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HEMPEL

Press release

5 April 2017

Key messages:

- Hempel continued to strengthen its platform for future growth in 2016.
- Revenue was EUR 1,424 million in 2016, down slightly from a record-high in 2015.
- EBITDA margin was high at 13.2 per cent despite negative organic growth of 4.5 per cent.
- Cash conversion of 162 per cent was almost double 2015 and the strongest in 10 years, which led to a reduction in net debt of 56 per cent (EUR 119 million by year-end 2016).
- Compliance issues involving inappropriate practices were uncovered in Germany. They are a direct attack on the integrity of Hempel's customers, culture, values and employees.
- The Board of Directors and the Executive Management Board immediately took control of the situation in Germany and the inappropriate practices were stopped effectively at once.
- Hempel immediately decided to launch its own thorough compliance investigations in other relevant jurisdictions worldwide in the Hempel Group with the assistance of external advisors.
- As a consequence of the compliance issues, a total of seven employees in Germany and three senior executives from other jurisdictions have left Hempel.
- As a result of the investigations, Hempel has expensed EUR 40 million in the financial statements for 2016. Hempel has made and will make substantial investments internally and externally to prevent compliance issues or anything similar from happening in the future.

Solid 2016 performance in a challenging environment

Global coatings company Hempel continued to accelerate execution of its *Journey to Excellence* strategy in 2016.

Hempel Group President & CEO Henrik Andersen joined Hempel in 2016. He comments: *"Our strategy plan has been fully endorsed by the new Executive Management Board and Board of Directors. Our goal remains to grow faster than the market and maintain profitability in line with peers by improving customer focus. To achieve this, we are strengthening the foundation of Hempel to accelerate growth in the coming years."*

The increasingly uncertain macro-economic conditions in many industries – such as marine and oil & gas – affected Hempel's customers in 2016, and this in turn affected Hempel's overall performance. Turnover reached EUR 1,424 million, which corresponds to negative organic growth of 4.5 per cent.

Despite this, Hempel continued to deliver a solid profit margin, with an EBITDA margin of 13.2 per cent, equal to EUR 188 million, which was very much driven by the operational initiatives in Hempel's *Journey to Excellence* strategy. At the same time, Hempel's cash flow and working capital in 2016 was its best in more than 10 years.

Henrik Andersen comments: *"We remained loyal to our operational priorities as set out in the beginning of the year; to increase cash generation from our operations, to keep and increase profitability and to invest in the foundation of Hempel's future growth."*

In August, compliance issues involving inappropriate practices were uncovered in Hempel's office in Germany. Hempel deeply regrets that in some instances its internal rules were deliberately circumvented and non-compliant practices have taken place.

The Board of Directors and the Executive Management Board immediately took control of the situation in Germany and the inappropriate practices were stopped effectively at once. An internal investigation was launched and concluded, and the appropriate disciplinary actions taken. Seven employees in Hempel Germany have been dismissed for gross negligence in performing their duties. Hempel now awaits the result of the investigation by the German authorities.

As a consequence of the inappropriate practices uncovered in Germany, the Board of Directors and the Executive Management Board proactively launched thorough compliance investigations in other relevant jurisdictions worldwide in the Hempel Group with the assistance of external global advisors from the audit and legal industry.

Henrik Andersen comments: "*I am sorry to announce that besides the seven employees in Germany, we have also had to re-organise in other jurisdictions and three senior executives have left Hempel due to gross negligence. Any such behaviour is in conflict with Hempel's values and culture. This is reflected in our internal rules and policies. Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first."*

On behalf of both the Board of Directors and Executive Management Board, Hempel would like to apologise for the inappropriate behaviour and state unequivocally that it is not acceptable. It is a direct attack on the integrity of Hempel's customers, culture, values and employees.

As a result of the above investigations, Hempel has expensed EUR 40 million in the financial statements for 2016. Hempel has made and will make substantial investments internally and externally to prevent compliance issues or anything similar from happening in the future.

These investments include:

- The internal processes in Hempel have been examined and improved
- Cooperation between the Audit Committee, Executive Management Board and Hempel's compliance functions has been strengthened and improved
- A Group Internal Auditor has been appointed and Hempel will significantly upgrade the Group's internal audit resources
- Hempel's whistle-blower system has been upgraded to an externally operated system – known as the Hempel Ethics Hotline – that is open for reporting by employees, customers, suppliers and other stakeholders to Hempel

"I would like to take this opportunity to give my heartfelt thanks to the employees for having maintained momentum. I am proud of the strong performances that have been put in and of the fact that we have succeeded in producing such good results in a very challenging year. I would also like to thank our customers and business partners for the sympathy and trust that they have shown towards Hempel," Henrik Andersen concludes.

Contact
For any further information or questions, please contact:

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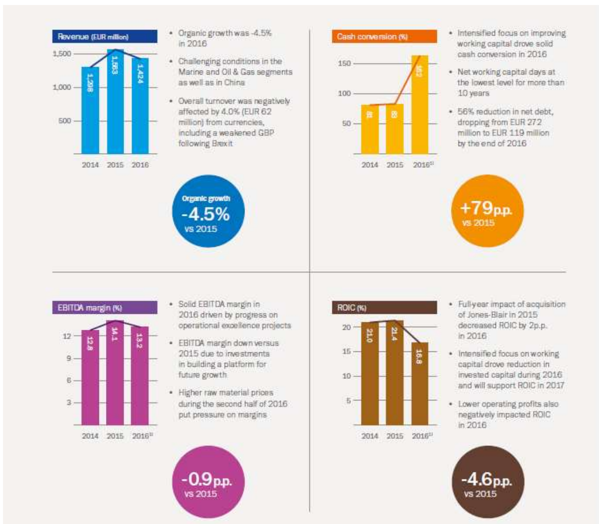
Appendix to the press release (enclosed):



Key figures

Key figures in EUR million (unless otherwise stated)

	2016	2015	2014	2013 [1]	2012
Income statement					
Revenue	1,424	1,563	1,298	1,239	1,242
EBITDA	188[2]	220	166	165	126
Amortisation, depreciation and impairment	58	62	37	40	43
Operating profit	130[2]	158	129	125	83
Share of net profits of associates	2	2	2	2	3
Net financials	-18	-22	-17	-19	-21
Profit before tax	78	138	114	108	65
Net profit for the year	47	108	82	78	46
Financial position					
Total assets	1,265	1,377	1,162	1,056	1,067
Equity	458	488	421	377	356
Net interest bearing debt	119	271	146	133	192
Cash flows					
Total cash flow from operating activities	265	145	100	146	128
Total cash flow from acquisitions / divestments of enterprises	N/A	-187	-35	-44	-36
Total cash flow from net investments in property, plant and equipment and intangible assets	-36	-47	-23	-45	-28
Free cash flow	231	-42	65	102	92
Employees					
Average number of employees	5,787	5,661	5,134	5,029	4,977
Employee Net Promoter Score (eNPS)	25	N/A	N/A	N/A	N/A
Ratios (%)					
Organic growth	-4.5	5.5	5.2	1.7	-2.0
Gross margin	43.7	41.7	41.0	40.5	37.2
EBITDA margin	13.2[2]	14.1	12.8	13.3	10.2
Operating profit margin	9.1[2]	10.1	10.0	10.1	6.7
Return on invested capital	16.8[2]	21.4	21.0	20.8	13.2
Equity ratio	36.2	35.4	36.2	35.6	33.3
Leverage ratio (Net interest-bearing debt/EBITDA)	0.6[2]	1.2	0.9	0.8	1.5
Cash conversion	162	83	81	114	120

1) Comparative figures have been restated according to the changed accounting policies in 2013 only. For definitions, see page 102.
2) Excluding special items related to compliance issues.