

Hempel Holding A/S

CVR-nr. 32 05 82 05

Årsrapport for 2016

Årsrapporten er fremlagt og godkendt på
selskabets ordinære generalforsamling
den 4/4 2017.
Dirigent



Amaliegade 8
DK-1256 København K
Danmark

The company

Hempel Holding A/S
Amaliegade 8
DK-1256 København K
Denmark

CVR-nr.: 32 05 82 05
Financial year: 1. January - 31. December

Board of Directors

Richard Sand, Chairman
Leif Jensen, Deputy Chairman
Kim Dam-Johansen
Carsten Gerner
Birgitte Hagemann Snabe
Louise Krüger Kofoed, elected by the employees
Martin Bøgsted, elected by the employees
Claus Juul Petersen, elected by the employees

Executive Management

Anders Holm,
Executive Director, Administration

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

Key figures

in EUR thousands

	2016	2015	2014	2013 ⁽¹⁾	2012 ⁽¹⁾
Income statement					
Revenue	1.424.414	1.563.442	1.297.876	0	0
EBITDA	151.453	219.342	166.101	-17	-13
Amortisation, depreciation and impairment	58.256	61.380	37.294	0	0
Operating profit	93.197	157.962	128.807	-17	-13
Share of net profit of associates	2.360	1.958	2.162	0	0
Net financials	-18.582	-21.551	-16.031	222	5
Profit before tax	76.975	138.369	114.938	64.880	34.513
Net profit for the year	45.986	108.368	71.640	64.829	34.508
Balance					
Balance sheet total	1.273.881	1.437.697	1.205.587	401.796	356.016
Equity	519.892	502.083	464.210	401.713	356.003
Cash Flows					
Operating activities	234.264	120.903	100.453	-147	-255
Investing activities	-7.815	-178.200	-52.361	-24.369	-217
- including net investments in property, plant and equipment and intangible assets	-35.679	-46.972	-23.236	0	0
Financing activities	-222.518	46.323	-73.410	24.942	7
Change in cash and cash equivalents	3.931	-10.974	-25.318	426	-465
Employees					
Average number of employees	5.787	5.661	5.134	0	0
Ratios					
Gross margin	43,7	41,7	41,0		
EBITDA margin	10,6	14,0	12,8		
Return on assets	6,9	12,0	16,0	0,0	0,0
Solvency ratio	40,8	34,9	38,5	100,0	100,0
Return on equity	9,0	22,4	16,5	17,1	10,1

1) For 2012-13, 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 2016.

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 2016 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 2016.

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 3 April 2017.

Executive Board



Anders Holm
Executive Director,
Administration

Board of Directors



Richard Sand
Chairman



Leif Jensen
Deputy Chairman



Carsten Gerner



Birgitte Hagemann Snabe



Kim Dam-Johansen



Louise Krüger Kofoed
Elected by the employees



Martin Bøgsted
Elected by the employees



Claus Juul Petersen
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 2016, 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 2016 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 2016, 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 Financial 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, 3 April 2017.

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231



Lars Baungaard
State Authorised Public Accountant



Mads Melgaard
State Authorised Public Accountant

Management's 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 profit of EUR 46 million compared to EUR 108 million in 2015. The Company's balance sheet at 31 December 2016 constitutes EUR 1.274 million and equity of EUR 520 million. The decrease in net profit after tax has been negatively influenced by a special item of EUR 40 million in the accounts of Hempel A/S.

As expected in the Annual Report last year, 2016 proved to be a challenging year for Hempel A/S. The revenue for the year was EUR 1,424 million, corresponding to organic growth of -4.5 per cent and a negative foreign exchange rate impact (FX-impact) of another 4.0 per cent. The annual result is influenced by special circumstances in Hempel A/S, cf. note 2.4

Subsequent events

No significant events have occurred subsequent to balance sheet date that are considered to have a significant influence on the evaluation of the annual report for Hempel Holding A/S.

Outlook

Hempel Holding A/S' results are significantly impacted by the development in Hempel A/S. The coatings market is expected to remain challenging in 2017, not least in the marine industry, the oil and gas industry, and related markets. At the same time, average raw material prices are expected to be higher compared to 2016. Despite these challenges, Hempel Holding A/S expect to deliver single-digit organic growth and a solid EBITDA margin in line with 2016.

Risks

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

The Hempel Group needs a robust and effective risk management framework that can, to the greatest extent possible, protect it from events and trends that could negatively impact its ability to deliver on its goals and objectives.

During 2016, a new risk management process was implemented in the Hempel Group in order to ensure that relevant risks are identified, evaluated and mitigated. As part of the new process, a new governance structure was also put in place.

Across the organisation, we continuously evaluate the risks we face and assess the level of accepted risk within the business. This is done by:

- Establishing a governance structure with clear roles and responsibilities for defining and reviewing risks and following up on mitigating activities
- Establishing a management process in which risks are continuously monitored, evaluated, mitigated and reported to relevant management levels in the organisation
- Developing a risk awareness culture in which risk assessment is integrated into our most important business processes at all levels of the organisation

The risk management process

A risk is defined as an event or trend that has the potential to prevent or reduce our ability to meet our objectives and live up to our mission and values. Our risk management process is designed to identify relevant risks and control them by appropriate mitigating activities on both a Group and regional level. This includes reporting to and approval from relevant management levels in the organisation, and the consolidation and registration of the most critical risks in a centralised Risk Register.

The risk management process runs in an annual wheel on both a Group and regional level. The Group Risk and Regional Risk Committees are responsible for completing the process within the deadlines set by the Group Risk Committee. The process consists of several steps that must be followed and documented in the format provided by the Group Risk Manager. The main steps in the process are:

- Risk identification and evaluation
- Definition and follow up of mitigating activities
- Consolidation of risks and mitigating activities on a regional and Group level
- Risk reporting from regions and Group functions to the Operational Management Board, Audit Committee and the Board of Directors of Hempel A/S.

Main Risks

Sales

Risk

Business ethics

Despite our best efforts and intentions, there is a possibility that one or more Hempel employees – either on purpose or by mistake – do not follow our Code of Conduct and act contrary to our Business Ethics Policy. This could negatively impact our business in a number of ways, from potential penalties and loss of business, customers or licenses to loss of trust and brand reputation.

Mitigating actions taken

- Vigorously communicated the tone from the top: we have a zero tolerance policy against corruption in any form and we do not accept irregular business practices
- Took steps to strengthen our compliance function and our internal control framework
- Committed to launching an external Hempel Ethics Hotline in 2017 that allows any internal as well as external person to raise concerns

In 2016, we identified practices in our German office in which a small number of employees had deliberately circumvented internal controls and acted in a way that may not comply with legislation. As a result, we:

- *Launched internal audits into the situation in Germany by an independent external law firm – all non-compliant behaviour was stopped immediately and anyone found to have broken the law or our own internal policies was dismissed*
- *Launched internal audits in other relevant jurisdictions by an independent audit firm*

Market trends

There is a risk that future market trends are not fully understood due to inadequate trend analysis and risk management processes. This could result in Hempel failing to foresee market disruption and changing market (customer) trends – and thereby losing market share.

- Market Intelligence centre established to track and analyse market trends and challenge predictions
- Project model (stage gate) in place for new technology projects
- Enterprise risk management process now includes emerging and strategic risks
- Partnering with our customers to become an innovative leader

Operations**Risk****Product quality**

Possible product defects can lead to major product claims. This can result in significant financial losses, and/or loss of customer loyalty. There are some areas where claims could be critical from both a financial and reputational perspective.

Mitigating actions taken

- Established clear organisational responsibility to strengthen our way of working with customer quality and ensure proper data capture, root cause analysis, and corrective and preventive action implementation

Raw material supply

Certain critical raw materials are dependent on a single source supplier. In addition, certain critical raw materials with multiple suppliers only have one supplier with enough flexibility to deliver additional volume.

We continually:

- Work to minimise dependency on single source suppliers
- Test and seek approval of alternative raw material suppliers
- Enterprise risk management process now includes emerging and strategic risks
- Test and seek approval of materials from other supplier production site(s) if single source suppliers only have single source factories

Raw material prices

Hempel operates in an industry that is significantly exposed to developments in underlying raw material prices

- As only a part of key raw materials are traded on a commodity exchange, effective hedging on most raw materials is not possible. Hempel currently hedges part of its annual consumption of zinc and copper, which constitutes less than 10 per cent of its total raw material costs. Hedging of Hempel's raw material exposure thus mainly takes place through continuous adjustment of the sales prices of our products

Employee safety

Employee safety can be an issue for employees working or travelling in certain countries.

- Conducted an external macro study of all the countries where Hempel does business and rated them according to risk potential
- Used the study findings to identify the actions needed
- Conducted onsite inspections of high-risk locations and recommended actions to increase safety of employees and assets – actions implemented in most critical countries, including hostile environment awareness training

Research & Development

Partnering with our customers, leading innovation.

Hempel is a leading R&D innovator within the coatings industry that thinks, works and cooperates globally, both with customers and with other partners. Our goal is to develop innovative and trusted solutions that protect our customers' assets and add value to their businesses.

At Hempel, innovation starts with the customer. We form value-adding partnerships with our customers and work together with them to develop unique products that help them beat their competitors in the challenging markets they operate in. In addition, we collaborate with suppliers, research teams, universities and other institutes across the world, as this gives us access to important expertise and technology, which we can transform into value-adding solutions for our customers.

Examples of partnerships

Customer partnership: In 2016, we entered into a collaboration with one of the world's leading integrated energy companies to co-develop superior coatings for the maintenance of offshore assets.

Supplier partnership: As China moves increasingly towards waterborne coatings, there is a need for new optimised waterborne formulations. We are collaborating with external suppliers on new speciality ingredients that will optimise our waterborne formulations for better robustness and higher protective performance.

External organisations: We are working on a collaboration project with external academic partners in the field of wind turbine blades to better understand the mechanisms of leading-edge wear and tear (a key pain point in the wind energy industry), which is enabling us to formulate superior coating systems for wind blades.

Long-term relationships: We have a long-standing collaboration with the Technical University of Denmark, which enables us to build relationships with some of the world's best research talents and participate in cutting-edge research into future coating trends and possibilities. In addition, we are collaborating with other universities across the world.

We measure the progress of our innovation strategy by the gross profit generated from new product solutions. In 2016, the results – whether measured as a percentage of total gross profit or in absolute numbers – were far better than in previous years. This shows that we are on the right track, and we will continue to increase our R&D investments in the future.

A unique global network

In the coatings industry, creating innovations often relies on novel technical developments, and more than 10 per cent of our R&D staff hold a PhD degree. It also requires a deep understanding of customer needs, and innovation at Hempel is seen as a Group-wide responsibility.

We have a network of 15 R&D centres around the globe – in Bahrain, Denmark, Germany, France, India, Korea, the Netherlands, Russia, Spain, Singapore and the UK, as well as two in the US and two in China. This strong global set-up enables us to respond quickly to local customer needs, develop specific solutions for local markets and provide best-in-class technical support. It also enables us to gather customer insight and utilise global expertise to solve specific customer challenges. In order to further strengthen our global R&D network, we created a new Head of Global R&D role in 2016 that will ensure our global R&D network can work more effectively as one aligned organisation across time zones and continents.

Removing hazardous materials from our products

Paints are, by nature, sustainable products, as they prolong the service life of structures and equipment. However, we believe that continuously pushing the boundaries of asset lifetime is not enough, so we constantly work to develop safer and more environmentally sustainable solutions. In this work, we focus on a number of areas:

- Increasing resource efficiency (raw materials, energy and finished products)
- Increasing functionality, such as radically improved fuel efficiency in the marine industry
- Reducing the amount of VOC (Volatile Organic Compound) emissions during manufacturing and application

In October 2016, we voted in favour of the CEPE's (the European Council of the Paint, Printing Ink and Artists' Colours Industry) new Paint Formula Stewardship Policy.

As well as the CEPE recommendations, we use a Raw Material Matrix based on the GHS (Globally Harmonised System of Classification and Labelling of Chemicals) framework to evaluate raw materials in new product development. The Raw Material Matrix is also a useful tool when assessing which materials to remove from our current formulations in order to protect our workers and the environment, and to be proactive in relation to future legislation.

Corporate responsibility

Statutory statement on corporate social responsibility under section 99a of the Danish Financial Statements Act

Hempel Holding has not drawn up any independent CSR policies but has at group level prepared a statement on Hempel Holding's consolidated policies, efforts and performance based on Hempel A/S's CSR statement. Hempel A/S's CSR statement, reproduced in Hempel Holding's Management's Review, describes in all material respects the activities carried out and results achieved at group level in Hempel Holding.

At Hempel, we believe that good business and care for people, the environment and society can go hand-in-hand.

As a global company, we have a responsibility to drive sustainable business practices around the globe. This is an essential aspect of our commitment to corporate responsibility. We do more than just follow legislation and standards. We do what we believe is best for people, the environment and society, and extend that through our own high standards and policies to all our offices, wherever they are in the world.

As well as making good business sense, this is a fundamental part of our company. Our founder, J.C. Hempel, was a visionary business leader and humanitarian who believed that a company has a responsibility to its staff, the environment and society in general. The company he founded has changed considerably over the last 100 years, but his guiding principles remain.

The Corporate responsibility section of this report provides an account of our initiatives in the area of CSR (Corporate Social Responsibility), as well as additional information as required by the Danish Financial Statements Act (Årsregnskabsloven) §99a and §99b.

Ethical behaviour

From how we deal with each other through to the products and services we provide to customers, we are committed to working responsibly and ethically at all times.

We are committed to complying with all relevant laws and regulations in the countries and regions where we operate. However, we believe that being a reliable and respected business partner means more than just compliance, so we have company policies in place to ensure that all our operations – from HSE (Health, Safety and the Environment) to recruitment – meet our high internal standards. If anything fails to meet our high standards, we are quick and firm to react in order to correct the issue.

Ethical policies for all employees

We have a number of policies in place that provide guidelines for our employees' behaviour. These include our Diversity and Equal Opportunity Policy, our Human Rights Policy – including our zero-tolerance policy towards child labour and forced labour – and our Business Ethics Policy. Together with our Code of Conduct, these policies give our employees guidelines when making decisions and dealing with customers, suppliers, each other and any other business partner. We regularly run training programmes to ensure that these guidelines are understood.

In 2015, all employees with corporate email followed Code of Conduct training online, including business ethics and human rights. All warehouse and factory staff were given Code of Conduct training in 2016. Combined, these two sets of training had a pass rate of 97 per cent.

Ensuring compliance in all Hempel locations

We have operations in more than 80 countries. To ensure that all our offices and places of work meet our high standards, we conduct regular internal audits, covering different aspects of our operations, from legal compliance, HSE management and human rights to internal controls and our own standard procedures. On average we carry out 25 internal audits per year. Our Executive Management Board reviews the findings from each audit and corrective actions are developed where needed. In addition, we regularly audit toll manufacturers.

We have a risk assessment programme in place to ensure we evaluate, mitigate and monitor potential risk to the company, including HSE risk, safety risk and risk concerning business ethics. (See page 8 for more information.)

Strengthening our compliance function

Hempel does not accept irregular practices or violations of internal rules. We consider them an attack on our customers, culture, values and employees. We decided to strengthen our compliance culture in 2016. This involved several changes, including the following.

- We will consistently and repeatedly communicate from the top of our organisation that Hempel has a zero tolerance policy against corruption in any form and we do not accept irregular business practices.
- We replaced our internal whistleblower system with a new Hempel Ethics Hotline, operated by an external partner. The new Hempel Ethics Hotline will become operational in early 2017 in some countries. It will become operational in other countries once legal approvals have been received.
- We established an Internal Audit function. The head of Internal Audit will join Hempel in early 2017. The Internal Audit function will have a reporting obligation to the Audit Committee of the Board of Directors.

Health & safety

Our goal is to have zero accidents.

Our HSE Policy covers all our businesses and operations, and states that we must continually work to improve working conditions for our employees and safety for our customers.

In order to strengthen our focus on HSE, we created a new HSE & Risk department in 2016. The key focus areas for the department are to:

- Support the Group with regulatory issues
- Drive towards safer raw materials
- Measure and deliver carbon footprint reduction
- Drive towards ZERO accidents
- Support the Group with clear strategic and operational risk assessments

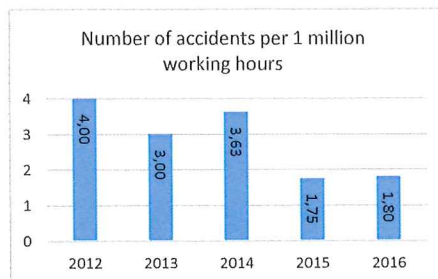
More factories included in our ISO certification

All our established factories and a number of our warehouses and sales offices are included in our Quality Management System and are certified according to ISO 9001. In 2016, our factory in Jeddah in Saudi Arabia was ISO 9001 certified. In addition, our factories in Argentina, India and Conroe (USA) were certified according to the ISO 14001 environmental standard in 2016. Our goal is to have all our factories ISO 14001 certified by 2020.

- 49 ISO 9001 certified sites – 1 new production site added in 2016
- 32 ISO 14001 certified sites – 3 new production sites added in 2016
- 9 OHSAS 18001 certified sites

The focus on zero accidents

At Hempel, we believe that any accident is one too many. Our goal is to operate without accidents, both at Hempel sites and at external sites where our employees work. An accident is defined as an on-the-job injury that results in at least one day's absence from work. We have not yet reached our goal of zero accidents, but we are moving in the right direction.



We are committed to complying with all relevant laws and regulations in the countries and regions where we operate. However, we believe that being a reliable and respected business partner means more than just compliance, so we have company policies in place to ensure that all our operations – from HSE (Health, Safety and the Environment) to recruitment – meet our high internal standards. If anything fails to meet our high standards, we are quick and firm to react in order to correct the issue.

Environment

Our products prolong the service life of structures and equipment, and so help reduce their overall impact on both the environment and the climate. But we believe we can do even more.

At Hempel, we take the global challenge of climate change seriously. We invest in developing products that help our customers achieve their environmental targets, including reducing their impact on the climate. At the same time, we continuously strive to reduce energy, waste and emissions from our own work. Our HSE Policy states that we must continually work to reduce the environmental impact of our operations, and our HSE management system enables us to continually monitor our environmental performance.

Reducing emissions by 12 per cent by 2020

Our goal is to reduce CO₂ emissions from energy consumption by 12 per cent per litre of product produced by 2020 compared to 2015. In order to achieve this, we launched an energy programme in 2016, focusing on reducing energy consumption in our factories and offices around the globe. Our energy programme includes performing energy audits to develop accurate energy use forecasts for different factories. We then use this information to establish targets for each factory. While this work is still in the preparatory stage, we have already identified a number of energy reduction programmes for the next three years. These include installing meters and low-energy LED (light-emitting diode) lights in all Hempel factories; improving control and monitoring of our HVAC (Heating, Ventilation and Air Conditioning) systems; and running awareness campaigns designed to make employees more aware of energy use.

In 2016, total energy use per ton of product manufactured increased by 5 per cent compared to 2015. This increase was primarily due to:

- Newly acquired factories in the US (acquired as part of our acquisition of Jones-Blair) and the Netherlands (acquired as part of our acquisition of Schaepman), as well as our newly opened factory in Russia, were included in our energy statistics for the first time. Energy consumption per ton of product produced at these factories is higher than the Group average
- Our factories in Dammam, Saudi Arabia and Singapore produced less than in 2015. This increases the energy used per ton of product manufactured because much of the energy used at a factory is fixed – such as energy for lighting, heating and ventilation – and so does not alter if less product is produced
- Our factories in Kunshan and Yantai in China increased the use of air treatment systems in order to further reduce stack emissions
- Greater automation at our new factory in Vietnam

Managing waste

As a company that handles chemicals, we have an obligation to ensure that our waste is managed appropriately. We divide waste into two categories: 'hazardous waste', which requires special disposal treatment; and 'other waste', such as metal and plastic, which for the most part can be recycled.

The amount of waste we produce per ton of product manufactured increased in 2016 by 15 per cent for hazardous waste and 8 per cent for other waste. This increase was primarily due to:

- Newly acquired factories in the US (acquired as part of our acquisition of Jones-Blair) and the Netherlands (acquired as part of our acquisition of Schaepman), as well as our newly opened factory in Russia, were included in our waste statistics for the first time. Waste production per ton of product produced at these factories is higher than the Group average
- Waste clean-up operations at our US factory acquired as part of the Blome International Inc. acquisition
- Waste clean-up operations at our factory in Bahrain
- Stock clean-up operations at our factory in Portugal
- Increased waste from our factories in Guangzhou and Yantai in China

In 2017, we will initiate a cross-functional project with the aim of reducing waste from our production.

Total waste in kg per ton of product manufactured		
	Hazardous waste	Other waste
2012	13,60	7,68
2013	10,23	7,30
2014	8,80	5,76
2015	9,90	5,96
2016	11,04	6,46

Adopting the Paint Formula Stewardship Policy

Our products contain chemicals, which means we have an increased responsibility towards the environment. As part of this responsibility, we work continuously towards using safer raw materials in our products.

In 2016, we voted in favour of the CEPE's (The European Council of the Paint, Printing Ink and Artists' Colours Industry) new Paint Formula Stewardship Policy. The policy outlines the risk associated with the use of dangerous and potentially dangerous substances in paint, and recommends whether or not a substance can be used. We are fully committed to following all CEPE recommendations on the use of dangerous substances. In many cases, this means removing certain substances from our coating formulations before official legislation comes into force.

As a consequence of this commitment, we will phase out coal tar, aromatic amines and lead on a global scale by the end of 2017.

Reducing emissions from the global shipping fleet

Shipping is a more environmentally friendly way of transporting goods than many of the alternatives. However, moving a ship through the water still requires vast amounts of fuel, which leads to significant emissions. A supramax bulk carrier, for example, can burn around 25 tons of fuel a day. Special hull coatings reduce a vessel's fuel consumption and associated emissions – and, as fuel is the largest cost item for most vessels, this has a significant impact on a ship operator's bottom line as well as their environmental performance.

These special hull coatings improve a vessel's hydrodynamics by preventing marine organisms, such as barnacles and algae, from clinging to the vessel's hull. According to the Low Carbon Shipping Consortium, the shipping industry would pump an additional 384 million tons of CO₂ and 3.6 million tons of sulphur dioxide into the atmosphere each year without them.

High-performance hull coatings use either the controlled release of biocides or the friction-reducing properties of silicone to combat fouling. We consider silicone-based products the best alternative on the market from an environmental and performance perspective. However, both coating types must be carefully specified for each vessel, based on the vessel's expected trading routes, speeds and activity levels. If the vessel changes trading patterns or is idle for an extended period, the performance of the hull coating can drop significantly.

Our fouling defence hull coating Hempaguard® is the first product on the market to combine the smooth surface of a silicone coating with the efficient release of biocides in a single coat. This means it can continue to perform if a vessel changes trading patterns or stands idle, giving our customers much greater trading flexibility. This enables Hempaguard to minimise speed loss, and deliver savings in fuel and associated emissions of 6 per cent on average over the entire docking interval – which is significantly higher than most conventional hull coatings – while releasing 95 per cent less biocide than biocide control coatings.

Responsible supply chain management

As a global manufacturer, we have the opportunity to promote good working practices throughout a supply chain that stretches across the globe, and beyond our own operations.

In 2013, we established a Responsible Procurement Committee consisting of our Procurement Director and our Compliance and Corporate Responsibility Director as well as subject matter experts from these two departments. The purpose of the Committee is to ensure legal compliance, as well as progress in this important area. The committee meets several times a year to follow up on progress and set new targets.

Our aim is to work only with suppliers who share our business values. 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 we enter into an agreement with a major supplier, we perform a due diligence assessment, covering a number of areas from human rights to environmental issues. In 2016, we gave our global procurement staff further training in how to perform due diligence, with special focus on eliminating child and forced labour from the supply chain.

Third-party auditing of the global supply chain

A company's supply chain extends far beyond its own factories and transport. We use suppliers for many goods and services, from the raw materials that go into our products to transportation and office supplies. Our goal is to ensure that our entire supply chain meets our ethical standards.

All raw material suppliers are approved by Group Procurement, and individual raw materials are approved by Group R&D. To ensure our materials come from a responsible source, selected raw material suppliers are audited every year. The selection is based on a risk-and-spend analysis, and the audit is carried out by a third party, EcoVadis. If the supplier does not meet our criteria or refuses to participate in the audit, we request that the supplier develops and implements a corrective action plan, and we conduct an onsite visit if required. If the supplier continuously fails to meet our requirements, our business relationship will be discontinued.

The introduction of the UK Modern Slavery Act has increased our focus on the elimination of forced labour in our supply chain. As a consequence, we have extended our audits to include indirect spend suppliers. Indirect spend constitutes all procurement other than the raw materials used in our products. Based on a risk assessment of our indirect spend supplier portfolio, we chose to cover IT suppliers and transport suppliers in 2016, as these are deemed to have an increased risk in a number of areas, including forced labour.

Conflict minerals

We do not use conflict mineral derivatives – such as tantalum, tin, gold or tungsten – in our products. However, some of our packaging materials include small amounts of tin. Therefore, we initiated a process in 2016 to assess where the tin in our packaging comes from. For most of our suppliers, the majority of the tin they use is recycled, while a small amount is sourced locally. As yet, we have not found any signs that our packaging suppliers use conflict minerals.

Our people

Wherever you meet us – whether you are a customer, business partner, supplier or new employee – you know you are dealing with a company that has people at its heart.

We are approximately 6,000 employees spread across 80 countries. 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. We do all we can to create an inclusive and supportive work environment, and strive to provide all our employees with a great place to work as well as opportunities for professional and personal development.

Hempel at Heart

Our company values have always existed, and they have always been a distinct part of our company and the Hempel way. In 2016, we defined our values and wrote them down for the first time.

Our values capture the unique characteristics of the Hempel culture and provide the foundation for our future growth. They create and give us a shared sense of identity, pride and belonging. When we feel and live these values at work, we have Hempel at Heart. To a large extent our values describe the way we already are, but there is also an element of aspiration, expressing the way we want to be.

Employee Engagement Survey

The ultimate goal of any leader is to help their employees reach their full potential. The Employee Engagement Survey is a tool to help us in this process. Hempel's first worldwide Employee Engagement Survey was carried out among all our employees in 2016, covering 80 countries and 16 languages. The response rate was a very high 93 per cent, showing that there is great interest in using this new tool to make Hempel an even better place to work.

While many results were higher than the external Global Employee and Leadership Index, the survey showed there is room for improvement in a number of areas. Following the survey, managers and staff from all departments and regions worked together to develop action plans to improve satisfaction and motivation in their teams. We will carry out the survey again in 2017.

One of the major findings from the 2016 survey was that employees were not very satisfied with the current performance appraisal dialogue. A new process (called Let's Talk) and tools were subsequently developed. Let's Talk was piloted at the end of 2016 and will be rolled out worldwide in 2017.

Survey results at a glance

- Employee satisfaction and motivation across the Hempel Group was 68 (out of 100). According to our external consultancy, this is 7 points above the external global benchmark.
- In almost all countries where we have physical locations, employee satisfaction and motivation was higher than the national average.
- Our employees' willingness to recommend the Hempel Group as an employer – known as the employee Net Promoter Score (eNPS) – was 25. According to our external consultancy, this is considerably higher than the external global benchmark of -19.

Increasing diversity across the Group

We believe diversity and equal opportunity create business value. They stimulate creativity and innovation, and help drive growth and profitability by improving our ability to understand global markets.

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. As an employer, we do not tolerate any form of negative discrimination, including discrimination based on age, disability, gender, pregnancy, paternity, race, religion, political opinion, family responsibilities, marital or civil partnership status or sexual orientation.

We monitor the distribution of male and female employees in our workforce. In 2016, women made up 24 per cent of our employees, which was level with 2015. In 2016, female representation at management level increased to 18 per cent, up from 17 per cent in 2015. While this is a slight improvement, we are committed to creating a much more representative distribution of men and women in our management levels.

As part of this work, our Diversity Board decided in 2016 to introduce training in how to avoid 'unconscious bias thinking' as a part of our training for managers. The training focuses on ensuring managers are not influenced in their hiring decisions by the unconscious bias towards people different from themselves. This should help create more high- performance teams by increasing team diversity and ensuring we recruit from a wider group of talents.

The Board of Directors of Hempel A/S consists of five non- executive directors. There are currently no female non- executive directors on the Board. Our goal is that the Board will have at least one female non-executive director before the Annual General Meeting in spring 2017.

The Board of Directors of Hempel Holding A/S consists of five non- executive directors. There are currently one female non- executive directors on the Board. Our goal is that the Board will have at least two female non-executive director before the Annual General Meeting in spring 2020.

An environment where everyone can develop

The success of our company and Journey to Excellence strategy is reliant on developing and retaining an agile and skilled workforce. Hempel Academy – our Group Centre of Excellence for Learning and Development – provides our employees with access to regular education and training, and everyone at Hempel is encouraged to believe that learning and development are lifelong skills.

Hempel Academy supports our business plans by building employee and leadership capabilities. Academy courses range from personal development training and safety courses to leadership, technical and commercial programmes. The courses are delivered face-to-face or online, and the Academy also delivers FROSIO (an established certificate for coating inspectors) training for customers and employees, with one of the highest pass rates in the industry.

Hempel Academy conducted classroom training for more than 1,900 employees in 2016, and 7,400 Hempel elearning courses were completed during the year.

Explorer – Next Generation

As part of our succession planning, our Explorer – Next Generation programme helps us select potential leaders from across the Hempel Group, and provides them with training in business and leadership skills. In total, 123 people have followed the programme since it was first launched in 2010. Of these, 43 per cent have since been promoted, and 16 per cent have been promoted twice. In the years 2012 to 2015, women accounted for 27 per cent of programme participants. In 2016, 33 per cent of participants were women, which is higher than the total percentage of women in Hempel. In total, 21 different nationalities have been through the Explorer – Next Generation programme.

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

Income statement
Balance sheet
Statement of changes in equity
Cash flow statement

Section 1 Basis of preparation

1.1 General accounting policies

Section 2 Results for the year

2.1 Revenue, segment information
2.2 Employee costs
2.3 Other operating income and expenses
2.4 Special items
2.5 Income from investments in subsidiaries and associates
2.6 Income tax and tax assets and liabilities

Section 3 Operating assets and liabilities

3.1 Intangible assets
3.2 Property, plant and equipment
3.3 Other securities and investments
3.4 Inventories
3.5 Prepayments
3.6 Receivables
3.7 Pension and similar assets and obligations
3.8 Provisions
3.9 Other liabilities

Section 4 Capital structure and financing items

4.1 Share capital, distribution to shareholders
4.2 Bank loans etc.
4.3 Financial risks
4.4 Derivative financial instruments
4.5 Net financials
4.6 Cash and cash equivalents, net
4.7 Balance sheet items of acquired enterprises

Section 5 Other disclosures

5.1 Fee to auditors appointed at the general meeting
5.2 Adjustments for non-cash operating items
5.3 Contingent liabilities and other financial obligations
5.4 Related parties and ownership
5.5 Investments in subsidiaries and associates
5.6 The Hempel Group including foreign branches
5.7 Financial definitions

Income statement

in EUR thousands

Note	Group		Parent Company	
	2016	2015	2016	2015
2.1 Revenue	1.424.414	1.563.442	0	0
Production costs	-802.032	-910.915	0	0
Gross profit	622.382	652.527	0	0
Sales and distribution costs	-349.230	-366.580	0	0
Administrative costs	-145.368	-128.791	-475	-507
2.3 Other operating income	1.185	1.142	0	0
2.3 Other operating expenses	-54	-336	0	0
Operating profit before special items	128.915	157.962	-475	-507
2.4 Special items	-35.718	0	0	0
Operating profit	93.197	157.962	-475	-507
2.5 Income from investments in subsidiaries	0	0	32.770	96.188
2.5 Income from investments in associates	2.360	1.958	0	0
Profit before financial income and expenses	95.557	159.920	32.295	95.681
4.5 Net financials	-18.582	-21.551	-309	355
Profit before tax	76.975	138.369	31.986	96.036
2.6 Income tax	-30.989	-30.001	172	0
Profit after tax	45.986	108.368	32.158	96.036

Distribution of profit

Proposed distribution of profit:	Group		Parent Company	
	2016	2015	2016	2015
Dividend	0	69.173	0	69.173
Reserve for net revaluation under the equity method	1.452	2.177	-15.164	56.254
Minority interests	13.762	12.266		
Retained earnings	30.772	24.752	47.322	-29.391
	45.986	108.368	32.158	96.036

Balance sheet as at 31 December – assets

in EUR thousands

Note

	Group		Parent Company	
	2016	2015	2016	2015
Goodwill	94.705	112.078	-	-
Software	5.130	6.978	-	-
Software under development	2.894	2.053	-	-
Customer relationships	54.799	64.310	-	-
Other intangible assets	61.499	72.109	-	-
3.1 Intangible assets	219.027	257.528	-	-
Land and buildings	147.869	146.862	-	-
Land and buildings for sale	-	-	-	-
Assets under construction	25.375	22.731	-	-
Plant and machinery	78.221	65.620	-	-
Other fixed assets	20.722	20.155	-	-
3.2 Property, plant and equipment	272.187	255.368	-	-
5.5 Investments in subsidiaries			465.734	488.069
5.5 Investments in associates	-	18.920	-	-
3.3 Other securities and investments	1.184	33.170	751	33.170
2.6 Deferred tax assets	36.064	32.648	-	-
Deposits etc.	3.895	3.460	-	-
Fixed asset investments	41.143	88.198	466.485	521.239
Total non-current assets	532.357	601.094	466.485	521.239
Raw materials and consumables	66.063	76.572	-	-
Work in progress	4.598	4.204	-	-
Finished goods	119.043	140.740	-	-
3.4 Inventories	189.704	221.516	-	-
3.6 Trade receivables	366.008	435.567	-	-
Receivables from Group enterprises	85	47	53.141	22.954
2.6 Tax receivables	4.897	5.785	173	-
Other receivables	60.301	20.827	-	130
3.5 Prepayments	5.417	12.297	-	-
3.6 Receivables	436.708	474.523	53.314	23.084
Cash at bank and in hand	115.112	140.564	121	27.032
Current assets	741.524	836.603	53.435	50.116
Total assets	1.273.881	1.437.697	519.920	571.355

Balance sheet as at 31 December
– equity and liabilities

in EUR thousands

Note

	Group		Parent Company	
	2016	2015	2016	2015
Share capital	15.450	15.450	15.450	15.450
Reserve for net revaluation under the equity method	-	18.836	248.482	278.945
Retained earnings	504.442	467.797	255.960	207.688
Proposed dividend for the year	-	-	-	-
4.1	519.892	502.083	519.892	502.083
Minority interests	66.791	62.883		
Total Equity	586.683	564.966		
2.6 Deferred tax liabilities	22.501	27.393	-	-
3.7 Pension obligations and similar obligations	21.218	17.437	-	-
3.8 Other provisions	90.296	56.159	-	-
Provisions	134.015	100.989	-	-
4.2 Bank loans etc.	99.384	258.753	-	-
3.9 Other payables	-	1.758	-	-
Long-term debt	99.384	260.511	-	-
Overdraft facilities	66.621	96.969	-	-
4.2 Short-term part of bank loans etc.	10.083	6.604	-	-
Dividend Payable	-	69.173	-	69.173
Trade payables	185.265	162.124	-	-
Payables to Group enterprises	4.690	-	-	-
2.6 Tax liabilities	19.316	20.643	-	-
3.9 Other payables	167.824	155.718	28	99
Total current liabilities	453.799	511.231	28	69.272
Total liabilities	553.183	771.742	28	69.272
Total equity and liabilities	1.273.881	1.437.697	519.920	571.355

Statement of changes in equity as at 31 December

in EUR thousands

Note

		Group					
		Reserve		Proposed dividend	Shareholders in Hempel Holding A/S		Total
		Share capital	for net revaluation		Retained earnings	share of equity	
Equity							
	Equity at 1 January 2015	15.450	16.389	432.371	-	464.210	518.684
	Reclassification 1. January					887	887
	Net profit for the year		2.177	93.859	-	96.036	108.368
	Exchange adjustment at year-end rate		1.996	3.829	-	5.825	12.078
	Hedging of future transactions		-	3.179	-	3.179	3.179
	Remeasurements of defined benefit plans		-	2.006	-	2.006	2.006
	Dividend distributed		- 1.726	- 67.447	-	- 69.173	- 80.236
4.1	Equity at 31 December 2015	15.450	18.836	467.797	-	502.083	62.883
	Net profit for the year		1.452	30.706	-	32.158	45.986
	Exchange adjustment at year-end rate		665	- 13.018	-	- 12.353	- 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
	Proposed Dividend		- 18.884	18.884	-	-	-
4.1	Equity at 31 December 2016	15.450	-	504.442	-	519.892	66.791

		Parent Company				
		Share capital	Reserve for net revaluation	Retained earnings	Proposed dividend	Total
Equity						
	Equity at 1 January 2015	15.450	211.095	237.665	-	464.210
	Net profit for the year		96.254	- 218	-	96.036
	Dividend distributed		- 40.000	40.000	-	-
	Exchange adjustment at year-end rate		6.411	- 586	-	5.825
	Hedging of future transactions		3.179	-	-	3.179
	Remeasurements of defined benefit plans		2.006	-	-	2.006
	Dividend distributed		-	- 69.173	-	- 69.173
4.1	Equity at 31 December 2015	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
4.1	Equity at 31 December 2016	15.450	248.483	255.959	-	519.892

Cash flow statement

In EUR thousands		Group	
		2016	2015
Note			
	Cash flows from operating activities		
	Operating profit	93.197	157.962
5.2	Adjustment for non-cash operating items	94.888	54.989
5.5	Dividend received from subsidiaries	-	-
	Income tax paid	- 40.256	- 34.740
	Total cash flows from operating activities before changes in working capital	147.829	178.211
	Change in receivables	19.840	- 51.836
	Change in inventories	30.872	- 6.227
	Change in trade payables	35.723	755
	Total change in working capital	86.435	- 57.308
	Total cash flows from operating activities	234.264	120.903
	Cash flows from investing activities		
4.7	Acquisition of enterprises	- 7.308	- 141.200
3.2	Purchase of property, plant and equipment	- 39.969	- 38.201
3.1	Purchase of intangible assets	- 3.942	- 10.282
3.3	Purchase of fixed asset investments	- 751	- 35.386
	Sale of property, plant and equipment	3.320	1.511
	Received grant	4.912	-
	Sales of fixed asset investments	33.854	43.632
5.5	Dividend received from associates	2.069	1.726
	Total cash flows from investing activities	- 7.815	- 178.200
	Free cash flow	226.449	- 57.297
	Cash flows from financing activities		
	Change in bank borrowings etc.	- 122.609	80.315
	Interest income and expenses, net	- 15.423	- 12.009
	Change in minority shares (dividend distributed etc.)	- 10.487	- 11.243
	Other financial assets	- 389	172
	Dividend distributed to shareholders	- 69.173	-
	Capital losses and gains, net	- 4.437	- 10.912
	Paid donations	-	-
	Total cash flows from financing activities	- 222.518	46.323
	Net Cash Flow	3.931	- 10.974
4.6	Cash and equivalents, net, beginning of year	43.595	55.173
	Exchange adjustment	965	- 604
4.6	Cash and equivalents, net, end of year	48.491	43.595
	Bank facilities available	534.657	423.428
	Capital resources available	583.148	467.023

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 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C. The Annual Report for 2016 is presented in EUR thousands.

The Group has with effect from 1 January 2016 implemented law no. 738 from 1 June 2015. The recognition and measurement for Intangible assets has changed:

Intangible assets are amortised over 2-25 years. Previous amortisation periods did not exceed 20 years. The change has effect prospectively as a change in accounting estimates.

The above mentioned change have not effected the comparative figures in the income statement or the balance sheet.

Separate presentation of special items

With reference to section 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 Holding'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 36 million. However, the change in presentation does not impact operating profit after special items, profit after tax, total assets, total equity or cash flow. The comparatives are not affected since such special items were not relevant in previous years.

Apart from this 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 have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the 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 for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Euro is used as the presentation currency. All other currencies are regarded as foreign currencies.

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.

Amortisation of goodwill is allocated in the consolidated financial statements to administrative costs.

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 income statement and the balance sheet. Minority interests are recognised on the basis of a remeasurement 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 Foundation entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). 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 euro at the exchange rates prevailing at the end of the reporting period for balance sheet items, and at average exchange rates for income statement items with the exception of exchange rate adjustments of investments in subsidiaries and associates arising from:

- the translation of foreign subsidiaries' and associates' net assets at the beginning of the year at the exchange rates at the end of the reporting period
- the translation of foreign subsidiaries' and associates' income statement from average exchange rates to exchange rates at the end of the reporting period
- the translation of intra-Group receivables that are considered to be an addition to net investments in subsidiaries

These specific exchange rate adjustments are recognised directly in equity.

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. Finally, provisions for losses on contract work are recognised.

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. Depreciation on goodwill, customer relationships and brands are comprised in depreciation.

Cash flow statement

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.

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

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

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

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	
	2016	2015	2016	2015
EMEA	816.244	892.492	-	-
Asia-Pacific	413.980	464.147	-	-
Americas	194.190	206.803	-	-
	1.424.414	1.563.442	-	-

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	
	2016	2015	2016	2015
Employee costs:				
Board of Directors	425	373	140	132
Wages and salaries etc.	270.782	262.505	-	-
Wages and salaries etc. on special items	1.396	-	-	-
Pension contributions	14.147	14.811	-	-
	286.750	277.689	140	132
Average number of employees	5.787	5.661	-	-
Staff expenses have been recognised in the income statement as follows:				
Production costs	71.272	69.536	-	-
Selling and distribution expenses	157.359	155.587	-	-
Administrative expenses	58.119	52.566	140	132
	286.750	277.689	140	132

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	
	2016	2015	2016	2015
Other operating income 1)	1.185	1.142	-	-
Other operating expenses	- 54	- 336	-	-
	1.131	806	-	-

1) Other operating income comprises sale of properties in 2016 and curtailment gains in 2015.

Note**2.4 Special Items**

In 2016, Hempel expensed EUR 40 million related to compliance issues in a few jurisdictions, including Germany. Among other things, the costs cover potential tax consequences and – although still uncertain – an estimate of financial sanctions, including potential fines, as well as fees for advisors and severance payments. The costs are split as follows across the lines in the Income statement: 'Special items' (EUR 36 million), 'Net financials' (EUR 1 million) and 'Income tax' (EUR 3 million). The cash impact of this in 2016 was EUR -4 million.

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

Administrative costs
Operating profit
 Net financials
Profit before tax
 Income tax
Net profit for the year

Group	
2016	2015
-	-
35.718	-
35.718	-
-	-
1.118	-
36.836	-
-	-
3.164	-
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

Profit before tax
Tax for the year
Minority Interest
Profit after tax

Group		Parent Company	
2016	2015	2016	2015
-	-	63.997	126.254
-	-	- 31.161	- 30.000
-	-	- 66	- 66
-	-	32.770	96.188

Income from investments in associates

in EUR thousands

Profit after tax

Group		Parent Company	
2016	2015	2016	2015
2.360	1.958	-	-
2.360	1.958	-	-

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 has considered future taxable income in 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

Hempel Group:

Profit before tax
Income from investments in associates

Income tax on profit for the year:

Total tax before special items
Total tax on special items
Total tax
Tax in respect of subsidiaries
Tax in respect of associates

Current tax for the year
Deferred tax for the year
Of which entered at Equity
Adjustment in respect of previous years
Income tax

Group		Parent Company	
2016	2015	2016	2015
76.975	138.369		
- 2.360	- 1.958		
74.615	136.411		
- 30.936	- 30.220	172	-
- 3.164	-	-	-
- 34.100	- 30.220	172	-
3.111	219	-	-
- 30.989	- 30.001	172	-
- 36.911	- 39.933	173	-
8.553	6.212	-	-
- 367	- 791	-	-
- 2.264	4.511	- 1	-
- 30.989	- 30.001	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 setoff against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

in EUR thousands

Deferred tax (net) :

Deferred tax, beginning of year	5.255	- 9.076
Exchange adjustment at year-end rate	1.769	- 924
Acquisition of enterprises	-	7.200
Deferred tax for the year	8.787	6.885
Adjustment in respect of previous years	- 2.248	1.942
Tax in equity	-	- 772
	13.563	5.255

Group		Parent Company	
2016	2015	2016	2015
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-

in EUR thousands

Deferred tax (net) relates to the following items:

Intangible assets	- 5.038	- 8.930
Property, plant and equipment	- 667	- 108
Fixed asset investments	- 41	- 1.780
Inventories	4.763	3.808
Trade receivables	2.220	1.672
Provisions and other payables	7.006	7.002
Tax losses	5.320	3.591
	13.563	5.255

Group		Parent Company	
2016	2015	2016	2015
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-

At 31 December 2016, the Group recognised a deferred tax asset comprising tax losses carried forward of EUR 5 million (2015: EUR 3 million). Management believe it is likely that the unutilised tax losses can be utilised within the next years.

The Group has non-recognised tax asset of EUR 28 million (2015: EUR 29 million)

Management believes that the unutilised tax losses are not likely to be utilised in the future taxable income within the next years.

in EUR thousands

The net value is recognised in the balance sheet as follows:

Deferred tax assets	36.064	32.648
Deferred tax liabilities	- 22.501	- 27.393
	13.563	5.255

Group		Parent Company	
2016	2015	2016	2015
		-	-
		-	-
		-	-

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

The net value is recognised in the balance sheet as follows:

Current tax assets	4.897	5.785
Current tax liabilities	- 19.316	- 20.643
	- 14.419	- 14.858

Group		Parent Company	
2016	2015	2016	2015
		173	-
		-	-
		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					Total
	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	
Costs, beginning of year	162.527	31.684	2.053	127.001	97.804	421.069
Exchange adjustment at year-end rate	- 3.548	- 107	7	- 2.895	- 6.060	- 12.603
Acquisition of enterprises	-	-	-	-	-	-
Additions for the year	180	1.685	2.077	-	-	3.942
Disposals for the year	-	- 5	-	-	-	- 5
Transfer to/from other items	-	1.243	- 1.243	-	-	-
Costs, end of year	159.159	34.500	2.894	124.106	91.744	412.403
Accumulated amortisation, beginning of year	50.449	24.706	-	62.691	25.695	163.541
Exchange adjustment at year-end rate	68	13	-	294	- 1.965	- 1.590
Amortisation for the year	13.937	4.656	-	6.322	6.515	31.430
Reversal of amortisation of assets sold	-	- 5	-	-	-	- 5
Accumulated amortisation, end of year	64.454	29.370	-	69.307	30.245	193.376
Carrying amount, end of year	94.705	5.130	2.894	54.799	61.499	219.027

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

Amortisation and impairment are specified as follows:

in EUR thousands

	Group		Parent Company	
	2016	2015	2016	2015
Production costs	875	885	-	-
Sales and distribution costs	750	629	-	-
Administrative costs	29.805	32.577	-	-
	31.430	34.091	-	-

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				Total
	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	
Costs, beginning of year	211.558	217.251	88.068	22.731	539.608
Exchange adjustment at year-end rate	807	- 6.482	- 3.814	1.169	- 8.320
Acquisition of enterprises	7.626	215	-	-	7.841
Additions for the year	1.266	16.890	7.294	14.519	39.969
Disposals for the year	- 2.169	- 18.211	- 3.957	- 411	- 24.748
Transfer to/from other items	994	11.575	64	- 12.633	-
Costs, end of year	220.082	221.238	87.655	25.375	554.350
Accumulated amortisation, beginning of year	64.696	151.631	67.913	-	284.240
Exchange adjustment at year-end rate	1.065	- 5.446	- 3.363	-	- 7.744
Acquisition of enterprises	1.003	151	-	-	1.154
Depreciation for the year	6.914	13.755	6.157	-	26.826
Reversal of amortisation of assets sold	- 1.465	- 17.074	- 3.774	-	- 22.313
Transfer to/from other items	-	-	-	-	-
Accumulated depreciation, end of year	72.213	143.017	66.933	-	282.163
Carrying amount, end of year	147.869	78.221	20.722	25.375	272.187
Including leased assets of	3.733	-	-	-	3.733
including interest expenses of	376	239	1	292	908

Land and buildings for sale amounts to EUR 4 million

in EUR thousands

Depreciation and impairment are specified as follows:

Production costs
Sales and distribution costs
Administrative costs

	Group	
	2016	2015
Production costs	17.411	17.118
Sales and distribution costs	5.124	5.428
Administrative costs	4.291	4.743
	26.826	27.289

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	
	2016	2015	2016	2015
Costs, beginning of year	33.665	42.017	33.665	42.017
Acquisition of enterprises	483	-	-	-
Additions for the year	751	35.386	751	35.386
Disposals for the year	- 33.854	- 43.632	- 33.792	- 43.632
Exchange adjustment at year-end rate	128	- 106	127	- 106
Costs, end of year	1.173	33.665	751	33.665
Net revaluations, beginning of year	- 495	735	- 495	735
Acquisition of enterprises	- 11	-	-	-
Net revaluations, for the year	519	- 1.228	497	- 1.228
Exchange adjustment at year-end rate	- 2	- 2	- 2	- 2
Net revaluations, end of year	11	- 495	-	- 495
Carrying amount, end of year	1.184	33.170	751	33.170

The net values are specified as follows:

in EUR thousands

	Group		Parent Company	
	2016	2015	2016	2015
Bonds	-	7.886	-	7.886
Shares	1.184	25.284	751	25.284
	1.184	33.170	751	33.170

3.4 Inventories**Accounting policies**

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

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.

in EUR thousands

	Group		Parent Company	
	2016	2015	2016	2015
Raw materials and consumables	66.063	76.572	-	-
Work in progress	4.598	4.204	-	-
Finished goods	119.043	140.740	-	-
	189.704	221.516	-	-

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	
	2016	2015	2016	2015
Receivables	436.708	474.523	53.314	23.084
of which due more than one year from balance sheet date	3.139	6.218	-	-

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	
	2016	2015	2016	2015
Pension and similar obligations comprise:				
Pension and similar obligations	58.313	54.205	-	-
Fair value of assets related to the plans	- 37.095	- 36.768	-	-
Pension obligations (net)	21.218	17.437	-	-
Recognition in the balance sheet:				
Assets	-	-	-	-
Liabilities	21.218	17.437	-	-
Pension obligations recognised in the balance sheet (net)	21.218	17.437	-	-
Defined benefit plans				
Specification of plan assets:				
Shares and properties	30%	38%	-	-
Fixed interest current asset investments	69%	59%	-	-
Cash at bank and in hand	1%	3%	-	-
Total	100%	100%	-	-
Weighted average assumptions:				
Discount rate	2,1%	2,9%	-	-
General wage inflation	2,6%	2,5%	-	-
General price inflation	1,6%	1,5%	-	-

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 economic benefits must be given up 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. Provisions with an expected maturity exceeding one year from the balance sheet date are discounted at the average bond yield.

Key accounting estimates

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

in EUR thousands

	Group				
	Environmental obligations	Warranty commitments	Other provisions	2016 Total	2015 Total
Total provisions, beginning of year	22.187	13.583	20.390	56.160	35.311
Exchange adjustment at year-end rate	- 525	95	- 168	- 598	519
Reclassification	- 1.000	-	- 1.742	- 2.742	-
Acquisition of enterprises	-	-	-	-	18.031
Additions for the year	130	-	38.590	38.720	2.738
Reversed	-	- 412	-	- 412	- 333
Consumed	- 98	-	- 734	- 832	- 107
Total provisions, end of year	20.694	13.266	56.336	90.296	56.159
<i>Maturities are expected to be:</i>					
Within 1 year	1.243	-	6.259	7.502	1.376
Between 1 and 5 years	12.359	11.909	32.527	56.795	41.279
after 5 years	7.092	1.357	17.550	25.999	13.504
	20.694	13.266	56.336	90.296	56.159

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	
	2016	2015	2016	2015
Due within 1 year	10.083	6.604	-	-
Due within 1 to 5 years	99.384	256.045	-	-
Due after 5 years	-	2.708	-	-
	109.467	265.357	-	-

4.3 Financial risks

Due to its operations, investments and financing, the Group is exposed to changes in exchange rates and interest rates. The Group's financial management is focused only on managing financial risks relating to operations and financing. Accordingly, it is Group 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 a large extent, the Group's income and expenses in foreign currencies nets out and creates a natural hedge of the Group's profitability. Hempel hedges the short-term transactional exposure in the major currencies using financial instruments.

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 fair values of the cash flow hedges are recognised in equity.

Currency risks:

Open foreign currency hedges at 31 December 2016 entered into in order to hedge future purchases and sales as well as receivables and payables in foreign currencies are specified as follows:

<i>in EUR million</i>	Contract amount based on exercise price ¹⁾	Fair value	Term to maturity (months)
AUD	-2,7	0,1	1
BRL	-1,3	-0,1	1
CAD	2,1	0,0	1
CLP	-0,9	0,0	1
CZK	-1,5	0,0	1
EUR	0,0	0,0	1
GBP	-4,7	0,0	1
HKD	4,9	0,0	1
IDR	-4,9	-0,1	1
KRW	2,4	0,0	1
NOK	0,2	0,0	1
PLN	-6,8	0,0	1
RUB	-14,8	-1,1	5
SEK	0,5	0,0	1
SGD	-2,6	0,1	1
USD	-56,9	-0,2	1
ZAR	-2,8	-0,1	1
		<u>-1,4</u>	

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

Bank borrowings of EUR 109 million comprise loans of EUR 5 million, GBP 25 million (EUR 29m), USD 50 million (EUR 47m) as well as other loans denominated in other currencies in KWD, SAR and MYR (EUR 28m).

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

	Group		Parent Company	
	2016	2015	2016	2015
Bank borrowings etc.	2,3%	2,8%	-	-

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	
	2016	2015	2016	2015
External interest income	1.020	1.957	32	576
Interest income from subsidiaries	-	-	428	126
External interest expenses	- 15.099	- 15.141	- 11	- 170
Interest paid to group enterprises	- 107	-	-	-
Dividend	4	791	4	790
Realised and unrealised exchange gains/losses, net	- 4.400	- 9.158	- 762	- 967
	<u>- 18.582</u>	<u>- 21.551</u>	<u>- 309</u>	<u>355</u>

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

Cash at bank and in hand, beginning of year	
Acquisition of enterprises	
Overdraft facilities, beginning of year	
Cash, end of year	
Overdraft facilities, end of year	

Group	
2016	2015
140.564	139.231
-	-
- 96.969	- 84.058
43.595	55.173
115.112	140.564
- 66.621	- 96.969
48.491	43.595

4.7 Balance sheet items of acquired enterprises**Accounting policies**

On acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities have been adjusted to fair value (the purchase method). This includes allowing for any restructuring provisions determined in relation to the enterprise acquired. Remaining positive differences are recognised in intangible assets in the balance sheet as goodwill, which is amortised in the income statement on a straight-line basis over its estimated useful life. Amounts attributable to expected losses or expenses are recognised as income in the income statement as the affairs and conditions to which the amounts relate materialise.

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be 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.

in EUR thousands

Intangible assets	
Property, plant and equipment	
Deferred tax asset	
Inventories	
Receivables	
Cash at bank and in hand	
Provisions	
Long-term payables	
Short-term payables	
Net assets	
Cash and cash equivalents	
Settlement of intercompany loan	
Non Cash	
Net cash flows from acquisitions	

Group	
2016	2015
-	112.900
6.687	19.800
4	7.200
-	20.200
54	10.000
472	-
- 17	- 18.900
-	-
- 64	- 10.200
7.136	141.000
172	200
-	-
-	-
7.308	141.200

Section 5

Other disclosures

Note

5.1 Fee to the auditors appointed at the General Meeting

in EUR thousands

	Group		Parent Company	
	2016	2015	2016	2015
Audit fee	1.158	1.232	18	13
Other assurance engagements	64	71	0	0
Tax advice	1.104	741	0	0
Other fees	483	886	11	13
	2.809	2.930	29	26

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	
	2016	2015
Amortisation, depreciation and impairment, including goodwill	58.256	61.380
Provisions	34.414	1.898
Exchange rate adjustment, operating profit	3.101	-8.298
Gains and losses on the sale of fixed assets	-883	9
	94.888	54.989

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	
	2016	2015	2016	2015
<i>Rental and lease obligations:</i>				
Due within 1 year from the balance sheet date	16.078	14.091	0	0
Due within 1 to 5 years from the balance sheet date	34.965	36.558	0	0
Due more than 5 years from the balance sheet date	8.267	10.477	0	0
	59.310	61.126	0	0
<i>Guarantees:</i>				
For local loans and bank credits to subsidiaries ¹⁾	4.901	3.843	0	0
Other guarantees	4.901	3.843	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:

As part of its current operations, the Group is a party to certain legal disputes, and certain claims have been advanced against the Group concerning complaints, pollution and environmental issues. In August 2016, certain compliance issues were discovered in Germany. Subsequently, management decided to investigate potential compliance issues in a number of other jurisdictions. As a result hereof, management decided to expense EUR 40 million in the financial statements for 2016. (Please refer to note 2.4.) The investigations are, however, still ongoing in a number of jurisdictions and the outcome is subject to considerable uncertainty.

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***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 Directors of the Hempel Foundation and Hempel Holding coincide.

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

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	
	2016	2015	2016	2015
Investments in subsidiaries				
Costs, beginning of year			209.124	209.655
			-	-
Exchange adjustment at year-end rate			819	- 531
Additions for the year			7.308	-
Costs, end of year			217.251	209.124
Net revaluations, beginning of year			278.945	211.095
Exchange adjustment at year-end rate			- 13.302	6.411
Hedging of future transactions			1.477	3.179
Other adjustments			- 3.473	2.006
Profit			63.997	126.254
Tax for the year			- 31.161	- 30.000
Dividend received			- 48.000	- 40.000
Net revaluations, end of year			248.483	278.945
Carrying amount, end of year			465.734	488.069
Investments in associates				
Costs, beginning of year	84	84		
Disposals	- 84	-		
Costs, end of year	-	84		
Net revaluations, beginning of year	18.836	16.389		
Exchange adjustment at year-end rate	665	1.996		
Net profit	1.452	2.177		
Dividend received	- 2.069	- 1.726		
Disposals	- 18.884	-		
Net revaluations, end of year	-	18.836		
Carrying amount, end of year	-	18.920		

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	16.803.936	100%
China	Hempel (Guangzhou) Coatings Co. Ltd.	CNY	185.327.620	100%
China	Hempel-Hai Hong Coatings (Shenzhen) Co. Ltd.	HKD	40.000.000	100%
China	Hempel (Seagull) Coatings Co. Ltd.	HKD	20.000.000	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	31.019.200	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%
Denmark	Hempel Properties A/S	DKK	1.000.000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100.000	100%
Egypt	Hempel Egypt L.L.C.	EGP	200.000	100%
Egypt	Hempel Paints (Egypt) L.L.C.	EGP	250.000	100%
Finland	OY Hempel (Finland) AB	EUR	63.000	100%
France	Hempel (France) S.A.	EUR	1.220.000	100%
Germany	Hempel (Germany) GmbH	EUR	1.533.876	100%
Greece	Hempel Coatings (Hellas) S.A.	EUR	7.800.000	100%
India	Hempel Paints (India) Pvt. Ltd.	INR	690.000.000	100%
Indonesia	P.T. Hempel Indonesia	IDR	830.000.000	100%
Iraq	Hempel (Iraq) Ltd.	USD	8.300	31%
Ireland	Crown Paints Ireland Ltd.	EUR	127	100%
Italy	Hempel (Italy) s.r.l.	EUR	50.000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1.450.000.000	100%
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
Caribbean	Pinturas Hempel (Caribbean)
Hungary	Hempel (Czech Republic) s.r.o. Magyarorszagi Fiolktelepe
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:

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