foundation to start making the desired acquisitions. We will of course continue full speed ahead in 2019 to pursue our opportunities to strengthen Hempel even further globally.

With reference to the formerly announced and necessary thorough improvement of compliance in Asia-Pacific and despite challenging market conditions in the region, it is positive to see that

we are now through the worst part of the full-scale turnaround in our Asia-Pacific businesses. This has been achieved by installing completely new leadership teams and by working hard on the ground to create a winning Hempel culture, one with strong ties to our customers that ensures all employees are engaged in our customer-focused vision. Our successful turnaround in these markets is a testament to what a strong culture, vision and leadership can achieve, and shows that our organisational setup and processes are vital for running Hempel as a global company.

We recognise that there is still much work to do. However, we are excited and encouraged by the fact that our new and strong leadership team understands our tasks and challenges. 2019 will be a year of progress and acceleration of our key priorities, when we engage the power of the full Hempel team across the globe to increase momentum in all our business units and continue our transformation into a true industry leader.

Welcoming J.W. Ostendorf

To reach our ambitious growth targets, our appetite for acquisitive scaling has never been

higher and we continue to actively seek out new family members of the right fit, both commercially and culturally. In 2018, we were pleased to welcome J.W. Ostendorf to the Hempel family, a family-run decorative coatings company with approximately 650 employees and operations primarily in Germany and France. J.W. Ostendorf shares many of our values, not least a strong commitment to the customer and a constant desire to improve, and we are already seeing the benefits of bringing J.W. Ostendorf into the Hempel Group.

The acquisition doubled our decorative business in Europe and contributed EUR 39 million in sales in 2018. Going forward, it will increase our decorative business by more than EUR 200 million in sales annually. It also brought us a cutting-edge production facility in Coesfeld, Germany, and skilled and knowledgeable new colleagues. Not least, J.W. Ostendorf has given us the breadth of operations required to introduce a strong new business unit to the Hempel Group: Decorative Europe. Combining Crown Paints and J.W. Ostendorf, Decorative Europe will be a true leader in the decorative coatings market for both branded

and private labelling, capable of serving customers across the region with excellent coating solutions, knowledge and service. Decorative Europe will also be aspirational for other companies, an organisation they want to join. Ultimately, it will serve all of Europe, both retail customers, who are increasingly consolidating across the region, and homeowners.

Performance in 2018

As expected, the coatings market remained very competitive in 2018. Raw material prices increased more than anticipated, which affected the entire industry and put immediate pressure on our profitability. In addition, the marine and oil & gas markets remained in a recessionary state and the political and macro-economic situation in the Middle East made business tougher than anticipated. Finally, we saw our businesses in Asia-Pacific pass through the first tough stages of their major turnaround, which has ensured that we conduct business the Hempel way.

When taking these challenges into consideration, Hempel delivered a satisfactory performance in 2018. Revenue grew by 1.5 per cent in fixed currencies, driven by the acquisition of J.W.

Ostendorf and a strong fourth quarter. When excluding J.W. Ostendorf, negative underlying organic growth was 1.4 per cent. However, the year ended strongly with positive organic growth of 4 per cent in the final quarter, and we expect to see positive growth continue into 2019. The reported EBITDA margin excluding special items ended at 10.8 per cent and 11.7 per cent when excluding J.W. Ostendorf. We see this as a satisfactory result when considering the negative impact from the increase in raw material prices and challenges to our performance in Asia-Pacific and the Middle East.

We continued to improve our net working capital days and ended the year at 59 days, with a yearly average of 72 days – 5 days better than in 2017. Since 2016, we have released EUR 166 million in cash by optimising our net working capital process. When adjusting for the effect from the acquisition, Hempel's net interest-bearing debt was eliminated in 2018. We will continue to strive for excellence in this area to free up working capital, as it will give us the freedom to pursue our ambitious growth targets through major acquisitions and strong organic growth.

Driving our strategy forward with the House of Priorities

The goal of our *Journey to Excellence* strategy remains to improve profitability and growth by striving for organisational excellence. We have come a long way on this journey, supported by the two-dimensional operating model that we introduced in 2016. The model enables our regions to focus on business execution and serving customers, while our global functions drive best practice across the globe. The word agile is used often. For Hempel, agile simply means that our leaders can speed up decision-making processes, while our employees globally can drive group-wide practices and are close to our daily business and operations.

With this foundation in place, we focused on accelerating our strategy in 2018. We realise that, with many strategy initiatives ongoing, an organisation can lose focus. Therefore, we introduced the House of Priorities, a simple tool to give our leadership teams and employees a clear overview of our key priorities for the current period to ensure we remain focused on the most important tasks in our strategic

journeys, with the clear aim of completing and sustaining each change.

Customers and innovation in all we do

Through our products and services, we help our customers protect their valuable assets, reduce costs, improve efficiency and limit emissions. Our preferred way of working is as our customers' innovation partner, as this is the best way to add value to our customers and ensure that the solutions we develop are well-suited to the market. This demands that we truly understand a customer's business, that our entire global organisation works to develop solutions that address the customer's business needs, and we test and refine these solutions in collaboration with the customer. Our global key account managers play an important role in this, acting as quarterbacks to orchestrate the collaboration between the customer and our global organisation.

As many of our customers are global, they demand global solutions and service, delivered globally but adapted to local requirements. Therefore, we introduced a new commercial

organisation in 2017 to drive best practice among our sales teams across the globe. In 2018, our Group Commercial function rolled out important new programmes to improve our commercial excellence, including a new sales operating model that will ensure we spend more time with our customers and better align the whole value chain in solving customer challenges.

As well as leading customer-focused innovation in the areas in which we choose to compete, we want to lead the industry in 'service management', essentially taking over responsibility for keeping our customers' assets in the agreed condition over the asset's life cycle. This is a new way of thinking for the industry and we understand that it will take time. In 2018, we took an important step on this road when we created Hempel Services, a new globally aligned service organisation that will contribute to strengthening our customer relationships, ensure consistency and quality in our services across the globe and contribute to Hempel's earnings. Hempel Services launched eight globally standardised service products for marine and protective customers that give transparency to our services

offer and make it easier for customers to see the value in what we do.

Over 1,300 customers gave us valuable feedback on our work and relationship with them in our Customer Engagement Survey in 2018. The survey showed that in most regions 'trust in products' is the most important driver of customer loyalty, and that we are performing well in this area. Other important loyalty drivers include complaint handling, logistics and the relationship with the account manager. Our net promoter score was 52, roughly the same as last year. This indicates that our customers remain very satisfied with our work, but that there is still room to improve. Although we still have pockets of absolute excellence, there are also areas that need immediate improvements.

Major investments in our customers and the future of Hempel

In 2018, we made many important decisions and investments regarding our future. We continued to expand our site in Lyngby, Denmark for what will be the future Hempel Campus, including our headquarters and R&D facilities. This investment

is being made to support our location in Denmark and also to highlight the importance of our proximity to and collaboration with the Technical University of Denmark. Further, we opened our new R&D Centre of Excellence in Barcelona, Spain in the autumn. Focused on coatings for passive fire protection, the centre will enable us to further enhance our capabilities, expertise and product offering in what is an increasingly important area for our customers.

We also reviewed our manufacturing footprint in our strategically important region of China and Korea, and decided to expand our footprint in the region by improving our existing production facilities and building new sites – a total investment of more than EUR 100 million. We believe that this major investment is required to meet our global customers' future needs for manufacturing in and servicing the Chinese market. It also sends a strong signal to our colleagues in China and Korea that Hempel supports and is investing in the region. Overall, these investments illustrate our commitment to use capital efficiently and reinvest for the long-term good of the business.

Working with sustainability in mind

We are in a global industry, and we establish trust through our delivery of trusted solutions. As a company, we are committed to running our business in a way that supports the United Nations Sustainable Development Goals and so contributes to solving some of the most pressing challenges in the world today. As a signatory to the UN Global Compact, we promote the United Nations' principles on human rights, labour, environment and anti-corruption, and integrate these in our sustainability programmes. This commitment extends through our entire value chain from how we source raw materials to our employee development programmes.

Please take some time to read about our initiatives and progress in this area in the Corporate responsibility section of this report.

Engaging the full team

Hempel is a truly global company, and with the acquisition of J.W. Ostendorf, we are now around 6,500 employees across more than 80 countries. Our ability to deliver value relies on our ability to attract, retain and develop the best people in the

business – and we need all of our employees to be engaged and committed to our strategy and work. In 2018, our Employee Engagement Survey showed that we have made progress in terms of engagement, but also that there is still great variation across our business units and employee groups. Some units made great leaps forward in 2018; for others, the gap increased. We must continue to improve so that every employee in Hempel has the possibility to realise their full potential. This is our most visible leadership challenge in this area. Therefore, engaging every Hempel colleague in our strategy and transformational journey is an overriding theme for 2019. This work begins with our leaders, so in 2018 we defined the 10 essential leadership competencies that our leaders must take to heart and develop. These leadership competencies typify the Hempel culture and spirit, and they make it clear what we expect from our leaders and how we expect them to lead. Both these things – engaging the full team and developing our leaders – were central themes at the Hempel Leadership Summit, which was held in Houston, US in 2018.

Finally, we continued in our push to reaffirm and solidify our compliance culture. We updated our

Code of Conduct, completed Code of Conduct eLearning for almost 4,000 employees worldwide and launched special Code of Conduct eLearning for people in customer-facing positions. We also introduced a new Business Partner Code of Conduct. We appreciate that no company works in isolation, and we expect our suppliers and other business partners to work with the same high ethical standards that we do. We have now defined a compliant foundation for future growth, and know how to play by these rules.

Hempel has resolved the SØIK case

In April 2017, Hempel self-reported a number of uncovered illegal sales practices found in Germany, other countries in Europe and in Asia to SØIK, the Danish State Prosecutor for Serious Economic and International Crime. The unlawful practices were stopped immediately and the people responsible were replaced. Hempel has completed internal remediation, invested heavily, and established a robust compliance framework. Hempel A/S and Hempel (Germany) GmbH have now been fined and agreed to a total settlement of DKK 220 million for these illegal practices. The fine is within the range of

expectations and will be paid to SØIK and the Prosecution Authority in Kiel, Germany. DKK 123 million was expensed in Hempel's financial statements for 2016, with the remaining part in the financial year 2018. Hempel has cooperated fully with and had complete confidence in the authorities throughout this process.

We want to be clear: Our focus on compliance is ongoing. We will continue to send a strong message from the Board of Directors and Executive Management Board that compliance is non-negotiable. Hempel has zero tolerance for inappropriate practices and violations of law. Any such behavior is in conflict with what we stand for. It is a direct attack on the integrity of Hempel's customers, culture, values and all our colleagues. Our business is built on trust and a robust compliance framework will always be central to it.

Looking forward to 2019

We anticipate that the coatings market will regain strength in 2019 and, with a fully customer-focused organisation, we expect to deliver underlying organic growth in line with

or slightly better than the market. From an earnings perspective, we expect flat margin development in percentage terms and an increase in absolute terms.

Again, 2019 will be a year of strategy execution. Internally, we will use the House of Priorities to ensure focus and commitment on our excellence journeys. Externally, we will look to build closer relationships with our customers, driving innovation and co-creation together in order to find new solutions and technologies that add value to their businesses. We will also look for new companies to bring into the Hempel family, as we continue our journey towards our goal of becoming a EUR 3 billion revenue company and one of the global leaders in the coatings industry.

Thank you

Overall, 2018 was a satisfactory year. Despite a challenging market, we finished the year well, with strong organic growth in a number of important regions and businesses. We welcomed a new addition to the family, made strong progress on our transformational journey and defined a compliant foundation that is ready for future growth.

This work was only possible with the commitment of our highly skilled and hard-working employees across the globe. On behalf of the Executive Management Board and the Board of Directors, we would like to thank you all for your dedication in 2018. We would also like to extend our thanks to you, our customers, shareholder and other stakeholders, for your ongoing support and trust.



Henrik Andersen
Group President &
Chief Executive Officer



Richard Sand
Chair of the
Board of Directors of Hempel A/S

Independent auditor's report



Hempel A/S
coating advisor.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Hempel Foundation at 31 December 2018, and of the results of the Hempel Foundation's operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the financial statements of the Hempel Foundation for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of cash flows, statement of changes in equity and notes ("financial statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Hempel Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read

Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Hempel Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Hempel Foundation or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement,



whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hempel Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hempel Foundation's ability to continue as a going concern. If we conclude that a material

uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hempel Foundation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kgs. Lyngby, 5 April 2019

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Lars Baungaard
State Authorised Public Accountant
mne23331

Mads Melgaard
State Authorised Public Accountant
mne34354

Financial statements



57 Primary statements

- 57 Key figures
- 59 Income statement
- 60 Balance sheet
- 61 Statement of changes in equity
- 63 Cash flow statement

64 Section 1 Basis of preparation

- 64 General accounting policies

66 Section 2 Results for the year

- 66 2.1 Revenue
- 66 2.2 Employee costs
- 66 2.3 Income from investments
in subsidiaries
- 67 2.4 Income tax

69 Section 3 Operating assets and liabilities

- 69 3.1 Property, plant and equipment
- 70 3.2 Other securities and investments
- 70 3.3 Prepayments
- 71 3.4 Receivables
- 71 3.5 Other liabilities

73 Section 4 Capital structure and financing items

- 73 4.1 Base capital
- 73 4.2 Financial risks
- 73 4.3 Net financials
- 73 4.4 Cash and cash equivalents, net
- 73 4.5 Changes in working capital

74 Section 5 Other disclosures

- 74 5.1 Fee to the auditors appointed
at the General Meeting
 - 74 5.2 Adjustment for non-cash operating
items
 - 74 5.3 Related parties and ownership
 - 75 5.4 Investments in subsidiaries
 - 75 5.5 Contingent liabilities and other
financial obligations
 - 75 5.6 Events after the reporting period
 - 76 5.7 Group overview
 - 78 5.8 Financial definitions
-



Key figures

In EUR thousands (unless otherwise stated)

	2018	2017	2016	2015	2014
Income statement					
Revenue	1,688	1,853	1,853	1,765	1,024
EBITDA	-34	236	409	317	-271
Amortisation, depreciation and impairment	935	972	968	969	551
Operating profit	-969	-736	-559	-652	-822
Income from investments in subsidiaries	49,987	41,706	32,202	95,347	67,163
Net financials	-7,345	9,362	14,604	976	7,073
Profit before tax	41,673	50,332	46,247	95,671	73,414
Net profit for the year	41,669	50,325	46,246	95,514	71,226
Balance					
Balance sheet total	794,377	750,977	738,156	726,141	628,784
Equity	727,293	715,488	714,990	698,915	600,308
Cash flows					
Operating activities	459	3,968	-3,646	-27	23,778
Investing activities	41,470	-13,253	36,457	8,701	-20,697
- including net investments in property, plant and equipment and intangible assets	-2,399	-15	0	-74	-25,680
Financing activities	15,945	4,733	-16,681	-9,753	-4,081
Change in cash and cash equivalents	57,874	-4,552	16,130	-1,079	-1,000

	2018	2017	2016	2015	2014
Employees					
Average number of employees	7	4	3	3	3
Donations					
Donations for the year	20,384	19,696	16,568	7,589	24,320
Ratios (%)					
Gross margin	52.0	58.2	69.8	64.7	69.3
Profit margin	-57.4	-39.7	-30.2	-36.9	-80.3
Return on assets	-0.1	-0.1	-0.1	-0.1	-0.1
Solvency ratio	91.6	95.3	96.9	96.3	95.5
Return on equity	5.8	7.0	6.5	14.7	12.4

For definitions see note 5.7.



Income statement

In EUR thousands

Note		2018	2017
2.1	Revenue	1,688	1,853
	Other operating income	14	6
	Other external expenses	-824	-781
	Gross profit	878	1,078
2.2	Employee costs	-912	-842
3.1	Depreciation	-935	-972
	Operating profit	-969	-736
2.3	Income from investments in subsidiaries	49,987	41,706
	Profit before financial income and expenses	49,018	40,970
4.3	Net financials	-7,345	9,362
	Profit before tax	41,673	50,332
2.4	Income tax	-4	-7
	Net profit for the year	41,669	50,325

Distribution of profit	2018	2017
<i>Proposed distribution of profit:</i>		
Donations for the year	20,384	19,696
Reservation for grant	0	3,361
Reserve for net revaluation under the equity method	49,987	41,706
Retained earnings	-28,702	-14,438
	41,669	50,325

Balance sheet

as at 31 December – assets

In EUR thousands

Note	2018	2017
Land and buildings	21,515	22,112
Other fixed assets	1,995	2,295
Assets under construction	2,314	–
3.1 Property, plant and equipment	25,824	24,407
5.4 Investments in subsidiaries	528,204	527,379
3.2 Other securities and investments	112,701	178,434
2.4 Deferred tax asset	–	–
Fixed asset investments	640,905	705,813
Total non-current assets	666,729	730,220
Receivables from Group enterprises	54,485	5,437
Other receivables	1,218	1,419
3.4 Receivables	55,703	6,856
Cash at bank and in hand	71,945	13,901
Current assets	127,648	20,757
Total assets	794,377	750,977

Balance sheet

as at 31 December – equity and liabilities

In EUR thousands

Note	2018	2017
4.1 Base capital	4,691	4,691
Reserve for net revaluation under the equity method	523,778	522,940
Retained earnings	168,693	157,635
Reservation for grants	30,131	30,222
Total equity	727,293	715,488
Pension obligations and similar obligations	240	259
Provisions	240	259
Loans	19,588	–
Long-term debt	19,588	–
Short-term part of loans	716	–
Payables to Group enterprises	1,230	1,224
3.5 Other liabilities	45,310	34,006
Total current liabilities	47,256	35,230
Total liability	66,844	35,230
Total equity and liabilities	794,377	750,977

Statement of changes in equity as at 31 December

In EUR thousands

Note	Base capital	Reserve for net revaluation	Retained earnings	Reservation for grants	Total
Equity					
Equity at 1 January 2017	4,691	511,103	172,294	26,902	714,990
Net profit for the year	—	41,706	-14,438	23,057	50,325
Dividend received	—	—	—	—	—
Exchange adjustments at year-end rate	—	-27,890	-221	-41	-28,152
Hedging of future transactions	—	1,477	—	—	1,477
Remeasurements of defined benefit plans	—	-3,473	17	—	-3,456
Disposals	—	17	-17	—	—
Grants for the year	—	—	—	-19,696	-19,696
4.1 Equity at 31 December 2017	4,691	522,940	157,635	30,222	715,488
Net profit for the year	—	49,987	-28,702	20,384	41,669
Dividend received	—	-40,175	40,175	—	—
Exchange adjustments at year-end rate	—	-8,704	-433	-91	-9,228
Hedging of future transactions	—	—	—	—	—
Remeasurements of defined benefit plans	—	-270	18	—	-252
Disposals	—	—	—	—	—
Grants for the year	—	—	—	-20,384	-20,384
4.1 Equity at 31 December 2018	4,691	523,778	168,693	30,131	727,293



Cash flow statement



In EUR thousands

Note	2018	2017
Cash flows from operating activities		
Operating profit	-969	-736
5.2 Adjustment for non-cash operating items	912	966
4.5 Changes in working capital	513	3,743
Income tax paid/received	3	-5
Total cash flows from operating activities	459	3,968
Cash flows from investing activities		
5.4 Dividend received from subsidiaries	40,175	—
3.1 Purchase of property, plant and equipment	-2,477	-21
3.2 Purchase of fixed asset investments	-117,379	-111,289
Sale of property, plant and equipment	78	6
3.2 Sale of fixed asset investments	170,091	103,599
Change in receivables designated as investing activities	-49,018	-5,548
Total cash flows from investing activities	41,470	-13,253

In EUR thousands

Note	2018	2017
Cash flows from financing activities		
Change in loans	20,304	—
Interest income and expenses, net	4,932	11,401
Paid grants	-9,291	-6,668
Total cash flows from financing activities	15,945	4,733
Change in cash and cash equivalents	57,874	-4,552
4.4 Cash and equivalents, net, beginning of year	13,901	18,485
Exchange adjustment	170	-32
4.4 Cash and equivalents, net, end of year	71,945	13,901

Section 1

Basis of preparation

1.1 General accounting policies

General

This section gives a summary of the significant accounting policies. Further accounting policies are presented in the specific notes.

The Annual Report of the Hempel Foundation for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C. The Annual Report for 2018 is presented in EUR thousands.

The accounting policies applied remain unchanged from previous years.

Consolidated financial statements

With reference to section 111 of the Danish Financial Statements Act, no consolidated financial statements are prepared.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised costs are recognised.

Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Hempel Foundation, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Hempel Foundation, and the value of the liability can be measured reliably. Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report

that confirm or invalidate affairs and conditions existing at the balance sheet date. Euro is used as the presentation currency. All other currencies are regarded as foreign currencies.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Hempel Foundation entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

Translation of transactions and balances

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been



settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Translation of Group companies

Financial statements of foreign subsidiaries and associates are translated into euro at the exchange rates prevailing at the end of the reporting period for balance sheet items, and at average exchange rates for income statement items, with the exception of exchange rate adjustments of investments in subsidiaries and associates arising from:

- the translation of foreign subsidiaries' and associates' net assets at the beginning of the year at the exchange rates at the end of the reporting period
- the translation of foreign subsidiaries' and associates' income statement from average

exchange rates to exchange rates at the end of the reporting period

- the translation of intra-Group receivables that are considered to be an addition to net investments in subsidiaries.

These specific exchange rate adjustments are recognised directly in equity.

Other operating income

Other operating income and operating expenses comprise items of a secondary nature relative to the Foundation's core activities, including gains or losses on the sale of fixed assets.

Other external expenses

Other external expenses include the year's expenses relating to the Foundation's core activities, including expenses relating to administration, premises, etc.

Cash flow statement

The cash flow statement for the Hempel Foundation shows the cash flows for the year broken down by operating, investing and

financing activities, changes for the year in cash and cash equivalents as well as cash and cash equivalents for the Hempel Foundation at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt.

Cash and cash equivalents

The cash flow statement cannot be immediately derived from the published financial records.

For further accounting policies, please refer to the notes.

Section 2

Results for the year

2.1 Revenue

Accounting policies

Revenue from rent income is recognised in the income statement in the periods the rent concerns.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

2.2 Employee costs

Accounting policies

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are

rendered by employees of the Hempel Foundation. Where the Hempel Foundation provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

In EUR thousands

	2018	2017
Board of Trustees and Executive Director	626	588
Wages and salaries	194	192
Pension contributions	92	62
	912	842
<i>Employees:</i>		
Average number of employees	7	4

An additional fee to the Board of Trustees in subsidiaries within the Hempel Foundation Group amounted to EUR 457 thousand (2017: EUR 448 thousand).

With reference to §98b of the Danish Financial Statements Act, the remuneration to the Executive Director is included in the line "Board of Trustees and Executive Director" as Management consists of one person only.

2.3 Income from investments in subsidiaries

Accounting policies

The items 'Income from investments in subsidiaries' in the income statement include the proportionate share of the profit for the year less goodwill amortisation.

In EUR thousands

	2018	2017
Profit before tax	75,781	78,733
Tax for the year	-25,794	-37,027
Profit after tax	49,987	41,706

2.4 Income tax

Income tax

Accounting policies

Income tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas

the tax attributable to equity transactions is recognised directly in equity. The Danish subsidiaries of the Hempel Foundation are jointly taxed. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

In EUR thousands

	2018	2017
Total tax	-4	-7
Current tax for the year	-4	-7
Deferred tax for the year	0	0
Adjustment in respect of previous years	0	0
	-4	-7



Deferred tax assets and liabilities

Accounting policies

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carryforwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective

under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivables and liabilities

Accounting policies

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account.

Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.



Section 3

Operating assets and liabilities

3.1 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Costs comprise the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use. In the case of assets of own construction, costs comprise direct and indirect expenses for labour, materials, components and sub-suppliers.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in costs over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Leases in terms of which the Hempel Foundation assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated

and written down for impairment under the same policy as determined for the other fixed assets of the Hempel Foundation.

Depreciation based on costs reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings (max.)..... 50-100 years
Other fixtures and fittings,
tools and equipment 3-10 years

Leasehold improvements are included in other operating equipment and are recognised at cost and depreciated over the term of the lease; however, not exceeding 10 years.

Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

In EUR million

	Land and buildings	Other fixed assets	Assets under construction	Total
Costs, beginning of year	24,640	4,178	–	28,818
Exchange adjustment at year-end rate	-74	-12	–	-86
Additions for the year	–	163	2,314	2,477
Disposals for the year	–	-206	–	-206
Costs, end of year	24,566	4,123	2,314	31,003
Accumulated depreciation, beginning of year	2,528	1,883	–	4,411
Exchange adjustment at year-end rate	-9	-6	–	-15
Depreciation for the year	532	403	–	935
Reversal of depreciation of assets sold	–	-152	–	-152
Accumulated depreciation, end of year	3,051	2,128	–	5,179
Carrying amount, end of year	21,515	1,995	2,314	25,824

3.2 Other securities and investments

Accounting policies

Other securities and capital investment, recognised under fixed assets, consist of listed bonds and shares measured at the fair value on the balance sheet date.

The fair value is calculated on the latest listed closing quote.

In EUR thousands

	2018	2017
Costs, beginning of year	176,293	175,851
Additions for the year	117,379	111,289
Disposals for the year	-170,701	-110,599
Exchange rate at year-end rate	-529	-248
Costs, end of year	122,442	176,293
Net revaluations, beginning of year	2,141	-2,819
Net revaluations for the year	-11,876	4,956
Exchange rate at year-end rate	-6	4
Net revaluations, end of year	-9,741	2,141
Carrying amount, end of year	112,701	178,434

In EUR thousands

	2018	2017
<i>The net values are specified as follows:</i>		
Bonds	57,059	118,784
Shares	55,642	59,650
	112,701	178,434

3.3 Prepayments

Accounting policies

Prepayments comprise prepaid expenses relating to rent, insurance premiums and interest.



3.4 Receivables

Accounting policies

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable and, in respect of trade receivables, a general

provision is also made based on the Hempel Foundation's experience from previous years.

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

In EUR thousands

	2018	2017
Receivables	55,703	6,856
of which due more than one year from balance sheet date	0	0
	55,703	6,856

3.5 Other liabilities

Accounting policies

Other liabilities are measured at amortised cost, substantially corresponding to nominal value. Other liabilities comprise donations not yet paid, employee costs payable, VAT and duties payable, accruals, other payables and fair values of derivative financial instruments.



ENGLISH AGREEMENT IN SIMPLE SUBJECT AND VERBS
 Singular Noun
 Singular Subject, Singular Verb
 Plural Subject, plural verb
 e.g. - The cow is a useful animal.
 - Cows are useful animals.
 Plural Noun
 Plural Subject → Singular verb.
 e.g. - The children are playing.

2. Names, Titles, Quotations
 "Urban boys" is popular.
 "Nta byera ngo de." is
3. Collective and Food Noun
 e.g. - The committee
 - The committee
4. Sums of money and
 → Singular
5. "The number of" → Singular



Section 4

Capital structure and financing items

4.1 Base capital

The base capital of the Foundation amounts to DKK 35 million.

4.2 Financial risks

The Foundation has adopted a conservative investment strategy and hence is not exposed to financial risks other than what is considered normal market risks.

4.3 Net financials

Accounting policies

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

In EUR thousands

	2018	2017
External interest income	793	1,260
Interest income from subsidiaries	138	74
External interest expenses	-482	-154
Dividend	5,168	10,369
Realised and unrealised exchange gains/losses, net	-12,962	-2,187
	-7,345	9,362

4.4 Cash and cash equivalents, net

Accounting policies

Cash and cash equivalents consist of cash at bank and in hand offset by overdraft facilities.

In EUR thousands

	2018	2017
Cash at bank and in hand, beginning of year	13,901	18,485
Overdraft facilities, beginning of year	—	—
	13,901	18,485
Cash at bank and in hand, end of year	71,945	13,901
Overdraft facilities, end of year	—	—
	71,945	13,901

4.5 Changes in working capital

Accounting policies

Working capital is defined as current operating assets less current operating liabilities.

In EUR thousands

	2018	2017
Change in receivables	150	4,381
Change in trade payables	363	-638
	513	3,743

Section 5

Other disclosures

5.1 Fees to the auditors appointed at the General Meeting

In EUR thousands

	2018	2017
Audit fee	18	16
Other assurance engagements	0	0
Tax advice	0	2
Other fees	4	9
	22	27

5.2 Adjustments for non-cash operating items

For the purpose of presenting the statement of cash flows, non-cash items with effect on the income statement must be reversed to identify the actual cash flow effect from the income statement. The adjustments are specified as follows:

In EUR thousands

	2018	2017
Depreciations and impairment	935	972
Gains and losses on the sale of fixed assets	-23	-6
	912	966

5.3 Related parties and ownership

Related parties and ownership	Basis
<i>Controlling influence:</i>	
Hempel Invest A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel A/S, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby, Denmark	Related party
Members of the Executive Board and Board of Directors of Hempel A/S and Hempel Invest A/S as well as the Board of Trustees of the Hempel Foundation are also regarded as related parties. For remuneration to the Board of Trustees, please refer to note 2.2 Employee costs.	
<i>Other related parties:</i>	
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation of 2017, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby, Denmark	Related party
<i>Transactions:</i>	
All related-party transactions were carried out at arm's length	



5.4 Investments in subsidiaries

The Hempel Foundation had the following transactions with related parties, (income)/expense:

In EUR thousands

	2018	2017
<i>Hempel Invest A/S</i>		
Administrative services provided by the Hempel Foundation	-127	-127
<i>Hempel A/S</i>		
Administrative services provided by Hempel A/S	27	26
Rent payments	-1,503	-1,507

Accounting policies

Investments in subsidiaries are recognised and measured under the equity method. This implies that the investments are measured in the balance sheet at the proportionate ownership share of the net asset value of the enterprises with deduction or addition of shares of unrealised intercompany profits and losses.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to 'Reserve for net revaluation under the equity method' under equity. The reserve is reduced by dividend distributed to the parent company and adjusted for other equity movements in subsidiaries.

5.5 Contingent liabilities and other financial obligations

Other contingent liabilities

The Foundation has pledged investments in bonds and shares of EUR 2 million as security for credit facilities with banks. Further as security for loans from credit institutions of EUR 20.3 million, the Foundation has pledged security in land and buildings with a booked value of EUR 23.8 million.

5.6 Events after the reporting period

No events have occurred after the balance sheet date that could have a material impact on the company's financial result or equity, except for the resolution obtained in the beginning of 2019 of the compliance case reported to SØIK, the Danish State Prosecutor for Serious Economic and International Crime, in April 2017 regarding the subsidiary Hempel A/S. The financial implications have been fully recognised and disclosed in the Annual Report 2018.

In EUR thousands

	2018	2017
Costs, beginning of year	4,439	4,445
Additions	—	—
Disposals	—	—
Exchange adjustment at year-end rate	-13	-6
Costs, end of year	4,426	4,439
Net revaluations, beginning of year	522,940	511,103
Exchange adjustment at year-end rate	-8,704	-29,450
Remeasurements of defined benefit plans	-270	-419
Profit before tax	75,781	78,733
Tax for the year	-25,794	-37,027
Dividend received	-40,175	0
Net revaluations, end of year	523,778	522,940
Carrying amount, end of year	528,204	527,379

5.7 Group overview

Country	Name	Currency	Share capital	Ownership
Denmark	Hempel A/S	DKK	115,000,000	100%
Argentina	Hempel Argentina S.R.L.	ARS	338,774,200	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	700,000	100%
Austria	Ostendorf GmbH	EUR	18,168	65%
Austria	Euroolor Brand GmbH	EUR	50,000	65%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	BHD	5,000,000	51%
Bahrain	Hempel Paints (Bahrain) S.P.C.	BHD	300,000	51%
Brazil	Hempel Tintas do Brasil Ltda	BRL	31,211,487	100%
Canada	Hempel (Canada) Inc.	CAD	1,776,005	100%
Chile	Pinturas Hempel Chile SpA	CLP	1,651,829	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (China) Management Co., Ltd.	CNY	50,000,000	100%
China	Hempel (Kunshan) Coatings Ltd.	CNY	110,035,054	100%
China	Hempel (Yantai) Coatings Ltd.	CNY	42,656,510	100%
China	Hempel (Guangzhou) Coatings Ltd.	CNY	185,327,620	100%
China	Hempel Coatings (Zhangjiagang) Ltd.	USD	0	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	31,019,200	100%
Cyprus	Hempel Coatings (Cyprus) Limited	EUR	1,000	100%
Czech Republic	Hempel (Czech Republic) s.r.o.	CZK	30,000,000	100%
Denmark	Hempel Foundation	DKK	35,000,000	-
Denmark	Hempel Invest A/S	DKK	115,000,000	100%
Denmark	Hempel A/S	DKK	115,000,000	100%
Denmark	Brænderupvænge ApS	DKK	130,000	100%
Denmark	Keldskov ApS	DKK	175,000	100%
Denmark	HSA (Danmark) A/S	DKK	10,000,000	100%
Denmark	Hempel Decorative Paints A/S	DKK	1,000,000	100%
Denmark	Brifa Maling A/S	DKK	11,200,000	65%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Coatings Egypt LLC	EGP	3,000,000	100%
Egypt	Hempel Paints Egypt L.L.C	EGP	250,000	100%
Egypt	Hempel Egypt L.L.C	EGP	200,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
France	BB Participations SAS	EUR	4,000,000	65%



Rural school
in Rwanda.

Country	Name	Currency	Share capital	Ownership
France	BB Holding SAS	EUR	1,448,266	65%
France	BB Fabrications SAS	EUR	1,000,000	65%
France	Bontemps-Bonnarme SAS	EUR	75,000	65%
France	Renaulac Bearn SARL	EUR	8,000	65%
France	Renaulac Gironde SARL	EUR	10,000	65%
France	L.A.R.Y Peintures SARL	EUR	8,000	49%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Germany	Hempel Beteiligungsgesellschaft mbH	EUR	25,000	100%
Germany	J.W. Ostendorf GmbH & Co. KG	EUR	520,000	65%
Germany	Ostendorf-Beteiligungs GmbH	EUR	32,000	65%
Germany	FLT Handel & Service GmbH	EUR	25,565	65%
Germany	Brand.IQ GmbH	EUR	500,000	65%
Germany	Ostendorf Frankreich Holding GmbH	EUR	25,000	65%
Germany	Rottkamp Immobilien GmbH & Co. KG	EUR	2,500	65%
Germany	Rottkamp Immobilien Verwaltung GmbH	EUR	25,000	65%
Greece	Hempel Coatings (Hellas) S.A.	EUR	6,300,000	100%
Hungary	Ostendorf Hungaria Kft.	HUF	15,000,000	65%
India	Hempel Paints (India) Private Limited	INR	690,000,000	100%
Indonesia	P.T. Hempel Indonesia	IDR	830,000,000	100%
Iraq	Hempel (Iraq) Ltd.	USD	8,300	31%
Ireland	Crown Paints Ireland Limited	EUR	127	100%
Italy	Hempel (Italy) S.r.l.	EUR	50,000	100%
Kenya	Hempel Paints Kenya Company Limited	KES	10,000,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	600,000	51%
Malaysia	Hempel (Malaysia) Sdn. Bhd.	MYR	5,000,000	100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	9,500,000	100%
Mexico	Pinturas Hempel de Mexico S.A. de C.V.	MXN	3,750,000	100%
Morocco	Hempel Maroc SARL	MAD	2,500,000	99%
New Zealand	Hempel (New Zealand) Ltd.	NZD	300,000	100%
Norway	Hempel (Norway) AS	NOK	4,981,428	100%
Oman	Hempel (Oman) L.L.C.	OMR	500,000	20%
Peru	Hempel Pinturas Del Perú S.A.C.	PEN	4,900,000	100%

Country	Name	Currency	Share capital	Ownership
Poland	Hempel Paints (Poland) Sp. z o.o.	PLN	60,500,000	100%
Portugal	Hempel (Portugal) S.A.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
Russia	JSC Hempel	RUB	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Saudi Arabia	Painting Materials and Equipment Centre Co. LTD	SAR	1,000,000	26%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints South Africa Pty Ltd.	ZAR	9,500,000	100%
Spain	Pinturas Hempel SAU	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	100%
Switzerland	Hempel Schweiz AG	CHF	100,000	100%
Switzerland	J.W. Ostendorf (Schweiz) AG	CHF	100,000	65%
Syria	Hempel Paints (Syria) W.L.L.	SYP	121,600,000	49%
Taiwan	Hempel (Taiwan) Co. Ltd.	TWD	20,000,000	100%
Thailand	Hempel (Thailand) Ltd.	THB	3,000,000	100%
The Netherlands	Hempel (The Netherlands) B.V.	EUR	500,000	100%
The Netherlands	Hempel Industrial B.V.	EUR	306,450	100%
Turkey	Hempel Coatings San. Ve Tic Ltd. Sti.	TRY	2,789,300	100%
UK	Crown Brands Limited	GBP	1,000	100%
UK	Crown Paints Limited	GBP	1,000	100%
UK	Crown Paints Group Limited	GBP	100,000	100%
UK	Crown Paints Holding Limited	GBP	100,000	100%
UK	Hempel Decorative Paints Limited	GBP	2,000	100%
UK	Hempel UK Ltd.	GBP	4,100,000	100%
UK	Reebor Limited	GBP	100	1%
UK	Ostendorf U.K. Ltd.	GBP	0	65%
Ukraine	Hempel Ukraine LLC	UAH	656,291	100%
United Arab Emirates	Hempel Paints (Abu Dhabi) L.L.C.	AED	150,000	23%
United Arab Emirates	Hempel Paints (Emirates) L.L.C.	AED	4,000,000	29%
USA	Hempel (USA) Inc.	USD	50,000	100%
USA	Jones-Blair Company, LLC	USD	87,922,373	100%
Vietnam	Hempel Vietnam Company Limited	VND	16,498,272,000	100%

Foreign branches

Austria	Hempel (Germany) GmbH Branch Office
Belgium	Hempel (The Netherlands) B.V. Branch Office
Hungary	Hempel (Czech Republic) s.r.o. Magyarországi Fioktelepe
India	Hempel (India) Liaison Office
Japan	Hempel (Singapore) Pte. Ltd. Tokyo Branch Office
Slovakia	Hempel (Czech Republic) s.r.o. org. zložka Slovensko
Vietnam	Hempel (Singapore) Pte. Ltd. Vietnam Representative Office

5.8 Financial definitions

Financial ratios have been calculated as follows:

Gross margin	=	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating profit margin	=	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Return on assets	=	$\frac{\text{Operating profit} \times 100}{\text{Average assets}}$
Solvency ratio	=	$\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$
Return on equity	=	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$





ART 2030 -
performance at
Danish high school.



Hempel Foundation
Amaliegade 8
1256 Copenhagen K
Denmark

Tel: +45 4527 3074
Fax: +45 3315 6044