Annual Report 2017

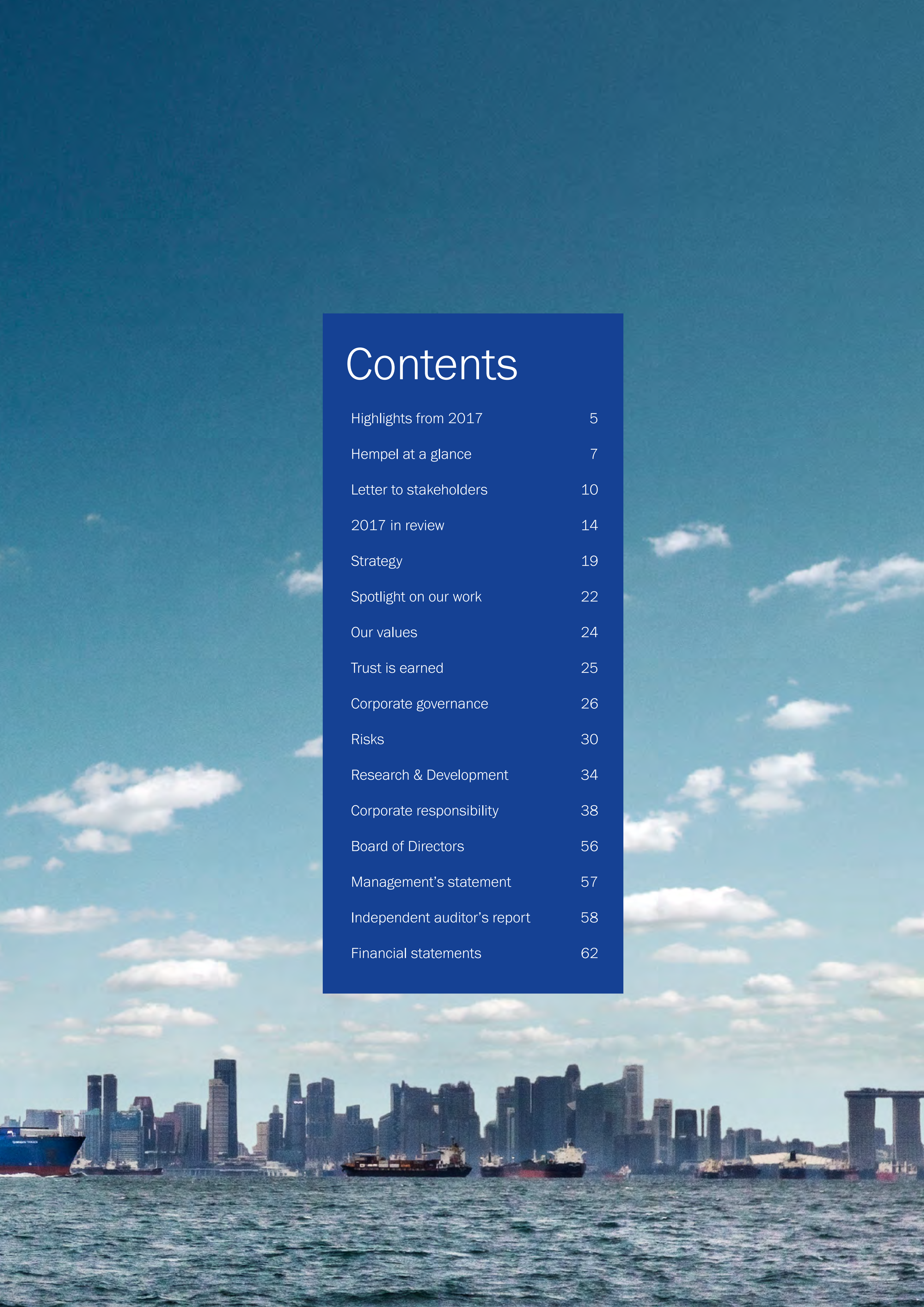
CVR no. 59946013

Lundtoftegårdsvej 91
DK-2800 Kgs. Lyngby

Date 4 April 2018
Chairman: Christina Mourier

The company	Hempel A/S Lundtoftegårdsvej 91 DK-2800 Kgs. Lyngby Denmark Tel: +45 4593 3800 Fax: +45 4588 5518 hempel.com CVR no. 59946013 Financial year: 1 January - 31 December
Board of Directors	Richard Sand, Chairman Eric Alström, Deputy Chairman Marianne Wiinholt Anders Pettersson Leif Jensen Peder Holk Nielsen Helle Fiedler, elected by the employees Henrik Bach Falkenberg, elected by the employees Kim Scheibel, elected by the employees
Executive Management Board	Henrik Andersen Group President & Chief Executive Officer (CEO) Anders Boyer Executive Vice President & Chief Financial Officer (CFO) Lars Petersson Executive Vice President & Chief Operating Officer (COO) Peter Kirkegaard Executive Vice President & Chief People & Culture Officer (CPCO) Michael Hansen Executive Vice President & Chief Commercial Officer (CCO)
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup Denmark
Bankers	Nordea Bank SEB (Skandinaviska Enskilda Banken) BNP Paribas HSBC Group

Cover photo:
A Hempel coating advisor at ZPMC's Changxing Base in China. The cranes are coated with Hempel's waterborne coatings, which ensure long-lasting corrosion protection and minimal emissions.



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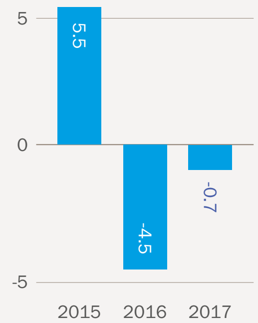
Highlights from 2017

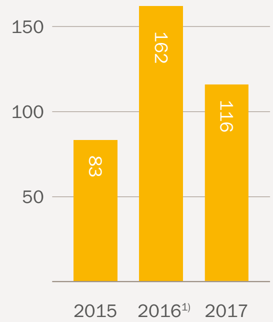
Organic growth (%)



- Organic growth of -0.7%, equivalent to revenue of EUR 1,378 million
- Challenging conditions in the coatings industry – growth in line with the market segments Hempel operates in
- Unfavourable currency fluctuations, in particular the weakening of the US dollar, negatively impacted revenue by 2.3% (EUR 33 million)

-0.7%
vs 2016

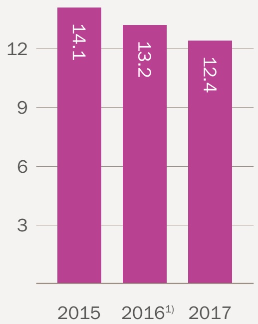
Cash conversion (%)



- Continued focus on working capital resulted in another year of solid cash conversion
- Net working capital days the lowest in Hempel's history – the strategic ambition for 2020 achieved 3 years early – releasing EUR 177 million since the beginning of 2016
- Net debt reduced to EUR 21 million making Hempel virtually debt-free at the end of 2017

116%

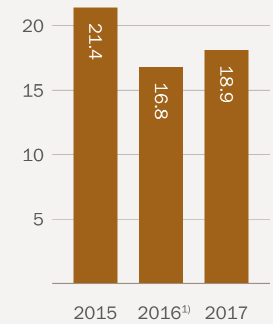
EBITDA margin (%)



- Satisfactory EBITDA margin comparable to last year
- Significant investments, particularly in our commercial organisation, to solidify our platform for accelerated growth
- Steep raw material price increases negatively impacted margins – partially offset by efficiency initiatives, selected cost reductions and the passing on of price increases to our customers

-0.8p.p.
vs 2016

ROIC (%)



- ROIC increased by 2.1p.p. as a result of reductions in invested capital
- Invested capital decreased by 20%, mainly driven by a focused drive to decrease working capital
- Working capital days reduced to 59 end of 2017 compared to 89 end of 2016

+2.1p.p.
vs 2016

1) Excluding special items.

Key figures

In EUR million (unless otherwise stated)

	2017	2016	2015	2014	2013 [1]
Income statement					
Revenue	1,378	1,424	1,563	1,298	1,239
EBITDA	171	188 [2]	220	166	165
Amortisation, depreciation and impairment	56	58	62	37	40
Operating profit	115	130 [2]	158	129	125
Share of net profits of associates	–	2	2	2	2
Net financials	-23	-18	-22	-17	-19
Profit before tax	92	78	138	114	108
Net profit for the year	55	47	108	82	78
Financial position					
Total assets	1,144	1,265	1,377	1,162	1,056
Equity	442	458	488	421	377
Net interest-bearing debt	21	119	272	146	133
Cash flows					
Total cash flow from operating activities	155	250	131	88	133
Total cash flow from acquisitions / divestments of enterprises	14	–	-141	-13	–
Total cash flow from net investments in property, plant and equipment and intangible assets	-23	-36	-47	-23	-45
Free cash flow	144	216	-56	53	89
Working capital					
Net working capital (NWC) days	59	89	122	113	108
Employees					
Average number of employees	5,740	5,787	5,661	5,134	5,029
Employee Net Promoter Score (Scale: -100 to +100)	20	25	N/A	N/A	N/A
Ratios (%)					
Organic growth	-0.7	-4.5	5.5	5.2	1.7
Gross margin	40.9	43.7	41.7	41.0	40.5
EBITDA margin	12.4	13.2 [2]	14.1	12.8	13.3
Operating profit margin	8.3	9.1 [2]	10.1	10.0	10.1
Return on invested capital	18.9	16.8 [2]	21.4	21.0	20.8
Equity ratio	38.6	36.2	35.4	36.2	35.6
Cash conversion	116	162 [2]	83	81	114
Leverage ratio (Net interest-bearing debt/EBITDA)	0.1	0.6 [2]	1.2	0.9	0.8

1) Comparative figures have been restated according to the changed accounting policies in 2013 only. For definitions, see note 5.8.
2) Excluding special items related to compliance issues.

Our business is trust

Hempel's coatings protect our customers' most valuable assets, demanding that we deliver the market's most trusted solutions. Hempel does not claim to be the most trusted or assume we have our customers' trust. Instead, we recognise that it is up to us to earn this trust every day through the superior performance of our products, and our expert service and support.

Trust is earned by connecting to our customers to better understand their needs. It is earned by constantly challenging ourselves to push the boundaries of performance and protection. It is earned by committing to improving the environmental footprint of our solutions with no compromise on performance. It is earned by inspiring confidence through our invaluable technical advice on coating products and processes.

Our comprehensive assortment of advanced coatings is proven to perform under the roughest treatment and in the world's harshest environments. Our solutions protect against corrosion and help make our world look more colourful, keeping ships, containers, wind turbines, buildings, infrastructure, hospitals and homes in prime condition. Hempel has been earning the trust of customers under the toughest conditions for more than 100 years.

The Hempel Foundation
The Hempel Foundation has been the sole owner of the Hempel Group since 1948. As a commercial foundation, its primary purpose is to provide and maintain a solid economic base for the Hempel Group. Its secondary purpose is to support cultural, social, humanitarian, scientific and artistic purposes around the globe.

Read more about the Hempel Foundation and its work at **hempelfoundation.com**


HEMPEL
Trust is earned
HEMPEL

Adding value to every customer's business globally

Protective

In the harshest industrial environments
Across infrastructure and industries, we work closely with customers to protect their valuable structures and heavy-duty equipment from corrosion, increase production efficiency, cut costs and reduce the environmental impact of their operations.

Marine

An energy-efficient fleet
With advanced coatings for every part of a ship, we help our marine customers increase the overall efficiency of their fleets by cutting maintenance costs and helping reduce fuel consumption and emissions.

Decorative

A world of colour
From homes and offices to hospitals, schools, airports and public buildings, our Decorative solutions reduce energy consumption, improve hygiene, lower maintenance requirements – and help make our world more colourful and inspiring.

Container

Safeguarding cargo
We work with container producers across the globe to protect their containers from corrosion, both inside and out, and to reduce waste, throughput time and energy use on their production lines.

Yacht

Under wind and sail
With a full range of products for pleasure and racing yachts, from maintenance products to specialist fuel-efficient hull coatings, we help professional boat builders and sailing enthusiasts keep their vessels in perfect condition so they can enjoy the sea.

Services

World leading technical support and advice
From specification through to application and ongoing maintenance, we work closely with customers to understand their major challenges, and partner with them to find trusted solutions that add real value to their businesses.

Letter to stakeholders

The transformation of Hempel.

We started two years ago to transform Hempel into a leading global coatings company in order to ensure that we are ready to take part in the consolidation happening throughout the industry. We, the Board of Directors and the Executive Management Board, acknowledge that this transformation is a major change in the way the Group operates globally and we know that it will take a couple of years to finalise. 2017 has confirmed that such a journey involves cultural change, challenges for individual leaders and employees and has, in some cases, unveiled a few unwelcome surprises in the form of inappropriate sales practices in certain parts of the world.

We are pleased to see that our strong leadership team is dealing confidently with these challenges, and has already made great progress while also increasing momentum in all our business units across the globe. We are encouraged by the support we have received from our customers, employees and other stakeholders, and we will continue to work diligently on the remaining part of our transformation in the years to come. The unveiled inappropriate sales practices were stopped immediately and effectively, and the employees involved have left the company.

Performance in 2017

In the Annual Report for 2016, it was stated that the coatings market was expected to remain challenging in 2017. This turned out to be the case. Additionally, Hempel experienced complications as a consequence of the inappropriate sales practices discovered during 2016. Considering these conditions, our financial performance was satisfactory in 2017, with organic growth of -0.7 per cent. This was in line with the global coatings market and the segments in which Hempel operates. As expected, we maintained a stable EBITDA margin (12.4 per cent) in 2017, just below the 2016 level (13.2 per cent). Increasing raw material prices and our continued investments to build a platform for accelerated growth were partially offset by solid progress on our internal excellence projects. At the same time, we were pleased to see a significant further improvement in net working capital days. By the end of 2017, net working capital days was at 59. We have improved efficiency over the last 24 months, with over 100 days coming from increased efficiency in inventory, accounts payable and firmer agreements with customers on accounts receivable. Most of these improvements are due to optimisation and better discipline in our processes, and we are now at a level comparable to our best-in-class global peers. As a result, we finished the year almost debt-free – leaving us in a strong position to take an active role in the consolidation of the global coatings industry.

'Collaborating like crazy'

As stated in our 2016-2020 *Journey to Excellence* strategy, our goal is to improve profitability by striving for excellence across our organisation, while growing faster than the market. Much of our work in 2017 focused on ensuring we have the necessary platform to accelerate this journey.

We created a new organisational structure in 2016 with two dimensions, led by our Operational Management Board. Dimension I is made up of our regions, while dimension II includes four global Group functions. This enables our regions to focus on customers and operational execution, while our Group functions concentrate on driving Group-wide initiatives and best practice to increase excellence, alignment and synergies across the globe to the benefit of all stakeholders. In 2016, we introduced an Annual Management Cycle, a yearly management wheel that ensures our management teams across the globe understand and share a common vision. Our new organisational structure and management cycle have been successfully implemented: We are working together closely across regions and functions – what we call 'collaborating like crazy' – and we benefited from faster decision-making and greater alignment across the business in 2017 as a result. Our global organisation is now much more effective, operating more like one family and, importantly, much more agile when working with customers, wherever in the world they operate.

In 2017, we decided to further improve our organisation by investing in our Commercial, R&D and Supply Chain functions, as well as our Compliance function and internal controls. In addition, we strengthened our Board of Directors, adding two new Board members. Both bring extensive senior executive experience and knowledge of global operations to the table, and will play an important part in our continued efforts to further professionalise and grow our business. All these organisational changes mean we are now ready to welcome new members of the Hempel family, and to play a leading role in the consolidation of the industry.

The customer at the heart of all we do

A key part of delivering trusted solutions is listening to customers and translating their needs into value-adding products and services. This is the responsibility of all employees, and everything we do at Hempel must have a direct or indirect positive effect on our customer relationships. As part of our transformational journey, we improved our sales practices and strengthened our commercial organisation in 2017. Our new Group commercial organisation is divided into four distinct areas: segment strategy, marketing, sales excellence and GKAM (Global Key Account Management). These changes ensure that our Group commercial organisation can work closely with R&D and our other support functions to deliver products and solutions that meet customer needs, and that we have the global capabilities required to create best-in-class customer engagement from 'order to cash'.

We know that our customers appreciate ease of doing business, 24/7 accessibility and seamless service, so we accelerated our work to create compelling digital options for our customers, such as digital order handling. We also launched and refined our GKAM programme. We can already see that our large global customers appreciate the dedicated and fast global support offered by the programme, and our GKAM team won many large contracts and iconic projects in 2017.

Hempel has long been renowned throughout the industry for its technical service. Every day, our coating advisors can be found in dockyards, on construction sites and in offices around the world, working closely with our customers to provide essential expert technical advice. This service is of immense value to our customers and plays a crucial role in our ability to deliver trusted solutions. In 2017, we took the strategic decision to sharpen and expand how we work with and deliver this service. Our long-term vision is to lead the industry in 'surface management', essentially taking over responsibility for keeping our customers' assets in the agreed condition over the asset's lifecycle. We took the first steps on this road in 2017, by creating a new global Services organisation and establishing a Services Leadership Team.

In 2017, we proudly announced our title sponsorship of the Hempel Sailing World Championships 2018 in Aarhus, Denmark

We look forward to continuing this important industry-changing work in 2018.

Finally, we conducted our first ever Customer Experience Survey in 2017, in which we asked around 5,000 customers to give us feedback on our work and relationship with them in an anonymous online questionnaire. Their responses gave us many useful insights on a country, regional and global level, and we are already using this information to improve how we work, how we interact with our customers and the services and products we offer. Our overall NPS (Net Promoter Score) was 54. While this score was good, we must do more to engage with the relatively large proportion of customers who did not respond actively to the survey.

Building trust through greater compliance

We made strong improvements in compliance and controls across our organisation during the year. We have zero-tolerance for inappropriate practices and violation of the law. Any such behaviour is in conflict with what we stand for: It is a direct attack on the integrity of our customers, culture, values and colleagues. We expect the highest level of transparency and ethical behaviour from all Hempel employees, irrespective of where in the world they work or what is considered usual in local business practice. Following the detailed plan agreed between the Board of Directors, the Audit Committee, the Executive Management Board and our Compliance function, we made substantial investments internally and externally during 2017 to ensure this is the case.

These investments included updating our Code of Conduct to make it absolutely clear what is expected of our employees in different business situations, and to provide solid guidance to you as a stakeholder to Hempel. To ensure the Code of Conduct is understood by all employees, we provided our regional management teams with extensive training and guidance to ensure the messages in the Code of Conduct are cascaded to the organisation. We also launched an eLearning training package in October and were very pleased to see that everyone had gone through the training by the end of the year. In addition, we established an Ethics Committee, as well as an online collaboration site and hotline called ComplianceHelp, where employees can seek guidance and help on specific matters. This is an extremely important part of our transformational journey and we are planning other initiatives in 2018, including a Business Partner Code of Conduct.

In 2017, we continued our internal compliance investigations in relevant regions, with the assistance of external global advisors from the audit and legal industries. As a result of these investigations, we uncovered inappropriate sales practices in a number of offices, mainly in Asia-Pacific. These were self-reported by Hempel A/S in April 2017 to the Danish State Prosecutor for Serious Economic and International Crime. The investigation by the Danish State Prosecutor is still ongoing.

Helping our employees to reach their full potential

Our founder J.C. Hempel often said that 'our people are our most important asset', and this remains true today. Our transformational journey involves a culture change, and we can only succeed if we are engaged and passionate about moving our company forward. We believe that engagement begins at leadership level. Our leaders should be lighthouses, offering a shining example and guidance to our employees. Therefore, in 2017 we developed a new talent management process that ensures we all understand the skills and behaviours that our leaders need. The process includes a new way of identifying and developing future leaders that will give us a strong leadership pipeline and ensure that our future leaders are ready for succession and increased global responsibility as we consolidate and grow around the world.

Richard Sand Henrik Andersen

We also performed our Employee Engagement Survey for the second time. We first held the survey in 2016, and it is now an integral part of our Annual Management Cycle. Like last year, 93 per cent of employees took the time to take the survey, which gives the results high validity. Our employee Net Promoter Score dropped from 25 to 20 in 2017. This is not satisfactory, and we are working closely with the business units that were challenged by low scores to find the root cause and improve. Our goal is to be the most attractive employer in the industry, able to attract, retain and develop the industry's leading talents and employees.

Selected highlights from the year

We made many other important decisions and strategic investments during the year. In June, we were proud to announce that Hempel will be title sponsor of the Hempel Sailing World Championships 2018. To be held in Aarhus, Denmark in July and August, the championships are expected to draw around 1,500 sailors from 100 nations, as well as over 400,000 visitors. The event matches our values and profile perfectly. We have our roots in Denmark and the maritime industry, and we always strive for better cooperation and higher performance. This makes the event, in which the world's best sailors meet and compete, a perfect fit. The entire world will be looking at Aarhus during the championships, and we are looking forward to showing our brand, products and values on the world stage.

In December 2017, Hempel Holding A/S bought additional land around our current headquarters outside Copenhagen, Denmark, where we will build new facilities, including an extended state-of-the-art R&D centre focused on production and environmental technology. Together with our existing headquarters, the new facilities will constitute a true 'Hempel Campus', where all colleagues based in Copenhagen will work and we will have room to accommodate and welcome new colleagues as we expand. The campus is expected to be complete in 2020.

Expectations for 2018

We expect the global marine coatings market to continue to be challenging in 2018, especially the newbuilding segment, where global overcapacity is adding to the already negative trends in the industry. Despite this, we anticipate positive underlying organic growth across most segments and geographies. Our EBITDA margin is expected to remain at a strong level, in line with 2017.

***Trust is earned* and thank you**

Trust is a key aspect of our values and the Hempel way, and it is central to our identity, both internally and externally. Now, it is also central to our brand. In 2017, we launched our first company-wide tagline: *Trust is earned*. We look forward to living up to that tagline in 2018 – and the years ahead.

Overall, 2017 was a tough but satisfying year. We took great strides on our transformational journey, and made many important investments in building the foundation we need to accelerate growth. We would not have been able to make such progress without the hard work of our highly skilled and dedicated employees across the globe. On behalf of the Executive Management Board and the Board of Directors, we would like to thank you all for your contributions in 2017. We would also like to extend our thanks to you, our customers, shareholder and other stakeholders, for your ongoing support and trust.

Henrik Andersen
Group President &
Chief Executive Officer

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

2017 in review

In 2017, Hempel focused on getting ready for accelerated growth. We now have the foundation in place needed to accelerate our *Journey to Excellence* strategy and get back on a positive organic and acquisition-driven growth trajectory.

It was stated in the Annual Report for 2016 that the global coatings market was expected to remain challenged throughout 2017. In addition, the Board of Directors and Executive Management Board emphasised that they would conduct thorough compliance investigations to make certain that any inappropriate practices were brought to an end. 2017 turned out to be more challenging than anticipated, and we did not see growth pick up as quickly as expected. However, despite the challenging business environment and our uncompromising efforts to stop inappropriate practices, we managed to make strong progress in many areas and took important steps in the execution of our *Journey to Excellence* strategy. We now have a platform from which we will be able to accelerate organic growth and take an active part in the consolidation of the global coatings industry.

The Hempel Group's revenue for the year was EUR 1,378 million, corresponding to negative organic growth of 0.7 per cent. While revenue development was below expectations, it was comparable to that of peers in the industry, and we outperformed competitors in strategically important market segments, such as marine. The EBITDA margin ended at 12.4 per cent, slightly below the 2016 level (13.2 per cent) and slightly short of our ambitions as laid out in the Annual Report for 2016. This was driven by an increase in raw material prices, which impacted both Hempel and the rest of the coatings industry.

Considering the development of the coatings market and increasing raw material prices, we consider the financial results in 2017 satisfactory. Our relentless focus on operational excellence and proactive implementation

With a capacity up to 25 million litres per year, our new factory in Mina Abdullah in Kuwait will meet growing demand for coatings in the region

of cost-saving initiatives where needed, almost offset the adverse earning effects from increases in raw material prices. Our operational excellence initiatives also led to continued strong cash flow generation. Hempel's net interest-bearing debt reduced from EUR 119 million by the end of 2016 to just EUR 21 million and thus made Hempel a virtually debt-free company at the end of 2017. The Group's net working capital was reduced to an all-time low of 59 days by the end of 2017, down from 89 days at the end of 2016. We thereby delivered on one of our 2020 ambitions in our *Journey to Excellence* strategy – net working capital in line with best-in-class peers – three years early. But we still have room for improvement. We will continue to raise the bar.

Sales
In 2017, we delivered sales of EUR 1,378 million, corresponding to organic growth of -0.7 per cent. Unfavourable fluctuations in currencies generated a negative foreign exchange impact of EUR 33 million (or -2.3 per cent) compared to sales of EUR 1,424 million in 2016.

In 2017, we saw positive organic growth in our large Europe & Africa region, our two regions in the Middle East as well as South America. It was encouraging to see that our Middle East regions both saw growth, despite a very complicated business environment following the geo-political crisis in the region.

Sales declined within Crown Paints, our Decorative business in the UK, caused by the loss of one large tender in late 2016. Across all other customer segments, Crown Paints delivered growth and increased market share. North America delivered negative organic growth, driven largely by weak performance in the Protective segment. The rail market and our Neogard industrial coatings in particular were weaker than expected.

As expected, we experienced tough market conditions in the marine industry globally, where the combination of slowing demand and increasing competition contributed to negative organic growth in 2017. Significant negative impacts were observed in the marine newbuild markets in China and Korea. The inappropriate sales practices discovered during 2016 and early 2017 also negatively affected our 2017 performance, both in terms of direct losses associated with the discontinuation of customer relationships and indirectly due to the resulting restructuring activities and changes to leadership and sales teams in our Asia-Pacific regions. However, with our new Asia-Pacific organisation and leadership team in place, we have a strong foundation from which to drive our accelerated growth agenda in 2018 and beyond.

In line with our strategy, we established a new Commercial function that will drive our commercial excellence journey across the globe. A new Chief Commercial Officer joined the company in May 2017 and a new Group commercial organisation was launched in the third quarter. This gives Hempel a strong foundation from which we can further develop and professionalise our global marketing, sales excellence and segment strategy capabilities in order to accelerate growth in the years to come.

We also launched our GKAM programme and saw important wins with customers as a result of our ability to deliver strong and consistent services to large global companies. We expect to further accelerate growth and increase our share of wallet with our GKAM customers in 2018, and we will continue to invest in digitalisation, including our customer portal My Hempel, with the explicit ambition of improving measurable customer satisfaction.

Operating expenses
In 2017, operating expenses decreased 6.3 per cent compared to 2016. The cost-saving and operational excellence

The Hempel Executive Management Board: Peter Kirkegaard, Henrik Andersen, Michael Hansen, Anders Boyer and Lars Petersson

initiatives implemented during 2016 and 2017 as part of our *Journey to Excellence* strategy released funds, which were reinvested in accelerating execution of our strategy. We continued to invest in building a platform for accelerated growth, including strengthening our commercial organisation as mentioned above. Furthermore, we continued to expand and invest in improving our Decorative distribution network in the Middle East and the UK, as well as a stronger and wider footprint in Africa. We also continued to make significant investments to improve our internal controls, the compliance organisation and not least our internal audit framework.

Operating expenses in 2017 include a number of one-time costs, including costs related to reinforcing Hempel's commitment to the Hempel Employee Foundation. Employees and their close family can apply for support from the Hempel Employee Foundation in the case of illness or to pursue education. These one-time costs were offset by gains from property sales in North America and the Middle East.

EBITDA

The EBITDA margin for 2017 was 12.4 per cent. This was roughly in line with the 13.2 per cent reported in 2016, excluding special items. The continued solid EBITDA margin was delivered despite lower sales and increased raw material prices, which were significantly higher than expected. Continued strong progress on our operational excellence journey enabled us to continue investing in our *Journey to Excellence* while at the same time protecting margins.

In absolute terms, EBITDA amounted to EUR 171 million. This compares to EUR 188 million in 2016 (excluding special items).

Net profit and special items

In 2016, Hempel expensed EUR 40 million related to compliance issues connected to inappropriate sales practices in a few jurisdictions, including Germany and Asia-Pacific. The provision covers potential tax consequences and an estimate of potential financial sanctions, including fines, advisor fees and severance payments. Apart from the impact from lower sales resulting from discontinuing inappropriate sales practices, there was no net profit impact in 2017 from inappropriate sales practices, as all compliance-related expenses were set off against the provision booked in 2016. At the end of 2017, the provision amounted to EUR 22 million.

The effective tax rate for the year was 40 per cent compared to 41.3 per cent last year. The effective tax rate for 2017, excluding impact from the US tax reform, was 30.3 per cent (2016: 24.2 per cent excluding one-off costs related to compliance issues). The effective tax rate, before non-recurring items, increased by 6.1 percentage points from 2016 to 2017 due to a re-assessment of uncertain tax positions as well as higher withholding taxes. The effective tax rate in 2018 and onwards, excluding potential non-recurring items, is expected to be lower than in 2017.

Net profit amounted to EUR 55 million, up from EUR 47 million last year.

Capital expenditure

During 2017, we continued to invest in new factories, modernisation of our production capacity and optimisation of our manufacturing footprint. Total gross capital expenditure was EUR 44 million, in line with last year. As part of optimising our manufacturing footprint, we are progressing with the optimisation and relocation of our Yantai factory in China and we are working on finding a solution to fully complete the closure of our factory in Dammam, Saudi Arabia. In addition, we finalised and inaugurated our new factory in Kuwait, completed our factory and production technology expansion projects in Dallas, US and Darwen, UK, and we continued our strategic investments in passive fire protection technology in our laboratories in Barcelona, Spain. Other capital investments in 2017 include strategic investments in cutting-edge coatings technology for the wind industry and the opening of our new distribution centre in Texas, US.

We will continue to invest in new capacity and manufacturing optimisation in the future in line with our strategy plans in order to reduce operating costs and to ensure we can deliver products when and where our customers need them.

Acquisitions
An important part of our *Journey to Excellence* strategy is to participate in the consolidation in the coatings industry and grow through acquisitions. During the year, we took significant steps forward in our preparation for acquisitions and the acquisition pipeline is healthy.

Hempel completed one technology acquisition during the fourth quarter of 2017. The acquisition is a perfect strategic fit and we expect to be able to develop the acquired cutting-edge technology and knowledge into competitive products in our Protective segment within the next few years to the benefit of some of our largest global customers.

Cash flow and net interest-bearing debt
2017 was the second year with sharp focus on improving net working capital and bringing down Hempel's net debt, and we saw very strong improvement. At the start of 2016, we performed below our industry peers in terms of net working capital. By the end of 2017, we were close to best-in-class. Net working capital days decreased to 59 days by the end of 2017, down from 89 days in 2016 and 122 days in 2015.

As a consequence, we saw strong cash flow during 2017. Total cash flow from operating activities ended at EUR 155 million in 2017 and, at the end of the year, net interest-bearing debt had been reduced to a mere EUR 21 million, equalling a ratio of 0.1 to EBITDA, down from 0.6 in 2016. This leaves us in a strong position to take an active role in the consolidation of the global coatings industry.

Balance sheet and financial position
Our continued focus and success in reducing net working capital was the main contributing factor behind a decrease in total assets of EUR 121 million, or 10 per cent, from 2016 to 2017. By the end of 2017, total assets amounted to EUR 1,144 million. As a consequence, invested capital decreased from EUR 703 million, excluding special items, by the end of 2016 to EUR 566 million at the end of 2017 – a decline of 19.5 per cent. The decrease in invested capital was the main driver behind an increase in Return on Invested Capital (ROIC) from 16.8 per cent in 2016 (excluding special items related to compliance issues) to 18.9 per cent in 2017.

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

Parent company
In 2017, the parent company delivered sales of EUR 117 million compared to sales of EUR 110 million in 2016. Gross profit in 2017 ended at EUR 64 million, at the same level as 2016 (EUR 63 million). Operating expenses increased by 30 per cent from EUR 50 million in 2016 to 65 million in 2017, mainly due to increased head count at headquarters.

Income from investments in subsidiaries increased from EUR 26 million in 2016 to 34 million in 2017. Net profit for the year ended at EUR 41 million compared to EUR 33 million in 2016. For 2018, revenue and the net result are expected to be at the same level as in 2017.

Strategy

In 2017, we continued to lay the foundation needed for future growth, accelerating execution on our *Journey to Excellence* strategy.

Our *Journey to Excellence* aims at building the foundation for Hempel's long-term success by strengthening and improving the way we deliver valuable products and services to our customers (Key Enablers); as well as focusing on developing our offering to customers, especially in selected segments (Must-Win Battles), but in general in our three chosen business areas within the coatings industry.

Our aim remains to grow faster than the market, and we are preparing for accelerated growth – both organically and through acquisitions. Our new organisation has been implemented successfully, and we are making strong progress on strategy execution. However, we can see that we still need to improve our customer focus and internal excellence.

Key strategy execution initiatives in 2017

- 2017 was our first full year of working with our two dimensional organisational structure, and we continued to invest in stronger global functions with particular focus on our commercial organisation, R&D, supply chain and compliance. Dimension I and II are quickly learning to 'collaborate like crazy', giving us greater alignment and faster strategy execution across the Group.

- We made significant progress in Supply Chain Excellence through a number of initiatives, including:
  - Optimising our global supply chain footprint
  - Improving our manufacturing process by introducing new concepts such as in-can production

- Increasing performance and reducing cost levels through our Continuous Improvement programme
- Continued strategic procurement initiatives addressing both raw materials and indirect spend
- Streamlining our product assortment to make specification easier and reduce costs

• We extended our pipeline of innovative solutions to ensure we meet customer needs in areas where no existing products meet these needs today. These solutions are developed in collaboration with our customers, from early ideas through to design, testing and application.

• We worked further with our Foundation for Leadership. This included developing a new talent management process that will strengthen our leadership teams today, and ensure we have a strong leadership pipeline for the future. In addition, we continued to work with tools, such as Let's Talk, our personal development process, and our Employee Engagement Survey, to ensure that we continue to attract, retain and develop the industry's leading talents.

• We documented our leadership in fuel efficiency – a key part of our Marine Must-Win Battle – through data collection on a customer's fleet. The confirmed savings, in terms of both costs and CO_2 emissions, demonstrate that our Hempaguard® X7 hull coating leads the world in fouling control.

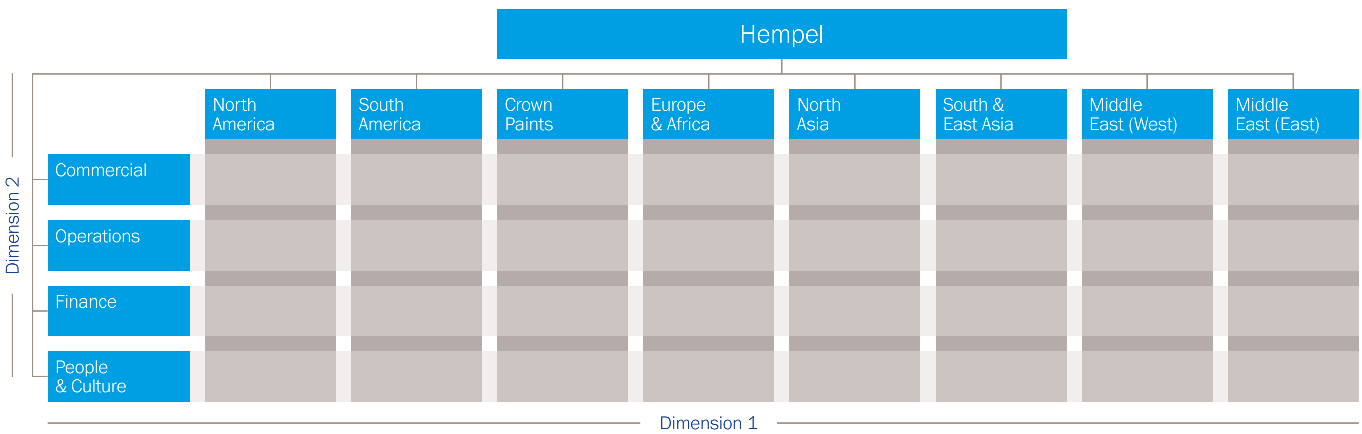
• We continued to refine our GKAM programme to ensure even closer and stronger customer relationships with our large global customers. GKAM is a key part of our strengthened commercial organisation, led by our Chief Commercial Officer, a new role created in May 2017.

• We launched our new Services organisation as a global business unit with the goal of becoming the world leader in coatings service and advice. Our long-term vision is to lead the industry in 'surface management', essentially taking over responsibility for keeping our customers' assets in the agreed condition.

Looking ahead

In 2018, we will continue to execute on our *Journey to Excellence* strategy plan, with increased focus on customer-centricity and internal excellence. We also remain committed to seeking growth by inviting new companies to join the Hempel family, and have built a strong pipeline with highly interesting small and large candidates.

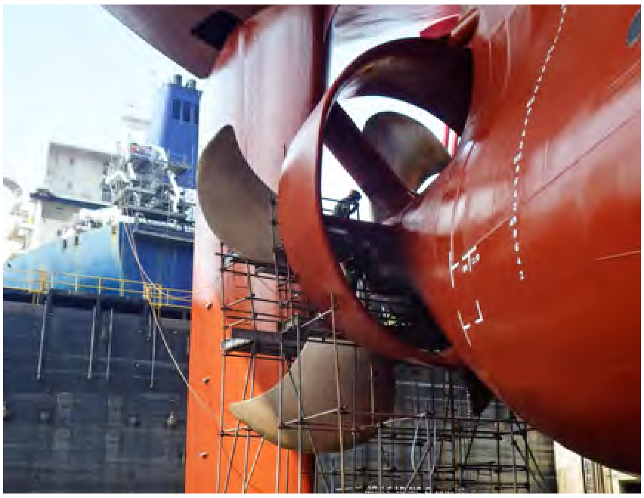
Group organisational structure



Hempel business model

We supply coatings to the protective, marine, decorative, industrial, container and yacht industries. We protect our customers' most valuable assets, which demands that we deliver the market's most trusted solutions. We do not assume we have our customers' trust. Instead, we recognise that it is up to us to earn this trust. *Trust is earned* by connecting to our customers to better understand their needs and by constantly challenging ourselves to push the boundaries of performance and protection. It is earned by committing to improving the environmental footprint of our solutions with no compromise on performance, and by inspiring confidence through our invaluable technical advice.

Spotlight on our work



Euronav's Very Large Crude Carrier Sara in drydock in Singapore

Documenting fuel efficiency

Marine customers want documented fuel savings, and we established ourselves as leader in this field.

The challenge
Many hull coatings claim to improve hull smoothness and so reduce vessel fuel consumption and emissions. But many factors affect fuel consumption, making it hard to determine the return on investment. For Euronav, a global leader in shipping crude oil, the answer was our performance monitoring service.

The solution
The service gives accurate hull and propeller performance data, enabling customers to ascertain exactly how fuel savings are achieved. Euronav first took advantage of this service in connection with the upgrading of three of its vessels to our Hempaguard X7 hull coating. Six months after the application, there was a clear increase in propulsion efficiency, of which a significant portion was attributable to the coating.

"Hempel's fuel monitoring system gives us complete insight into our return on investment. It also enables us to work closely with Hempel and so improve long-term efficiency," says Theodore Mavraidis, Fleet Technical Manager at Euronav Ship Management (Hellas) Ltd.

Our products and services help Velesstroy protect structures in harsh environments

A unique range of services

When Velesstroy approached us with a unique service challenge, we were quick to come up with a solution.

The challenge
Velesstroy implements large and complex projects in a number of sectors, from oil and gas to civil installations. These projects require the application of protective coatings in many different locations and a variety of climatic conditions, often through third-party steel fabricators. The challenge was to ensure complete consistency of application quality, and timely execution.

The solution
We worked closely with Velesstroy to perform technical audits of potential subcontractors and third-party steel fabricators to ensure the ideal solution could be found. In addition, our local team provides an ongoing total technical package, including continuous supervision on site and training to Velesstroy personnel. These services are all designed to address the specific challenges Velesstroy faces.

Our work with Velesstroy has included numerous projects over several years, from large storage tanks to LNG processing facilities and oil and gas refineries.

We work with many great companies and supply coatings to a wide range of projects. Here are a few of our stories from 2017.

One of our newly opened shops in the Middle East

Closer to customers

Combining an expanded physical store network with the My Hempel web portal to get closer to customers in the Middle East.

The challenge
Our customers want a better in-store experience, as well as 24/7 accessibility. Our challenge was to deliver both to Decorative customers in the Middle East.

The solution
To make it easier for customers and applicators to find the ideal Hempel product, we increased the number of shops in the Middle East by 26 per cent in 2017, reaching a total of 180 Hempel stores in the region by the end of the year. At the same time, we enhanced our stores to showcase the latest decorative trends, enabling our customers to get inspiration, products and expert advice, all in one place.

In addition, customers can access our product catalogues, place orders and do much more through My Hempel, an online customer-centric web portal. My Hempel was launched in 2016. By the end of 2017, 99 per cent of our retail partners in the Middle East were using it, and 40 per cent of all orders in our Middle East (West) region were being made through My Hempel.

These petrol storage tanks in the Netherlands were repaired in just five months, without any asset downtime

Repairs without downtime

We worked with B&R Groep to restore and recoat 11 petrol storage tanks without the need for asset downtime.

The challenge
When VARO decided to sell its hydrocarbon product-blending and storage terminal in the Netherlands, it had to repair corrosion in the welding seams on all 11 tanks extremely quickly. The question was: How to repair the tanks while they were still filled with cargo?

The solution
VARO asked experienced applicator B&R Groep to take on the job. B&R Groep knew it needed quality products and expert guidance, and asked us to help. The tanks were repaired in just five months, using a two-coat system that not only ensures long-term anti-corrosion protection, but also maintains the tanks' visual aesthetic.

"We are very satisfied with the final results, as well as the professional way the teams approached any operational issues that occurred during the five-month project," says Hein van der Eng, Operations & Project Manager at VARO.

Our values

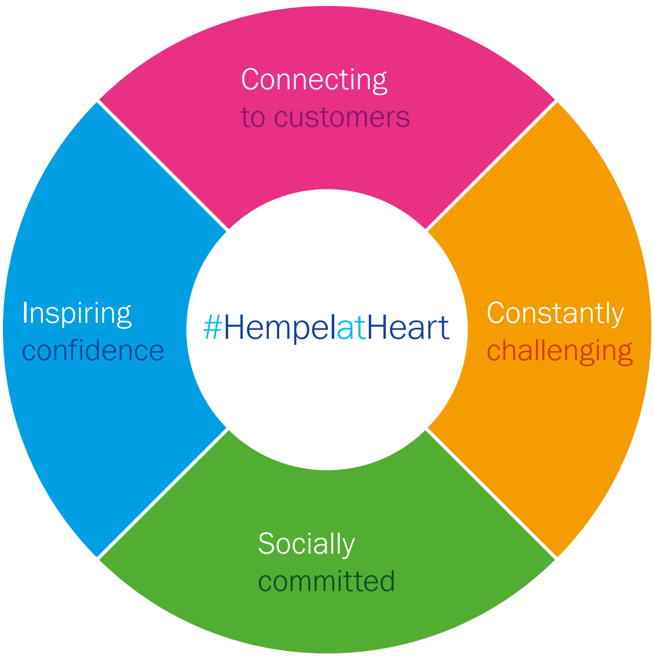
Our values unite us as members of the Hempel family. They capture and communicate our unique way of doing business, centred around delivering the market's most trusted solutions. They describe what it means to have Hempel at Heart.

Our values were formally defined in 2016, but they are actually more than 100 years old. We can trace them back to the roots of our company and the philosophy of our founder, J. C. Hempel.

Putting our values into words that everyone can relate to has had a major impact on our business. Our values guide us in our interactions with colleagues, business partners and other stakeholders, helping to ensure we make the right decisions even in the most challenging situations. Close to 1,000 new colleagues joined Hempel in 2017, and our values enabled a smooth and fast integration into our family.

Embedding our values
Since launching our values, much work has been done to embed them throughout our company. With our management team as ambassadors, they have been cascaded down through our local organisations and functions using many tools, including our newly developed dilemma game.

We have integrated our values into our annual Employee Engagement Survey and performance appraisal dialogues for all employees. We have used our dilemma game to train our people in using our values to help make the right choices when faced with tough decisions. Our values were central to updating our Code of Conduct. And, of course, our values inspired the creation of Hempel's new tagline: *Trust is earned*.



A tagline worthy of the Hempel name

In 2016, Hempel completed a major initiative with the help of key customers to define our values, together with our brand promise: 'To deliver the market's most trusted solutions'. Since then, a lot of great work has been done to firmly anchor these values and this promise in the Hempel organisation.

But as J.C. Hempel, our founder, always told us: *"It's the will to want, that creates the skill to do"*.

Embracing this spirit, our management team wanted to take things to the next level, by creating a distinctive tagline worthy of the Hempel name: A tagline that conveys our promise of Trusted Solutions in a few memorable words; a tagline that will inspire and commit each and every member of the Hempel family to think, act and innovate in ways that earn the trust of our customers; a tagline that is truly memorable.

To that end, a process was initiated to explore potential Hempel taglines. Both customers and colleagues collaborated to help develop and judge more than 40 alternatives. A clear favourite emerged and was selected.

HEMPEL
Trust is earned

Why *Trust is earned*?
Firstly, it strikes an emotional chord. Put simply, it feels right for Hempel. We are not claiming to be the most trusted, or assuming we have the trust of customers. Instead, we are recognising that it is the responsibility of every Hempel employee to earn the trust of our customers and partners.

Secondly, it takes ownership of the trust space in the coatings market. Interviews with our customers confirmed that trust is the driver of partner preference.

Thirdly, this tagline is visionary. It has the potential to inspire us to constantly challenge the way we do things – with the goal of earning even greater trust – giving long-term direction to our business.

Fourthly, it perfectly supports our transition from 'product selling to solution selling'. This is especially important given our increased focus on services.

The external launch of our new tagline will happen throughout 2018 and 2019. The launch will be carefully controlled to ensure that whenever and wherever we communicate *Trust is earned* externally, Hempel can live up to it internally. *Trust is earned* commits our organisation to a way of working that challenges all employees to ask themselves every day: "What more can I do to earn the trust of our customers?"

As an external stakeholder, please use this tagline to challenge Hempel and our employees by simply asking: "Are you sure this is what is meant by *Trust is earned*?" We are on a journey to become an excellent global family, and by challenging us in this way, you challenge us to better understand your purpose and strengthen your business.

Corporate governance

We further strengthened our governance structure with new additions to the Board of Directors and initiatives in compliance.

We continued our focus on building a strong governance structure in 2017. A new mandatory Code of Conduct eLearning was implemented worldwide for all Hempel employees, with a pass rate of 100 per cent. We also added significant competencies to the Board of Directors with the addition of Marianne Wiinholt and Eric Alström.

With these initiatives and others, we have taken a significant step within compliance and governance that will allow us to live up to the new company tagline: *Trust is earned*.

Management
The Hempel Group's organisational structure has two dimensions. Our regions focus on our customers and operational execution, while four Group functions ensure excellence and operational synergies across the Group.

Hempel's Executive Management Board consists of the heads of the four Group functions, and the Chief Executive Officer. The Operational Management Board consists of the Executive Management Board, the Head of Strategy and M&A, and the heads of the regions. This organisational structure ensures management is close to the business, enables management to drive Group-wide initiatives, and helps speed up decision-making processes and strategy execution. It also gives management oversight, control and alignment across the business.

In order to ensure that our management teams across the globe understand and share a common vision, the Hempel Group operates an Annual Management Cycle.

Board of Directors
Hempel's Board of Directors consists of six directors elected by the shareholder at the Annual General Meeting and three employee representatives elected by the employees based in Denmark.

Members of the Board of Directors elected by the shareholder at the Annual General Meeting are elected for an annual term. Board members can be elected to the Board of Directors up until the Annual General Meeting in the calendar year in which the member reaches 70 years of age.

At the Annual General Meeting in 2017, two new Board members were elected. Both new members have extensive top management experience and will play an important part in our continued efforts to further professionalise and grow Hempel. Marianne Wiinholt is Executive Vice President & Chief Financial Officer at Ørsted A/S and a member of the Board of Norsk Hydro, among others. She is also Chair of the Hempel Audit Committee. Eric Alström is President of Danfoss Power Solutions and a member of the Board at Torotrak, UK. He is the Deputy Chairman of the Board of Directors of Hempel A/S and a member of the Nomination and Remuneration Committee.

Employee representatives are elected in accordance with the Danish Companies Act, for terms of four years.

Composition and responsibilities of the Board of Directors
The Board composition mixes professional Board members and members with executive positions. This composition is deemed appropriate as it provides a good balance between knowledge, competencies and experience, and ensures members are able to deal with the substantial workload.

The Board of Directors is responsible for safeguarding the interests of the shareholder, while also considering all other stakeholders. At least once a year, the Board of Directors assesses its most important tasks, based on the overall strategic direction of the Hempel Group and including the financial and managerial supervision of the Group. As part of its assessment, the Board of Directors evaluates the performance of the Executive Management Board on a continual basis. The Chairman of the Board of Directors has an obligation to keep the Board of Directors of the Hempel Foundation informed about the performance of the Group.

Competencies of the Board of Directors
Hempel's Board of Directors strives to recruit Board members with a diverse range of mutually complementary

skills and expertise. When the Board of Directors proposes new Board members, a curriculum vitae and thorough description of the candidate's qualifications are made available to the shareholder. Hempel is a global leader and, to successfully develop and maintain its position, Hempel is dependent on global expertise and experience at Board level. Today, the Board of Directors is a diverse group of individuals mixing global experience, functional competencies and industry background, which ensures that it can fulfil its obligations. As well as in-depth knowledge of Hempel's business, Board members possess expertise within a wide range of areas, from innovation, product development, online marketing and commercialisation through to finance and human resources.

Each year the Board of Directors carries out a self-evaluation of its competencies and skills, including those of the Chairman and of individual Board members. The evaluation is carried out systematically, using clearly defined criteria to ensure the Board constantly improves both its own performance and its cooperation with the Executive Management Board.

Diversity

The Board of Directors fundamentally believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. In 2017, one female was elected at the Annual General Meeting to the Board of Directors. The Board of Directors' goal is to have at least two female Board members elected at the Annual General Meeting by 2020. More information on our initiatives to increase diversity in Hempel can be found on page 49.

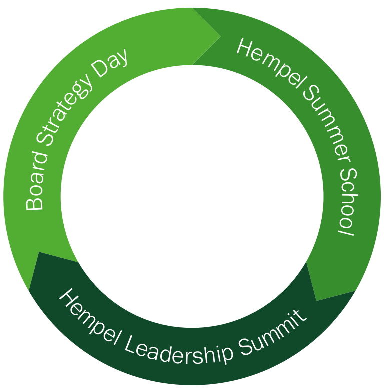
Remuneration

Hempel offers its Board of Directors and Executive Management Board remuneration that is competitive with industry peers and other global companies, as this enables it to attract and retain competent and professional business leaders and Board members.

Remuneration of the Executive Management Board is based on a fixed-base salary, plus a target bonus of up to 67 per cent of the base salary. Taking into account the potential to meet or fall short of the target, the effective potential bonus range is 0–67 per cent of the base salary. In addition, a long-term incentive programme is in place, with a target of up to 200 per cent of the base salary over three years.

The Executive Management Board has severance agreements in line with market terms. Conditions for notice of termination are determined individually for each member of the Executive

The Annual Management Cycle



Board Strategy Day (May)
The Executive Management Board meets with the Hempel Board of Directors to review the strategy plan

Hempel Summer School (June)
Hempel's top managers review and refine the company strategy at IMD Business School

Hempel Leadership Summit (November)
Hempel's top managers gather to set the agenda for the year ahead

Management Board. The company has a fixed termination notice of 12 months if given by the company and six months if given by a member of the Executive Management Board.

Members of the Board of Directors receive fixed remuneration and do not participate in incentive programmes.

Board committees
The Board of Directors establishes dedicated committees in order to supervise and solve specific tasks. Currently, there are two committees: a Remuneration and Nomination Committee, and an Audit Committee.

The Remuneration and Nomination Committee
According to its charter, the Remuneration and Nomination Committee assists the Board of Directors with the recruitment of its executives. In addition, it assists with the establishment of remuneration for the Group's executives, etc., and helps ensure that the Group's general remuneration policies are balanced appropriately. In 2017, the committee supervised and reviewed the salary, bonus and long-term incentive programmes, as well as the results of these programmes.

Furthermore, the Remuneration and Nomination Committee advises and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Management Board must have to best perform their tasks. Each year, the committee evaluates the Board of Directors and the Executive Management Board, and makes recommendations to the Board of Directors in regard to any changes. The committee helps prepare the Board of Directors' work by selecting candidates with the assistance of a professional global search firm.

The committee convenes as necessary. However, it has two fixed meetings during the year, in February and November.

The Audit Committee
According to its charter, the Audit Committee's work includes assisting the Board of Directors with fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the Group's process for monitoring compliance with laws and regulations and its Code of Conduct, as well as risk management. Further, the Audit Committee assists the Board of Directors with its tasks in regard to preparing the Annual Report and the audit thereof and policies related to it.

In 2017, the committee reviewed initiatives to further strengthen compliance as well as the internal control framework, including updating internal policies and procedures. In addition, the committee reviewed the Group's whistleblower reporting system and whistleblower cases, the main accounting principles and judgments, and tax compliance and key risks. Furthermore, the committee focused on the preparations for the implementation of the new EU General Data Protection Regulation in May 2018, to ensure compliance through our procedures and infrastructure.

Internal Audit function
In accordance with its charter, the Audit Committee annually considers the need for an Internal Audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether an Internal Audit function is required and whether internal control systems are adequate.

The Hempel's Group Internal Audit function was established in 2016 in order to strengthen focus on compliance and ethical behaviour, as well as the control environment in general. The Group Internal Audit function is part of the Group's Finance function. The Head of Group Internal Audit meets separately with both the Audit Committee and the Group's external auditor at least once a year.

The Board of Directors' assessment, which is based on the company's size and the organisation of the Finance function, is that the organisation in place and the plans laid out are adequate to ensure the necessary focus on compliance for the entire Group.

Business ethics and compliance
Hempel's commitment to business ethics and compliance with international regulations and internal policies is anchored in its Code of Conduct, Business Ethics Policy and other internal corporate guidelines. These outline the fundamental requirements for how Hempel operates, and describe the responsibilities and ethical standards expected of all employees and relevant business partners. To ensure and

document employees' familiarity with the Code of Conduct, Business Ethics Policy and other key policies, relevant employees electronically sign off on their compliance within specific areas. In addition, they take eLearning courses within anti-corruption and competition compliance on a regular basis.

In 2017, additional measures were taken to ensure continuous compliance within the Group and, as a consequence, the internal compliance team was expanded. During the year, it was also decided to extend the responsibilities of the Ethics Committee to include an oversight role with regards to the effective implementation and monitoring of the entire Hempel compliance programme. Further, starting from January 2018, all regional Finance Directors have been appointed Regional Compliance Officers. This role ensures compliance is anchored in the regional leadership teams and ensures that compliance is close to the business.

The whistleblower reporting system

Hempel has had an internal whistleblower reporting system since 2012. However, during 2016, a project was initiated to enhance the current whistleblower solution and implement a new global Hempel Ethics Hotline. The new system was rolled out in 2017. The system enables all employees and external stakeholders to anonymously report potentially irregular or unethical conduct through an internet portal or via a local phone number. The system is an important tool to ensure that allegations of irregular or unethical conduct are reported and addressed quickly. All complaints are treated confidentially and followed up by an objective and independent investigation.

All reports are reviewed by the Compliance and Corporate Responsibility Director, who recommends appropriate action to the Ethics Committee. The Ethics Committee consists of: the Group Chief Financial Officer; Group Chief People and Culture Officer; Group General Counsel; Head of Group Internal Audit; and the Compliance and Corporate Responsibility Director.

You can read more about our work in this area, including reporting statistics from our whistleblower system, on page 40.

Meeting activity

Board of Directors	Audit Committee	Remuneration and Nomination Committee
20 February 27 March 29 March 27 April 27 May 27 June 11 October 29 November	10 March 19 June 25 September 27 November	20 February 29 November

Hempel Ethics Hotline

A link to the Hempel Ethics Hotline can be found on the Corporate responsibility section of **hempel.com**

Risks

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

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

Risk governance

The Board of Directors has final responsibility for risk management and is the final approver of risk tolerance and risk mitigation activities. The Audit Committee monitors key risks, as well as the risk management process and governance structure.

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

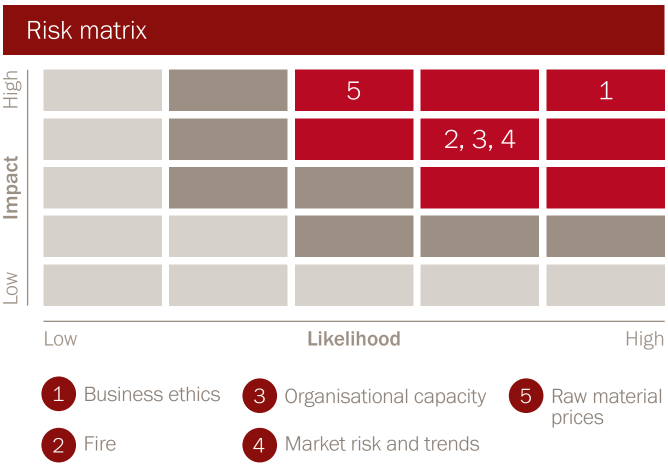
The risk management process

Every year, an extensive Group-wide risk analysis is carried out, in which risks are assessed and quantified by key employees at both Group and regional level. The Group Risk Committee drives the process and consolidates the risks and related mitigating activities reported by the organisation. Based on this work, a risk report is prepared and discussed in the Executive

Management Board and subsequently the Audit Committee before final approval by the Board of Directors.

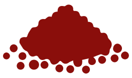
During 2016, we updated our risk management process to ensure a structured data collection, analysis and reporting process. In 2017, we rolled out a comprehensive training programme to our regional and functional Group risk management teams to build up competencies and harmonise the methodology and terminology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

Key risks
The most important risks are identified based on their potential impact and likelihood. The figure on the right shows the most important risks as identified at the end of 2017.



Main risks

	Description of risk	Potential impact	Actions taken
1. Business ethics	At Hempel, we do not accept inappropriate practices or violations of internal rules. We have however uncovered inappropriate practises in the past, and these cases still pose a risk until the matter is fully investigated by the proper authorities.	• Potential penalties and loss of business, customers or licences • Loss of trust and brand reputation	• Vigorously communicate the tone from the top: Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first • The inappropriate practices were stopped immediately and effectively and the employees involved have left Hempel • Building of a strong Compliance function and strengthening of our internal control framework • In 2017, we updated our Employee Code of Conduct, including training of all employees
2. Fire leading to human injury and loss of production	We have high standards for fire protection in Hempel and personal safety is a basic expectation in the company. However, fire is still a major risk as we handle flammable materials in our factories and warehouses.	• Loss of assets, production capacity, finished products and, in the worst case, human injury	• Hempel standard (based on NFPA and other global standards) for fire protection is part of our design manual for new factories • Preventive maintenance of fire protection equipment • Training programmes in fire safety • Upgrading of the fire protection programme
3. Organisational capacity	Hempel is going through a fast-paced transformation and is executing on an ambitious strategy plan. There is a risk that Hempel does not have the right people with the right competencies, or sufficient talent and potential successors to drive the transformation.	• Delays in executing on our strategy • Delays in growing our businesses	• Building organisational capacity through the Annual Management Cycle, including the Hempel Leadership Summit • Cascading values and a shared leadership language • Development of talent programmes at all levels of the organisation to build a stronger talent pipeline • Annual review of the talent pool to identify top talents and successors

	Description of risk	Potential impact	Actions taken
4. Market risk and trends 	Large structural changes to the coatings industry could come through disrupted end markets (e.g. changes in the energy mix, in construction materials or in trade patterns). Structural changes could also come from the ongoing consolidation in the coatings industry and changes to the competitive landscape.	• Reduction in size of the coatings market • Weakening of competitive position • Potentially significant impact on Hempel's sales and earnings	• Monitoring technology trends in Hempel's end markets • Increasing focus on product innovation through partnerships with customers and universities
5. Raw material prices 	Raw materials account for a large share of the Group's costs and prices are volatile.	• Potentially significant impact on Hempel's profits and cash flow	• Only a part of our key raw materials are traded on a commodity exchange, so effective hedging on most raw materials is not possible • We currently hedge part of our annual consumption of zinc and copper, which constitutes less than 10 per cent of our total raw material costs • Hedging of our raw material exposure thus mainly takes place through continuous adjustment of sales prices of our products

Research & Development

Focusing on creating value for customers.

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

To increase focus on value creation, we reorganised our R&D organisation in 2017 into four different areas.
- New Solution Development focuses on delivering trusted solutions to our customers to protect their valuable assets.
- Product Optimisation works to continually optimise existing products to improve performance.
- Explorative Innovation and New Technologies explores new technologies that go beyond coatings in order to deliver superior solutions to customers.
- R&D Technical Advisory delivers technical support that makes Hempel stand out in the eyes of our customers.

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

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

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

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

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

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

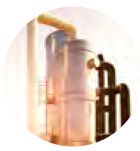
New product solutions
We continued our strong development of trusted solutions in 2017. Here are some examples.

Hempadur Avantguard®: We introduced the next generation activated zinc primer, based on our patented Avantguard technology. Developed to overcome application challenges without compromising performance, the new product overcomes many of the challenges faced by our customers in the oil and gas, infrastructure and wind power industries – making it a game-changer in corrosion protection.

Hempaguard: Our leading hull coating continues to prove superior to all conventional biocide-based self-polishing technologies for all trading patterns, including slow-steaming and low activity vessels. Sales of Hempaguard grew significantly in 2017, including repeated sales to customers who recognise the coating's ability to reduce fuel consumption.

Globic 9500M/S: Our new top-of-the-range self-polishing Globic products combine three proprietary Hempel technologies in the market's smartest biocide package to provide very strong fouling prevention and fuel efficiency compared to other self-polishing alternatives.

Hempafloor Strata: A competitive floor coating business is an important part of our strategy. Our floor coating range, Hempafloor Strata, is gaining traction in the market, following good performance on multiple projects in the Middle East, including the Qatar Metro, a power plant in Saudi Arabia and new hospitals in Kuwait.



Hempaline Defend: Launched in North America, South East Asia and the Middle East in 2016 and 2017, our comprehensive range of Hempaline Defend linings are specially developed for the oil and gas and thermal power industries. The range will be launched in other markets in 2018.

Our customers' biggest challenges

Although every challenge is different, most of our customers' coating challenges can be broadly categorised.

Reducing environmental impact

Our customers have both a need and a willingness to reduce the environmental footprint of their operations. In some cases, it is also their customers, end consumers or society in general that increasingly demand even more sustainable coating solutions.

Increasing asset lifetime

The main purpose of most coatings is to protect. Whether they are protecting a bridge, wind turbine or home, our customers want long-lasting coatings that increase asset lifetimes and reduce maintenance costs.

Improving efficiency

For most businesses, greater efficiency means greater profits. Customers want coatings that help reduce fuel consumption, energy use or emissions, as well as streamlined production processes that reduce waste and increase output.

Sustainable and lasting beauty

Coatings are perhaps the most seen products in the world. Our customers want to add beauty to their interiors and exteriors in a sustainable way.

Meeting global regulations

Many of our customers operate across many countries and they need solutions that meet many different laws and regulations.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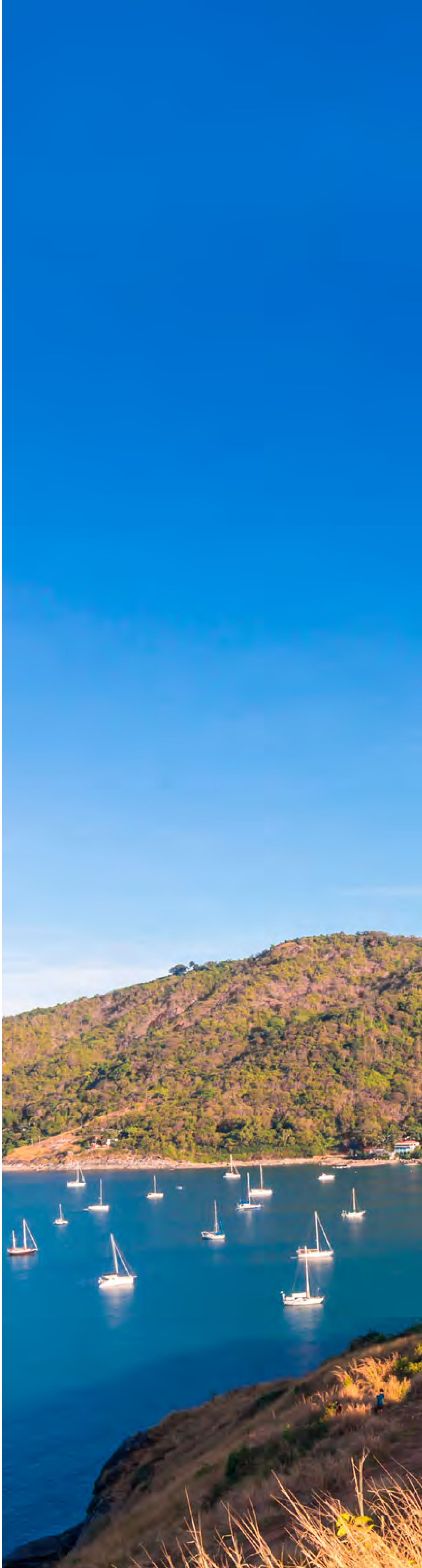
Corporate responsibility

A strong social commitment has been at the heart of Hempel's values since the company was founded in 1915.

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



Business and Human Rights

We follow the United Nations' Guiding Principles on Business and Human Rights. Our internal guidelines are described in our Human Rights Policy as well as our Employee Code of Conduct.

WE SUPPORT

UN GLOBAL COMPACT

Ethical behaviour

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

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

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

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

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

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

Whistleblower statistics

	2017	2016
Incidents reported to Ethics Hotline	2	0
Compliance cases reported 1 January to 31 December	51	19
• hereof substantiated*	13	10
• hereof not substantiated*	18	9
• cases under investigation*	20	0
Total	**53**	**19**

*Status as of 2 March 2018

Health & safety

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

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

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

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

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

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

I will...

- Maintain my working area to the agreed (6S) standard
- Respect and use all designated walkways
- Follow all safety signs, safety rules and procedures
- Only use equipment that I am trained & authorised to use
- Never work under the influence of drugs or alcohol
- Always wear the appropriate Personal Protective Equipment
- Act responsibly at all times
- Stop work if I see unsafe conditions or unsafe behaviour

Environment

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

When considering the direct environmental impact of our own operations, we were challenged in 2017. Our target to reduce our relative CO_2 emissions from energy consumption was not met, and energy consumption increased overall. The increase was driven by a number of different factors, such as implementation of waste gas treatment in our Chinese factories, automation of process steps and a general update of ventilation in several of our factories.

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

Local focus: Malaysia focuses on waste

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

Our site in Malaysia was selected as the overall winner, where they had successfully reduced paint can disposal. Overall, the video challenge generated seven new initiatives that will be rolled-out across our business.

Local focus: Hull receives 'Coatings Care' environmental award

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

Health, safety and environmental data

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

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

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

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

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

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

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

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

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

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

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

Data table

What	2017
Lost time accident frequency (number/1,000,000 working hours)	1.98
Energy consumption (kWh/1,000L paint produced)	274
Consumption of red raw materials (kg/1,000L paint produced)	8.47
Carbon footprint	
Scope 1 (tons CO_2/1,000L paint produced)	0.02
Scope 2 (tons CO_2/1,000L paint produced)	0.10

Responsible supply chain management

Our commitment to the UN Global Compact and the United Nations' Guiding Principles on Business and Human Rights guides the initiatives in our responsible procurement programme.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also focused on developing our talent pipeline and conducted an extensive talent review of more than 500

Local schoolgirls at our labs during Girl's Day in Science, a national campaign held in Denmark each year that gives schoolgirls the chance to meet women working within the sciences

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

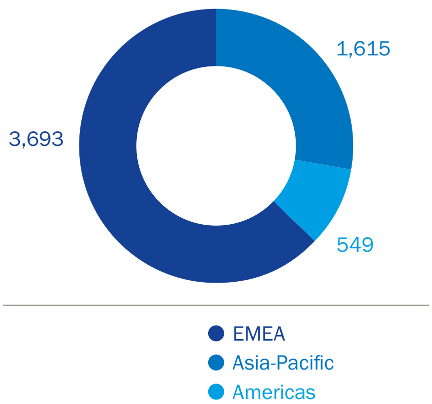
Ensuring diversity and equal opportunity

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

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

In 2017, women made up 25 per cent of our employees, up from 24 per cent in 2016. At the end of 2017, women filled 19 per cent of our senior management positions, up from 18 per cent in 2016. Our aim is to reach 25 per cent by 2022.

Employees*



Girl's Day in Science

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

Hempel Employee Foundation

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

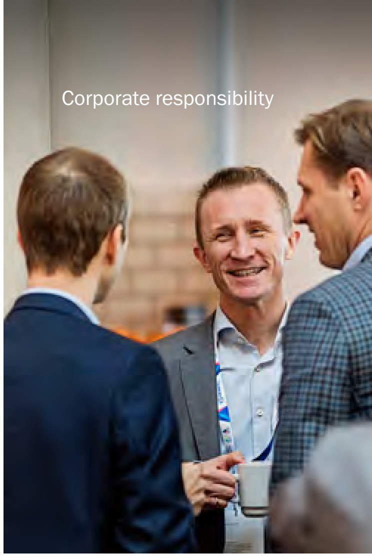
* Head count as of December 2017

Hempel Leadership Summit

Our top leaders and selected talents from across the globe gathered in Elsinore, Denmark on 15-17 November for our second Hempel Leadership Summit. This year, the summit focused on how to accelerate and execute on our *Journey to Excellence* strategy over the next three years. It included panel discussions, team exercises and debates, iconic speakers from the worlds of business, sailing and the arts, and the annual Hempel Awards.

The summit is part of our Annual Management Cycle, and ensures alignment and enthusiasm across the Hempel organisation. Following the summit, it is the managers' responsibility to ensure that the information and enthusiasm are passed onto their local teams and employees.











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Community engagement

As a socially committed company, we believe that our work should contribute to the societies in which we operate and the world in general.

All Hempel offices are encouraged to support causes or events that can have a positive impact on their local communities or the wider world. We also encourage our employees to take an active role in corporate responsibility by volunteering their time to the causes that mean the most to them. As part of this, we give a number of employees the chance to volunteer at one of the projects supported by our owner, the Hempel Foundation.

The Hempel Foundation is part of our company's DNA. Since 1948, it has used part of the profits from our work to support good causes around the world. Today, much of its efforts are focused on improving education for underprivileged children, as we believe education can help break the cycle of disadvantage that affects many children living in poverty. The volunteering trips give employees the chance to help out and see for themselves the impact that the projects have. When the employees return, they inform their colleagues about the Foundation's work. Hempel pays the employees' travel costs and expenses for the trip. The employees donate their time. In previous years, employees have given their time to projects in Cambodia, Mozambique, Bolivia, Indonesia and Vietnam.

A unique experience in Tanzania
In 2017, eight Hempel employees volunteered at the Hempel Foundation project in Iringa in Tanzania. Tanzania is one of the poorest countries in Africa, and two out of every three Tanzanians live under the international poverty line. Due to poor living standards, education is low on the list of priorities. Many children do not attend school or drop out after just a few years. In the project, the Hempel Foundation and SOS Children's Villages are working together to improve facilities in eight schools, train teachers and provide children with more books and better learning materials. The project is benefitting around 3,000 children.

During the trip, the Hempel volunteers introduced the children to their home country and culture, taught classes, and met the children's families; the children taught the volunteers about their lives and culture. Many of the children have never been outside of their local community, and it was a unique chance for them to learn about cultures far away from their own.

Each year, many of our colleagues in Denmark donate their company Christmas gift to the Hempel Foundation project where the volunteering trip is held.

The work of the Hempel Foundation
The Hempel Foundation focuses its charitable work on two main areas: the education of children in need and research into environmentally sustainable solutions. Both these areas support the Sustainable Development Goals laid out in the United Nations' 2030 Agenda for Sustainable Development.

You can read more about the Foundation and its work at **hempelfoundation.com**

"School changes their lives and improves their opportunities. Life will still be a struggle for these children, but our support for them now will give them a much better chance in the future."

Clara Perez Hornero,
Development Engineer

Making a difference to communities in Bolivia

In the Aymara indigenous community in the high Andes of Bolivia, many children used to drop out of school before learning to read or write. A Hempel Foundation project has changed that.

Started five years ago with non-profit organisation Oxfam IBIS, the Hempel Foundation project in Aymara is making education more relevant and accessible to indigenous children by working with 23 local schools to develop indigenous language education, train bilingual teachers and introduce new teaching methods. Since the project began, grades have improved by 40 per cent.

In September 2017, Chairman of the Board of both Hempel A/S and the Hempel Foundation Richard Sand and Hempel Group President & CEO Henrik Andersen visited the project to see the difference it has made first hand.

> "
>
> As a Hempel employee, I feel privileged to work for a global company that, through its owner, supports education of children in need. It was almost impossible to put into words the feelings I had when seeing the difference the project here made. It's not just changing the children's lives; it's changing entire communities.
>
> Henrik Andersen,
> Group President & CEO


MACOJMA
PREMIER


Anders Pettersson
Leif Jensen
Henrik Bach Falkenberg
Peder Holk Nielsen
Kim Scheibel
Marianne Wiinholt
Richard Sand
Helle Fiedler
Eric Alström

Management's statement

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

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

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

In our opinion, the Management's Review includes a true and fair account of the development of the Group's 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.

Kgs. Lyngby, 4 April 2018

Executive Management Board

Henrik Andersen
Group President &
Chief Executive Officer (CEO)

Anders Boyer
Executive Vice President &
Chief Financial Officer (CFO)

Lars Petersson
Executive Vice President &
Chief Operating Officer (COO)

Peter Kirkegaard
Executive Vice President &
Chief People & Culture Officer (CPCO)

Board of Directors

Richard Sand
Chairman

Eric Alström
Deputy Chairman

Marianne Wiinholt

Anders Pettersson

Leif Jensen

Peder Holk Nielsen

Helle Fiedler
Elected by the employees

Henrik Bach Falkenberg
Elected by the employees

Kim Scheibel
Elected by the employees

Independent auditor's report

To the shareholder of Hempel A/S

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

We have audited the consolidated financial statements and the parent company financial statements of Hempel A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the parent company, as well as the 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 Statements Act. We did not identify any material misstatement in Management’s Review.

Management’s responsibilities for the financial statements
Management is responsible for the preparation of 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 4 April 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Lars Baungaard	Mads Melgaard
State Authorised Public Accountant	State Authorised Public Accountant
mne23331	mne34354


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Financial statements

Contents

Income statement

In EUR million		Group		Parent company	
Note		**2017**	**2016**	**2017**	**2016**
2.1	Revenue	1,378	1,424	117	110
	Production costs	-815	-802	-53	-47
	Gross profit	**563**	**622**	**64**	**63**
	Sales and distribution costs	-327	-349	-13	-18
	Administrative costs	-135	-144	-52	-32
2.3	Other operating income	14	1	–	–
	Operating profit before special items	**115**	**130**	**-1**	**13**
2.4	Special items	–	-36	–	-1
	Operating profit	**115**	**94**	**-1**	**12**
2.5	Income from investments in subsidiaries			34	26
2.5	Income from investments in associates	–	2	–	–
	Profit before financial income and expenses	**115**	**96**	**33**	**38**
4.5	Net financials	-23	-18	-1	1
	Profit before tax	**92**	**78**	**32**	**39**
2.6	Income tax	-37	-31	9	-6
	Net profit for the year	**55**	**47**	**41**	**33**

In EUR million	Group		Parent company	
Distribution of profit	**2017**	**2016**	**2017**	**2016**
Proposed distribution of profit:				
Proposed dividend	28	27	28	27
Reserve for net revaluation under the equity method	–	1	34	26
Reserve for development costs			1	2
Minority interests	14	14		
Retained earnings	13	5	-22	-22
	55	**47**	**41**	**33**

Balance sheet as at 31 December – assets

In EUR million

		Group		Parent company	
Note		2017	2016	2017	2016
	Goodwill	74	95	–	–
	Software	5	5	3	1
	Software under development	3	3	3	3
	Customer relationships	45	55	–	–
	Other intangible assets	57	61	16	14
3.1	**Intangible assets**	**184**	**219**	**22**	**18**
	Land and buildings	133	141	–	–
	Assets under construction	22	25	2	1
	Plant and machinery	75	78	1	2
	Other fixed assets	22	21	1	1
3.2	**Property, plant and equipment**	**252**	**265**	**4**	**4**
5.6	Investments in subsidiaries			330	380
5.6	Investments in associates	–	–	–	–
	Loans to Group enterprises	–	–	189	219
2.6	Deferred tax assets	51	36	14	–
	Deposits etc.	6	4	1	–
	Fixed asset investments	**57**	**40**	**534**	**599**
	Total non-current assets	**493**	**524**	**560**	**621**
3.3	**Inventories**	**178**	**190**	**4**	**5**
3.5	Trade receivables	309	366	4	4
	Receivables from Group enterprises			94	86
2.6	Tax receivables	6	5	–	–
	Other receivables	39	60	18	20
3.4	Prepayments	8	5	3	3
	Receivables	**362**	**436**	**119**	**113**
	Cash at bank and in hand	**111**	**115**	**6**	**5**
	Current assets	**651**	**741**	**129**	**123**
	Total assets	**1,144**	**1,265**	**689**	**744**

Balance sheet as at 31 December – equity and liabilities

In EUR million

		Group		Parent company	
Note		2017	2016	2017	2016
4.1	Share capital	15	15	15	15
	Reserve for net revaluation under the equity method	–	–	–	21
	Reserve for development costs			3	2
	Retained earnings	399	416	396	393
	Proposed dividend for the year	28	27	28	27
	Shareholders in Hempel A/S's share of equity	**442**	**458**	**442**	**458**
	Minority interests	**52**	**67**		
	Total equity	**494**	**525**	**442**	**458**
2.6	Deferred tax liabilities	51	23	–	–
3.6	Pension obligations and similar obligations	22	21	1	1
3.7	Other provisions	69	90	–	–
	Provisions	**142**	**134**	**1**	**1**
4.2	Bank loans etc.	18	99	–	76
	Long-term debt	**18**	**99**	**–**	**76**
	Overdraft facilities	49	67	21	45
4.2	Short-term part of bank loans etc.	12	10	–	–
	Trade payables	200	185	7	12
	Payables to Group enterprises	53	58	188	126
2.6	Tax liablities	13	19	–	–
3.8	Other liabilities	163	168	30	26
	Total current liabilities	**490**	**507**	**246**	**209**
	Total liabilities	**508**	**606**	**246**	**285**
	Total equity and liabilities	**1,144**	**1,265**	**689**	**744**

Statement of changes in equity as at 31 December

In EUR million

Note	Group	Share capital	Reserve for net revaluation	Retained earnings	Proposed dividend	Shareholders in Hempel A/S' share of equity	Minority interest	Total equity
	Equity							
	Equity at 1 January 2016	15	19	406	48	488	63	551
	Net profit for the year	–	1	32	–	33	14	47
	Exchange adjustment at year-end rate	–	1	-14	–	-13	–	-13
	Hedging of future transactions	–	–	1	–	1	–	1
	Remeasurements of defined benefit plans	–	–	-3	–	-3	–	-3
	Dividend distributed	–	-2	2	-48	-48	-10	-58
	Proposed dividend	–	–	-27	27			–
	Disposals for the year	–	-19	19	–	–	–	–
4.1	**Equity at 31 December 2016**	**15**	**–**	**416**	**27**	**458**	**67**	**525**
	Net profit for the year	–	–	41	–	41	14	55
	Exchange adjustment at year-end rate	–	–	-29	–	-29	-9	-38
	Hedging of future transactions	–	–	–	–	–	–	–
	Remeasurements of defined benefit plans	–	–	-1	–	-1	–	-1
	Dividend distributed	–	–	–	-27	-27	-20	-47
	Proposed dividend	–	–	-28	28			–
4.1	**Equity at 31 December 2017**	**15**	**–**	**399**	**28**	**442**	**52**	**494**

In EUR million — **Parent company**

Note		Share capital	Reserve for net revaluation	Reserve for development costs	Retained earnings	Proposed dividend	Total
	Equity						
	Equity at 1 January 2016	15	57	–	368	48	488
	Net profit for the year	–	26	2	5	–	33
	Dividend received	–	-46	–	46	–	–
	Exchange adjustment at year-end rate	–	-13	–	–	–	-13
	Hedging of future transactions	–	–	–	1	–	1
	Remeasurements of defined benefit plans	–	-3	–	–	–	-3
	Dividend distributed	–	–	–	–	-48	-48
	Proposed dividend	–	–	–	-27	27	–
4.1	**Equity at 31 December 2016**	**15**	**21**	**2**	**393**	**27**	**458**
	Net profit for the year	–	34	1	6	–	41
	Dividend received	–	-55	–	55	–	–
	Exchange adjustment at year-end rate	–	-29	–	–	–	-29
	Hedging of future transactions	–	–	–	–	–	–
	Remeasurements of defined benefit plans	–	-1	–	–	–	-1
	Dividend distributed	–	–	–	–	-27	-27
	Proposed dividend	–	–	–	-28	28	–
	Retained earnings, transfer	–	30	–	-30	–	–
4.1	**Equity at 31 December 2017**	**15**	**–**	**3**	**396**	**28**	**442**

Cash flow statement

In EUR million

Note		Group 2017	2016
	Cash flows from operating activities		
	Operating profit	115	94
5.2	Adjustment for non-cash items	22	95
	Total cash flows from operating activities before financial items, tax and changes in working capital	**137**	**189**
	Change in receivables	33	50
	Change in inventories	-1	31
	Change in trade payables	29	35
	Total change in working capital	**61**	**116**
	Total cash flows from operating activities before financial items and tax	**198**	**305**
	Income tax paid	-32	-40
	Interest income and expenses paid, net	-11	-15
	Total cash flows from operating activities	**155**	**250**
	Cash flows from investing activities		
3.2	Purchase of property, plant and equipment	-35	-40
3.1	Purchase of intangible assets	-6	-4
	Sale of property, plant and equipment	18	3
	Received grant	–	5
	Change in deposits etc., net	-2	–
	Received from sale of associate	14	–
5.6	Dividend received from associates	–	2
	Total cash flows from investing activities	**-11**	**-34**
	Free cash flow	**144**	**216**
	Cash flows from financing activities		
	Change in bank and other borrowings etc.	-81	-123
	Change in minority shares (dividend distributed etc.)	-20	-10
	Dividend distributed to shareholders	-27	-48
	Capital losses and gains, net	3	-4
	Total cash flows from financing activities	**-125**	**-185**
	Net cash flow	**19**	**31**
4.6	Cash and equivalents, net, beginning of year	48	17
	Exchange adjustment	-5	–
4.6	**Cash and equivalents, net, end of year**	**62**	**48**

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 A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C. The Annual Report for 2017 is presented in EUR millions. The accounting policies applied remain unchanged from previous years.

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

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

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

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

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

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

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

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

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

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

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

Foreign currency translation

Functional and presentation currency

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

Translation of transactions and balances

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

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

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

Translation of Group companies

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

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

These specific exchange rate adjustments are recognised directly in equity.

Classification of operating expenses in the income statement

Production costs

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

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

Sales and distribution costs

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

Administrative costs

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

Cash flow statement

The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement for the Group shows the cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as cash and cash equivalents for the Group at the beginning and end of the year. The cash flow statement cannot be immediately derived from the published financial records.

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less and are subject to an insignificant risk of change on value.

Separate presentation of special items
With reference to §11(3) of the Danish Financial Statements Act, the Hempel Group has departed from the presentation requirements in the Act. It is management's assessment that a separate presentation of certain costs provides a true and fair view of the financial statements.

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

Section 2
Results of the year

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 million	Group		Parent company	
	2017	2016	2017	2016
EMEA	798	816	117	110
Asia-Pacific	398	414	–	–
Americas	182	194	–	–
	1,378	**1,424**	**117**	**110**

1) For competitive reasons, a breakdown of revenue on activities has been left out (in accordance with §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 million	Group		Parent company	
	2017	2016	2017	2016
Employee costs:				
Directors' fees	1	1	1	1
Remuneration of the Executive Board1)	5	5	5	5
Wages and salaries etc.	260	267	36	25
Pension contributions	15	14	3	2
	281	**287**	**45**	**33**
Average number of employees	5,740	5,787	282	250
Employee costs have been recognised in the income statement as follows:				
Production costs	70	71	12	9
Selling and distribution expenses	146	157	7	9
Administrative expenses	65	59	26	15
	281	**287**	**45**	**33**

1) Executive Board registered with the Danish Business Authority (Erhvervsstyrelsen).

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 million	Group		Parent company	
	2017	2016	2017	2016
Other operating income [1]	14	1	–	–
	14	**1**	**–**	**–**

1) Other operating income comprises sale of properties in 2017 and 2016.

2.4 Special items

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

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Administrative costs	–	-36	–	-1
Operating profit	**–**	**-36**	**–**	**-1**
Net financials	–	-1	–	–
Profit before tax	**–**	**-37**	**–**	**-1**
Income tax	–	-3	–	–
Net profit for the year	**–**	**-40**	**–**	**-1**

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.

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Income from investments in subsidiaries				
Profit before tax			92	65
Amortisation of goodwill			-12	-14
Tax for the year			-46	-25
Profit after tax			**34**	**26**
Income from investments in associates				
Profit after tax	**–**	**2**	**–**	**–**

2.6 Income tax, tax assets and tax 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 judgment 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 when assessing whether deferred income tax assets should be recognised. In the course of conducting business globally, transfer pricing disputes with tax authorities may occur, and management's judgment 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 million	Group		Parent company	
	2017	2016	2017	2016
Hempel Group:				
Profit before tax	92	78		
Income from investments in associates	–	-2		
	92	**76**		
Income tax on profit for the year:				
Total tax	-37	-34	-37	-31
Tax in respect of subsidiaries			46	25
Tax in respect of associates	–	3	–	–
	-37	**-31**	**9**	**-6**
Current tax for the year	-29	-38	-5	-6
Deferred tax for the year	9	9	2	–
Change in US tax rate	-9	–	–	–
Adjustment in respect of previous years	-8	-2	12	–
Income tax	**-37**	**-31**	**9**	**-6**

	Group		Parent company	
	2017	2016	2017	2016
Effective tax rate of the Group	**40.0%**	**41.3%**		
Reconciliation of tax rate:				
Danish tax rate	22.0%	22.0%		
Higher/(lower) tax rates of foreign subsidiaries	-4.5%	-3.8%		
Weighted tax rate of the Group:	**17.5%**	**18.2%**		
Permanent differences	-2.1%	1.1%		
Unrecognised deferred tax assets	1.4%	3.5%		
Recognised deferred tax assets related to prior years	-9.7%	-0.6%		
Adjustments in respect of previous years	0.3%	-0.1%		
Other adjustments	17.8%	-1.0%		
Change in US tax rate	9.7%	0.0%		
Withholding taxes etc.	5.1%	3.1%		
Effective tax rate of the Group before special items	**40.0%**	**24.2%**		
Adjustment related to special items	–	17.1%		
Effective tax rate of the Group	**40.0%**	**41.3%**		

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 which the asset is expected to be realised, either by elimination in tax on future earnings or by set off against deferred tax liabilities within the same legal tax entity.

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

In EUR million	**Group**		**Parent company**	
	2017	2016	2017	2016
Deferred tax (net)				
Deferred tax, beginning of year	13	5	–	–
Exchange adjustment at year-end rate	-2	1	–	–
Deferred tax for the year	9	9	2	–
Adjustment in respect of previous years	-11	-2	12	–
Change in tax rate	-9	–	–	–
Deferred tax (net), end of year	**–**	**13**	**14**	**–**

In EUR million	**Group**		**Parent company**	
	2017	2016	2017	2016
Deferred tax (net) relates to the following items:				
Intangible assets	6	-5	11	–
Property, plant and equipment	2	-1	3	–
Inventories	3	5	–	–
Trade receivables	3	2	–	–
Provisions and other payables	-26	7	–	–
Tax losses	12	5	–	–
	–	**13**	**14**	**–**

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

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

In EUR million

	Group		Parent company	
	2017	2016	2017	2016
The net value is recognised in the balance sheet as follows:				
Deferred tax assets	51	36	14	–
Deferred tax liabilities	-51	-23	–	–
	–	**13**	**14**	**–**

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.

In EUR million

	Group		Parent company	
	2017	2016	2017	2016
The net value is recognised in the balance sheet as follows:				
Current tax assets	6	5	–	–
Current tax liabilities	-13	-19	–	–
	-7	**-14**	**–**	**–**

Section 3
Operating assets and liabilities

3.1 Intangible assets

Accounting policies
Goodwill acquired is measured at cost less accumulated amortisations. Goodwill is amortised on a straight-line basis over its useful life on the basis of management experience within the individual areas. The amortisation period is 2-25 years, the longest period applicable to acquired enterprises with a strong market position and a long-term earnings profile.

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 direct wages, salaries, materials and other direct and indirect costs attributable to the development project.

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.

An amount corresponding to development costs capitalised as intangible assets is transferred to 'Reserve for development cost' under equity (in the parent company). The reserve is reduced with amortisation of the intangible assets.

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 million **Group**

	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets						
Costs, beginning of year	159	35	3	124	92	413
Exchange adjustment at year-end rate	-15	-2	–	-12	-5	-34
Additions for the year	–	3	1	–	5	9
Disposals for the year	–	-1	–	–	–	-1
Transfer to/from other items	–	1	-1	–	–	–
Costs, end of year	**144**	**36**	**3**	**112**	**92**	**387**
Accumulated amortisation, beginning of year	64	30	–	69	31	194
Exchange adjustment at year-end rate	-6	-2	–	-8	-2	-18
Amortisation for the year	12	4	–	6	6	28
Reversal of amortisation of assets sold	–	-1	–	–	–	-1
Accumulated amortisation, end of year	**70**	**31**	**–**	**67**	**35**	**203**
Carrying amount, end of year	**74**	**5**	**3**	**45**	**57**	**184**

Other intangible assets comprise brands, formulas, non-compete agreements and lease rights.
Other intangible assets comprise EUR 12 million on lease rights for sale.

In EUR million	Parent company					
	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets						
Costs, beginning of year	–	5	3	–	25	33
Additions for the year	–	3	1	–	5	9
Disposals for the year	–	-1	-1	–	–	-2
Costs, end of year	**–**	**7**	**3**	**–**	**30**	**40**
Accumulated amortisation, beginning of year	–	4	–	–	11	15
Exchange adjustment at year, end rate	–	–	–	–	1	1
Amortisation for the year	–	1	–	–	2	3
Reversal of amortisation of assets sold	–	-1	–	–	–	-1
Accumulated amortisation, end of year	**–**	**4**	**–**	**–**	**14**	**18**
Carrying amount, end of year	**–**	**3**	**3**	**–**	**16**	**22**

Other intangible assets comprise brands, formulas and non-compete agreements.

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Amortisation and impairment are specified as follows:				
Production costs	1	1	–	–
Sales and distribution costs	1	1	–	–
Administrative costs	26	29	3	3
	28	**31**	**3**	**3**

3.2 Property, plant and equipment

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

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

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

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

Buildings (max.) ....50 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 million	Group				
	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs, beginning of year	213	221	88	25	547
Exchange adjustment at year-end rate	-14	-13	-6	-2	-35
Additions for the year	10	13	9	3	35
Disposals for the year	-5	-6	-2	–	-13
Transfer to/from other items	–	3	1	-4	–
Costs, end of year	**204**	**218**	**90**	**22**	**534**
Accumulated depreciations, beginning of year	72	143	67	–	282
Exchange adjustment at year-end rate	-7	-8	-5	–	-20
Depreciation for the year	7	14	7	–	28
Reversal of depreciations of assets sold	-1	-6	-1	–	-8
Accumulated depreciation, end of year	**71**	**143**	**68**	**–**	**282**
Carrying amount, end of year	**133**	**75**	**22**	**22**	**252**
Including leased assets of	3	–	–	–	3
Including interest expenses of	1	–	–	–	1

In EUR million	Parent company				
	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs, beginning of year	–	4	5	1	10
Additions for the year	–	–	1	1	2
Disposals for the year	–	-1	-1	–	-2
Costs, end of year	**–**	**3**	**5**	**2**	**10**
Accumulated depreciations, beginning of year	–	2	4	–	6
Depreciation for the year	–	–	1	–	1
Reversal of depreciations of assets sold	–	–	-1	–	-1
Accumulated depreciation, end of year	**–**	**2**	**4**	**–**	**6**
Carrying amount, end of year	**–**	**1**	**1**	**2**	**4**

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Depreciation and impairment are specified as follows:				
Production costs	18	18	–	–
Sales and distribution costs	5	5	–	–
Administrative costs	5	4	1	1
	28	**27**	**1**	**1**

3.3 Inventories

Accounting policies
Inventories are measured at cost in accordance with the FIFO principle.

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

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

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

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Raw materials and consumables	62	66	4	4
Work in progress	6	5	–	–
Finished goods	110	119	–	1
Inventories	**178**	**190**	**4**	**5**

3.4 Prepayments

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

3.5 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 million	Group		Parent company	
	2017	2016	2017	2016
Receivables	362	436	119	59
of which due more than one year from balance sheet date	2	3	–	–

3.6 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 recognised in the income statement in the year to which they relate. In a few countries, Hempel also 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 recognised directly in 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 million	**Group**		**Parent company**	
	2017	2016	2017	2016
Pension and similar obligations comprise:				
Pension and similar obligations	59	58	1	1
Fair value of assets related to the plans	-37	-37	–	–
Pension obligations, net	**22**	**21**	**1**	**1**
Recognition in the balance sheet:				
Liabilities	22	21	1	1
Pension obligations recognised in the balance sheet, net	**22**	**21**	**1**	**1**
Defined benefit plans				
Specification of plan assets:				
Shares and properties	14%	30%	–	–
Fixed interest current asset investments	78%	69%	–	–
Cash at bank and in hand	8%	1%	–	–
Total	**100%**	**100%**	**–**	**–**
Weighted average assumptions:				
Discount rate	2.0%	2.1%	2.0%	3.0%
General wage inflation	2.7%	2.6%	–	–
General price inflation	1.7%	1.6%	–	–

3.7 Provisions

Accounting policies

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

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

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

In EUR million

	Group				
	Environmental obligations	Warranty commitments	Other provisions	2017 Total	2016 Total
Total provisions, beginning of year	21	13	56	90	56
Reclassification	–	–	–	–	-3
Exchange adjustment at year-end rate	-1	–	-1	-2	–
Additions for the year	–	1	–	1	39
Reversed	–	–	-5	-5	-1
Consumed	–	-3	-12	-15	-1
Total provisions, end of year	**20**	**11**	**38**	**69**	**90**
Maturities are expected to be:					
Within 1 year	3	5	1	9	8
Between 1 and 5 years	10	6	8	24	57
After 5 years	7	–	29	36	25
	20	**11**	**38**	**69**	**90**

3.8 Other liabilities

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

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 million) comprising 110 A shares of DKK 1 million each, one A share of DKK 900,000, four B shares of DKK 1 million each and four B shares of DKK 25,000 each. B shareholders enjoy special dividend rights.

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

In EUR million	Parent company	
Distribution of profit	**2017**	**2016**
Proposed distribution of profit:		
Proposed dividend	28	27
Reserve for net revaluation under the equity method	34	26
Reserve for development costs	1	2
Retained earnings	-22	-22
	41	**33**

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.

In EUR million	Group		Parent company	
	2017	**2016**	**2017**	**2016**
Long-term bank borrowings etc. including short-term part:				
Due within 1 year	12	10	–	–
Due within 1 to 5 years	17	99	–	76
Due after 5 years	1	–	–	–
	30	**109**	**–**	**76**

4.3 Financial risks

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

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

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

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

4.4 Derivative financial instruments

Accounting policies
Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently re-measured 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 2017 entered into in order to hedge future purchases and sales as well as receivables and payables in foreign currencies are specified as follows:

In EUR million

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

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

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

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

	Group		Parent company	
	2017	2016	2017	2016
Bank borrowings etc.	3.1%	2.3%	–	1.7%

4.5 Net financials

Accounting policies
Financial income and expenses comprise interest income and expenses, gains and losses on receivables, payables and transactions denominated in foreign currencies.

In EUR million	Group		Parent company	
	2017	2016	2017	2016
External interest income	1	1	–	–
Interest income from subsidiaries			9	11
External interest expenses	-12	-15	-3	-6
Interest paid to Group enterprises	-1	-1	-1	-1
Realised and unrealised exchange gains/losses, net	-11	-3	-6	-3
	-23	**-18**	**-1**	**1**

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 million	Group	
	2017	2016
Cash at bank and in hand, beginning of year	115	114
Overdraft facilities, beginning of year	-67	-97
	48	**17**
Cash, end of year	111	115
Overdraft facilities, end of year	-49	-67
	62	**48**

4.7 Acquisitions of enterprises

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

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

No acquisitions took place in 2017 or 2016.

Section 5 Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Audit fee	1	1	–	–
Tax advice	1	1	1	–
Other fees	1	1	–	–
	3	**3**	**1**	**–**

5.2 Adjustments for non-cash 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 million	Group	
	2017	2016
Amortisation, depreciation and impairment, including goodwill	56	58
Provisions	-18	34
Exchange rate adjustment, operating profit	-2	4
Gains and losses on the sale of fixed assets	-14	-1
	22	**95**

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 million	Group		Parent company	
	2017	2016	2017	2016
Rental and lease obligations:				
Due within 1 year from the balance sheet date	15	16	2	2
Due within 1 to 5 years from the balance sheet date	34	35	8	7
Due more than 5 years from the balance sheet date	13	8	2	4
	62	**59**	**12**	**13**
Guarantees:				
For local loans and bank credits to subsidiaries [1]			122	146
Other guarantees	3	5	–	–
	3	**5**	**122**	**146**

1) Parent company guarantees for unutilised local loans and bank credits to subsidiaries. The guarantees amount to EUR 61 million (2016: EUR 76 million).

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

Hempel 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.

5.4 Events after the reporting period

No events have occurred after the balance sheet date that could have a material impact on the Company's financial results or equity.

5.5 Related parties and ownership

Related parties and ownership	Basis
Controlling influence:	
Hempel Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Ultimate parent company
Hempel Holding A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Majority shareholder (100%)
Members of the Executive Management Board and Board of Directors of Hempel A/S as well as the Board of Directors of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. 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
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation of 2017, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby	Related party
Transactions:	
All related-party transactions were carried out at arm's length	

5.6 Investments in subsidiaries and associates

Accounting policies

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 net revaluation under the equity method' under equity. The reserve is reduced by dividend distributed to the parent company and adjusted for other equity movements in subsidiaries 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 receivables from subsidiaries.


HEMPEL

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Investments in subsidiaries				
Costs, beginning of year			354	346
Additions for the year			–	8
Costs, end of year			**354**	**354**
Net revaluations, beginning of year			21	57
Exchange adjustment at year-end rate			-29	-11
Remeasurements of defined benefit plans			-1	-3
Profit before tax			92	65
Amortisation of goodwill			-12	-14
Tax for the year			-46	-25
Dividend received			-55	-46
Reversed			–	-2
Net revaluations, end of year			**-30**	**21**
Carrying amount, end of year			**324**	**375**
Recognised in the balance sheet as follows:				
Subsidiaries with negative equity			-6	-5
Investments in subsidiaries			330	380
			324	**375**
Subsidiaries with negative equity are recognised in the balance sheet as follows:				
Recognised in receivables from subsidiaries			-6	-5
Net value, end of year			**-6**	**-5**

In EUR million	Group		Parent company	
	2017	2016	2017	2016
Investments in associates				
Costs, beginning of year	–	–	–	–
Costs, end of year	**–**	**–**	**–**	**–**
Net revaluations, beginning of year		19	–	–
Exchange adjustment at year-end rate	–	1	–	–
Net profit	–	1	–	–
Dividend received	–	-2	–	–
Disposals for the year	–	-19		
Net revaluations, end of year	**–**	**–**	**–**	**–**
Carrying amount, end of year	**–**	**–**	**–**	**–**

5.7 The Hempel Group including foreign branches

Country	Name	Currency	Share capital	Ownership
Denmark	Hempel A/S	DKK	115,000,000	100%
Argentina	Hempel Argentina S.R.L.	ARS	338,774,200	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	700,000	100%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	BHD	15,000,000	51%
Bahrain	Hempel Paints (Bahrain) S.P.C.	BHD	300,000	51%
Brazil	Hempel Tintas do Brasil Ltda.	BRL	31,211,487	100%
Canada	Hempel (Canada) Inc.	CAD	1,776,005	100%
Chile	Hempel A/S (Chile) Ltda.	CLP	1,651,829	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (China) Management	CNY	10,000,000	100%
China	Hempel (Kunshan) Coatings Co. Ltd.	CNY	110,035,054	100%
China	Hempel (Yantai) Coatings Co. Ltd.	CNY	42,656,510	100%
China	Hempel (Guangzhou) Coatings Co. Ltd.	CNY	185,327,620	100%
China	Hempel-Hai Hong Coatings (Shenzhen) Co. Ltd.	HKD	40,000,000	100%
China	Hempel (Seagull) Coatings Co. Ltd.	HKD	20,000,000	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	31,019,200	100%
Cyprus	Hempel Coatings (Cyprus) Limited	EUR	1,000	100%
Czech Republic	Hempel (Czech Republic) s.r.o.	CZK	30,000,000	100%
Denmark	HSA (Danmark) A/S	DKK	10,000,000	100%
Denmark	Hempel Decorative Paints A/S	DKK	1,000,000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Egypt L.L.C.	EGP	200,000	100%
Egypt	Hempel Paints (Egypt) L.L.C	EGP	250,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Greece	Hempel Coatings (Hellas) S.A.	EUR	6,300,000	100%
India	Hempel Paints (India) Pvt. Ltd.	INR	690,000,000	100%
Indonesia	P .T . Hempel Indonesia	IDR	830,000,000	100%
Iraq	Hempel (Iraq) Ltd.	USD	8,300	31%
Ireland	Crown Paints Ireland Ltd.	EUR	127	100%
Italy	Hempel (Italy) s.r.l.	EUR	50,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	600,000	51%
Malaysia	Hempel (Malaysia) Sdn. Bhd.	MYR	5,000,000	100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	9,500,000	100%

1) Share capital is CNY 50 million, with paid up capital of CNY 10 million.

Country	Name	Currency	Share capital	Ownership
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%
Peru	Hempel Pinturas del Perú S.A.C.	PEN	4,900,000	100%
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	RUB	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints (South Africa) Pty Ltd.	ZAR	118,906,790	100%
Spain	Pinturas Hempel S.A. (Spain)	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	100%
Switzerland	Hempel Switzerland AG	CHF	100,000	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	Crown 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	116,498,272,000	100%

Foreign branches	
Belgium	Hempel (The Netherlands) BV Branch office
Austria	Hempel (Germany) GmbH Branch office
Caribbean	Pinturas Hempel (Caribbean)
Hungary	Hempel (Czech Republic) s.r.o., Magyarorszagi Fioktelepe
India	Hempel (Singapore) Pte Ltd India Representative Office
Japan	Hempel (Singapore) Pte Ltd Japan Branch Office, Tokyo
Slovakia	Hempel (Czech Republic) s.r.o., org. zlozka Slovensko
Vietnam	Hempel (Singapore) Pte Ltd Vietnam Representative Office

5.8 Financial definitions

Financial ratios have been calculated as follows:		
Organic growth	=	$\frac{\text{Absolute organic revenue growth}}{\text{Revenue in comparative period}}$
		Organic growth is defined as growth from one year to the next, based on values in fixed currencies for both years excluding mergers, acquisitions and divestments, etc.
Gross margin	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
EBITDA margin	=	$\frac{\text{EBITDA}}{\text{Revenue}}$
EBITDA	=	Operating profit (and loss) before amortisations and depreciations
Operating profit margin	=	$\frac{\text{Operating profit (loss)}}{\text{Revenue}}$
Return on invested capital	=	$\frac{\text{Operating profit (loss)}}{\text{Average invested capital}}$
Invested capital	=	Intangibles + property, plant and equipment + inventories + receivables - other provisions - trade payables - other payables
Equity ratio	=	$\frac{\text{Shareholder's equity}}{\text{Total assets}}$
Leverage ratio	=	$\frac{\text{Net interest-bearing debt}}{\text{EBITDA}}$
Net interest-bearing debt	=	Overdraft facilities + bank loans, etc. + interest-bearing payables to Group enterprise - cash at bank and in hand
Cash conversion	=	$\frac{\text{Total cash from operating activities + income tax paid + interest income and expenses paid, net}}{\text{EBITDA}}$
Accounts receivable (AR) days	=	$\frac{\text{Accounts receivable x 90}}{\text{Revenue (last 3 months)}}$
Accounts payable (AP) days	=	$\frac{\text{Accounts payable x 90}}{\text{COGS + change in inventory (last 3 months)}}$
Inventory days	=	$\frac{\text{Inventory x 90}}{\text{COGS (last 3 months)}}$
Net working capital (NWC) days	=	Accounts receivable days + Inventory days - Accounts payable days

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