

Annual Report 2016

CVR no. 21 51 80 18

Amaliegade 8
Dk-1256 København K
Danmark

Date 03.04.2017

Chairman: Richard R. Sand



The Foundation

Hempel Foundation
Amaliegade 8
DK-1256 Copenhagen K
Denmark

Tel: +45 4527 3074
Fax: +45 4588 5518
hempelfoundation.com

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

Home municipality: Copenhagen

Board of Trustees

Richard R. Sand, Chairman
Leif Jensen, Deputy Chairman
Kim Dam-Johansen
Carsten Gerner
Birgitte Hagemann Snabe
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



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Key figures

In EUR thousands

	2016	2015	2014	2013	2012
Income statement					
Revenue	1,853	1,765	1,024	178	157
EBITDA	409	317	-271	-1,324	-1,457
Amortisation, depreciation and impairment	968	969	551	140	128
Operating profit	-559	-652	-822	-1,464	-1,585
Income from investments in subsidiaries	32,202	95,347	67,163	64,871	34,569
Net financials	14,604	976	7,073	4,264	3,499
Profit before tax	46,247	95,671	73,414	67,671	36,483
Net profit for the year	46,246	95,514	71,226	67,031	35,156
Balance					
Balance sheet total	738,156	726,141	628,784	553,467	505,977
Equity	714,990	698,915	600,308	544,134	497,501
Cash flows					
Operating activities	-3,646	-27	23,778	126	63
Investing activities	36,457	8,701	-20,697	-31	-218
- including net investments in property, plant and equipment and intangible assets	0	-74	-25,680	-144	-21
Financing activities	-16,681	-9,753	-4,081	-2,061	10
Change in cash and cash equivalents	16,392	-1,079	-1,000	-3,338	3,567
Employees					
Average number of employees	3	3	3	3	3
Donations					
Donations for the year	16,568	7,589	24,320	5,934	4,005
Ratios					
Gross margin	65.9	64.7	69.3	44.9	13.4
Profit margin	-34.1	-36.9	-80.3	-822.5	-1009.6
Return on assets	-0.1	-0.1	-0.1	-0.3	-0.3
Solvency ratio	97.0	96.3	95.5	98.3	98.3
Return on equity	6.5	14.7	12.4	12.9	7.2

For definitions, see Accounting policies.

About the Hempel Foundation

In July 1915, Jørgen Christian Hempel established J.C. Hempel's Marine Paints Ltd. (J.C. Hempel's Skibsfarve-Fabrik A/S), which later became the Hempel Group. In 1948 J.C. Hempel transferred all his shares in J.C. Hempel's Marine Paints Ltd. into the Hempel Foundation with the aim to establish the basis for the future viability and success of the Hempel Group. The Hempel Foundation remains the sole shareholder of the Hempel Group to this day.

The Hempel Foundation is a commercial foundation, and the primary purpose of the Foundation is to provide and maintain a solid economic base for the Hempel Group.

Hempel is a world-leading coatings supplier for the protective, marine, decorative, container and yacht markets and operates in more than 80 countries with 5,800 employees, 27 factories, 12 R & D centres and more than 150 stock points strategically located around the world.

Hempel's coatings protect man-made structures from the corrosive forces of nature - from windmills and bridges to ships and homes. Hempel's coatings help extend product life and this reduces the overall environmental impact of each structure during its lifetime.

The Foundation's secondary purpose is a social and charitable one: to provide assistance for cultural, social, humanitarian, scientific and artistic purposes.

Two specific concerns have been placed at the top of the international CSR agenda: the challenge of poverty and lack of education, and environmental challenges. In its role as the owner of a global business operation - the Hempel Group - and as a foundation supporting the common good, the Hempel Foundation intends to play an active part in meeting these challenges. This is reflected in the Hempel Group CSR activities and in the Foundation donation policy focusing on education for children in need and research in environmentally sustainable surface protection technologies.

The Hempel Foundation and Hempel Group are well aware of their responsibility beyond generating positive financial returns. Corporate Social Responsibility thus forms an integral part of the values and business approach of both the Hempel Foundation and the Hempel Group.

Management's statement

The Board of Trustees and the Executive Management Board have today considered and adopted the Annual Report of the Hempel Foundation for the financial year 1 January – 31 December 2016.

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 2016 of the Foundation and of the results of the Foundation's operations and the cash flows for 2016.

In our opinion, the management's review includes a true and fair account of the development 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.

Kgs. Lyngby, 3 April 2017.

Executive Management



Anders Holm
Executive Director,
Grant Areas and Administration

Board of Trustees



Richard R. Sand
Chairman



Leif Jensen
Deputy Chairman



Kim Dam-Johansen



Carsten Gerner



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Executive Management

Anders Holm
Executive Director,
Grant Areas and Administration



Information about the Board members' background, competences, election period, etc. can be read at hempelfoundation.com/Hempel-foundation/Board-of-Trustees



Independent auditor's report

To the Board of Trustees
of the Hempel Foundation

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Hempel Foundation at 31 December 2016, and of the results of the Hempel Foundation's operations and cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Hempel Foundation for the financial year 1 January - 31 December 2016, 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 Profes-



sional 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 the 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 skepticism 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.

Hellerup, 3 April 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR no. 33771231



Lars Baungaard
State Authorised Public Accountant



Mads Melgaard
State Authorised Public Accountant

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In 2016, eight Hempel employees were given the opportunity to volunteer at an educational project supported by the Hempel Foundation in Lao Cai, Vietnam.





Hempel Foundation supported the construction of Copenhagen International School (Photo: Adam Mørk)

Board of Trustees' report

The Hempel Foundation's activities

The activities undertaken by the Hempel Foundation are described in this report. These include donations, business-related activities as well as financial investments.

Donations

The Hempel Foundation's primary purpose is to provide and maintain a solid economic base for the Hempel Group. The Foundation's secondary purpose is a social and charitable one: to support cultural, social, humanitarian, scientific and artistic purposes.

The Board decides on an annual basis on the amounts to be allocated to donations, amounts to be carried over to the following year, and amounts transferred to the Foundation's equity.

The total annual amount granted for donations is decided by the Board in accordance with the Foundation's Trust Deed. Over recent years, the Foundation has increased its donations to charitable purposes. Annual donations decided can

fluctuate quite substantially, since donations decided one year can run for several years. The target for the Foundation is a further substantial increase in the average sum granted to donations over the coming years.

Based on this the Board is in a process of reviewing the donation strategy to cover a broader range of charitable areas, and to form more strategic partnerships with other charitable foundations, etc. To fully support all of this in the most professional way the Board has decided to strengthen the overall daily management of the donations and administration in the Foundation, and has from 1 March 2017 employed an Executive Director for these departments.

Education of children in need

The present donation strategy of the Foundation is inspired by the Millennium Goals launched by the United Nations in 2010, a set of goals to end poverty, protect the planet and ensure prosperity for all. UN revised these goals as part of its Sustainable Development Agenda in 2015. Each goal has specific targets to be achieved and everyone – governments, the private sector, civil society and individuals – must all pull together to make these goals come true.

For the last seven years the Hempel Foundation has supported these goals through the education of children in need, as the Foundation believes education can help break the cycle of disadvantage affecting children living in poverty. Today, more than 72 million children around the world still have no chance to attend school and an additional 350 million receive only poor quality instruction.

The Hempel Foundation believes that every child should be able to dream of a bright future and that every child deserves an education. By supporting education of children in need, we give thousands of children around the world the chance to build a brighter future for themselves and their families.



Hempel Student Residence, DTU, consisting of 200 furnished apartments for students and researchers at DTU

The Hempel Foundation currently gives strong support to a total of 20 educational projects in 17 countries, helping more than 67,000 underprivileged children receive a better education. The 17 countries are: Peru, Bolivia, Argentina, Brazil, Uganda, Ghana, Tanzania, Sierra Leone, South Africa, Ethiopia, Somaliland, Cambodia, India, Indonesia, Vietnam, Russia and China. The projects, we support, are designed specifically to address the challenges of the region and people where they take place, as this will have the most sustainable long-term impact. The Hempel Foundation works with strategic partners, both globally and locally, with the majority of the projects run in cooperation with Save the Children, SOS Children's Villages or Oxfam IBIS.

The Hempel Foundation's work directly addresses three of the United Nation's Sustainable Development Goals.

- Goal 1: End poverty in all its forms everywhere
- Goal 4: Ensure inclusive and quality education for all and promote lifelong learning
- Goal 5: Achieve greater gender equality and empower women and girls

The projects can be divided into four main categories: Improving local schools, helping child labourers into education, building new schools and after school education and clubs.

Sustainable technologies

*CoaST - The Hempel Foundation
Coatings Science and Technology Centre*

The Hempel Foundation's support for research within environmentally sustainable surface protection technologies has for many years been provided through grants to the Technical University of Denmark (DTU).

Since 2000 the Foundation has been involved in creating an international research environment at DTU for the education of highly skilled engineers and researchers.

The main focus of these efforts has been on setting up PhD programmes with projects on sustainable products and advanced technologies at the Chemical Engineering Department. The research has produced many important results and in 2016 the Board of the Hempel Foundation decided to expand the existing activities significantly through a long term commitment for supporting the establishment of CoaST - The Hempel Foundation Coatings Science and Technology Centre as per January 1st 2017. The centre will be anchored in the present activities at DTU and expanded with research partners such as leading international universities and research institutions.

The activities at CoaST cover coating technologies from raw materials, over formulation, test and characterization to production and application. In the broad perspective, the center will support development, production and use of high performance coatings with improved sustainability profiles over the lifetime of the coating.

Did you know...?

The Hempel Foundation has made a grant for the establishment of a brand new student residence at DTU (the Technical University of Denmark). The student residence will consist of 200 high-quality furnished apartments ready for use at 2017, September 1.



In EUR thousands

Hempel Foundation donations

	2016	2015	2014	2015-16 Average	2012-16 Average
Education of children in need	3,035	3,025	2,685	3,030	2,428
Research in environmentally sustainable technologies	10,664	590	1,309	5,627	2,816
Art and culture	175	1,687	172	931	734
Talent and student projects	837	779	17,954	808	4,267
Miscellaneous donations	1,995	2,058	2,237	2,027	1,668
	16,707	8,139	24,357	12,423	11,913
Reversal of previously approved grants and adjustments	(139)	(550)	(37)	(345)	(229)
Total grants	16,568	7,589	24,320	12,078	11,684

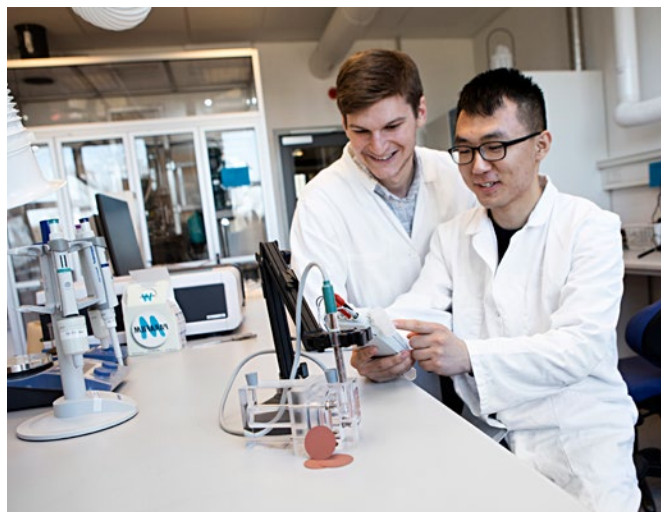
In other words – CoaST will provide Coatings for a better future.

The mission of CoaST

- Develop new and improved methods and technologies for the formulation, testing, characterization, production and application of coatings with improved sustainability profiles.
- Establish a strong research, innovation and education environment at DTU supported by an extended global network to leading research and development groups.
- Establish a platform for cooperation among stakeholders of coating technologies, i.e. universities, raw material suppliers, formulators, producers, applicators and/or end users.
- Attract and train students, engineers and researchers to the field of coatings.

The vision is to grow CoaST to be a leading center for research, innovation and education in sustainable coatings technology.

The activities at CoaST are expected to be expanded gradually to full size over the coming four years. In the first period links to partners will be established, methods for evaluating the sustainability profile for technologies in the field of coatings will be developed and research projects within anticorrosive coatings for steel structures, blade coatings for wind turbines, intumescent coatings for passive fire protection, antifouling coatings for ships, insulation coatings for heat loss reduction, coatings for the cement- and mineral industries, and coatings for high-temperature and high-pressure oil- and gas pipelines, etc. will be initiated or continued. Also new and improved production methods



with a better sustainability profile will be studied, new analysis and characterization methods developed and entirely new and challenging ideas investigated.

Supported by research, it is the ambition that CoaST will bring new innovative ideas to practical use and as a corner stone of the activities, the research will provide the perfect environment for attracting researchers and students from Denmark and other countries to the field of advanced coating technologies. When fully operational CoaST is expected to have 20-25 PhD students engaged in projects related to sustainable coatings research. A special Industrial-honors MSc-program in the framework of the education in Chemical and Biochemical Engineering will be supported at DTU for very skilled and globally oriented students. The students will be offered participation in research projects and will have close links to industrial activities in the field. In this way a new generation of skilled engineers and researchers will be educated to the benefit of the coatings society.

Other donations

In addition to the two primary strategic donation areas a number of social and cultural purposes and projects have received donations from the Foundation during 2016. In particular support has been granted to poor families, children excluded from regular family life, and social projects.

In 2016 the Foundation did continue its support as the operational partner to the Mary Foundation, thereby supporting a charitable foundation working in the field of social inclusion of children.

The construction of “Hempel Student Residence, DTU” – a donation of EUR 17,5 mill. made in 2014 – consisting of 200 furnished apartments for Danish and foreign students and researchers at DTU, will be finished and ready to receive students and researchers as per September 2017.

For 2017 the Hempel Foundation has preliminary decided on a total maximum amount of donations of EUR 26.9 million, which is shown as a special item in the Foundation's equity as per 31 December 2016.

Business-related activities

The Hempel Foundation's business-related activities include ownership of the Hempel Group companies and various properties.

The Hempel Foundation's most important and significant investment is ownership of Hempel A/S and its subsidiaries world-wide. Net income from this was EUR 32 million in 2016, compared to EUR 96 million in 2015. Please refer to the separate review of the activities of the Hempel Group on page 26.

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 Board of Trustees requires that the property shall remain in consistently excellent condition. Due to the age of the property, significant maintenance projects have been carried out in recent years.

The Hempel Foundation is also the owner of the property in Lundtofte, Lyngby where Hempel Group Headquarters and a R&D department are located. The Hempel Foundation in addition is the sole owner of Hempel Holding A/S, which among others has the 100 % shareholdings in Hempel A/S as well as shareholdings in two forests located in Denmark and other minor investments.

Financial investment activities

The Hempel Foundation's Board of Trustees has appointed an Investment Committee with the purpose to prepare decisions on the Foundation's financial investments. Investments in bonds, shares and other financial instruments are managed by professional external portfolio managers. The split of the management of the portfolio among 4-5 managers is intended to increase the risk-adjusted net return of the total portfolio. The same committee also prepares the Foundation's other investments.

The Board has set down overall guidelines and policies for investing in different types of assets. A conservative financial investment strategy is adopted, and a robust portfolio is managed with a limited risk appetite. The majority of investments are in listed securities that can be redeemed within a few days, and the financial portfolio of the Foundation is considered part of the financial instruments for the Hempel Group.

The net financial income in the Hempel Foundation resulted in a satisfactory return from the portfolio of EUR 14.7 million in 2016 compared to net financial income of EUR 1.0 million in 2015.

Report of the Parent Foundation's activities and financial situation

The outcome of the Foundation's activities is considered satisfactory.

The Hempel Foundation total revenue for 2016 increased to EUR 1,853 thousand compared to EUR 1,765 thousand for 2015, and the EBITDA for 2016 increased to EUR 337 thousand compared to EUR 317 thousand in 2015. The net profit after tax for 2016 decreased to EUR 46 million compared to EUR 96 million in 2015. The decrease in net profit after tax has been negatively influenced by a special item of EUR 40 million in the accounts of Hempel A/S.

Please see page 26 for information about the Hempel Group.

The Hempel Foundation equity was EUR 715 million by end-2016 compared to EUR 699 million end-2015. The financial situation of the Foundation is considered satisfactory.

For 2017 the outlook is expected to be a satisfactory outcome.

Subsequent events

No significant events have occurred subsequent to balance sheet date that are considered to have a significant influence on the evaluation of the annual report for the parent Foundation.

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Through their work with Hempel, every Hempel employee supports the education of around 11 children in need.







Foundation governance

As per 1 January, 2015 the legislation for commercial foundations in Denmark was modernized with focus on transparency and openness, board tasks and responsibilities, remunerations and donations, etc. A committee for good governance in commercial foundations issued in late 2014 a number of recommendations in this respect. The recommendations are “soft law” and considered as supplementary to the legislation for commercial foundations with rules of comply or explain procedures. Failure to comply with a recommendation is not considered as a breach of rules but merely implies that the board has chosen a different approach.

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 Procedures for board work and an Annual Wheel on planning of work during the year.

Based on the Trust Deed, Rules of Procedures and the Annual Wheel the Board of Trustees consider the Hempel Foundation to be in full compliance with the new legislation and basically to 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 available at our website hempelfoundation.com/foundation-governance/statutory-report-on-foundation-governance

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

According to the Trust Deed the 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 the 100 % owner of the Hempel Group companies.

According to the goals stated in the Trust Deed, the policies and priorities adopted by the Foundation for its activities, including decisions on the extent of Foundation support for charitable purposes, are to be focused primarily on the continued ability to provide a solid financial base for the optimum business performance of the Hempel Group.

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. 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's 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 persons who have somehow been involved with the Hempel Group over many years.
- At least two of the members must have international financial and business experience.

The Board of Trustees has additionally set targets for gender representation for members elected by the Foundation. In April 2015 a new female board member joined the Board of Trustees and as such the first target was achieved. A new target has therefore been set that no later than 2020 preferably minimum two of the Board Members appointed by the Foundation are female members.

The Chairman and Deputy Chairman are elected from among the Board members for a three-year term.

The Chairman and the deputy Chairman of the Board monitors and assesses 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 every year the Board performs a formalized internal board evaluation in accordance with the detailed recommendations from the committee for good governance in commercial foundations. This evaluation aims to ensure that the required commercial-, investment- and personal skills as well as competences regarding charitable donations are available among the board members appointed by the Foundation.

Detailed information on Board of Trustee members can be found on the Foundation homepage hempelfoundation.dk/board-of-trustees

All new board members appointed by the Foundation are selected through a structured process based on abovementioned evaluation and specific need 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 preferably must have been involved with the Hempel Group, the Chairman and Deputy Chairman use a regularly updated list of potential candidates to be presented to the members appointed by the Foundation for evaluation and selection.

The Foundation has elected and established an Investment Committee among Board members for the preparation i.e. of the Board's higher-level decisions regarding the Foundation's financial investments, and evaluate portfolio managers. The Foundation has also elected and established a Donations Committee. The Committee examines and evaluates the great number of applications the Foundation receives every year, many of which are for large and complex projects. The final decisions on donations are according to an agreement in the Board taken by all Board members and not only by the Board members appointed by the Foundation, ref. Erhvervsfundslovens § 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 that are dissolved when the specific tasks are completed.

Finally, the Board has also appointed, among its members, honorary board members of the two related foundation entities, Hempel Employee Foundation and Hempel Cultural Foundation.

The Chairman 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, whereas other statements to the media must only be given after preceding approval by the Chairman of the Board.

Meetings, committees, and remuneration

The Board of Trustees generally holds 5 to 6 all-day meetings a year. Two of these meetings take place as soon as possible after the completion of half-yearly and annual financial statements for the Foundation. The Board of Trustees has a continuing involvement in Group 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 4 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 competences involved. As is customary, a higher level of remuneration is received by the Chairman (+200%) and Deputy Chairman (+50%). Except for the Chairman, members of the Investment Committee and the Donations Committee receive a fixed annual remuneration for committee work. Trustees serving on the boards of Hempel Employee Foundation or Hempel Cultural Foundation do not receive remuneration for these services.

Remuneration is decided by the Board of Trustees on an annual basis in a structured process taking into account the amount of working hours spent by the Trustees, the overall responsibilities for the Trustees and activities carried out by the Trustees, the purpose of the Foundation as well as the total activities of the Foundation, the leading role of the Trustees and the major responsibility of the Trustees in

relation to the overall leadership of the Hempel Group and their participation in all major and strategic decisions in the Hempel Group as well as income derived by the Trustees from other positions in the Group.

To further support the correct handling of the decisions on these remuneration issues the Trustees 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 benchmarking with a peer-group carried out by an independent external consultancy company.

It is the firm commitment and aim of the Trustees at all times that the Foundation and the Group will not accept costs and remunerations to Management, Board members, Trustees and other kind of administrative cost that are not directly supporting and strengthening the purpose of the Foundation as well as the charitable donations and the Trustees will at all times seek to limit the mentioned costs and remunerations etc. as much as possible in a responsible way.

The total remuneration paid to the Board in 2016 including remuneration for work on Board Committees, was EUR 425,400. The base remuneration paid to each Board member in 2016 was EUR 33,500.

Conflict of interest

The Foundation is committed to ensuring that all persons involved in its investment and donation processes possess the requisite skills. The Foundation makes sure to avoid any potential conflict of interest. The aim is to ensure the integrity of decisions made on investment proposals and donation applications.

All decisions are made in accordance with common conflict of interest principles. In practice this means that no Board members or Foundation employees can take part in any decisions in which they may be deemed to have a material personal interest. When the Foundation uses the services of advisors, they too are expressly requested to provide details of any personal links to applicants that might influence their recommendations.

Changing the future in remote Ghana

The Hempel Foundation project in the Saboba District in Ghana is changing not just the lives of the children, but the future of the entire community, as Bente Mølgaard, Director, International Educational Projects, explains.

The Hempel Foundation projects on education of children in need can be illustrated by a small story from an education project in Ghana. Here many children still do not have the chance to attend school either because there is no school for them or the school is too far away for the children to make the journey each day. To meet the challenge the Hempel Foundation has built nearby schools, educated local teachers and involved the parents in sending their children to school. The project started in 2012 and until today 12 schools have been built giving 2.500 out of school children a chance to go to school. Five years after the start of the project, Bente Mølgaard, Director, International Educational Projects in the Hempel Foundation travels to Ghana to see how the project has changed the future in Ghana:

I am in the village of Nanyundo in the Saboba District of Ghana. It is five years since I was here the first time. Five years since the Hempel Foundation built a primary school here in collaboration with the non-government organisation Oxfam IBIS. The Foundation has been supporting the school ever since and I am here to see what – if anything – has changed.

Five years ago when I first visited Nanyundo village, it was a very different story. There was no school and no-one in the village could read or write. If someone received a letter, they had to go to the town of Saboba and pay someone to read it for them. The youngest children played between the clay huts, almost naked and very dirty. From the age of six or seven, the children spent their days helping their families in the fields or making the two-hour walk to get water from the nearest well.







Returning today is a very different story. The children still help their families in the fields but only in the afternoons. In the mornings they go to school. They are clean and well dressed and they are proud of their uniforms. I am told that the fifth graders can read, write and do maths, and that many of them have learned to speak English – only simple sentences, but enough for them to tell me what they feel and think. I go into a classroom to check if it is really true. I put some simple calculations on the chalkboard for them to solve. The calculations are too easy, so I make them more and more difficult. The last task I give them, I have to calculate in my head twice to make sure I have got it right. Not all the children can solve all the calculations, of course, but most are good at maths and some are very good. Like all children, they are keen to learn if they have the chance.

I ask the children if they like school and they all nod. When I ask why, I find the answer surprising. They feel they are taken seriously. One of the boys tells me that he loves the feeling of getting up in the morning, washing, brushing his teeth and putting on his school uniform. It makes him feel that what he does is important. Many of the other children agree.

After school, I walk home with two brothers. The oldest, Lawsome, tells me he wants to be president of Ghana when he grows up. I ask him why. “Because I want to make sure we have peace in our country,” he says, very seriously. How great it is that this small school far out in the remote countryside has encouraged these ambitions to grow. The younger brother, Mike, dreams of being a professional footballer. But he also likes reading, he tells me, and he hopes he will soon get a book on football.

The boys have six brothers and sisters, and their parents have always felt that their children should have an education. Before the Hempel Foundation built the village school, the nearest school was in Saboba, 15 kilometres away. By the time the children were old enough to travel to school each day, they had already missed the basics skills they need to

study. Lawsome and Mike’s parents made great sacrifices to make it possible for their two oldest children to go to school. They worked day and night, living off very little, to rent a small room in Saboba. From the age of seven and eight, the two oldest children lived there alone. At weekends, they came back to help in the fields, and every Monday they left again, carrying the food packages that would get them through the week. Very few families in the village were able to make these kinds of sacrifices, and it would not have been possible for Lawsome’s and Mike’s parents to do the same for them. Because of the new school, they no longer have to.

At the end of my visit, I ask the chief of the village what the parents think of the school. He tells me that they are extremely happy, that it has given the children the chance to learn, the chance to get a good job in Soboba. They want the children to continue studying because it will help improve life for everyone in the village. “I hope one of them will become a water technician and can come back and solve our water problem,” he tells me.



67,000

The Hempel Foundation helps more than 67,000 under-privileged children receive a better education, giving them the chance to build a better future for themselves, their families and society.

The Hempel A/S Group 2016 in review

The Hempel A/S Group embarked on and invested in building a foundation for accelerated growth in 2016 – and The Hempel A/S Group are now well placed to accelerate execution on the *Journey to Excellence* strategy.

It was stated in the Annual Report for 2015 that 2016 could be a challenging year – and so it proved to be. But, the Hempel A/S Group also made strong progress in many areas. The Hempel A/S Group's revenue for the year was EUR 1,424 million, corresponding to organic growth of -4.5 per cent and a negative FX-impact of another 4.0 per cent. While revenue development was both disappointing and below the general market, the Hempel A/S Group's EBITDA margin of 13.2 per cent was stronger than expected, very much driven by the operational excellence initiatives in The Hempel A/S Group's *Journey to Excellence* strategy. The Hempel A/S Group also made good progress on cash flow generation. By the end of the year, the Hempel A/S Group's net working capital was at 89 days, down from 122 days by the end of 2015 and the lowest for more than 10 years. The Hempel A/S Group net working capital process is much about discipline and keeping the Hempel A/S Group promises to each other and the Hempel A/S Group customers and suppliers, as well as the Hempel A/S Group control of inventory. The Hempel A/S Group still have room for improvement in this, so the journey will continue in 2017.

Sales

In 2016, sales ended at EUR 1,424 million, corresponding to organic growth of -4.5 per cent and a negative foreign exchange rate impact of 4.0 per cent compared to sales of EUR 1,563 million in 2015. The negative organic growth was partially due to the fact that two large contracts were lost in late 2015 and partially due to the fact that the Hempel A/S Group has an above industry average exposure to industries and regions that struggled in 2016 – including marine, oil and gas, and China. The negative organic growth in 2016 should also be seen in connection with the fact that the







Opened in 2015, the Hempel factory in Ulyanovsk, Russia has a capacity of 19 million litres a year

Hempel A/S Group delivered organic growth above market level in 2015, with marine performing particularly strongly due to a change in legislation.

During 2016, the Hempel A/S Group continued to invest in improving service to customers. The Hempel A/S Group established a new global Commercial function that will drive commercial excellence across the globe and work closely with R&D and other support functions to ensure products and solutions are tied closely to customer needs.

The Hempel A/S Group also launched My Hempel, an online customer sales and service tool that will make it easier for customers to do business with the Hempel A/S Group and make local customer service departments more efficient. In addition, the Hempel A/S Group developed a new Global Key Account Management concept that better reflects the global structure and decision-making processes of large global customers, and will ensure that the Hempel A/S Group can serve them even better in the future.

Regions and segments

The Hempel A/S Group's eight regions are grouped into three main regions. All three of the main regions and most segments generated negative organic growth in 2016. In particular, Europe and Asia-Pacific were impacted, as expected, by lower

activity in the marine industry, and both regions were also affected by the loss of a Decorative contract in late 2015. The Asia-Pacific region was also affected by difficult business conditions in China, including a tight credit situation.

In September 2016, the Hempel A/S Group extended a long-lasting and important joint venture agreement in the Middle East covering Saudi Arabia, Bahrain and Kuwait, among others. The joint venture was formed more than 50 years ago and has now been extended for another 10 years.

The Marine segment – including Container – saw lower maintenance activity following the peak in late 2015. A further slowdown driven by marine newbuilding is expected in 2017, although the recent ratification of the Ballast Water Management Convention may have a positive effect on the marine maintenance industry.

Protective segment was affected by low activity in the oil and gas industry across the globe. However, the Hempel A/S Group saw strong performance in Power Generation, with Wind segment in particular performing well. The Hempel A/S Group also took the first steps into the heavy-duty equipment manufacturing sector, where establishing a strong market presence is a key goal in the Hempel A/S Group's *Journey to Excellence* strategy.



The Hempel A/S Group Executive Management Board: Lars Petersson, Henrik Andersen, Anders Boyer, Peter Kirkegaard

Decorative segment was affected by the loss of two large customers at the end of 2015. However, the Hempel A/S Group continued to invest in the Decorative segment by expanding the sales network with the opening of new showrooms across the Middle East and new Crown Decorating Centres in the UK and Ireland.

Operating expenses

In 2016, operating expenses increased by around 6 per cent measured in fixed currencies. During 2016, the Hempel A/S Group invested in building a platform for accelerated growth in line with the *Journey to Excellence* strategy. Among other things, this included additional resources within R&D, Marketing and certain Group functions, as well as compliance-related areas. Fixed expenses, measured in reported currencies, declined by approximately 2 per cent.

EBITDA

The Hempel A/S Group's EBITDA margin (before special items) was 13.2 per cent, slightly down from 14.1 per cent in 2015. The EBITDA margin was delivered despite lower sales and was supported by progress on operational excellence projects as part of the execution of the Hempel A/S Group's *Journey to Excellence* strategy. Progress on operational excellence projects enabled the Hempel A/S Group to invest in building a platform for future growth and at the same time

maintain solid margins during the first part of 2016. Although raw material prices increased towards the end of the year, raw material prices in 2016 were on average below 2015 and thereby supported margins compared to last year.

In absolute terms, EBITDA (before special items) amounted to EUR 188 million, compared to EUR 220 million in 2015.

Special items and net profit

In 2016 the Hempel A/S Group expensed EUR 40 million related to compliance issues in a few jurisdictions, including Germany. Among other things, the costs cover potential tax consequences and – although still uncertain – an estimate of financial sanctions, including potential fines, as well as fees for advisors and severance payments.

Net profit after minority interests amounts to EUR 33 million and EUR 96 million for 2016 and 2015 respectively.

Capital expenditure

During 2016, the Hempel A/S Group continued to invest in new factories, additional production capacity and the optimisation of manufacturing footprint. The Hempel A/S Group finalised and inaugurated a new factory in Russia, completed factory expansion project in Malaysia and opened a new factory in Vietnam. The Hempel A/S Group also continued investments in

new capacity in Oman, Kuwait and Yantai, China. Other capital investments in 2016 included a warehouse consolidation project in Europe and a new distribution centre in the US. As part of optimising manufacturing footprint, the Hempel A/S Group closed factories in France, Saudi Arabia and Singapore.

The Hempel A/S Group will continue to invest in new capacity and manufacturing optimisation in the future in line with strategy plans in order to both reduce costs and ensure the Hempel A/S Group can deliver products when and where customers need them.

Cash flow and net interest-bearing debt

During 2016, the Hempel A/S Group intensified focus on improving net working capital. The Hempel A/S Group's net working capital has historically been well above industry peers and improvement was needed across all three components – receivables, inventories and payables. Significant progress was made during 2016 and, by the end of the year, net working capital days had decreased to 89 days, down from 122 days in 2015.

As a consequence, total cash flow from operating activities ended at EUR 265 million in 2016, up 83 per cent from EUR 145 million in 2015. By the end of the year, net interest-bearing debt had been reduced significantly to EUR 119 million, equalling a ratio of 0.6 to EBITDA, down from 1.2 in 2015.

Balance sheet and financial position

Partly due to the Hempel A/S Group's focus on reducing net working capital and thereby invested capital, total assets decreased by EUR 112 million, or 8 per cent, from 2015 to 2016. By the end of 2016, total assets amounted to EUR 1,265 million as per the financial statements.

Invested capital decreased from EUR 835 million by the end of 2015 to EUR 702 million excluding special items by the end of 2016 – a decline of 16 per cent. Despite the

decrease in invested capital, the Return on Invested Capital (ROIC) decreased from 21.4 per cent in 2015 to 16.8 per cent in 2016 (excluding special items related to compliance issues) due to the full-year impact of the acquisition of Jones-Blair in 2015 as well as lower operating profits.

Expectations for 2017

The coatings market is expected to remain challenging in 2017, not least in the marine industry, the oil and gas industry, and related markets. At the same time, average raw material prices are expected to be higher compared to 2016. Despite these challenges, we expect the Hempel A/S Group to deliver single-digit organic growth and a solid EBITDA margin in line with 2016, while still continuing to invest in building a platform for accelerated growth as outlined in the *Journey to Excellence* strategy.



750

Around 750 litres of Hempel coatings are applied somewhere in the world every minute.



Financial statements



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Income statement

In EUR thousands

Note		2016	2015
2.1	Revenue	1,853	1,765
	Other operating income	0	17
	Other external expenses	-559	-640
	Gross profit	1,294	1,142
2.2	Employee cost	-885	-825
3.1	Depreciation	-968	-969
	Operating profit	-559	-652
2.3	Income from investments in subsidiaries	32,202	95,347
	Profit before financial income and expenses	31,643	94,695
4.3	Net Financials	14,604	976
	Profit before tax	46,247	95,671
2.4	Income tax	-1	-157
	Net profit for the year	46,246	95,514

Distribution of profit		2016	2015
<i>Proposed distribution of profit:</i>			
	Donations for the year	16,568	7,589
	Reservation for grant	0	13,407
	Reserve for net revaluation under the equity method	32,202	95,347
	Retained earnings	-2,524	-20,829
		46,246	95,514

Balance sheet as at 31 December

– assets

In EUR thousands

Note	2016	2015
Land and buildings	22,678	23,124
Other fixed assets	2,716	3,139
3.1 Property, plant and equipment	25,394	26,263
5.4 Investments in subsidiaries	515,548	505,019
3.2 Other securities and investments	173,032	122,579
2.4 Deferred tax asset	0	0
Fixed asset investments	688,580	627,598
Total non-current assets	713,974	653,861
Receivables from Group enterprises	4,690	69,152
Other receivables	1,007	1,043
3.4 Receivables	5,697	70,195
Cash at bank and in hand	18,485	2,085
Current assets	24,182	72,280
Total assets	738,156	726,141

Balance sheet as at 31 December

– equity and liabilities

In EUR thousands

Note		2016	2015
4.1	Base capital	4,691	4,691
	Reserve for net revaluation under the equity method	511,103	492,416
	Retained earnings	172,294	175,007
	Reservation for grants	26,902	26,801
	Total equity	714,990	698,915
	Pension obligations and similar obligations	275	277
	Provisions	275	277
	Payables to Group enterprises	1,976	1,976
3.5	Other liabilities	20,915	24,973
	Total current liabilities	22,891	26,949
	Total liability	22,891	26,949
	Total equity and liabilities	738,156	726,141



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. januar 2015	4,691	455,324	126,859	13,434	600,308
Net profit for the year		95,347	-20,829	20,996	95,514
Dividend received		-69,288	69,288		0
Exchange adjustments at year-end rate		5,848	-328	-40	5,480
Hedging of future transactions		3,179			3,179
Remeasurements of defined benefit plans		2,006	17		2,023
Grants for the year				-7,589	-7,589
4.1 Equity at 31. december 2015	4,691	492,416	175,007	26,801	698,915
Net profit for the year		32,202	-2,524	16,568	46,246
Dividend received		0	0		0
Exchange adjustments at year-end rate		-12,387	676	101	-11,610
Hedging of future transactions		1,477			1,477
Remeasurements of defined benefit plans		-3,473	3		-3,470
Disposals		868	-868		0
Grants for the year				-16,568	-16,568
4.1 Equity at 31. december 2016	4,691	511,103	172,294	26,902	714,990

Cash flow statement

In EUR thousands

Note	2016	2015
Cash flows from operating activities		
Operating profit	-559	-652
5.2 Adjustment for non-cash operating items	969	952
4.5 Changes in working capital	-3,900	-324
Income tax paid	-156	-3
Total Cash flows from operating activities	-3,646	-27
Cash flows from investing activities		
5.4 Investments in subsidiaries	0	-134
5.4 Sale of subsidiaries	7,337	0
5.4 Dividend received from subsidiaries	69,288	0
3.1 Purchase of properties, plant and equipment	0	-144
3.2 Purchase of fixed asset investments	-161,769	-111,765
Sale of properties, plant and equipments	0	70
3.2 Sale of fixed asset investments	121,601	120,674
Total cash flows from investing activities	36,457	8,701
Cash flows from financing activities		
Interest income and expenses, net	4,802	-1,381
Paid grants	-21,483	-8,372
Total cash flows from financing activities	-16,681	-9,753
Change in cash and cash equivalents	16,130	-1,079
4.4 Cash and equivalents, net, beginning of year	2,085	3,175
Exchange adjustment	270	-11
4.4 Cash and equivalents, net, end of year	18,485	2,085

Section 1

Basis of preparation

1.1 General accounting policies

General

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

The Annual Report of the Hempel Foundation for 2016 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 2016 is presented in EUR thousands.

The Hempel Foundation has with effect from 1. January 2016 implemented law no. 738 from 1. June 2015. The implementation has not affected the Hempel Foundation's Financial statements.

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 which 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.

Section 2

Results of 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

	2016	2015
Board of Trustees	451	452
Wages and Salaries	376	319
Pension Contributions	59	54
	886	825
<i>Employees:</i>		
Average number of employees	3	3

An additional fee to the Board of Trustees in subsidiaries within the Hempel Foundation Group amount to EUR 855 thousand, (2015: 1.829 thousand), of which the vast majority relates to remuneration of one member of the executive board in underlying subsidiaries.

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

	2016	2015
Profit before tax	63,364	125,361
Tax for the year	-31,162	-30,014
Profit after tax	32,202	95,347



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

	2016	2015
Total tax	-1	-157
	-1	-157
Current tax for the year	-4	-157
Deferred tax for the year	0	0
Adj. Prev. Years	3	0
	-1	-157

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 setoff 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.

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	Total
Cost, beginning of year	24,582	4,204	28,786
Exchange adjustment at year-end rate	93	16	109
Additions for the year	0	0	0
Disposals for the year	0	0	0
Cost, end of year	24,675	4,220	28,895
Acc. Ammortisation beginning of year	1,458	1,065	2,523
Exchange adjustment at year-end rate	6	4	10
Depreciation for the year	533	435	968
Reversal of depreciation of assets sold	0	0	0
Acc. Depr. End of year	1,997	1,504	3,501
Carrying amount, end of year	22,678	2,716	25,394

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 of the balance sheet date.

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

In EUR thousands

	2016	2015
Cost, beginning of year	134,602	139,114
Additions for the year	161,769	111,765
Disposals for the year	-121,029	-115,924
Exchange rate at year end rate	509	-353
Cost, end of year	175,851	134,602
Net revaluations, beginning	-12,023	-9,656
Net revaluations for the year	9,251	-2,392
Exchange rate at year end rate	-47	25
Net revaluations, end of year	-2,819	-12,023
Carrying amount, end of year	173,032	122,579

In EUR thousands

	2016	2015
<i>The net values are specified as follows:</i>		
Bonds	105,594	92,005
Shares	67,439	30,574
	173,033	122,579

3.3 Prepayments

Accounting policies

Prepayments comprise prepaid expenses relating to rent, insurance premium 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

	2016	2015
Receivables	5,697	70,195
of which due more than one year from balance sheet date	0	0
	5,697	70,195

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.

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

Accounting policies

The Foundation's financial management is focused only on managing financial risks relating to operations and financing. Accordingly, it is the Foundation's policy not to speculate actively in financial 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

	2016	2015
External interest income	1,896	1,560
Interest income from subsidiaries	107	12
External interest expenses	-182	-190
Interest paid to subsidiaries	-1	-4
Dividend	4,241	800
Realised and unrealised exchange gains/losses, net	8,615	-1,201
	14,676	977

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

	2016	2015
Cash at bank and in hand, beginning of year	2,085	3,175
Overdraft facilities, beginning of year	0	0
	2,085	3,175
Cash at bank and in hand, end of year	18,485	2,085
Overdraft facilities, end of year	0	0
	18,485	2,085

4.5 Changes in working capital

Accounting policies

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

In EUR thousands

	2016	2015
Change in receivables	-4,786	206
Change in trade payables	886	-530
	-3,900	-324



Section 5

Other disclosures

5.1 Fees to the auditors appointed at the General Meeting

In EUR thousands

	2016	2015
Audit fee	24	24
Other assurance engagements	0	0
Tax advice	0	0
Other fees	8	43
	32	67

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

	2016	2015
Depreciations and impairment	968	969
Gains and losses on the sale of fixed assets	0	-17
	968	952



5.3 Related parties and ownership

Hempel Holding A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel A/S, Lundtoftegårdsve 91, 2800 Kgs. Lyngby, Denmark	Related party
Members of the Executive Board and Board of Directors of Hempel A/S as well as the Board of Directors of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. For remuneration to the Board of trustees, please refer to section 2.2 Employee costs.	
<i>Other related parties:</i>	
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party

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

In EUR thousands

	2016	2015
<i>Hempel Holding A/S</i>		
Administrative services provided by the Hempel Foundation	-127	-123
<i>Hempel A/S</i>		
Administrative services provided by Hempel A/S	-17	-27
Rent payments	-1,486	-1,459

5.4 Investments in subsidiaries

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.

In EUR thousands

	2016	2015
Costs, beginning of year	12,603	12,501
Additions	0	134
Disposals	-8,205	0
Exchange adjustment at year-end rate	47	-32
Costs, end of year	4,445	12,603
Net revaluations, beginning of year	492,416	455,324
Exchange adjustment at year-end rate	-12,387	11,033
Hedging of future transactions	1,477	0
Remeasurements of defined benefit plans	-3,473	
Disposals	868	0
Profit before tax	63,364	125,361
Tax for the Year	-31,162	-30,014
Dividend received	0	-69,288
Net revaluations, end of year	511,103	492,416
Carrying amount, end of year	515,548	505,019

5.5 The Hempel Group including foreign branches

Country	Name	Currency	Share capital	Ownership
Argentina	Hempel Argentina S.R.L.	ARS	338,774,200	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	700,000	100%
Bahrain	Hempel Paints (Bahrain) W.L.L.	BHD	300,000	51%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	BHD	15,000,000	51%
Brazil	Hempel Tintas do Brasil Ltda.	BRL	31,211,487	100%
Canada	Hempel (Canada) Inc.	CAD	1,776,005	100%
Chile	Hempel A/S (Chile) Ltda.	CLP	1,651,829	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (China) Management	CNY	10,000,000	100%
China	Hempel (Kunshan) Coatings Co. Ltd.	CNY	110,035,054	100%
China	Hempel (Yantai) Coatings Co. Ltd.	CNY	16,803,936	100%
China	Hempel (Guangzhou) Coatings Co. Ltd.	CNY	185,327,620	100%
China	Hempel-Hai Hong Coatings (Shenzhen) Co. Ltd.	HKD	40,000,000	100%
China	Hempel (Seagull) Coatings Co. Ltd.	HKD	20,000,000	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 Holding 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	Hempel Properties A/S	DKK	1,000,000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Egypt L.L.C.	EGP	200,000	100%
Egypt	Hempel Paints (Egypt) L.L.C	EGP	250,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Greece	Hempel Coatings (Hellas) S.A.	EUR	7,800,000	100%
India	Hempel Paints (India) Pvt. Ltd.	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 Ltd.	EUR	127	100%
Italy	Hempel (Italy) s.r.l.	EUR	50,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%

Country	Name	Currency	Share capital	Ownership
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	9,943,450	100%
Morocco	Hempel (Morocco) 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%
Poland	Hempel Paints (Poland) Sp. z o.o.	PLN	60,500,000	100%
Portugal	Hempel (Portugal) Lda.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
Russia	ZAO Hempel	RUR	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints (South Africa) Pty Ltd.	ZAR	118,906,790	100%
Spain	Pinturas Hempel S.A. (Spain)	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	100%
Syria	Hempel Paints (Syria) L.L.C.	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	Schaepman's Lakfabrieken B.V.	EUR	306,302	100%
Turkey	Hempel Coatings San. Ve Tic Ltd. Sti.	TRY	2,789,300	100%
UK	Crown Brands Ltd.	GBP	1	100%
UK	Crown Paints Ltd.	GBP	1	100%
UK	Grown Paints Group Ltd.	GBP	1,000,000	100%
UK	Crown Paints Holding Ltd.	GBP	1,000,000	100%
UK	Hempel Decorative Paints UK Ltd.	GBP	2,000	100%
UK	Hempel UK Ltd.	GBP	4,100,000	100%
UK	Reebor Ltd.	GBP	100	100%
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%
Uruguay	Hempel (Uruguay) S.A.	UYU	8,000,000	100%
USA	Hempel (USA) Inc.	USD	20,000,000	100%
USA	Jones-Blair Company, LLC	USD	17,664,600	100%
Vietnam	Hempel Vietnam Company Limited	VND	116,498,272	100%

* Associate

Foreign branches

Caribbean	Pinturas Hempel (Caribbean)
Hungary	Hempel (Czech Republic) s.r.o. Magyarorszagi Fiolkelepe
India	Hempel (India) Liaison Office
Japan	Hempel (Singapore) Pte. Ltd. Tokyo Branch Office
Slovakia	Hempel (Czech Republic) s.r.o. org. zlozka Slovensko
Vietnam	Hempel (Singapore) Pte. Ltd. Vietnam Representative Office

5.6 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	=	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$



Hempel Foundation

Amaliegade 8
DK 1256 Copenhagen K
Denmark

Tel: +45 4527 3074

Fax: +45 3315 6044