# Hempel Holding A/S

CVR-nr. 32 05 82 05

**Annual report for 2017**

Årsrapporten er fremlagt og godkendt på
selskabets ordinære generalforsamling
den 6/4 2018
Dirigent:

**Hempel Holding A/S**
Amaliegade 8
DK 1256 Copenhagen K
Denmark

| | |
|---|---|
| **The company** | Hempel Holding A/S<br>Amaliegade 8<br>DK-1256 København K<br>Denmark<br><br>CVR-nr.: 32 05 82 05<br>Financial year: 1. January - 31. December |
| **Board of Directors** | Richard Sand, Chairman<br>Leif Jensen, Deputy Chairman<br>Kim Dam-Johansen<br>Carsten Gerner<br>Birgitte Hagemann Snabe<br>Lars Aaen<br>Louise Krüger Kofoed, elected by the employees<br>Martin Bøgsted, elected by the employees<br>Claus Juul Petersen, elected by the employees |
| **Executive Management** | Anders Holm,<br>Executive Director, Administration |
| **Auditors** | PricewaterhouseCoopers<br>Statsautoriseret Revisionspartnerselskab<br>Strandvejen 44<br>DK-2900 Hellerup<br>Denmark |

## Contents

# Key figures

**in EUR thousands**

| | 2017 | 2016 | 2015 | 2014 (1 | 2013 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | 1,378,319 | 1,424,414 | 1,563,442 | 1,297,876 | 0 |
| EBITDA | 170,130 | 151,453 | 219,342 | 166,101 | -17 |
| Amortisation, depreciation and impairment | 55,886 | 58,256 | 61,380 | 37,294 | 0 |
| Operating profit | 114,244 | 93,197 | 157,962 | 128,807 | -17 |
| Share of net profit of associates | 0 | 2,360 | 1,958 | 2,162 | 0 |
| Net financials | -21,186 | -18,582 | -21,551 | -16,031 | 222 |
| Profit before tax | 93,058 | 76,975 | 138,369 | 114,938 | 64,880 |
| Net profit for the year | 56,031 | 45,986 | 108,368 | 71,640 | 64,829 |
| **Balance** | | | | | |
| Balance sheet total | 1,185,764 | 1,273,881 | 1,437,697 | 1,205,587 | 401,796 |
| Equity | 531,326 | 519,892 | 502,083 | 464,210 | 401,713 |
| **Cash Flows** | | | | | |
| Operating activities | 172,451 | 234,264 | 120,903 | 100,453 | -147 |
| Investing activities | -42,322 | -7,815 | -178,200 | -52,361 | -24,369 |
| - including net investments in property, plant and equipment and intangible assets | -24,793 | -35,679 | -46,972 | -23,236 | 0 |
| Financing activities | -108,368 | -222,518 | 46,323 | -73,410 | 24,942 |
| Change in cash and cash equivalents | 21,761 | 3,931 | -10,974 | -25,318 | 426 |
| **Employees** | | | | | |
| Average number of employees | 5,740 | 5,787 | 5,661 | 5,134 | 0 |
| **Ratios (%)** | | | | | |
| Gross margin | 40.8 | 43.7 | 41.7 | 41.0 | |
| EBITDA margin | 12.3 | 10.6 | 14.0 | 12.8 | |
| Return on assets | 9.3 | 6.9 | 12.0 | 16.0 | 0.0 |
| Solvency ratio | 44.8 | 40.8 | 34.9 | 38.5 | 100.0 |
| Return on equity | 10.7 | 9.0 | 22.4 | 16.5 | 17.1 |

1) For 2013, the key figures are based on the parent company only
For definitions, see Accounting policies

## Management's statement

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of Hempel Holding A/S for the financial year 1 January – 31 December 2017.

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

In our opinion, the parent company's financial statements and the consolidated financial statements give a true and fair view of the assets, liabilities and financial position at 31 December 2017 of the parent company and the Group and of the results of the parent company's and the Group's operations and the consolidated cash flows for 2017.

In our opinion, the management's review includes a true and fair account of the development of the Group and the parent company's operations and financial affairs, the profit for the year and the Group's and the parent company's financial position together with a description of the principal risks and uncertainties that the Group and the parent company face.

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

Copenhagen 6 April 2018.

Executive Board

Anders Holm
Executive Director,
Administration

Board of Directors

| | | |
|---|---|---|
| Richard Sand<br>Chairman | Leif Jensen<br>Deputy Chairman | Kim Dam-Johansen |
| Carsten Gerner | Birgitte Hagemann Snabe | Lars Aaen |
| Louise Krüger Kofoed<br>Elected by the employees | Martin Bøgsted<br>Elected by the employees | Claus Juul Petersen<br>Elected by the employees |

## Independent Auditor's Report
To the shareholder of Hempel Holding A/S

**Opinion**
In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2017, and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Hempel Holding A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies for both the Group and the parent company, as well as consolidated statement of cash flows ("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 Group 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 Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement 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 Consolidated Financial Statements and Parent Company 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 Group's and the Parent Company'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 Group or the Parent Company 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 Group's and the Parent Company'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 Group's and the Parent Company'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 Group and the Parent Company 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, 6 April 2018.

**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Lars Baungaard
State Authorised Public Accountant
mne23331

Mads Melgaard
State Authorised Public Accountant
mne34354

## 2017 in review

**Main activity and Management**
Hempel Holding A/S' main activity is the ownership of Hempel A/S, acquisition and management of real estate as well as investment and business activities or other activities, which the Board of Directors assesses to be relevant.

**Financial development**
Development for the year has been satisfactory. Hempel Holding A/S' income statement shows a net profit of EUR 56 million compared to EUR 46 million in 2016. The Company's balance sheet at 31 December 2017 constitutes EUR 1,186 million and equity of EUR 531 million.

As expected in the Annual Report last year, 2017 proved to be a challenging year for Hempel A/S. The revenue for the year was EUR 1,378 million, corresponding to organic growth of -0.7 per cent.

The parent company's profit before tax was EUR 41,967 thousands in 2017 compared to EUR 31,986 thousands in 2016. Excluding income from investments in subsidiaries the result before tax was EUR 1,221 thousands compared to EUR -784 thousands in 2016. The results excluding income from investments in subsidiaries are from investments in stocks and bonds. In 2017 the parent company invested a larger amount in a major property company listed on the Nasdaq OMX Copenhagen stock exchange.

**Subsequent events**
After the balance sheet date Hempel Holding A/S acquired a site opposite to Hempel A/S' current headquarters to construct additional facilities for the Hempel Group expected to be completed in 2020. Besides this no other significant events have occurred subsequent to the balance sheet date.

**Outlook**
The coatings market is expected to remain challenging in 2018, not least in the marine industry, which is expected to contract by more than 20 per cent as a result of low demand in the newbuilding market. Despite these challenges, we expect to see underlying organic growth across most segments and geographies, driven by our stronger and more customer-focused commercial organisation. From an earnings perspective, we expect to deliver a solid EBITDA margin in line with 2017 despite further increases in raw material prices and while continuing to invest in our *Journey to Excellence* strategy.

# Risks

**Providing a robust and effective framework to mitigate risk to the Hempel Group.**

Hempel's global business covers many industry segments and a wide range of operational activities across the globe, resulting in a variety of risks and opportunities. Risks are therefore a natural part of our business and a precondition for being able to create value. Across the organisation, we continuously evaluate the risks we face and assess the level of acceptable risk within the business. This is done through a process and governance structure that has clear roles and responsibilities for defining and reviewing risks, as well as following up on mitigating activities.

**Risk Governance**
The Board of Directors in Hempel A/S has final responsibility for risk management and is the final approver of risk tolerance and risk mitigation activities. The Audit Committee monitors key risks, as well as the risk management process and governance structure.

The Group Risk Committee has overall responsibility for running the risk management process and governance structure within the day-to-day business. It also evaluates consolidated risks and the status of mitigating activities at Group level.

**The risk management process**
Every year in Hempel A/S, an extensive Group-wide risk analysis is carried out, in which risks are assessed and quantified by key employees at both Group and regional level. The Group Risk Committee drives the process and consolidates the risks and related mitigating activities reported by the organisation. Based on this work, a risk report is prepared and discussed in the Executive Management Board and subsequently the Audit Committee before final approval by the Board of Directors.

During 2016, we updated our risk management process to ensure a structured data collection, analysis and reporting process. In 2017, we rolled out a comprehensive training programme to our regional and functional Group risk management teams to build up competencies and harmonise the methodology and terminology we use in relation to risk identification, assessment, mitigation and reporting.

**Key Risks**
The most important risks are identified based on their potential impact and likelihood. The most important risks as identified at the end of 2017 are:

- Business ethics
- Fire
- Organisational capacity
- Market risk and trends
- Raw material prices

**Main Risks**

| Discription of risk | Potential impact | Actions taken |
|---|---|---|
| **Business ethics**<br>At Hempel, we do not accept inappropriate practices or violations of internal rules. We have however uncovered inappropriate practises in the past, and these cases still pose a risk until the matter is fully investigated by the proper authorities. | • Potential penalties and loss of business, customers or licences<br>• Loss of trust and brand reputation | • Vigorously communicate the tone from the top: Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first<br>• The inappropriate practices were stopped immediately and effectively and the employees involved have left Hempel<br>• Building of a strong Compliance function and strengthening of our internal control framework<br>• In 2017, we updated our Employee Code of Conduct, including training of all employees |
| **Fire leading to human injury and loss of production**<br>We have high standards for fire protection in Hempel and personal safety is a basic expectation in the company. However, fire is still a major risk as we handle flammable materials in our factories and warehouses. | • Loss of assets, production capacity, finished products and, in the worst case, human injury | • Hempel standard (based on NFPA and other global standards) for fire protection is part of our design manual for new factories<br>• Preventive maintenance of fire protection equipment<br>• Training programmes in fire safety<br>• Upgrading of the fire protection programme |

| Description of risk | Potential impact | Actions taken |
|---|---|---|
| **Organisational capacity**<br>Hempel is going through a fast-paced transformation and is executing on an ambitious strategy plan. There is a risk that Hempel does not have the right people with the right competencies, or sufficient talent and potential successors to drive the transformation. | • Delays in executing on our strategy<br>• Delays in growing our businesses | • Building organisational capacity through the Annual Management Cycle, including the Hempel Leadership Summit<br>• Cascading values and a shared leadership language<br>• Development of talent programmes at all levels of the organisation to build a stronger talent pipeline<br>• Annual review of the talent pool to identify top talents and successors |
| **Market risk and trends**<br>Large structural changes to the coatings industry could come through disrupted end-markets (e.g. changes in the energy mix, in construction materials or in trade patterns). Structural changes could also come from the ongoing consolidation in the coatings industry and changes to the competitive landscape. | • Reduction in size of the coatings market<br>• Weakening of competitive position<br>• Potential significant impact on Hempel's sales and earnings | • Monitoring technology trends in Hempel's end markets<br>• Increasing focus on product innovation through partnerships with customers and universities |
| **Raw material prices**<br>Raw materials account for a large share of the Group's costs and prices are volatile. | • Potentially significant impact on Hempel's profits and cash flow | • Only a part of our key raw materials are traded on a commodity exchange, so effective hedging on most raw materials is not possible<br>• We currently hedge part of our annual consumption of zinc and copper, which constitutes less than 10 per cent of our total raw material costs<br>• Hedging of our raw material exposure thus mainly takes place through continuous adjustment of sales prices of our products |

# Research & Development

**Focusing on creating value for customers.**

Hempel R&D is a global organisation that thinks, works and collaborates with customers and other external partners around the world to develop innovative and trusted solutions that protect our customers' assets and add value to their businesses. We create this value by developing new solutions, optimising existing solutions and supporting our customers with expert technical advice.

To increase focus on value creation, we reorganised our R&D organisation in 2017 into four different areas.

- *New Solution Development focuses on delivering trusted solutions to our customers to protect their valuable assets.*
- *Product Optimisation works to continually optimise existing products to improve performance.*
- *Explorative Innovation and New Technologies explores new technologies that go beyond coatings in order to deliver superior solutions to customers.*
- *R&D Technical Advisory delivers technical support that makes Hempel stand out in the eyes of our customers.*

We measure the progress of our innovation strategy by the gross profit generated from new product solutions. We improved in this area in 2016, and did so again in 2017, demonstrating that we are on the right track. We will continue to increase our R&D investments in 2018.

**Strategic external collaborations**
At Hempel, innovation starts with the customer. We partner with our customers to develop solutions that meet their needs. Examples of this in 2017 include our work with companies in China and the US.

In China, we successfully developed a new pipeline coating with a Chinese oil and gas company. The new solvent-free product delivers excellent corrosion protection, impact resistance and surface-tolerant performance for both newbuild and maintenance, while being significantly more environmentally friendly than solvent-borne alternatives. In the US, we collaborated with one of the world's leading integrated energy companies to co-develop a superior solution for maintenance in offshore environments – a growing problem in the oil and gas upstream industry.

In addition to customer partnerships, we collaborate with universities, research groups, technology providers and suppliers across the world, leveraging our global R&D network that spans 12 countries to develop superior solutions for our customers.

**Highest patent activity ever in 2017**
We protect our innovations. In terms of patents filed, 2017 was a record year for Hempel. This was the result of our increased focus on innovation and technology development, and the patents filed relate to new coating technologies as well as new technologies that go beyond coatings.

**Investing in future R&D**
We are investing in a new R&D centre focused solely on passive fire protection coatings, located in Spain and due to open towards the end of 2018. The investment demonstrates our commitment to further developing our range of life-saving coatings for both cellulosic and hydrocarbon fires. We are currently developing a coatings range for the hydrocarbon pool fire market, and we launched our first product in this range in 2017. Hempafire Pool 200 has been specially developed for onshore markets, including oil refineries, petrochemical plants and power stations.

## Corporate responsibility

**A strong social commitment has been at the heart of our values since Hempel was founded in 1915.**

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

## Ethical behaviour

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

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

**Building a strong Compliance function**

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

- In 2017, we released an updated Employee Code of Conduct to make it clear what is expected of our employees in different business situations. As part of this, we launched a tailor-made Code of Conduct eLearning for more than 3,800 employees, reaching a 100 per cent completion and pass rate. Employees without a Hempel email address will complete Code of Conduct training in 2018.
- We introduced a new Hempel Ethics Hotline, operated by an external partner, in early 2017. The hotline can be used by any stakeholder, both internal and external, and reports can be made anonymously. At the end of 2017, the hotline was available in almost all Hempel countries. It will be made available in the remaining countries, where legal approvals are pending, in 2018. In 2017, we received 53 whistleblower reports from 19 countries. We consider the substantial increase in reporting activity to be proof that our reporting channel is working and that employees and other stakeholders are committed to the highest level of transparency and ethical behaviour.
- We introduced an online collaboration site and hotline called ComplianceHelp, where employees can seek guidance and ask for help on specific matters.
- We strengthened our Ethics Committee, which now consists of: the Group Chief Financial Officer; Group Chief People and Culture Officer; Group General Counsel; Head of Group Internal Audit; and the Compliance and Corporate Responsibility Director. The Ethics Committee evaluates the handling of all whistleblower cases and makes critical decisions in regard to cases.
- We further expanded the Group Internal Audit function. The Group Internal Audit function has a reporting obligation to the Audit Committee of the Board of Directors in Hempel A/S.

**Ensuring compliance across the Hempel globe**

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

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

# Health & safety

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

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

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

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

In October 2017, we launched Safety Excellence at our production facility in Dallas, in the US. Employee feedback, from shop floor to senior management, was highly positive. We will continue to roll-out Safety Excellence across all remaining Hempel factories during 2018. The programme will also be used to support other parts of our business, including our Services organisation and R&D centres.

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

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

## Environment

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

When considering the direct environmental impact of our own operations, we were challenged in 2017. Our target to reduce our relative CO2 emissions from energy consumption was not met, and energy consumption increased overall. The increase was driven by a number of different factors, such as implementation of waste gas treatment in our Chinese factories, automation of process steps and a general update of ventilation in several of our factories.

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

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

Our site in Malaysia was selected as the overall winner, where they had successfully reduced paint can disposal. Overall, the video challenge generated seven new

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

## Health, safety and environmental data

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

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

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

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

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

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

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

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

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

**Carbon footprint**
Scope 1 covers direct emissions originating from Hempel sites. Scope 1 emissions are linked to the energy used in the form of fuel (fuel oils and natural gas) used by Hempel (see above). The consumption of fuels is converted to $CO_2$ emissions by applying relevant Greenhouse Gas Conversion Factors for Company Reporting from the Department for the Environment, Food & Rural Affairs (Defra) in the UK for the relevant year.

Scope 2 covers indirect emissions from purchased electricity and district heating at Hempel sites. The consumption of electricity and district heating is converted to $CO_2$ emissions by applying the location-based conversion actors from the International Energy Agency (2016 & 2017) and Defra (2016 & 2017, v1.0) databases.

## Responsible supply chain management

**Our commitment to the UN Global Compact and the United Nations' Guiding Principles on Business and Human Rights guides the initiatives**

Established in 2013, our Responsible Procurement Committee consists of our Group Procurement Director and our Compliance and Corporate Responsibility Director, as well as subject matter experts from these departments. Together, this team works to ensure legal compliance as well as progress in this important area.

**Responsible Procurement Programme**
As a signee to the UN Global Compact, we commit to extending its principles to our suppliers. This is done through the due diligence process in our Responsible Procurement Programme, which is a combination of third-party auditing by EcoVadis, as well as internal audits and screening of new suppliers.

Our Supplier Policy clearly states what we expect of our suppliers, including our requirement that they work with respect for their employees and the environment. Before entering into an agreement with a major supplier, we perform a due diligence assessment covering a number of areas, from human rights and anti-corruption to environmental issues. We never work with suppliers who employ child labour or forced labour.

Our audit process of existing suppliers is built on a risk analysis and suppliers are selected for audit based on the products or services they supply, as well as the country in which they operate. We mainly focus our efforts on suppliers who we deem to have the highest risk of non-compliance.

In 2017, we had particular focus on suppliers in the Middle East, Asia and Russia, because there can be a high risk of health, safety and environmental issues, as well as the use of forced labour and child labour, in these regions.

As a result of our Responsible Procurement Programme work in 2017, four suppliers received a low score. These suppliers will be audited on site by our procurement and quality staff in 2018 to ensure that their business processes meet our requirements and that improvement plans are put in place if needed. If a supplier fails to meet our requirements in terms of improvement to existing processes, the business relationship will be discontinued.

In 2017, we trained our indirect procurement staff in how to identify risk areas regarding suppliers. We will extend our due diligence procedures to cover more indirect spend suppliers in 2018.

**Conflict minerals**
We do not use conflict minerals - such as tantalum, tin, gold or tungsten - or their derivatives in our products. This means we already comply with the requirements in future legislation in the EU Conflict Minerals Regulation, as well as the existing Dodd-Frank Act Section 1502 on due diligence of conflict minerals.

# Our people

**We come from many different countries and walks of life, and bring many different skills and viewpoints to our work. We believe that this diversity is key to our business success, and we do all we can to create an inclusive and supportive work environment, where we all have the chance to develop and fulfill our potential.**

**Employee Engagement Survey**
Our global Employee Engagement Survey was carried out for the second time in 2017. As in 2016, we obtained an impressive response rate of 93 per cent. The survey was available in 17 languages and was carried out in 80 countries.

The survey showed that satisfaction and motivation among employees remained at a medium level, improving by 1 index point, from 68 to 69. However, employee association was again very high, 82 index points, which indicates that most employees across the world are very loyal and committed to the company.

Hempel is going through a fast-paced industrial transformation, with many change projects initiated. This has put pressure on the organisation, which is reflected in the survey results. Overall, our global employee Net Promoter Score (eNPS) fell from 25 in 2016 to 20 in 2017. There were significant variations between regions. Low eNPS scores were obtained in areas impacted by large organisational and strategic changes. The region with the biggest improvement was Middle East (East), which saw its eNPS rise from 23 in 2016 to 56 in 2017. In contrast, our Asia-Pacific region, which was heavily impacted by large organisational change, saw its eNPS drop from 24 in 2016 to 2 in 2017. We are working closely with the business units that were challenged by low scores to find the root cause and improve. We can also see that there is a need to improve how we cascade information and strategic direction to the organisation, as our eNPS was significantly higher at management level than for employees without managerial responsibility. Therefore, we began several initiatives to ensure that our *Journey to Excellence* strategy is communicated throughout the organisation, not least by regular town hall meetings across the world.

**New performance appraisal dialogue tool**
In our Employee Engagement Survey, our score for learning and development was 78 in 2017, an improvement of 2 index points. This is the result of our new performance appraisal dialogue tool, called Let's Talk, which was introduced in early 2017 and enables managers and employees to have a close dialogue about the employee's potential, career aspirations and results in connection with their personal development plans. During the year, 93 per cent of all employees with a Hempel email address completed the Let's Talk process.

**Improving talent management**
We continued our focus on leadership development in 2017, holding Explorer – Next Generation training for new and potential leaders, as well as extensive leadership and change management training for more experienced leaders.

We also focused on developing our talent pipeline and conducted an extensive talent review of more than 500 existing and potential leaders. The talent review feeds into the Let's Talk process. This ensures that we recognise talents in our organisation, provide them with the right development opportunities, and help them realise their full potential. Knowing our talents will ensure that we can promote talent from within and thereby create a balance between external hiring and internal promotion. This will ensure that we fill mission critical positions with our own talents and provide development opportunities for our people, which helps maintain high engagement and motivation.

**Ensuring diversity and equal opportunity**
Our Diversity and Equal Opportunity Policy applies to all Hempel offices and ensures that all employment and career development decisions are based on merit and made to support business goals.

We are committed to creating a much more representative distribution of men and women at management level, and have an action plan in place to increase the number of women in senior management positions. We monitor the distribution of male and female employees in our workforce, and we place special focus on this during our talent review, successor planning process, leadership development, etc. One finding from our talent management review was that the talent among our potential and existing female leaders exceeded the share of women who currently hold senior leadership positions. Therefore, we decided to begin a mentoring initiative that will enable our female talents to be mentored by experienced colleagues, giving them the encouragement and support they need to pursue greater career opportunities.

The Board of Directors fundamentally believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. In 2017, one female was elected at the Annual General Meeting to the Board of Directors. The Board of Directors' goal is to have at least two female Board members elected at the Annual General The Board of Directors fundamentally believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. In 2017, one female was elected at the Annual General Meeting to the Board of Directors. The Board of Directors' goal is to have at least two female Board members elected at the Annual General Meeting by 2020.

In 2017, women made up 25 per cent of our employees, up from 24 per cent in 2016. At the end of 2017, women filled 19 per cent of our senior management positions, up from 18 per cent in 2016. Our aim is to reach 25 per cent by 2020.

**Girl's Day in Science**
We wish to encourage girls to study science. Therefore, 40 girls from Trongårds School in Lyngby, Denmark visited Hempel in August to learn how science can be translated into environmental improvements, including how our silicone coatings for ship hulls can reduce vessel $CO_2$ emissions. Our goal is that at least one of the girls will work for us one day.

**Hempel Employee Foundation**
The Hempel Employee Foundation provides support for current and former Hempel employees, as well as their close family members. Financial support can be given in case of illness or to enable applicants to pursue their dream of quality education. The Hempel Employee Foundation was expanded in 2017.

# Financial statements

## Contents

The notes structure is grouped into five sections, focusing on different aspects of the financial information. The accounting policies and key accounting estimates and judgements have been incorporated into the notes to make the note information more transparent and clear.

### Primary statements



### Section 1 Basis of preparation



### Section 2 Results for the year



### Section 3 Operating assets and liabilities



### Section 4 Capital structure and financing items



### Section 5 Other disclosures

## Income statement

| in EUR thousands | | Group | | Parent Company | |
|---|---|---|---|---|---|
| Note | | 2017 | 2016 | 2017 | 2016 |
| 2.1 | Revenue | 1,378,319 | 1,424,414 | 0 | 0 |
| | Production costs | -815,509 | -802,032 | 0 | 0 |
| | **Gross profit** | **562,810** | **622,382** | **0** | **0** |
| | Sales and distribution costs | -327,386 | -349,230 | 0 | 0 |
| | Administrative costs | -135,570 | -145,368 | -397 | -475 |
| 2.3 | Other operating income | 14,437 | 1,185 | 0 | 0 |
| 2.3 | Other operating expenses | -47 | -54 | 0 | 0 |
| | **Operating profit before special items** | **114,244** | **128,915** | **-397** | **-475** |
| 2.4 | Special items | 0 | -35,718 | 0 | 0 |
| | **Operating profit** | **114,244** | **93,197** | **-397** | **-475** |
| 2.5 | Income from investments in subsidiaries | 0 | 0 | 40,746 | 32,770 |
| 2.5 | Income from investments in associates | 0 | 2,360 | 0 | 0 |
| | **Profit before financial income and expenses** | **114,244** | **95,557** | **40,349** | **32,295** |
| 4.5 | Net financials | -21,186 | -18,582 | 1,618 | -309 |
| | **Profit before tax** | **93,058** | **76,975** | **41,967** | **31,986** |
| 2.6 | Income tax | -37,027 | -30,989 | -261 | 172 |
| | **Profit after tax** | **56,031** | **45,986** | **41,706** | **32,158** |

## Distribution of profit

| | Group | | Parent Company | |
|---|---|---|---|---|
| **Proposed distribution of profit:** | 2017 | 2016 | 2017 | 2016 |
| Dividend | 0 | 0 | 0 | 0 |
| Reserve for net revaluation under the equity method | 0 | 1,452 | 40,812 | -15,164 |
| Minority interests | 14,325 | 13,762 | | |
| Retained earnings | 41,706 | 30,772 | 894 | 47,322 |
| | **56,031** | **45,986** | **41,706** | **32,158** |

## Balance sheet as at 31 December – assets

| in EUR thousands | | Group | | Parent Company | |
|---|---|---|---|---|---|
| Note | | 2017 | 2016 | 2017 | 2016 |
| | Goodwill | 74,257 | 94,705 | - | - |
| | Software | 4,551 | 5,130 | - | - |
| | Software under development | 3,041 | 2,894 | - | - |
| | Customer relationships | 44,967 | 54,799 | - | - |
| | Other intangible assets | 57,409 | 61,499 | - | - |
| 3.1 | **Intangible assets** | **184,225** | **219,027** | **-** | **-** |
| | Land and buildings | 139,715 | 147,869 | - | - |
| | Assets under construction | 21,555 | 25,375 | - | - |
| | Plant and machinery | 75,443 | 78,221 | - | - |
| | Other fixed assets | 21,669 | 20,722 | - | - |
| 3.2 | **Property, plant and equipment** | **258,382** | **272,187** | **-** | **-** |
| 5.5 | Investments in subsidiaries | | | 449,486 | 465,734 |
| 3.3 | Other securities and investments | 32,373 | 1,184 | 31,759 | 751 |
| 2.6 | Deferred tax assets | 51,688 | 36,064 | - | - |
| | Deposits etc. | 5,012 | 3,895 | - | - |
| | **Fixed asset investments** | **89,073** | **41,143** | **481,245** | **466,485** |
| | **Total non-current assets** | **531,680** | **532,357** | **481,245** | **466,485** |
| | Raw materials and consumables | 62,087 | 66,063 | - | - |
| | Work in progress | 5,619 | 4,598 | - | - |
| | Finished goods | 110,530 | 119,043 | - | - |
| 3.4 | **Inventories** | **178,236** | **189,704** | **-** | **-** |
| 3.6 | Trade receivables | 309,375 | 366,008 | - | - |
| | Receivables from Group enterprises | - | 85 | 47,482 | 53,141 |
| 2.6 | Tax receivables | 6,376 | 4,897 | - | 173 |
| | Other receivables | 39,230 | 60,301 | - | - |
| 3.5 | Prepayments | 7,359 | 5,417 | - | - |
| 3.6 | **Receivables** | **362,340** | **436,708** | **47,482** | **53,314** |
| | **Cash at bank and in hand** | 113,508 | 115,112 | **2,904** | **121** |
| | **Current assets** | **654,084** | **741,524** | **50,386** | **53,435** |
| | **Total assets** | **1,185,764** | **1,273,881** | **531,631** | **519,920** |

## Balance sheet as at 31 December – equity and liabilities

| in EUR thousands | | Group | | Parent Company | |
|---|---|---|---|---|---|
| Note | | 2017 | 2016 | 2017 | 2016 |
| | Share capital | 15,450 | 15,450 | 15,450 | 15,450 |
| | Reserve for net revaluation under The equity method | - | - | 232,541 | 248,483 |
| | Retained earnings | 515,876 | 504,442 | 283,335 | 255,959 |
| | Proposed dividend for the year | - | - | - | - |
| 4.1 | | **531,326** | **519,892** | **531,326** | **519,892** |
| | **Minority interests** | **51,518** | **66,791** | | |
| | **Total Equity** | **582,844** | **586,683** | | |
| 2.6 | Deferred tax liabilities | 51,395 | 22,501 | - | - |
| 3.7 | Pension obligations and similar obligations | 21,569 | 21,218 | - | - |
| 3.8 | Other provisions | 68,697 | 90,296 | - | - |
| | **Provisions** | **141,661** | **134,015** | **-** | **-** |
| 4.2 | Bank loans etc. | 18,607 | 99,384 | - | - |
| | **Long-term debt** | **18,607** | **99,384** | **-** | **-** |
| | Overdraft facilities | 49,437 | 66,621 | - | - |
| 4.2 | Short-term part of bank loans etc. | 11,789 | 10,083 | - | - |
| | Trade payables | 200,117 | 185,265 | - | - |
| | Payables to Group enterprises | 5,436 | 4,690 | 24 | - |
| 2.6 | Tax liabilities | 12,955 | 19,316 | 262 | - |
| 3.9 | Other payables | 162,918 | 167,824 | 19 | 28 |
| | **Total current liabilities** | **442,652** | **453,799** | **305** | **28** |
| | **Total liabilities** | **461,259** | **553,183** | **305** | **28** |
| | **Total equity and liabilities** | **1,185,764** | **1,273,881** | **531,631** | **519,920** |

## Cash flow statement

| Note | In EUR thousands | Group 2017 | Group 2016 |
|---|---|---|---|
| | **Cash flows from operating activities** | | |
| | Operating profit | 114,244 | 93,197 |
| 5.2 | Adjustment for non-cash operating items | 24,130 | 94,888 |
| | Income tax paid | - 32,201 | - 40,256 |
| | **Total cash flows from operating activities before changes in working capital** | **106,173** | **147,829** |
| | Change in receivables | 38,808 | 19,840 |
| | Change in inventories | - 1,415 | 30,872 |
| | Change in trade payables | 28,885 | 35,723 |
| | **Total change in working capital** | **66,278** | **86,435** |
| | **Total cash flows from operating activities** | **172,451** | **234,264** |
| | **Cash flows from investing activities** | | |
| 4.7 | Acquisition of enterprises | - | - 7,308 |
| 3.2 | Purchase of property, plant and equipment | - 35,203 | - 39,969 |
| 3.1 | Purchase of intangible assets | - 8,285 | - 3,942 |
| 3.3 | Investments in other securities and investments | - 29,916 | - 751 |
| | Sale of property, plant and equipment | 18,695 | 3,320 |
| | Received grant | - | 4,912 |
| | Sales of fixed asset investments | 12,387 | 33,854 |
| 5.5 | Dividend received from associates | - | 2,069 |
| | **Total cash flows from investing activities** | **- 42,322** | **- 7,815** |
| | **Free cash flow** | **130,129** | **226,449** |
| | **Cash flows from financing activities** | | |
| | Change in bank borrowings etc. | - 80,995 | - 122,609 |
| | Interest income and expenses, net | - 10,810 | - 15,423 |
| | Change in minority shares (dividend distributed etc.) | - 20,125 | - 10,487 |
| | Other financial assets | - | - 389 |
| | Dividend distributed to shareholders | - | - 69,173 |
| | Capital losses and gains, net | 3,562 | - 4,437 |
| | **Total cash flows from financing activities** | **- 108,368** | **- 222,518** |
| | **Net Cash Flow** | **21,761** | **3,931** |
| 4.6 | Cash and equivalents, net, beginning of year | 48,491 | 43,595 |
| | Exchange adjustment | - 6,181 | 965 |
| 4.6 | Cash and equivalents, net, end of year | **64,071** | **48,491** |
| | Bank facilities available | 534,657 | 534,657 |
| | **Capital resources available** | **598,728** | **583,148** |

## Statement of changes in equity as at 31 December

in EUR thousands

| Note | | Group | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Reserve for net revaluation | Retained earnings | Proposed dividend | Shareholders in Hempel Holding A/S share of equity | Minority Interest | Total |
| | Equity | | | | | | | |
| | Equity at 1 January 2016 | 15,450 | 18,836 | 467,797 | - | 502,083 | 62,883 | 564,966 |
| | Net profit for the year | | 1,452 | 30,706 | - | 32,158 | 13,828 | 45,986 |
| | Exchange adjustment at year-end rate | | 665 | - 13,018 | - | - 12,353 | 567 | - 11,786 |
| | Hedging of future transactions | | - | 1,477 | - | 1,477 | - | 1,477 |
| | Remeasurements of defined benefit plans | | - | - 3,473 | - | - 3,473 | - | - 3,473 |
| | Dividend distributed | | - 2,069 | 2,069 | - | - | - 10,487 | - 10,487 |
| | Proposed Dividend | | - 18,884 | 18,884 | | | | - |
| 4.1 | **Equity at 31 December 2016** | **15,450** | **-** | **504,442** | **-** | **519,892** | **66,791** | **586,683** |
| | Net profit for the year | | - | 41,706 | - | 41,706 | 14,325 | 56,031 |
| | Exchange adjustment at year-end rate | | - | - 29,853 | - | - 29,853 | - 9,086 | - 38,939 |
| | Hedging of future transactions | | - | - | - | - | - | - |
| | Remeasurements of defined benefit plans | | - | - 419 | - | - 419 | - 386 | - 805 |
| | Dividend distributed | | - | - | - | - | - 20,126 | - 20,126 |
| | Proposed Dividend | | - | - | - | - | - | - |
| 4.1 | **Equity at 31 December 2017** | **15,450** | **-** | **515,876** | **-** | **531,326** | **51,518** | **582,844** |

| Note | | Parent Company | | | | |
|---|---|---|---|---|---|---|
| | | Share capital | Reserve for net revaluation | Retained earnings | Proposed dividend | Total |
| | Equity | | | | | |
| | Equity at 1 January 2016 | 15,450 | 278,945 | 207,688 | - | 502,083 |
| | Net profit for the year | | 32,836 | - 678 | - | 32,158 |
| | Dividend distributed | | - 48,000 | 48,000 | - | - |
| | Exchange adjustment at year-end rate | | - 13,302 | 949 | - | - 12,353 |
| | Hedging of future transactions | | 1,477 | - | - | 1,477 |
| | Remeasurements of defined benefit plans | | - 3,473 | - | - | - 3,473 |
| | Dividend distributed | | | - | - | - |
| 4.1 | **Equity at 31 December 2016** | **15,450** | **248,483** | **255,959** | **-** | **519,892** |
| | Net profit for the year | | 40,812 | 894 | - | 41,706 |
| | Dividend distributed | | - 26,864 | 26,864 | - | - |
| | Exchange adjustment at year-end rate | | - 29,471 | - 382 | - | - 29,853 |
| | Hedging of future transactions | | - | - | - | - |
| | Remeasurements of defined benefit plans | | - 419 | - | - | - 419 |
| 4.1 | **Equity at 31 December 2017** | **15,450** | **232,541** | **283,335** | **-** | **531,326** |

# Section 1
Basis of preparation

## 1.1 General accounting policies
All entities in the Hempel Group follow the same Group accounting policies. This section gives a summary of the significant accounting policies.

**General**
The Annual Report of Hempel Holding A/S for 2017 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 2017 is presented in EUR thousands. The accounting policies applied remain unchanged from previous years.

**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 were previously 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 Group 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 Group 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 in individual sections.

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.

**Basis of consolidation**
The consolidated financial statements comprise the parent company, Hempel Holding A/S, and subsidiaries in which the parent company directly or indirectly holds more than 50 per cent of the votes or in which the parent company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20 per cent and 50 per cent of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The parent company's investments in the consolidated subsidiaries are set off against the parent company's share of the net asset value of subsidiaries stated at the time of consolidation.

**Minority interests**
On statement of Group results and Group equity, the shares of results and equity of subsidiaries attributable to minority interests are recognised as separate items in the distribution of profits and the equity. Minority interests are recognised on the basis of a re-measurement of acquired assets and liabilities to fair value at the time of acquisition of subsidiaries.

On subsequent changes to minority interests, the changed share is included in results as of the date of change.

**Foreign currency translation**
*Functional and presentation currency*
Items included in the financial statements of each of Hempel's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies. The consolidated financial statements are presented in euro.

*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 euros 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.

**Classification of operating expenses in the income statement**
*Production costs*

Production costs comprise costs incurred to achieve revenue for the year. Costs comprise raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc., as well as operation, administration and management of factories.

Production costs also include research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs. Also included are inventory write-downs.

*Sales and distribution costs*
Sales and distribution expenses comprise costs incurred to distribute sales and for sales campaigns, including costs for sales and distribution staff, advertising costs and depreciation of sales equipment.

*Administrative costs*
Administrative costs comprise costs incurred for management and administration of the Group, including costs for administrative staff and management as well as office costs and depreciation and write-downs for bad debt losses. Amortisation of goodwill, customer relationships and brands are recognised in administrative costs.

**Cash flow statement**
The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement for the Group 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 Group at the beginning and end of the year. The cash flow statement cannot be immediately derived from the published financial records.

*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, interest and tax paid 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 principal long-term debt as well as payments to and from shareholders.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less and are subject to an insignificant

Hempel's accounting policies are described in each of the individual notes to the consolidated financial statements.

**Separate presentation of special items**
With reference to §11(3) of the Danish Financial Statements Act, the Hempel Group has departed from the presentation requirements in the Act. It is management's assessment that a separate presentation of certain costs provides a true and fair view of the financial statements. The Hempel Group has therefore presented costs related to identified and potential irregularities within Hempel's subsidiaries in certain countries as `Special items´ in the income statement. Costs include potential penalties, costs associated with investigations performed, severance payments as well as potential compensation to impacted parties, etc. Management has found it necessary to present these costs separately as they are material to the Group, non-recurring and indeed extraordinary in terms of Hempel's continuing global business. It is the view of management that a note disclosure only is not sufficient to ensure that the performance of the continuing business is understood correctly by the reader of the financial statements. Individual line items included in 'Operating profit' are impacted by a total of EUR 0 million (2016: EUR 36 million). Operating profit after special items, profit after tax, total assets, total equity or cash flow are not impacted by this presentation.

# Section 2
Results for the year

Note

2.1 **Revenue, segment information**

**Accounting policies**
Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk has been made before year end.

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

**Segments**
Reporting of operating segments is based on internal reporting to regional and group management.

Hempel operates in three geographical regions EMEA (Europe, including Russia, the Middle East and Africa), Asia-Pacific and Americas. Sales are attributed to geographical regions according to the location of the customer. 1)

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| EMEA | 797,731 | 816,244 | - | - |
| Asia-Pacific | 398,204 | 413,980 | - | - |
| Americas | 182,384 | 194,190 | - | - |
| | **1,378,319** | **1,424,414** | **-** | **-** |

1) For competitive reasons, a breakdown of revenue on activities has been left out (in accordance with section 96 of the Danish Financial Statements Act).

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

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| **Employee costs:** | **2017** | **2016** | **2017** | **2016** |
| Board of Directors | 448 | 425 | 138 | 140 |
| Wages and salaries etc. | 265,939 | 270,782 | - | - |
| Wages and salaries etc. on special items | - | 1,396 | | |
| Pension contributions | 14,393 | 14,147 | - | - |
| | **280,780** | **286,750** | **138** | **140** |
| Average number of employees | 5,740 | 5,787 | - | - |
| **Staff expenses have been recognised in the income statement as follows:** | | | | |
| Production costs | 70,157 | 71,272 | - | - |
| Selling and distribution expenses | 145,644 | 157,359 | - | - |
| Administrative expenses | 64,980 | 58,119 | 138 | 140 |
| | **280,780** | **286,750** | **138** | **140** |

With reference to section 98b of the Danish Financial statement act the remuneration to the executive director is not disclosed as Management in the parent company consists of one person only.

2.3 **Other operating income and expenses**

**Accounting policies**
Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprise, including gains and losses on the sale of intangible assets and property, plant and equipment.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Other operating income 1) | 14,437 | 1,185 | - | - |
| Other operating expenses | - 47 | - 54 | - | - |
| | **14,390** | **1,131** | **-** | **-** |

1) Other operating incomed comprises sale of properties in 2016

Note

## 2.4 Special Items

**Accounting policies**

Special items comprise costs related to potential penalties, costs associated with investigations performed and severance payments, as well as potential compensation to impacted parties, etc.

| *in EUR thousands* | Group | |
|---|---|---|
| | **2017** | **2016** |
| Administrative costs | - | -35,718 |
| **Operating profit** | **-** | **-35,718** |
| Net financials | - | -1,118 |
| **Profit before tax** | **-** | **-36,836** |
| Income tax | - | 3,164 |
| **Net profit for the year** | **-** | **-40,000** |

Note

**2.5 Income from investments in subsidiaries and associates**

**Accounting policies**

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

**Income from investments in subsidiaries**

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Profit before tax | - | - | 77,578 | 63,997 |
| Tax for the year | - | - | - 36,766 | - 31,161 |
| Minority Interest | - | - | - 66 | - 66 |
| Profit after tax | - | - | **40,746** | **32,770** |

**Income from investments in associates**

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Profit after tax | - | 2,360 | - | - |
| | - | 2,360 | - | - |

**2.6 Income tax and tax assets and liabilities**

**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 company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Hempel is subject to income taxes around the world. Significant judgement is required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities, and provision for uncertain tax positions. Hempel recognises deferred income tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. management's has considered future taxable income when assessing whether deferred income tax assets should be recognised. In the course of conducting business globally, transfer pricing disputes with tax authorities may occur, and Management judgement is applied to assess the possible outcome of such disputes. Hempel believes that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Hempel Group:** | | | | |
| Profit before tax | 93,058 | 76,975 | | |
| Income from investments in associates | - | - 2,360 | | |
| | 93,058 | 74,615 | | |
| **Income tax on profit for the year:** | | | | |
| Total tax before special items | - 37,027 | - 30,936 | - 261 | 172 |
| Total tax on special items | - | - 3,164 | - | - |
| Total tax | - 37,027 | - 34,100 | - 261 | 172 |
| Tax in respect of subsidiaries | | | - | - |
| Tax in respect of associates | - | 3,111 | - | - |
| | - 37,027 | - 30,989 | - 261 | 172 |
| Current tax for the year | - 28,757 | - 36,911 | - 261 | 173 |
| Deferred tax for the year | 8,567 | 8,553 | - | - |
| Of which entered at Equity | - | - 367 | - | - |
| Change in US tax rate | - 9,000 | | | |
| Adjustment in respect of previous years | - 7,837 | - 2,264 | - | - 1 |
| **Income tax** | **- 37,027** | **- 30,989** | **- 261** | **172** |

**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 carry-forwards, are measured at the value at settlement of the liability, respectively. 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.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Deferred tax (net) :** | | | | |
| Deferred tax, beginning of year | 13,560 | 5,255 | - | - |
| Exchange adjustment at year-end rate | - 2,386 | 1,769 | - | - |
| Acquisition of enterprises | - | - | - | - |
| Deferred tax for the year | 8,569 | 8,787 | - | - |
| Adjustment in respect of previous years | - 10,743 | - 2,248 | - | - |
| Change in tax rates | - 9,000 | | | |
| | **-** | **13,563** | **-** | **-** |

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Deferred tax (net) relates to the following items:** | | | | |
| Intangible assets | 5,948 | - 5,038 | - | - |
| Property, plant and equipment | 2,397 | - 667 | - | - |
| Fixed asset investments | 58 | - 41 | - | - |
| Inventories | 2,983 | 4,763 | - | - |
| Trade receivables | 3,155 | 2,220 | - | - |
| Provisions and other payables | - 25,874 | 7,006 | - | - |
| Tax losses | 11,626 | 5,320 | - | - |
| | **293** | **13,563** | - | - |

At 31 December 2017, the Group had recognised a deferred tax asset comprising tax losses carried forward of EUR 5 million (2016: EUR 5 million). Management believes it is likely that the unutilised tax losses can be utilised within the next years.

The Group has non-recognised tax assets of EUR 12 million (2016: EUR 28 million of, which the parent company represented EUR 13 million in 2016, which is recognised during 2017).

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| **The net value is recognised in the balance sheet as follows:** | 2017 | 2016 | 2017 | 2016 |
| Deferred tax assets | 51,688 | 36,064 | - | - |
| Deferred tax liabilities | - 51,395 | - 22,501 | - | - |
| | **293** | **13,563** | **-** | **-** |

**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 financial income and expenses.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| **The net value is recognised in the balance sheet as follows:** | 2017 | 2016 | 2017 | 2016 |
| Current tax assets | 6,376 | 4,897 | - | 173 |
| Current tax liabilities | - 12,955 | - 19,316 | - 262 | - |
| | **- 6,579** | **- 14,419** | **- 262** | **173** |

## Section 3
Operating assets and liabilities

Note
3.1 Intangible assets

**Accounting policies**
Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life on the basis of managements experience within the individual areas, which is assessed at 2-20 years.

Development projects concerning products, processes and software that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the product or process in question, are recognised as intangible assets. The costs comprise expenses, including salaries and amortisation, directly or indirectly attributable to these development projects.

Upon completion of the development project, costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is 3-10 years.

Other development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

Customer relations are measured at cost less accumulated amortisation and impairment losses. The period of amortisation is 2-17 years.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives. The amortisation period is 2-25 years.

**Impairment**
The carrying amounts of intangible assets are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation. If so, the asset is written down to its lower recoverable amount.

| *in EUR thousands* | Group | | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | Software | Software under development | Customer relationships | Other intangible assets | Total |
| Costs, beginning of year | 159,159 | 34,500 | 2,894 | 124,106 | 91,744 | 412,403 |
| Exchange adjustment at year-end rate | - 14,985 | - 1,802 | - 4 | - 12,063 | - 4,251 | - 33,105 |
| Acquisition of enterprises | - | - | - | - | - | - |
| Additions for the year | - | 2,954 | 524 | - | 4,807 | 8,285 |
| Disposals for the year | - | - 922 | - | - | - | - 922 |
| Transfer to/from other items | - | 507 | - 373 | - | - | 134 |
| **Costs, end of year** | **144,174** | **35,237** | **3,041** | **112,043** | **92,300** | **386,795** |
| Accumulated amortisation, beginning of year | 64,454 | 29,370 | - | 69,307 | 30,245 | 193,376 |
| Exchange adjustment at year-end rate | - 7,005 | - 1,541 | - | - 7,791 | - 1,051 | - 17,388 |
| Amortisation for the year | 12,468 | 3,779 | - | 5,560 | 5,697 | 27,504 |
| Reversal of amortisation of assets sold | - | - 922 | - | - | - | - 922 |
| **Accumulated amortisation, end of year** | **69,917** | **30,686** | **-** | **67,076** | **34,891** | **202,570** |
| **Carrying amount, end of year** | **74,257** | **4,551** | **3,041** | **44,967** | **57,409** | **184,225** |

Other intangible assets comprises brands, formulas, non compete and lease rights

**Amortisation and impairment are specified as follows:**

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Production costs | 878 | 875 | - | - |
| Sales and distribution costs | 799 | 750 | - | - |
| Administrative costs | 25,827 | 29,805 | - | - |
| | 27,504 | 31,430 | - | - |

Note

3.2 **Property, plant and equipment**

**Accounting policies**

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

Cost comprises 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, cost comprises 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 cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Leases in terms of which the Group 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 Group.

Depreciation based on cost 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 years |
| Laboratory equipment | 10 years |
| Plant and machinery | 10 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.

The assets' residual values and useful lives are reviewed annually. If residual value exceeds the carrying amount, depreciation is discontinued. If the depreciation period or the residual values are changed, the depreciation effect is recognised prospectively as a change in accounting estimates.

**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 thousands* | Group | | | | |
|---|---|---|---|---|---|
| | **Land and buildings** | **Plant and machinery** | **Other fixed assets** | **Assets under con-struction** | **Total** |
| Costs, beginning of year | 220,082 | 221,238 | 87,655 | 25,375 | 554,350 |
| Exchange adjustment at year-end rate | - 14,236 | - 13,165 | - 5,544 | - 2,239 | - 35,184 |
| Acquisition of enterprises | - | - | - | - | - |
| Additions for the year | 10,037 | 12,926 | 8,971 | 3,269 | 35,203 |
| Disposals for the year | - 4,910 | - 5,989 | - 1,787 | - 246 | - 12,932 |
| Transfer to/from other items | 285 | 3,376 | 770 | - 4,604 | - 173 |
| **Costs, end of year** | **211,258** | **218,386** | **90,065** | **21,555** | **541,264** |
| Accumulated amortisation, beginning of year | 72,213 | 143,017 | 66,933 | - | 282,163 |
| Exchange adjustment at year-end rate | - 6,084 | - 8,653 | - 4,299 | - | - 19,036 |
| Acquisition of enterprises | - | - | - | - | - |
| Depreciation for the year | 6,766 | 14,358 | 7,258 | - | 28,382 |
| Reversal of amortisation of assets sold | - 1,352 | - 5,779 | - 1,496 | - | - 8,627 |
| Transfer to/from other items | - | - | - | - | - |
| **Accumulated depreciation, end of year** | **71,543** | **142,943** | **68,396** | **-** | **282,882** |
| **Carrying amount, end of year** | **139,715** | **75,443** | **21,669** | **21,555** | **258,382** |
| Including leased assets of | **3,733** | **-** | **-** | **-** | **3,733** |
| including interest expenses of | **376** | **239** | **1** | **292** | **908** |

| *in EUR thousands* | Group | |
|---|---|---|
| **Depreciation and impairment are specified as follows:** | **2017** | **2016** |
| Production costs | 17,912 | 17,411 |
| Sales and distribution costs | 5,660 | 5,124 |
| Administrative costs | 4,810 | 4,291 |
| | **28,382** | **26,826** |

Note

3.3 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* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Costs, beginning of year | 1,173 | 33,665 | 751 | 33,665 |
| Acquisition of enterprises | - | 483 | - | - |
| Additions for the year | 29,916 | 751 | 29,916 | 751 |
| Disposals for the year | 173 | - 33,854 | - | - 33,792 |
| Exchange adjustment at year-end rate | - 2 | 128 | - 1 | 127 |
| **Costs, end of year** | **31,260** | **1,173** | **30,666** | **751** |
| Net revaluations, beginning of year | 11 | - 495 | - | - 495 |
| Acquisition of enterprises | - | - 11 | - | - |
| Net revaluations, for the year | 1,102 | 519 | 1,093 | 497 |
| Exchange adjustment at year-end rate | - | - 2 | - | - 2 |
| **Net revaluations, end of year** | **1,113** | **11** | **1,093** | **-** |
| **Carrying amount, end of year** | **32,373** | **1,184** | **31,759** | **751** |

The net values are specified as follows:

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Shares | 32,373 | 1,184 | 31,759 | 751 |
| | **32,373** | **1,184** | **31,759** | **751** |

3.4 Inventories

**Accounting policies**
Inventories are measured at the lower of cost under the FIFO principle.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value is calculated as the sales amount less costs of completion and costs necessary to make the sale.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Raw materials and consumables | 62,087 | 66,063 | - | - |
| Work in progress | 5,619 | 4,598 | - | - |
| Finished goods | 110,530 | 119,043 | - | - |
| | **178,236** | **189,704** | **-** | **-** |

3.5 Prepayments

**Accounting policies**
Prepayments comprise prepaid expenses relating to rent, insurance premium and interest.

Note

3.6 **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 Company'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* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Receivables | 362,340 | 436,708 | 47,482 | 53,314 |
| of which due more than one year from balance sheet date | 2,374 | 3,139 | - | - |

3.7 **Pension and similar assets and obligations**

**Accounting policies**

Hempel operates a number of defined contribution plans throughout the world. Hempel's contributions to the defined contribution plans are charged to the Income statement in the year to which they relate. In a few countries, Hempel still operates defined benefit plans. The costs for the year for defined benefit plans are determined using the projected unit credit method. This reflects services rendered by employees to the valuation dates and is based on actuarial assumptions primarily regarding discount rates used in determining the present value of benefits and projected rates of remuneration growth. Discount rates are based on the market yields of high-rated corporate bonds in the country concerned. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the period in which they arise. Past service costs are recognised immediately in the income statement. Pension assets are only recognised to the extent that Hempel is able to derive future economic benefits such as refunds from the plan or reductions of future contributions.

The net obligation recognised in the Balance sheet is reported as non-current asset and liabilities.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Pension and similar obligations comprise: | | | | |
| Pension and similar obligations | 58,501 | 58,313 | - | - |
| Fair value of assets related to the plans | - 36,932 | - 37,095 | - | - |
| Pension obligations (net) | 21,569 | 21,218 | - | - |
| | | | | |
| Recognition in the balance sheet: | | | | |
| Assets | - | - | - | - |
| Liabilities | 21,569 | 21,218 | - | - |
| Pension obligations recognised in the balance sheet (net) | 21,569 | 21,218 | - | - |
| | | | | |
| **Defined benefit plans** | | | | |
| Specification of plan assets: | | | | |
| Shares and properties | 14% | 30% | - | - |
| Fixed interest current asset investments | 78% | 69% | - | - |
| Cash at bank and in hand | 8% | 1% | - | - |
| Total | 100% | 100% | - | - |
| | | | | |
| Weighted average assumptions: | | | | |
| Discount rate | 2.0% | 2.1% | - | - |
| General wage inflation | 2.7% | 2.6% | - | - |
| General price inflation | 1.7% | 1.6% | - | - |

Note

## 3.8 Provisions

**Accounting policies**

Provisions are recognised when – in consequence of an event having occurred before or on the balance sheet date – the Group has a legal or constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions comprising provisions for environmental, warranty and restructuring obligations as well as other obligations are recognised and measured based on a best estimate of the expenses necessary to fulfil the obligations at the balance sheet date. The costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

Provisions for liabilities relating to environmental, warranty commitments and other provisions include factual, legal and estimated liabilities as a result of events occurring before the end of the financial year. Estimates are based on management's judgment.

| *in EUR thousands* | Group | | | | |
|---|---|---|---|---|---|
| | **Environmental obligations** | **Warranty commitments** | **Other provisions** | **2017 Total** | **2016 Total** |
| Total provisions, beginning of year | 20,695 | 13,266 | 56,335 | 90,296 | 56,160 |
| Exchange adjustment at year-end rate | - | - | - | - | - 598 |
| Reclassification | - 494 | - 329 | - 1,739 | - 2,562 | - 2,742 |
| Acquisition of enterprises | - | - | - | - | - |
| Additions for the year | 179 | 302 | 22 | 503 | 38,720 |
| Reversed | - 222 | - | - 4,514 | - 4,736 | - 412 |
| Consumed | - 260 | - 2,816 | - 11,728 | - 14,804 | - 832 |
| Total provisions, end of year | 19,898 | 10,423 | 38,376 | 68,697 | 90,296 |
| *Maturities are expected to be:* | | | | | |
| Within 1 year | 3,514 | 5,000 | 1,300 | 9,814 | 7,502 |
| Between 1 and 5 years | 9,834 | 5,423 | 8,010 | 23,267 | 56,795 |
| after 5 years | 6,550 | - | 29,066 | 35,616 | 25,999 |
| | 19,898 | 10,423 | 38,376 | 68,697 | 90,296 |

## 3.9 Other payables

**Accounting policies**

Other liabilities are measured at amortised cost, substantially corresponding to nominal value. Other liabilities comprise employee costs payable, VAT and duties payable, accruals, other payables and fair values of derivative financial instruments.

# Section 4
## Capital structure and financing items

Note

4.1 **Share capital, distribution to shareholders**

**Accounting policies**
Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

The share capital amounts to DKK 115 million (EUR 15,450 thousands).

There have been no changes to the share capital in the past five years.

4.2 **Bank loans etc.**

**Accounting policies**
Fixed-interest loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

**Long-term bank borrowings etc. including short-term part:**

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Due within 1 year | 11,789 | 10,083 | - | - |
| Due within 1 to 5 years | 18,607 | 99,384 | - | - |
| Due after 5 years | - | - | - | - |
| | **30,396** | **109,467** | **-** | **-** |

4.3 **Financial risks**

Due to its operations, investments and financing, the Group is exposed to commercial risks as well as financial risks related to changes in exchange rates and interest rates. Hempel has centralised handling of these risks, except for commercial credit risk, which is managed by the operating units across the world. The risks are managed in accordance with the policies and guidelines laid out by the Board of Directors. It is the Group's policy not to speculate actively in financial risks.

The Group has no material risks relating to a single customer or business partner. It is the Group's credit policy to rate major customers and other business partners on a current basis. Bank Acceptance Bills are used as a financial instrument to further limit the risk of credit losses.

To some extent, the Group's income and expenses in foreign currencies net out and creates a natural hedge of the Group's profitability margin. Hempel hedges the short-term transactional exposure in the major currencies using financial instruments. FX hedge contracts are predominantly entered into in order to mitigate accounting and settlement risks from internal transactions between subsidiaries and the parent company.

The Hempel Group currently has a low level of interest-bearing debt and is therefore not materially exposed to interest rate risks.

Note

## 4.4 Derivative financial instruments

### Accounting policies

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualifies as a cash flow hedge. Changes in the fait values of the cash flow hedges are recognised in equity.

### Currency risks:

Open foreign currency hedges at 31 December 2017 entered into in order to hedge future purchases and sales as well as receivables and payables in foreign currencies are specified as follows:

| *in EUR million* | Contract amount based on exercise price1) | Fair value | Term to maturity (months) |
|---|---|---|---|
| AUD | -3.4 | -0.1 | 1 |
| BRL | -1.0 | 0.0 | 1 |
| CAD | 0.4 | 0.0 | 1 |
| CZK | -2.2 | 0.0 | 1 |
| GBP | -29.8 | -0.1 | 1 |
| HKD | 47.7 | -0.2 | 1 |
| HUF | 0.1 | 0.0 | 1 |
| IDR | -3.7 | 0.0 | 1 |
| KRW | 3.1 | 0.0 | 1 |
| PLN | -12.2 | -0.1 | 1 |
| RUB | -10.5 | -0.1 | 1 |
| SEK | -0.5 | 0.0 | 1 |
| SGD | -4.1 | 0.0 | 1 |
| USD | -92.2 | 0.3 | 1 |
| ZAR | -3.5 | -0.3 | 1 |
| | | -0.6 | |

1) Positive principal amounts equal a purchase of the currency in question and negative amounts equal a sale.

Bank borrowings of EUR 30m comprise loans denominated in various currencies, mainly EUR 10 million, KWD 5 million (EUR 13 million) and other currencies amounting to EUR 7 million.

The weighted average effective interest rates as at the balance sheet date were as follows:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Bank borrowings etc. | 3.1% | 2.3% | - | - |

## 4.5 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* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| External interest income | 776 | 1,020 | 20 | 32 |
| Interest income from subsidiaries | - | - | 478 | 428 |
| External interest expenses | - 12,055 | - 15,099 | - 5 | - 11 |
| Interest paid to Group enterprises | - 74 | - 107 | - | - |
| Dividend | 31 | 4 | 31 | 4 |
| Realised and unrealised exchange gains/losses, net | - 9,864 | - 4,400 | 1,094 | - 762 |
| | **- 21,186** | **- 18,582** | **1,618** | **- 309** |

**Note**

## 4.6 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* | Group | |
|---|---|---|
| | **2017** | **2016** |
| Cash at bank and in hand, beginning of year | 115,112 | 140,564 |
| Acquisition of enterprises | - | - |
| Overdraft facilities, beginning of year | - 66,621 | - 96,969 |
| | **48,491** | **43,595** |
| Cash, end of year | 113,508 | 115,112 |
| Overdraft facilities, end of year | - 49,437 | - 66,621 |
| | **64,071** | **48,491** |

## 4.7 Balance sheet items of acquired enterprises

**Accounting policies**
Enterprises acquired during the year are recognised in the consolidated financial statements from the date of acquisition. The acquisition date is the date when the parent company effectively obtains control of the acquired enterprise. For acquisitions of new enterprises in which the parent company is able to exercise control over the acquired enterprise, the purchase method is used. The acquired enterprises' individual assets and liabilities are measured at fair value at the acquisition date. Deferred tax on revaluations is recognised. The difference between the costs of the enterprise and the net asset value is recognised in the balance sheet as goodwill, which is amortised in the income statement on a straight-line basis over its estimated useful life.

If identifiable assets and liabilities are subsequently determined to have a different fair value at the acquisition date than first assumed, goodwill is adjusted until the end of the financial year following the year of acquisition. These adjustments are also reflected in the value of goodwill, including in amortisation already made. Amortisation of goodwill is allocated in the consolidated financial statements to administrative costs.

No acquisitions took place in 2017 or 2016.

## Section 5
Other disclosures

Note

**5.1 Fee to the auditors appointed at the General Meeting**

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Audit fee | 1,199 | 1,158 | 19 | 18 |
| Other assurance engagements | 0 | 64 | 0 | 0 |
| Tax advice | 1,118 | 1,104 | 2 | 0 |
| Other fees | 498 | 483 | 2 | 11 |
| | 2,815 | 2,809 | 23 | 29 |

**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* | Group | |
|---|---|---|
| | 2017 | 2016 |
| Amortisation, depreciation and impairment, including goodwill | 55,886 | 58,256 |
| Provisions | -18,207 | 34,414 |
| Exchange rate adjustment, operating profit | 841 | 3,101 |
| Gains and losses on the sale of fixed assets | -14,390 | -883 |
| | 24,130 | 94,888 |

**5.3 Contingent liabilities and other financial obligations**

The operating lease commitments are related to non-cancellable operating leases primarily related to premises, company cars and office equipment.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Other guarantees primarily relate to bid and performance bonds

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| *Rental and lease obligations:* | | | | |
| Due within 1 year from the balance sheet date | 15,000 | 16,078 | 0 | 0 |
| Due within 1 to 5 years from the balance sheet date | 34,000 | 34,965 | 0 | 0 |
| Due more than 5 years from the balance sheet date | 13,000 | 8,267 | 0 | 0 |
| | 62,000 | 59,310 | 0 | 0 |
| *Guarantees:* | | | | |
| For local loans and bank credits to subsidiaries1) | | | 0 | 0 |
| Other guarantees | 3,161 | 4,901 | 0 | 0 |
| | 3,161 | 4,901 | 0 | 0 |

1) Unutilised guarantees for local loans and bank credits to subsidiaries amount to EUR 76 million (2015: EUR 31 million).

*Other contingent liabilities:*
Following the compliance issues discovered in Germany in August 2016, management has investigated potential compliance issues in a number of other jurisdictions during 2017. In the financial statements for 2016, management decided to expense EUR 40 million (please refer to note 2.4) and by the end of 2017 the provision amounts to EUR 22 million. In April 2017, management made a full self-disclosure to the Danish State Prosecutor for Serious Economic and International Crime (SØIK). The investigations by SØIK are, however, still pending and ongoing. The outcome is subject to considerable uncertainty, and it is not possible to estimate the related potential financial impact reliably.

Hempel Holding A/S is jointly taxed with a number of Danish companies in the Hempel Foundation Group. The Group's Danish enterprises are jointly and severally liable for Danish taxes at source and income taxes.

Note

**5.4 Related parties and ownership** — **Basis**

| | Basis |
|---|---|
| *Controlling influence:* | |
| Hempel Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark | Ultimate parent company |

Members of the Executive Board and Board of Directors of Hempel A/S as well as the Board of Trustees of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. The members of the Boards of Trustees of the Hempel Foundation and Hempel Holding coincide.

| | Basis |
|---|---|
| *Other related parties:* | |
| Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark | Related party |
| Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark | Related party |
| Hempel's Employee Foundation of 2017, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby | Related party |

*Transactions:*
All related-party transactions were carried out at arm's length.

**5.5 Investments in subsidiaries and associates**

Investments in subsidiaries and associates 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 and associates is transferred upon distribution of profit to 'Reserve for 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 and associates.

Subsidiaries and associates with a negative net asset value are recognised at EUR 0. Any legal or constructive obligation of the parent company to cover the negative balance of the enterprise is recognised in provisions.

| *in EUR thousands* | Group | | Parent Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Investments in subsidiaries** | | | | |
| Costs, beginning of year | | | 217,251 | 209,124 |
| | | | - | - |
| Exchange adjustment at year-end rate | | | - 306 | 819 |
| Additions for the year | | | - | 7,308 |
| **Costs, end of year** | | | **216,945** | **217,251** |
| Net revaluations, beginning of year | | | 248,483 | 278,945 |
| Exchange adjustment at year-end rate | | | - 29,471 | - 13,302 |
| Hedging of future transactions | | | - | 1,477 |
| Other adjustments | | | - 419 | - 3,473 |
| Profit | | | 77,578 | 63,997 |
| Tax for the year | | | - 36,766 | - 31,161 |
| Dividend received | | | - 26,864 | - 48,000 |
| **Net revaluations, end of year** | | | **232,541** | **248,483** |
| **Carrying amount, end of year** | | | **449,486** | **465,734** |
| **Investments in associates** | | | | |
| Costs, beginning of year | - | 84 | | |
| Disposals | - | - 84 | | |
| **Costs, end of year** | - | - | | |
| Net revaluations, beginning of year | - | 18,836 | | |
| Exchange adjustment at year-end rate | - | 665 | | |
| Net profit | - | 1,452 | | |
| Dividend received | - | - 2,069 | | |
| Disposals | - | - 18,884 | | |
| **Net revaluations, end of year** | - | - | | |
| **Carrying amount, end of year** | - | - | | |

## 5.6 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 | 42,656,510 | 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 | 98% |
| Cyprus | Hempel Coatings (Cyprus) Limited | EUR | 1,000 | 100% |
| Czech Republic | Hempel (Czech Republic) s.r.o. | CZK | 30,000,000 | 100% |
| Denmark | Hempel Holding A/S | DKK | - | - |
| 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% |
| 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 | 6,300,000 | 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% |
| 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% |

| Country | Name | Currency | Share capital | Ownership |
|---|---|---|---|---|
| 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**

| Country | Name |
|---|---|
| Austria | Hempel (Germany) GmbH Branch office |
| Belgium | Hempel (The Netherlands) BV Branch office |
| Caribbean | Pinturas Hempel (Caribbean) |
| Hungary | Hempel (Czech Republic) s.r.o. Magyarorszagi Fioktelepe |
| 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 |

## 5.7 Financial definitions

Financial ratios have been calculated as follows:

$$\text{Gross margin} = \frac{\text{Gross profit x 100}}{\text{Revenue}}$$

$$\text{EBITDA margin} = \frac{\text{Operating profit before amortisation/depreciation x 100}}{\text{Revenue}}$$

$$\text{Return on assets} = \frac{\text{Operating profit x 100}}{\text{Average assets}}$$

$$\text{Solvency ratio} = \frac{\text{Equity at year-end x 100}}{\text{Total assets}}$$

$$\text{Return on equity} = \frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$