Trust is earned

Annual Report 2018

Contents

The company

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CVR no. 59946013
Financial year: 1 January – 31 December

Board of Directors

Richard Sand, Chair
Eric Alström, Deputy Chair
Marianne Wiinholt
Søren P. Olesen
Leif Jensen
Susanna Schneeberger
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)

Lars Jønstrup Dollerup
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

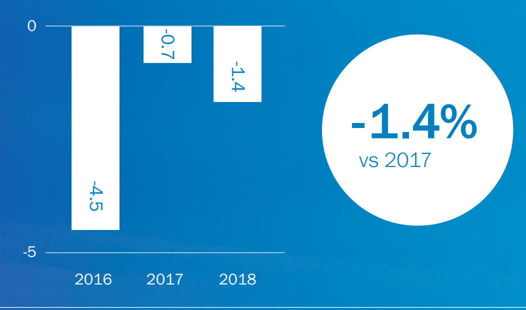
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

Banks

Nordea Bank
SEB (Skandinaviska Enskilda Banken)
BNP Paribas
HSBC Group

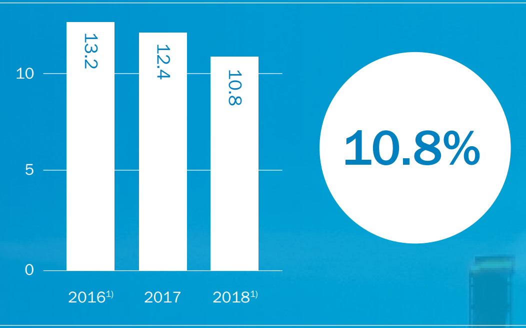
Highlights from 2018

Organic growth (%)



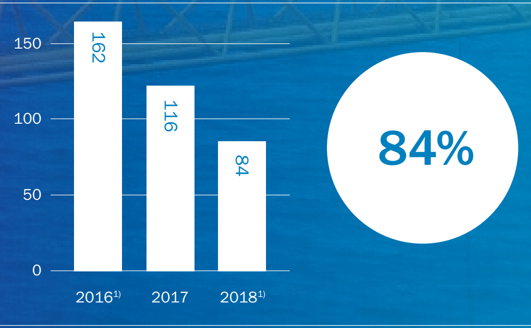
- Revenue of EUR 1,346 million equal to organic growth of -1.4%
- Growth negatively impacted by the turnaround of our Asia-Pacific region and market challenges in the Middle East
- Currency fluctuations impacted revenue by EUR -10 million

EBITDA margin (%)



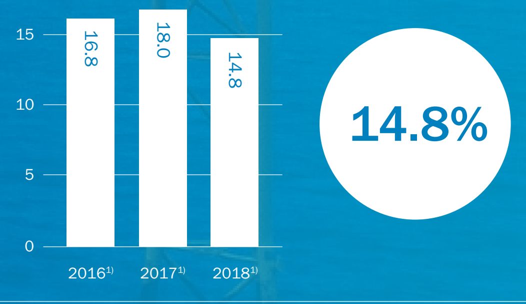
- Solid EBITDA margin considering the raw material price increases, Asia-Pacific turnaround and one-time post-merger integration costs
- Substantial investments made to accelerate the execution of our *Journey to Excellence* strategy plan
- Excluding J.W. Ostendorf and one-time integration costs, the EBITDA margin was 11.8 per cent in fixed currencies - slightly lower than last year, but mitigated by management's determination to adjust the operating model and cost base when needed

Cash conversion (%)



- Lower cash conversion driven by strong top-line growth in Q4
- EUR 166 million in cash released from working capital since 2016
- Net debt increased to EUR 97 million. Hempel is cash positive when excluding the EUR 101 million effect from the J.W. Ostendorf acquisition in Q4

ROIC (%)



- ROIC excluding J.W. Ostendorf and special items was 18.0% and similar to 2017
- Average net working capital days improved by 5 days to 72 days in 2018
- 3.2pp decrease in ROIC driven by the acquisition of J.W. Ostendorf; high raw material prices further negatively impacted ROIC

1) Excluding special items.

Key figures

In EUR million (unless otherwise stated)

	2018	2017	2016	2015	2014
Income statement					
Revenue	1,346	1,378	1,424	1,563	1,298
EBITDA	145[1]	171	188[1]	220	166
Amortisation, depreciation and impairment	55	56	58	62	37
Operating profit	90[1]	115	130[1]	158	129
Share of net profits of associates	–	–	2	2	2
Net financials	-5	-23	-18	-22	-17
Profit before tax	72	92	78	138	114
Net profit for the year	48	55	47	108	82
Financial position					
Total assets	1,295	1,144	1,265	1,377	1,162
Equity	408	442	458	488	421
Net interest-bearing debt	97	21	119	272	146
Cash flows					
Total cash flow from operating activities	86	155	250	131	88
Total cash flow from acquisitions / divestments of enterprises	-16	14	–	-141	-13
Total cash flow from net investments in property, plant and equipment and intangible assets	-34	-23	-36	-47	-23
Free cash flow	23	144	216	-56	53

	2018	2017	2016	2015	2014
Working capital					
Net working capital (NWC) days	59	59	89	122	113
Employees					
Average number of employees	5,882	5,740	5,787	5,661	5,134
Number of employees, end of period	6,259	5,676	5,768	5,758	5,285
Employee Net Promoter Score (Scale: -100 to +100)	21	20	25	N/A	N/A
Ratios (%)					
Organic growth	-1.4	-0.7	-4.5	5.5	5.2
Gross margin	38.2	40.9	43.7	41.7	41.0
EBITDA margin	10.8[1]	12.4	13.2[1]	14.1	12.8
Operating profit margin	6.7[1]	8.3	9.1[1]	10.1	10.0
Return on invested capital	14.8[1,2]	18.0[1]	16.8[1]	21.4	21.0
Equity ratio	31.5	38.6	36.2	35.4	36.2
Cash conversion	84[1]	116	162[1]	83	81
Leverage ratio (Net interest-bearing debt/EBITDA)	0.7[1]	0.1	0.6[1]	1.2	0.9

1) Excluding special items.
2) Including acquisitions for the year. The impact from acquisitions on operating profit is 3 months whereas the balance sheet is fully impacting invested capital.

Our business is trust

Around the globe, Hempel coatings make our world safer, stronger, longer lasting and more beautiful.

The Hempel Foundation

Since 1948, the Hempel Group has been fully owned by the Hempel Foundation. The Foundation's primary purpose is to maintain a solid financial base for the continued existence of the Hempel Group. Its secondary purpose is to support philanthropic purposes around the globe.

One of the major strategic focus areas for the Foundation's philanthropic work is empowering children to learn. The Foundation supports educational projects in 15 countries and it is estimated that this work has reached more than 100,000 children so far with quality education. The Foundation also supports research into coatings technology, with the aim of making coatings more efficient and sustainable.

You can read more about the Hempel Foundation at **hempelfoundation.com** and follow its work on LinkedIn.

Our solutions protect our customers' assets against corrosion and help make our world look more colourful. They keep homes, ships, wind turbines, buildings, infrastructure, hospitals and schools in prime condition for longer, and are proven to perform under the roughest treatment and in the world's harshest environments.

For our customers, our solutions are more than just a protective coating. Our solutions help optimise their processes, reduce maintenance costs and improve their environmental performance. Every day, we work with our customers around the globe to better understand their business and provide solutions that address their business needs. We partner with them to design, develop and test new solutions, and provide expert technical service and advice to help them optimise their coating processes and projects.

Our coatings help our customers' most valuable assets perform better. This demands that we deliver the market's most trusted solutions. It is up to us to earn this trust every day through the superior performance of our products and our expert service and support. We have been earning trust for more than 100 years and the desire to earn trust will continue to drive us in the future.

Where we add value to our customers' businesses

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, reduce costs and improve the environmental performance of their operations.

Marine
Improving fleet performance and efficiency

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

Decorative
Making the world more lasting and colourful

From homes and hospitals to offices, schools and public buildings, our decorative solutions improve hygiene, lower maintenance requirements, reduce energy consumption from air conditioning – and help make our world more colourful and inspiring.

Container
Protecting the world's cargo

We protect cargo containers from corrosion, both inside and out, and work with container producers 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, we help professional boat builders and sailing enthusiasts keep their vessels in perfect condition, so they have more time to enjoy the sea.

Hempel Services
A performance partnership

We put our unique coating expertise at the heart of our customers' coating process to improve project efficiency and ensure long-term coatings performance.

Our transformation into an industry-leading company continues.

Letter to stakeholders

Hempel is now almost halfway through its major transformational journey, which we started back in 2016. We are strengthening our organisation and culture significantly, building a company that will become one of the leaders in the consolidation of the global coatings industry. Our goal is clear: To become a true industry leader in our core business areas. Like any major change, our transformation will take time. However, 2018 has confirmed that we are making very strong progress in all of the most important areas and now have the necessary foundation to start making the desired acquisitions. We will of course continue full speed ahead in 2019 to pursue our opportunities to strengthen Hempel even further globally.

With reference to the formerly announced and necessary thorough improvement of compliance in Asia-Pacific and despite challenging market conditions in the region, it is positive to see that we are now through the worst part of the full-scale turnaround in our Asia-Pacific businesses. This has been achieved by installing completely new leadership teams and by working hard on the ground to create a winning Hempel culture, one with strong ties to our customers that ensures all employees are engaged in our customer-focused vision. Our successful turnaround in these markets is a testament to what a strong culture, vision and leadership can achieve, and shows that our organisational setup and processes are vital for running Hempel as a global company.

We recognise that there is still much work to do. However, we are excited and encouraged by the fact that our new and strong leadership team understands our tasks and challenges. 2019 will be a year of progress and acceleration of our key priorities, when we engage the power of the full Hempel team across the globe to increase momentum in all our business units and continue our transformation into a true industry leader.

Welcoming J.W. Ostendorf

To reach our ambitious growth targets, our appetite for acquisitive scaling has never been higher and we continue to actively seek out new family members of the right fit, both commercially and culturally. In 2018, we were pleased to welcome J.W. Ostendorf to the Hempel family, a family-run decorative coatings company with approximately 650 employees and operations primarily in Germany and France. J.W. Ostendorf shares many of our values, not least a strong commitment to the customer and a constant desire to improve, and we are already seeing the benefits of bringing J.W. Ostendorf into the Hempel Group.

The acquisition doubled our decorative business in Europe and contributed EUR 39 million in sales in 2018. Going forward, it will increase our decorative business by more than EUR 200 million in sales annually. It also brought us a cutting-edge production facility in Coesfeld, Germany, and skilled and knowledgeable new colleagues. Not least, J.W. Ostendorf has given us the breadth of operations required to introduce a strong new business unit to the Hempel Group: Decorative Europe. Combining Crown Paints and J.W. Ostendorf, Decorative Europe will be a true leader in the decorative coatings market for both branded and private labelling, capable of serving customers across the region with excellent coating solutions, knowledge and service. Decorative Europe will also be aspirational for other companies, an organisation they want to join. Ultimately, it will serve all of Europe, both retail customers, who are increasingly consolidating across the region, and homeowners.

Performance in 2018

As expected, the coatings market remained very competitive in 2018. Raw material prices increased more than anticipated, which affected the entire industry and put immediate pressure on our profitability. In addition, the marine and oil & gas markets remained in a recessional state and the political and macro-economic situation in the Middle East made business tougher than anticipated. Finally, we saw our businesses in Asia-Pacific pass through the first tough stages of their major turnaround, which has ensured that we conduct business the Hempel way.

When taking these challenges into consideration, Hempel delivered a satisfactory performance in 2018. Revenue grew by 1.5 per cent in fixed currencies, driven by the acquisition of J.W. Ostendorf and a strong fourth quarter. When excluding J.W. Ostendorf, negative underlying organic growth was 1.4 per cent. However, the year ended strongly with positive organic growth of 4 per cent in the final quarter, and we expect to see positive growth continue into 2019. The reported EBITDA margin excluding special items ended at 10.8 per cent and 11.7 per cent when excluding J.W. Ostendorf. We see this as a satisfactory result when considering the negative impact from the increase in raw material prices and challenges to our performance in Asia-Pacific and the Middle East.

We continued to improve our net working capital days and ended the year at 59 days, with a yearly average of 72 days – 5 days better than in 2017. Since 2016, we have released EUR 166 million in cash by optimising our net working capital process. When adjusting for the effect from the acquisition, Hempel's net interest-bearing debt was eliminated in 2018. We will continue to strive for excellence in this area to free up working capital, as it will give us the freedom to pursue our ambitious growth targets through major acquisitions and strong organic growth.

Driving our strategy forward with the House of Priorities

The goal of our *Journey to Excellence* strategy remains to improve profitability and growth by striving for organisational excellence. We have come a long way on this journey, supported by the two-dimensional operating model that we introduced in 2016. The model enables our regions to focus on business execution and serving customers, while our global functions drive best practice across the globe. The word agile is used often. For Hempel, agile simply means that our leaders can speed up decision-making processes, while our employees globally can drive group-wide practices and are close to our daily business and operations.

With this foundation in place, we focused on accelerating our strategy in 2018. We realise that, with many strategy initiatives ongoing, an organisation can lose focus. Therefore, we introduced the House of Priorities, a simple tool to give our leadership teams and employees a clear overview of our key priorities for the current period to ensure we remain focused on the most important tasks in our strategic journeys, with the clear aim of completing and sustaining each change.

Customers and innovation in all we do

Through our products and services, we help our customers protect their valuable assets, reduce costs, improve efficiency and limit emissions. Our preferred way of working is as our customers' innovation partner, as this is the best way to add value to our customers and ensure that the solutions we develop are well-suited to the market. This demands that we truly understand a customer's business, that our entire global organisation works to develop solutions that address the customer's business needs, and we test and refine these solutions in collaboration with the customer. Our global key account managers play an important role in this, acting as quarterbacks to orchestrate the collaboration between the customer and our global organisation.

As many of our customers are global, they demand global solutions and service, delivered globally but adapted to local requirements. Therefore, we introduced a new commercial organisation in 2017 to drive best practice among our sales teams across the globe. In 2018, our Group Commercial function rolled out important new programmes to improve our commercial excellence, including a new sales operating model that will ensure we spend more time with our customers and better align the whole value chain in solving customer challenges.

As well as leading customer-focused innovation in the areas in which we choose to compete, we want to lead the industry in 'service management', essentially taking over responsibility for keeping our customers' assets in the agreed condition over the asset's life cycle. This is a new way of thinking for the industry and we understand that it will take time. In 2018, we took an important step on this road when we created Hempel Services, a new globally aligned service organisation that will contribute to strengthening our customer relationships, ensure consistency and quality in our services across the globe and contribute to Hempel's earnings. Hempel Services launched eight globally standardised service products for marine and protective customers that give transparency to our services offer and make it easier for customers to see the value in what we do.

Over 1,300 customers gave us valuable feedback on our work and relationship with them in our Customer Engagement Survey in 2018. The survey showed that in most regions 'trust in products' is the most important driver of customer loyalty, and that we are performing well in this area. Other important loyalty drivers include complaint handling, logistics and the relationship with the account manager. Our net promoter score was 52, roughly the same as last year. This indicates that our customers remain very satisfied with our work, but that there is still room to improve. Although we still have pockets of absolute excellence, there are also areas that need immediate improvements.

Major investments in our customers and the future of Hempel

In 2018, we made many important decisions and investments regarding our future. We continued to expand our site in Lyngby, Denmark for what will be the future Hempel Campus, including our headquarters and R&D facilities. This investment is being made to support our location in Denmark and also to highlight the importance of our proximity to and collaboration with the Technical

University of Denmark. Further, we opened our new R&D Centre of Excellence in Barcelona, Spain in the autumn. Focused on coatings for passive fire protection, the centre will enable us to further enhance our capabilities, expertise and product offering in what is an increasingly important area for our customers.

We also reviewed our manufacturing footprint in our strategically important region of China and Korea, and decided to expand our footprint in the region by improving our existing production facilities and building new sites – a total investment of more than EUR 100 million. We believe that this major investment is required to meet our global customers' future needs for manufacturing in and servicing the Chinese market. It also sends a strong signal to our colleagues in China and Korea that Hempel supports and is investing in the region. Overall, these investments illustrate our commitment to use capital efficiently and reinvest for the long-term good of the business.

Working with sustainability in mind
We are in a global industry, and we establish trust through our delivery of trusted solutions. As a company, we are committed to running our business in a way that supports the United Nations Sustainable Development Goals and so contributes to solving some of the most pressing challenges in the world today. As a signatory to the UN Global Compact, we promote the United Nations' principles on human rights, labour, environment and anti-corruption, and integrate these in our sustainability programmes. This commitment extends through our entire value chain from how we source raw materials to our employee development programmes.

Please take some time to read about our initiatives and progress in this area in the Corporate responsibility section of this report.

Engaging the full team
Hempel is a truly global company, and with the acquisition of J.W. Ostendorf, we are now around 6,500 employees across more than 80 countries. Our ability to deliver value relies on our ability to attract, retain and develop the best people in the business – and we need all of our employees to be engaged and committed to our strategy and work. In 2018, our Employee Engagement Survey showed that we have made progress in terms of engagement, but also that there is still great variation across our business units and employee groups. Some units made great leaps forward in 2018; for others, the gap increased. We must continue to improve so that every employee in Hempel has the possibility to realise their full potential. This is our most visible leadership challenge in this area. Therefore, engaging every Hempel colleague in our strategy and transformational journey is an overriding theme for 2019. This work begins with our leaders, so in 2018 we defined the 10 essential leadership competencies that our leaders must take to heart and develop. These leadership competencies typify the Hempel culture and spirit, and they make it clear what we expect from our leaders and how we expect them to lead. Both these things – engaging the full team and developing our leaders – were central themes at the Hempel Leadership Summit, which was held in Houston, US in 2018.

Finally, we continued in our push to reaffirm and solidify our compliance culture. We updated our Code of Conduct, completed Code of Conduct eLearning for almost 4,000 employees worldwide and launched special Code of Conduct eLearning for people in customer-facing positions. We also introduced a new Business Partner Code of Conduct. We appreciate that no company works in isolation, and we expect our suppliers and other business partners to work with the same high ethical standards that we do. We have now defined a compliant foundation for future growth, and know how to play by these rules.

Hempel has resolved the SØIK case
In April 2017, Hempel self-reported a number of uncovered illegal sales practices found in Germany, other countries in Europe and in Asia to SØIK, the Danish State Prosecutor for Serious Economic and International Crime. The unlawful practices were stopped immediately and the people responsible were replaced. Hempel has completed internal remediation, invested heavily, and established a robust compliance framework. Hempel A/S and Hempel (Germany) GmbH have now been fined and agreed to a total settlement of DKK 220 million for these illegal practices. The fine is within the range of expectations and will be paid to SØIK and the Prosecution Authority in Kiel, Germany. DKK 123 million was expensed in Hempel's financial statements for 2016, with the remaining part in the financial year 2018. Hempel has cooperated fully with and had complete confidence in the authorities throughout this process.

We want to be clear: Our focus on compliance is ongoing. We will continue to send a strong message from the Board of Directors and Executive Management Board that compliance is non-negotiable. Hempel has zero tolerance for inappropriate practices and violations of law. Any such behavior is in conflict with what we stand for. It is a direct attack on the integrity of Hempel's customers, culture, values and all our colleagues. Our business is built on trust and a robust compliance framework will always be central to it.

Looking forward to 2019
We anticipate that the coatings market will regain strength in 2019 and, with a fully customer-focused organisation, we expect to deliver underlying organic growth in line with or slightly better than the market. From an earnings perspective, we expect flat margin development in percentage terms and an increase in absolute terms.

Again, 2019 will be a year of strategy execution. Internally, we will use the House of Priorities to ensure focus and commitment on our excellence journeys. Externally, we will look to build closer relationships with our customers, driving innovation and co-creation together in order to find new solutions and technologies that add value to their businesses. We will also look for new companies to bring into the Hempel family, as we continue our journey towards our goal of becoming a EUR 3 billion revenue company and one of the global leaders in the coatings industry.

Thank you
Overall, 2018 was a satisfactory year. Despite a challenging market, we finished the year well, with strong organic growth in a number of important regions and businesses. We welcomed a new addition to the family, made strong progress on our transformational journey and defined a compliant foundation that is ready for future growth.

This work was only possible with the commitment of our highly skilled and hard-working 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 dedication in 2018. 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
Chair of the
Board of Directors of Hempel A/S

2018 in review

In 2018, we continued our transformational journey, establishing the foundation for future growth.

Hempel's performance was satisfactory in 2018, especially in the fourth quarter, when we saw strong organic growth, growth in previously underperforming regions and positive growth from the acquisition of J.W. Ostendorf. However, as expected, the global coatings market remained challenged throughout 2018, not least due to increasing raw material prices and the recessional state of the marine and oil & gas markets. Raw material prices increased more than anticipated and the pressure on Hempel's profitability, especially in the first half of the year, was significant. The turnaround of our Asia-Pacific businesses following two years of compliance-related challenges, and the political and macro-economic crisis in the Middle East also contributed to making 2018 more difficult than anticipated. As a result, positive organic growth rates did not materialise before the second half of the year, but we created the foundation for further growth in 2019.

Despite the challenging business environment and our deliberate choice to charge fair prices for our products and solutions while raw material prices were increasing rapidly, we delivered a satisfactory result in 2018 and made significant progress on our *Journey to Excellence* strategy. Progress in our industrial transformation and strengthening of the Hempel business platform gave us the confidence to acquire J.W. Ostendorf. A leading European decorative paint manufacturer, J.W. Ostendorf contributed with acquisitive growth of 2.9 per cent in 2018 and is expected to grow Hempel by more than 15 per cent in 2019. We also created a foundation for growth in our Asia-Pacific region, which ended 2018 in significantly better shape, and restructured our business in North America. In the fourth quarter of 2018, North America delivered robust double-digit organic growth and North Asia delivered a strong improvement in earnings by being clear on value propositions to customer segments, among other things.

The Hempel Group's revenue for the year was EUR 1,356 million in fixed currencies, equalling growth

"Our tasks ahead are to: convert profit into cash; generate industry-leading profitability; and use disciplined operations to generate above industry-average organic growth while being one of the consolidators in the global coatings industry"

of 1.5 per cent, including the effect from the J.W. Ostendorf acquisition. Underlying organic growth was negative 1.4 per cent. However, we saw strong improvements in the second half of the year. Organic growth in the first half of 2018 was negative 3.7 per cent; in the second six months organic growth was positive 1.1 per cent, with almost 4 per cent growth in the fourth quarter. Organic revenue development was below expectations, particularly our Protective segment, which experienced the biggest disruption in connection with the transformation of our sales and business processes in Asia-Pacific. The EBITDA margin in fixed currencies and before special items ended at 10.9 per cent and 11.8 per cent when excluding J.W. Ostendorf, slightly below the 2017 level of 12.4 per cent and short of the ambitions laid out in the 2017 Annual Report. Considering the business environment in many of our key markets, we consider the financial results for 2018 satisfactory.

Raw material price increases were more rapid and substantial than anticipated – averaging globally more than 9 per cent – and impacted the entire coatings industry hard. We decided to enter into talks with our customers to find solutions to compensate for the increased cost based on new and existing solutions and in many cases combined with reasonable price increases. With our decision to work with fair prices for our products as part of our strategy to deliver profitable growth, we accepted losing unattractive deals, which in some cases would have provided Hempel with a loss. We were therefore able to maintain a relatively healthy level of profitability in comparison to industry peers, albeit with a negative impact on growth in the first half of 2018. In combination with our keen focus on operational excellence and the proactive implementation of cost-saving initiatives where needed, we continued our focus on generating positive cash flow, which was used partly to fund the acquisition of J.W. Ostendorf and to reduce debt. When adjusting for the effect from the acquisition, Hempel's net interest-bearing debt was eliminated in 2018 and, despite the EUR 101 million acquisition investment and capital expenditure investments of EUR 36 million, Hempel's net interest-bearing debt at the end of 2018 was only EUR 97 million, still much below the level at the end of 2015. Net working capital days ended at 59 days, equal to last year's all-time low of 59 days in December 2017. This was partly driven by the inclusion of J.W. Ostendorf, which improved the Group's net working capital days by 1 day. Excluding the effect from J.W. Ostendorf, net working capital days ended at 60 days, with an average for 2018 of 71 days – 6 days better than the average for 2017. Through our work in this area, we have released a total of EUR 166 million since the end of 2016. We still see room for progress and will continue to drive working capital improvements as a vehicle to fund acquisitive scaling and growth.

We will continue to strengthen our operating model. Our tasks are prioritised in the following order: convert profit into cash; generate industry-leading profitability; and use disciplined operations to generate above industry-average organic growth while being one of the consolidators in the global coatings industry.

Sales

Sales in 2018 amounted to EUR 1,356 million in fixed currencies (EUR 1,317 million excluding J.W. Ostendorf) compared to sales of EUR 1,335 million in 2017. This corresponded to organic growth of -1.4 per cent. Unfavourable fluctuations in currencies generated a negative foreign exchange impact of EUR 10 million, or -0.8 per cent.

We saw positive organic growth in four of our eight regions. Our large European operations – Europe & Africa and our newly established Decorative Europe region, which combines Crown Paints and J.W. Ostendorf – both delivered strong results. We also delivered substantial organic growth of almost 10 per cent in the Americas, mainly due to strong performance within the marine and rail industries, as well as good results from our Neogard construction coatings range.

Our Middle East and Asia-Pacific regions were challenged in 2018. In the Middle East, our performance was impacted by the economic and political crisis in Saudi Arabia and the continued embargo of Qatar. In Asia-Pacific, we experienced negative organic growth of more than 10 per cent. Although this was disappointing and below expectations, we anticipated negative growth in the region due to the change in regional management, the complete turnaround in our operating model and the expected contraction of the global marine market, which makes up a substantial part of our operations in North Asia.

As expected, we experienced continued tough market conditions in the marine industry globally.

Increasing production capacity

We began construction of a new factory in Jeddah in Saudi Arabia in 2018, marking the start of construction with a ground-breaking ceremony in October. The factory will open in 2019.

The marine newbuild markets in Asia and Europe continued to decline, and we saw negative organic growth in these markets. These challenges were partly offset by strong performance within marine maintenance, where our market-leading Hempaguard hull coatings continued to gain market share. On balance, our Marine segment performed better than anticipated in 2018. However, our Protective segment had a disappointing year, experiencing 4 per cent negative organic growth, compared to expected organic growth in line with the market of 1-2 per cent. This decline was mainly driven by our Infrastructure and Wind Energy sub-segments, which did not generate growth as expected. Consequently, we lost market share within the protective industry in 2018. Our Decorative segment grew by 17 per cent, partly through positive organic growth in our UK-based Crown Paints operation and partly driven by the J.W. Ostendorf acquisition.

Our Group Commercial function, established in 2017, drove our commercial excellence journey in line with our strategy. We made strong progress and began several new initiatives to further professionalise our commercial efforts and drive sales productivity, including launching our new sales operating model at the start of 2018. Our Global Key Account Management (GKAM) programme also made a mark on our 2018 performance, securing important wins with key existing and new customers. We expect to see a continuation of accelerated growth and increased share of wallet with our GKAM customers in 2019 and beyond. We are making it easier to be a Hempel customer by continuing to invest in digitalisation, including our customer portal My Hempel. We also continued our work to improve our services offering. Hempel Services is now a separate strategic business unit within Hempel, dedicated to providing expert coating advisory services to our customers to enable them to better protect their assets. These investments have given us the foundation upon which we can build and maintain the strongest customer relationships in the industry and continuously see improvements in measurable customer satisfaction.

Operating expenses

Excluding the effect from the J.W. Ostendorf acquisition, operating expenses before special items decreased by 1.2 per cent in fixed currencies in 2018. Operating expenses before special items but including J.W. Ostendorf increased by 2.9 per cent in fixed currencies and decreased by 1.0 per cent in reporting currencies.

Cost savings from our operational and production excellence activities contributed to ease the negative impact on margins from raw material price increases. Moreover, our operational discipline implies that we proactively change our operating model in our regions and adjust the cost base where necessary if top-line projects do not materialise; the margin improvements we have seen in North Asia and the Middle East are a result of necessary and disciplined actions being carried out when required. A proportion of the realised savings were reinvested in strategic initiatives, primarily in our innovation and customer journeys. We strengthened our sales force and added commercial talents, especially in North America and Asia-Pacific, where we made substantial investments in upgrading our regional commercial management teams and sales force throughout the year. Investments in our innovation journey resulted in new product launches.

We accelerated the migration of transactional finance activities to our existing Shared Services Centre in Gdansk, Poland. Among other things, the new setup will enable us to implement

"An important part of our *Journey to Excellence* strategy is to participate in the consolidation of the industry"

end-to-end processes that encompass our entire organisation, gather and process data consistently across the Group and generate future efficiencies through automation. In addition, we expanded and invested in improving our decorative distribution network in the Middle East and the UK, and laid the groundwork for Decorative Europe.

Operating income/expenses, net in 2018 included one-time gains from the sale of land-leasing rights in Kuwait as well as insurance recoverable. Special items include a EUR 13 million provision related to the resolution of the SØIK case.

EBITDA
Hempel's EBITDA margin in 2018 before special items was 10.9 per cent in fixed currencies. This includes J.W. Ostendorf and post-merger integration costs associated with the transaction. Excluding these elements and special items, the organic EBITDA margin for 2018 was 11.8 per cent in fixed currencies. This was slightly lower than 2017, and a solid result when considering the increase in raw material prices and challenges to our performance, especially in our Asia-Pacific and Middle East regions. Our focused effort to offset the pressure on earnings from raw material prices as well as continued cost synergies from our operational excellence activities helped protect margins in 2018 and made room for continued investments in our *Journey to Excellence* strategy.

In absolute terms, reported EBITDA before special items amounted to EUR 145 million (EUR 147 million in fixed currencies), compared to EUR 171 million in 2017.

Tax and net profit
Hempel experienced a EUR 13 million negative impact on EBITDA in 2018 related to the resolution of the compliance case reported to SØIK in April 2017. The total provision at the end of 2018 was EUR 31 million.

The effective tax rate for the year was 33.3 per cent and 28.2 per cent before special items. This compares to 40.0 per cent last year. The lower effective tax rate in 2018 was expected, as the effective tax rate for 2017 was impacted by the US tax reform and adjustments of uncertain tax positions. On a like-for-like comparison, the effective tax rate reduced by 2.1 percentage points, in line with expectations.

Net profit amounted to EUR 48 million, compared to EUR 55 million last year.

Capital expenditure
During 2018, we continued to invest in new factories, modernisation of our production and optimisation of our manufacturing footprint. Total gross capital expenditure was EUR 36 million in fixed currencies, 16 per cent below last year. Excluding capital expenditure associated with J.W. Ostendorf of EUR 1 million, capital expenditure was EUR 35 million. As part of optimising our manufacturing footprint, we progressed with the optimisation and relocation of our Yantai factory in China, began construction of a new factory in Jeddah, Saudi Arabia and inaugurated our new R&D Centre of Excellence in Barcelona, Spain focused on coatings for passive fire protection. Other capital investments in 2018 included costs related to the upgrade of our Microsoft Dynamics 365 solution, which will be rolled out across Hempel in the next three years.

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 ensure we can deliver products when and where our customers need them. This includes reviewing our manufacturing footprint in Asia-Pacific.

Acquisitions
An important part of our *Journey to Excellence* strategy is to participate in the consolidation of the industry and grow through acquisition. During 2018, we signed an agreement to acquire a 65 per cent majority stake in J.W. Ostendorf, a family-owned company with approximately 650 employees. The acquisition agreement also includes an option for Hempel to acquire the remaining 35 per cent stake in J.W. Ostendorf. With this acquisition, we doubled our decorative business in Europe and acquired a cutting-edge production facility in Coesfeld, Germany. The takeover was effective from 1 October 2018 and contributed EUR 39 million in sales in 2018. Going forward, the acquisition will increase our decorative business – and so our business in general – by more than EUR 200 million in annual sales.

As an integral part of our strategy, the existing business is also assessed to ensure that Hempel operates in segments of strategic importance that contribute positively to the growth and profitability of the Group.

Cash flow and net interest-bearing debt
2018 was another year with sharp focus on bringing down Hempel's net debt and we saw solid progress in this area. In the last four years, net working capital days decreased from 122 days in 2015 to 59 days in 2018. Net working capital days was 59 days at the end of 2018, including J.W. Ostendorf, and 60 days on a like-for-like comparison.

Total cash flow from operating activities ended at EUR 86 million in 2018, compared to EUR 155 million in 2017. Strong cash flow from operating activities contributed to eliminating net interest-bearing debt and making Hempel a cash-positive company, before considering the acquisition of J.W. Ostendorf. The acquisition negatively impacted net interest-bearing debt by EUR 101 million, taking net interest-bearing debt to EUR 97 million, a ratio of 0.7 to EBITDA, up from 0.1 in 2017. Despite the investment in J.W. Ostendorf, we still have strong capabilities to gain further acquisitive scale by taking a leading role in the ongoing consolidation of the global coatings industry.

Strategy

We progressed further on our *Journey to Excellence* strategy in 2018 by executing on our main priorities and building the capabilities for future growth.

Our *Journey to Excellence* strategy 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, especially in selected segments (Must-Win Battles).

Our aim remains to grow faster than the market, and we are investing in accelerated growth – both organically and through acquisitions. In 2018, we took a step in this journey by acquiring J.W. Ostendorf.

Introducing the House of Priorities

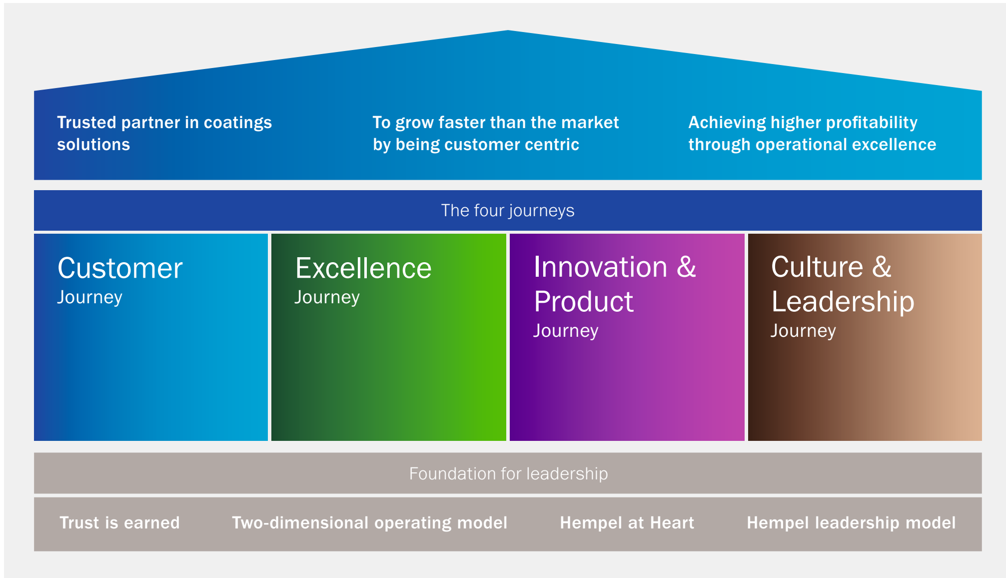
We know that any deep industrial transformation takes time and resources. In recent years, we have worked diligently to build a strong foundation that will enable Hempel to reach its full potential. We have developed our two-dimensional operating model, defined and communicated the Hempel values and developed our brand promise of Trust is earned.

We are now experiencing the positive effects of much stronger and closer connected global operations, in which every employee appreciates their role and understands their contribution to our transformation and journey towards excellence. With this foundation in place, we are now able to accelerate execution of our *Journey to Excellence* strategy.

To support this and to ensure focus, we have developed the House of Priorities, which provides an overview of our key priorities for the coming year. The House of Priorities will ensure we align our efforts across the Group within each of our four strategic journeys: The Customer Journey, Excellence Journey, Product & Innovation Journey and Culture & Leadership Journey.

Journey to Excellence

House of Priorities



The Hempel business model

Produce & supply
- Constantly strive for greater excellence & efficiency
- Work to improve lead times & environmental performance
- Ensure fast and reliable supply & delivery to customers across the globe

Advise & support
- Keep customer assets in agreed condition
- Help customers optimise processes
- Ensure efficiency & quality during application

Communicate & sell
- Understand customers' business needs
- Communicate benefits of solutions
- Ensure best possible solution for each project

Innovate & create
- Listen to customer needs
- Partner with customers to create solutions
- Partner with others to explore new solutions & technologies

Develop & improve
- Work with customers to test solutions in the field
- Adjust existing solutions to improve performance
- Tailor solutions to local conditions

Key strategy execution initiatives in 2018

- *Customer Journey:* We became even more customer focused with the rollout of our new **sales operating model**. The new model will ensure we spend more time with our customers and better align how we sell across the Hempel Group.

- *Customer Journey:* We took a number of steps to further develop **Hempel Services**, our service business. This included developing new service concepts that resonate with our customers' needs and improving our operational setup, with special focus on competence building, managing resources and workplace safety.

- *Excellence Journey:* We made significant progress within **process excellence**, focusing on efficiency and transparency. This included initiatives to improve our supply chain efficiency as well as expanding our global Shared Service Centre to improve how our Finance function supports our business units.

- *Product & Innovation Journey:* We continue to **innovate in collaboration** with some of our most **trusted customers** and we successfully developed, tested and launched new innovate products, including Hempatop Repel, a coating based on brand-new technology that actively repels water from the coated surface. Hempatop Repel was developed with one of the world's leading oil & gas companies and significantly reduces maintenance requirements compared to currently available coating systems.

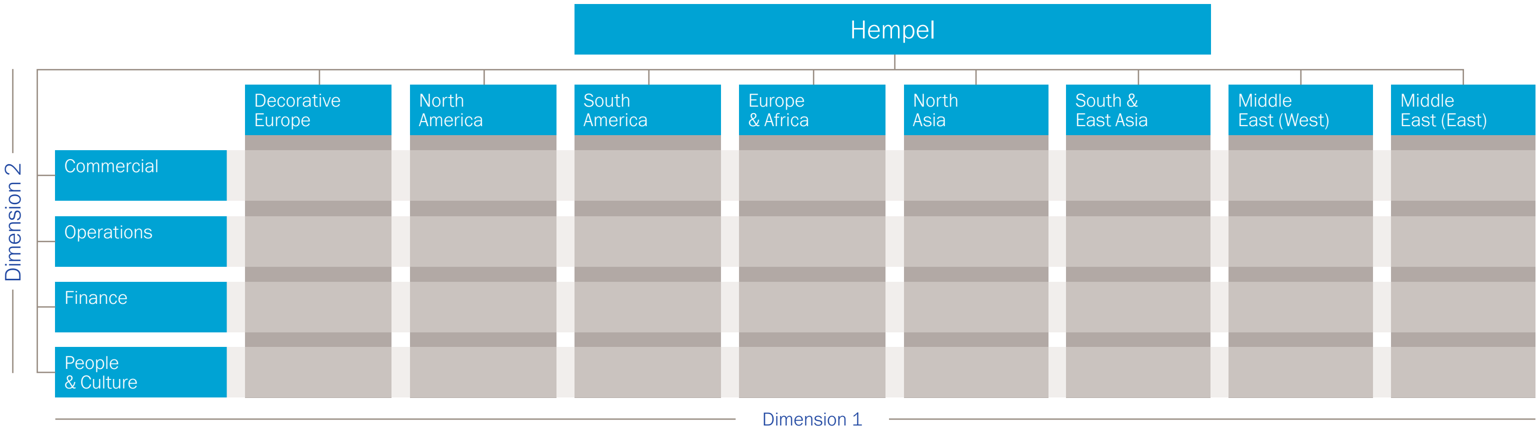
- *Culture & Leadership Journey:* We developed and rolled out **leadership competencies** and **talent development training** modules for leaders at all levels of the Group to ensure we build and maintain a strong talent pipeline for our future leadership position.

- With the acquisition of **J.W. Ostendorf** in September, we expanded our Decorative segment in Europe, creating a strong platform for future growth, which we will target through organic growth in both the branded and private label markets and by inviting more companies to join Decorative Europe. The integration of J.W. Ostendorf will continue in 2019.

Looking ahead

As defined in our House of Priorities, we will continue to drive customer-centric solutions and internal excellence in 2019. This includes rolling out a new customer service setup, further sharpening our customer segmentation and continuing our market-driven innovation. We also remain committed to growing by inviting new companies to join the Hempel family. We have a strong pipeline of highly interesting candidates, both small and large, and will pursue this journey with energy and enthusiasm in 2019.

Group organisational structure



Joining forces with J.W. Ostendorf

Driving modern production

Highly automated and environmentally friendly, J.W. Ostendorf's coating production facility in Coesfeld, Germany is one of the most modern in the world.

With the acquisition of J.W. Ostendorf, Hempel is laying the foundation for one of the biggest and most ambitious decorative organisations in Europe.

J.W. Ostendorf – including Renaulac in France – officially became part of the Hempel family in 2018, in a deal signed on 27 September and effective from 1 October. The acquisition united Hempel with one of the leading decorative paint manufacturers in Europe, and the two companies are seen as a perfect fit.

J.W. Ostendorf, a family-run company with approximately 650 employees primarily in Germany and France, shares many of the Hempel values, including a strong commitment to customers, a constant desire to improve and a focus on sustainability. It also holds a unique and complementary position on the market: It is a true European private-label specialist, working with retailers' brands across 20 European countries and five non-European countries.

Our Decorative segment has long been a key business area with potential for strong growth, especially in Europe. With the acquisition of J.W. Ostendorf, we are now building a decorative organisation capable of taking advantage of these opportunities.

Decorative Europe unites Crown Paints and J.W. Ostendorf. It has many years of decorative expertise, some of the most modern production facilities in Europe and a large footprint, especially in the UK, Ireland, Germany and France. Crown Paints and J.W. Ostendorf will both continue to serve their customers as separate entities, but they will be able to draw from each other's intellectual and material resources, including their shared brand portfolio, production facilities, supply chain and research and development capabilities.

By combining the best of Crown Paints and J.W. Ostendorf in this way, Decorative Europe can serve our customers better with tailored solutions that meet their exact needs. It also gives us a strong platform from which to continue our expansion into the European decorative market over the coming years.

The Ostendorf family and advisors, the Chair of the Board of Directors of Hempel A/S, and Hempel's M&A team at the signing ceremony in Copenhagen, Denmark

Spotlight on our work

We work with many great companies and projects. Here is a snapshot of our work from 2018.

"Hempel worked with us from the very beginning of the Merkur project. We were able to define together coating systems that were approved by our client and adapted to our fabrication processes"

Julio Martín Ramos,
General Manager of IDESA

Wind tower transition pieces ready for transport

Towering offshore wind farms

Protecting the largest wind farm in the German North Sea.

The challenge
When complete, the Merkur Offshore Wind Farm will be the largest in the German North Sea, supplying power to half a million homes. Windar and IDESA – two companies in the Daniel Alonso Group – are renowned for producing steel transition pieces for offshore wind turbine towers. When they were contracted to produce 66 transition pieces for the Merkur farm, they asked us to supply the coatings.

The 28 metre-tall transition pieces were built in Avilés in Northern Spain and transported to the wind farm by boat. The coatings had to be fast and efficient to apply, able to withstand knocks and abrasion during transport, and tailored to harsh North Sea conditions.

The solution
Our Global Key Account Management team worked with Windar, IDESA and GE Renewable Energy, the producer of the towers, to develop a solution that was ideal for both the fabrication process and the offshore location. As a result, Windar and IDESA could complete the coating of the transition pieces quickly, confident that the coating system will protect them for many years to come.

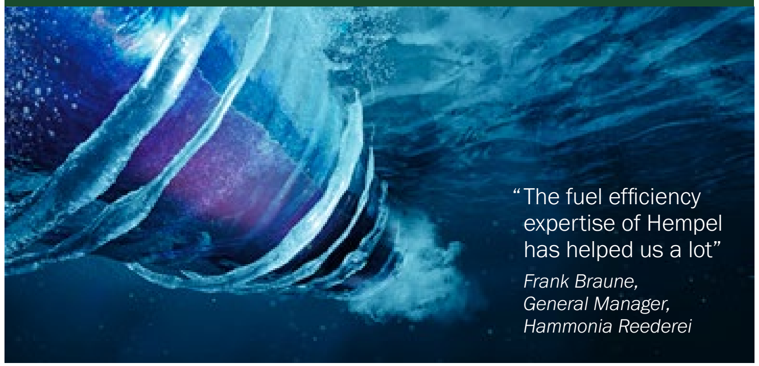
Savings for every vessel

Using Hempel SHAPE to benchmark and improve propulsion efficiency, and reduce emissions.

The challenge
Fuel remains the no.1 expense for most ocean-going vessels, and any improvement in fuel efficiency can have a big impact on bottom line and environmental performance. This makes improving propulsion efficiency – from propeller performance to hydrodynamics – an extremely important focus area for all vessel operators and tonnage providers on the charterers market.

The solution
With Hempel SHAPE (Systems for Hull and Propeller Efficiency) in combination with world-class hydrodynamic hull coatings, we can bring savings to every operator, no matter the age, size or operating patterns of their vessels. Based on the ISO 19030 framework, Hempel SHAPE combines all elements of propulsion efficiency optimisation, including digital data gathering, benchmarking and expert analysis.

Hammonia Reederei, a German-based ship management company and project developer in global shipping, was among the first customers to take advantage of this offer. In 2018, we applied our Hempaguard X7 hull coating to two of its vessels, benchmarked propulsion performance and compared this to other vessels of the same class. We then combined our expertise with Hammonia Reederei to improve efficiency and so reduce operating costs and emissions. The results have been impressive, and we will continue to work with Hammonia Reederei to further optimise its operations, costs and environmental footprint.



"The fuel efficiency expertise of Hempel has helped us a lot"

Frank Braune,
General Manager,
Hammonia Reederei

Inside a Crown Paints store

A beautiful multi-channel experience

Developing a multi-channel approach to better serve professional painters and decorators.

The challenge
The UK market has seen a dynamic shift in the way consumers and professional tradespeople buy decorative coatings. Traditional distribution channels are under pressure as consumers move from 'Do it yourself' to 'Do it for me'. Therefore, there is an increasing need to attract and support professional painters.

The solution
Crown Paints has risen to the challenge by investing in and developing its people and store network. We opened 9 new stores in the UK and Ireland in 2018, and worked with our store colleagues to ensure they can meet the changing demands of their customers and the market.

We already provide excellent customer service, including paint specifications, free delivery and credit account facilities. In addition, we launched a new e-commerce website in 2018 that enables professional painters to browse a broader selection, check stock availability and order online, with the option to either collect in store or deliver on site.

We will continue to invest in our store development during 2019, and will collaborate across Decorative Europe to enhance our multi-channel offering to customers.

"The e-commerce website for Crown Trade customers is a great tool, especially when I'm on a job and realise we need some more gear, but the store is closed. The goods are always ready for me to collect the next day. It's very helpful and straightforward"

Colin, ECM Painting and Decorating

Extending asset lifespan

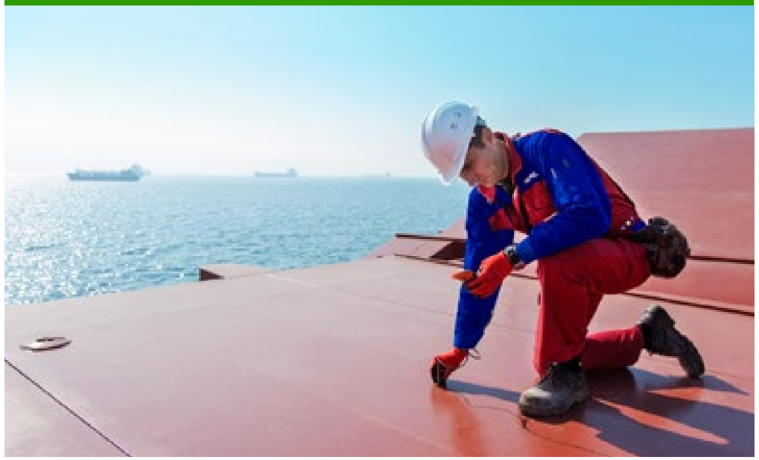
Performing repair work on an offshore platform, without production downtime.

The challenge
When specialised contracting company Alpha ECC discovered corrosion on an offshore production platform that it was working on, it asked us to help. Located in the Shwe gas field, the platform was far out in the Andaman Sea and the corrosion problem needed to be solved onsite, without stopping production or requiring a costly return to dock.

The solution
Hempel Services chose a coatings system that would provide assured long-term performance, but also could be applied in tricky offshore conditions. To ensure the project ran smoothly from start to finish, we helped Alpha ECC plan the repair work. We then worked with Alpha ECC to advise the applicators on how to prepare the surface and apply the coating, and supervised the application onsite.

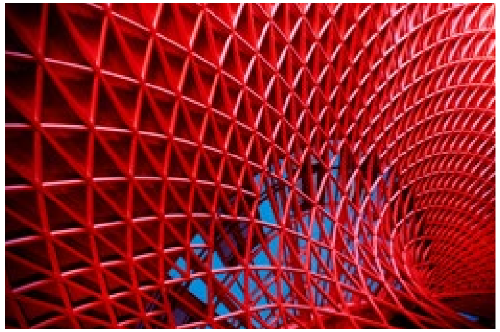
As a result of our efforts, the platform repairs were carried out successfully, without a stop in platform production or the need for a costly demobilisation.

Hempel Services offers customers comprehensive onsite support



Corporate governance

We continued our initiatives and expanded our commitment to our compliance values in 2018 and we reached one of our diversity goals two years ahead of target.



The purpose of corporate governance within Hempel is to ensure that Hempel is led, managed and operated as a modern global company and a leader in the coatings industry. We aim to build on best practices from within and learn from other companies and organisations. Our strong corporate governance supports value creation for our customers, suppliers, employees and the communities in which we operate. It also determines a clear distribution of management responsibilities, which contributes to the long-term success of the company.

In 2018, we continued our strong focus on corporate governance through policies, processes and control systems, as well as training and follow-up activities. This included launching a formalised internal control system to further optimise our procedures. At the Annual General Meeting, two new members were elected to the Board of Directors: Søren P. Olesen and Susanna Schneeberger.

Management structure
The Hempel Group is organised in two dimensions: Regions and Group functions (see figure on page 21). Our regions focus on supporting our customers, both locally and globally. They are responsible for operational execution and have full profit/loss responsibility. Our four Group functions ensure process excellence, functional leadership and operational synergies across the Group.

Hempel's management structure

Board of Directors

The Remuneration and Nomination Committee | The Audit Committee

Executive Management Board

The Executive Management Board consists of the heads of the four Group functions and the CEO. 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 customers (globally, regionally and locally) and the daily business, enables management to drive group-wide initiatives, and helps speed up decision-making processes and strategy execution. We have employees in more than 80 countries and we insist that management fully empowers them and includes them in our strategy execution, as this is required for success in a global and highly competitive industry. Our organisational model supports this.

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, a yearly management wheel that ensures our management teams across the globe understand and share a common vision.

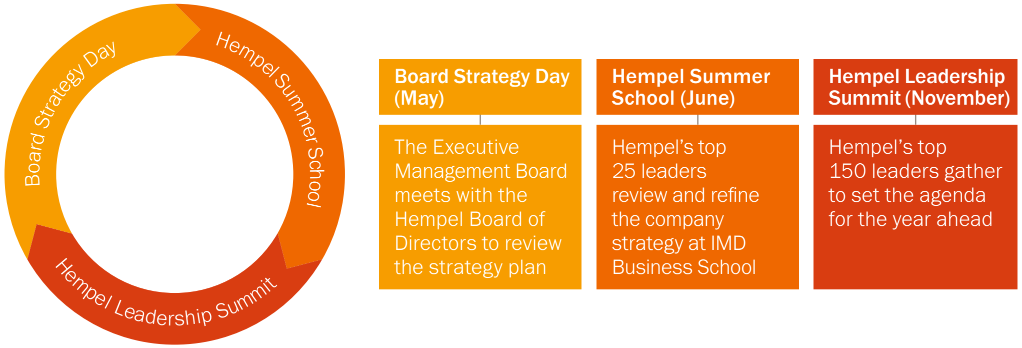
Board of Directors
The Board of Directors consists of six members elected by the shareholder at the Annual General Meeting and three employee members elected by the employees based in Denmark. Board members elected by the shareholder at the Annual General Meeting are elected for an annual term and can be elected 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 2018, two new Board members were elected. The new members have extensive top management experience and have achieved significant results in their respective fields. Both will play an important part in the Board of Directors' continued efforts to ensure strong growth and support top management's transformation of Hempel. Susanna Schneeberger is a member of the Executive Board & Chief Digital Officer at KION Group and a member of the Board of Concentric AB, among others. Søren P. Olesen is CEO of Stark Group and has extensive experience within the paint industry and builders merchant trade.

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 composition of the Board of Directors is a mix of professional Board members and members with executive positions. This composition is deemed appropriate as it provides a good balance between knowledge, competencies and experience.

The Annual Management Cycle



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 Board of Directors and Executive Management Board have a formal agreement with the Hempel Foundation, the ultimate owner of the Hempel Group, regarding decisions that must be presented to the Hempel Foundation for agreement.

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 with a mix of 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 Chair 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 believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. In 2018, the Board of Directors reached its goal of having two women on the Board. As communicated in the Annual Report 2017, the Board of Directors' aim was to have at least two female Board members by the end of 2020. More information on our initiatives to increase diversity in Hempel can be found on page 47.

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, ending in 2018. A new long-term incentive programme was launched in 2018 for members of the Executive Management Board as well as around 100 of the Hempel Group's most senior leaders. When the programme is fully implemented by 2021, the annual bonus for members of Hempel's senior leadership can range from 15-100 per cent of the base salary, subject to fulfilment of certain performance KPIs and employment at the Hempel Group at the time of the pay-out.

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 Management Board. The company has a general fixed termination notice of 12-18 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 any incentive programmes.

Board committees

The Board of Directors establishes dedicated committees in order to supervise and solve specific tasks. Currently, there are two commit-

The Operational Management Board visiting our office in Singapore.

tees: 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 and helps ensure that the Group's general remuneration policies are balanced appropriately. In 2018, the committee reviewed the existing long-term incentive programme and launched a new three-year rolling programme, which is aligned with comparable listed companies.

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 internal and external 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 2018, 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. The committee also worked to ensure that Hempel was fully compliant with the new EU General Data Protection regulation when it came into force.

Internal Audit function
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. During 2018, the Internal Audit function continued to strengthen internal procedures and compliance awareness through site visits. The results and recommendations were reported to both local and executive management.

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 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.

Meeting activity

Board of Directors		
11 January	7 May	27 November
20 February	25 June	
4 April	28 September	

Audit Committee	
16 March	14 September
20 June	26 November

Remuneration and Nomination Committee	
20 February	27 November

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.

Since January 2018, all regional Finance Directors hold the role of Regional Compliance Officers. This role ensures compliance is anchored in regional leadership teams and is close to the business. Furthermore, all Hempel employees except production, warehouse and store staff completed Code of Conduct eLearning with a pass rate of 100 per cent.

The whistleblower reporting system
Hempel has had an internal whistleblower reporting system since 2012. The current whistleblower system, launched in 2017, enables any employee or external stakeholder to anonymously report potentially irregular or unethical conduct through an internet portal, by email 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 reports 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 then approves how to handle reported issues and decides on appropriate action following the investigation, including disciplinary action. The Audit Committee has an oversight role and reviews both the effectiveness of the system for monitoring compliance with laws and regulations and the results of compliance investigations and follow-up, including disciplinary action. The Ethics Committee consists of: The Group Chief Financial Officer, Group Chief People & Culture Officer and Group General Counsel.

You can read more about our work in this area, including reporting statistics from our whistleblower system, on page 53.

Hempel Ethics Hotline

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

Risks

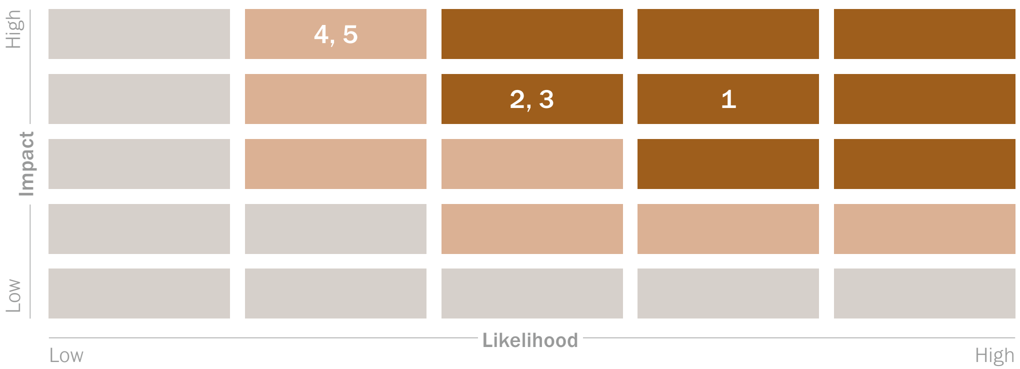
We collaborate across the Group to continuously report, evaluate and mitigate risk.

Hempel's 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 outlines clear roles and responsibilities for identifying and reviewing risks as well as following up on mitigating actions.

Risk governance

The Board of Directors has final responsibility for risk management and is the 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 actions at group level.

Risk matrix



1. Market risk
2. Increasing HSE regulation and sustainability requirements
3. Fluctuating raw material prices
4. Fire, leading to human injury or loss of production
5. Workplace accidents

The risk management process
Every year, a group-wide risk analysis is carried out, in which risks are assessed and quantified by key employees in Hempel's regions and Group functions. The risks are subsequently addressed and mitigated internally to reduce risk exposure. We focus on risks that can impact our ability to execute our strategy in the next 2-5 years, as well as more operational risks in our regions. Both types of risks are included in the key risk section below.

Key risks
The key risks described here are risks that we have assessed to be material to Hempel. This implies that the list is not exhaustive – there may be other risks that at a later point in time could develop into material risks. We monitor these risks constantly and work continuously to improve and mitigate the risks in the best possible way.

The split between external and internal risks has not changed in the past year, but there has been movement in some of the underlying risks. One risk that we can see is developing rapidly is growing health, safety and environmental (HSE) regulation and sustainability requirements, as more countries are putting schemes in place to regulate the use of and exposure to chemicals. Internally, we are starting to see the effect of our comprehensive Business Ethics programme as well as our efforts to lower the risk of fire. Our business ethics risk and fire risk have reduced significantly as a result of these mitigating actions; business ethics to the extent that it is no longer considered a key material risk.

Risk	Description	Potential impact	Actions
Market risk	Large structural changes to the coatings industry could come about through disruption to end markets (e.g. the thermal power or oil & gas markets), due to industry consolidation or new innovations that compete with current coatings.	• Reduction in size of the coatings market • Weakening of Hempel's competitive position • Potential significant impact on Hempel's sales and earnings	**Ongoing** • Monitoring of technology trends in Hempel's end markets • Targeted product innovation through partnerships with customers and universities **In 2018** • Launched the first internal Innovation Cup to engage the entire organisation in innovation • Began work to align Hempel's M&A strategy with expected changes to end market and technology conditions
Increasing HSE regulation and sustainability requirements	HSE legislation is growing (in some regions very fast) and demands for sustainability are increasing from our customers. There is a risk that we will not be able to adapt to these changes with the necessary speed and agility.	• Potential loss of customers and market share • Potential penalties and loss of business	**Ongoing** • Following internal standards for continuously monitoring and assessing any changes in legislation • Use of a cross-functional forum to share and discuss future legislation • Conducting an HSE evaluation of new products as part of the development process **In 2018** • Began project to create a group-wide standard for how to communicate any changes in HSE legislation that could potentially impact our products
Fluctuating raw material prices	Raw materials account for a large share of our costs, and prices are volatile.	• Potential significant impact on Hempel's profit and cash flow	**Ongoing** • Mitigating of our raw material exposure mainly takes place through adjustment of sales prices and continuous process excellence improvements **In 2018** • Improved management, control and governance of our sales price adjustment process • Established a detailed financial model, including cost of goods sold and governance
Fire, leading to human injury or loss of production	We have high standards for fire protection in Hempel and personal safety is a basic consideration. However, fire is still a major risk as we handle flammable materials in our factories and warehouses.	• Potential for human injury • Potential loss of assets, production capacity or finished products	**Ongoing** • Hempel standards (based on NFPA and other global standards) for fire protection part of our design manual for factories • Regular preventive maintenance of fire protection equipment • Regular training in fire safety • Upgrading of firefighting equipment as needed **In 2018** • Launched Fire Protection Awareness eLearning for relevant staff
Workplace accidents	There is a risk that our employees will be involved in workplace accidents, particularly our services staff who often work at non-Hempel sites.	• Potential injuries to our people • Potential disruption to our operations and services	**Ongoing** • Developing and deploying safety leadership training as well as specific training for our services staff • Performing safety audits in our services organisation • Performing safety walks and safety risk assessments across our organisation **In 2018** • Developed and implemented a Safety Excellence programme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Research & development

Our ambition is to be the innovation leaders in our industry in the eyes of our customers and employees.

As a global organisation with 15 R&D centres in 12 countries, Hempel R&D works and collaborates with colleagues, customers and other external partners around the world. Our goal is to develop innovative, sustainable and trusted solutions that protect our customers' assets and add value to their businesses. We do this by developing new solutions and cutting-edge technology, optimising existing solutions and supporting our customers with expert technical advice.

In Hempel R&D, we believe in working with the best. We hire the best talents in the industry and provide excellent development opportunities. We also believe that good innovation requires collaboration. We work closely with our customers, combining our strong technical skills with customer insight to develop solutions that make them more successful. We also collaborate with external research groups, academia and suppliers, tapping into their R&D muscle to co-create cutting-edge technologies and new innovative solutions.

A new Centre of Excellence for passive fire protection

We opened a new Centre of Excellence just outside Barcelona, Spain in November 2018 focused on the research and development of coatings within the field of PFP (passive fire protection). This is an important area of coatings and one in which we are determined to gain market share over the next few years. For the past seven years, we have grown our portfolio of PFP coatings and now offer customers a range of proven and competitive products. Launched at the end of 2018, Hempafire Pro 315 is the latest addition to our PFP range. It is engineered to deliver fire protection for up to 90 minutes and improves productivity and reduces costs for applicators. So far, it has been well received by customers.

Developing cost-saving and sustainable coatings for marine vessels

Reducing operating costs and emissions is a big focus area for the marine industry. We are leaders in this field, particularly in fuel savings derived from hydrodynamic hull coatings, which reduce fuel consumption and associated CO_2 emissions. In April 2018, our award-winning and market-leading fouling defence coating Hempaguard passed 1,000 ship applications.

Launched in September 2013, Hempaguard is based on our patented Actiguard technology, which combines a smooth silicone surface with the consistent release of a small amount of biocides through a hydrogel layer. This combination has proven far superior to conventional self-polishing technology, even if a vessel experiences long idle periods in fouling-aggressive waters. This translates into average fuel savings of 6 per cent over the entire docking interval compared to best-in-class antifoulings and equivalent reductions in CO_2 emissions.

In 2018, we further strengthened our Hempaguard range with the launch of Nexus II. A specially developed tiecoat, Nexus II enables Hempaguard applications in temperatures as low as 0°C and makes it possible for ship owners to upgrade from a conventional self-polishing antifouling coating to Hempaguard (or other silicone-based Hempel coating) with just one intermediate link coat and without expensive abrasive blasting.

Innovating with customers: Hempatop Repel

We have been working with a leading oil & gas company to solve continuing maintenance challenges in the downstream offshore oil & gas sector. Protecting steel structures in demanding offshore environments is very difficult with conventional organic coatings, which means offshore structures often require extensive maintenance.

Working with a customer, we developed Hempatop Repel, a coating based on brand-new technology that actively repels water from the coated surface. When combined with our patented Avantguard activated zinc primer, this results in a coating system that is fast to apply and lasts much longer than any currently available conventional coating system – and so can significantly reduce both application and maintenance costs for customers. Hempatop Repel will be launched in the first quarter of 2019.

Growing in decorative

Our decorative R&D organisation was strengthened in 2018 with the addition of new teams in Germany and France as part of our acquisition of J.W. Ostendorf in October. We already provide full solutions to our decorative customers, including coatings for every part of a building or structure. The new teams will add to our expertise, with the aim of developing one strong R&D unit in the decorative arena.

Reducing product complexity

Since 2016, we have worked hard across customer segments, functions and geographies to clean up and carefully position our product range, in order to make it easy for our customers to find the best solution for their specific need. So far, this initiative has resulted in a significant decrease in the number of different products that we sell and produce. At the same time, average sales per product increased by 54 per cent in 2018 compared to 2016.

We will continue our efforts in this area as we see it as critical to being able to serve our customers better while also reducing our operating costs through reduced assortment complexity.

“Hempel R&D is a global organisation with 15 R&D centres in 12 countries”

Corporate responsibility

At Hempel, we are committed to embedding and increasing sustainability in our business activities.

We continue to give our support to the UN Global Compact and our increased efforts have resulted in good progress in a number of initiatives related to human rights, labour, the environment and anti-corruption.

In 2018, we established Sustainability Excellence as a key part of our *Journey to Excellence* strategy. We will continue to build on this commitment to corporate responsibility throughout the Group during 2019. In addition, we worked with a third-party auditor in 2018 to improve our data collection and validation process. This has allowed us to broaden the scope of our reporting and to include an independent limited assurance statement on our sustainability data as a part of this report.

The following pages describe our progress in this important area and constitute our Communication on Progress as required by the UN Global Compact, as well as information as required by the Danish Financial Statements Act §99a and 99b.

THE GLOBAL COMPACT

WE SUPPORT

Sustainable development goals

The United Nations has identified 17 goals to help address the global challenges of poverty, inequality, climate change, environmental degradation, prosperity, peace and injustice. These are known as the UN Sustainable Development Goals. In 2018, we began working with The Confederation of Danish Industry on From Philanthropy to Business, a project designed to help companies identify the Sustainable Development Goals in which their business activities can add most value and ensure that sustainability is further integrated into their business model and value chain. We selected five goals to concentrate on.

4 QUALITY EDUCATION

Through our owner the Hempel Foundation, some of the profits from our work are used to support good causes around the world. The biggest strategic focus area for the Foundation's philanthropic work is empowering children to learn, with particular focus on the education of children in need. Ensuring inclusive and quality education for all is one of the UN Sustainable Development Goals, and education is seen as a way of empowering disadvantaged children to break the cycle of poverty. In 2018, the Hempel Foundation donated almost EUR 10 million to new educational projects in 5 countries, and it now supports projects in 15 countries around the globe.

You can read more about the Hempel Foundation at hempelfoundation.com and follow its work on LinkedIn.

Supported through our Diversity and Equal Opportunity Policy and associ-ated activities

5 GENDER EQUALITY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Closely links with our waste and energy initiatives

8 DECENT WORK AND ECONOMIC GROWTH

Aligns with our Safety Excellence and Responsible Procurement programmes

3 GOOD HEALTH AND WELL-BEING

Supported by our work to phase out red raw materials

SUSTAINABLE DEVELOPMENT GOALS

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Supported through our Code of Conduct and ethics commitments

Health & safety

At Hempel, we care about safety and want us all to have a safe workplace, no matter where we work.

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

Our commitment to health and safety is embedded in our company values and Code of Conduct. In our Group Health, Safety and Environmental Policy, we define our promise to comply with all applicable legal and non-regulatory requirements, to continually improve and to work to prevent illness and injuries to our employees and the end-users of our products. This means continually reviewing our work practices to eliminate risk and ultimately ensure a healthy and safe work environment for all of our employees and business partners.

In 2018, we reduced our accident frequency rate by 24 per cent, down from 2.27 accidents per one million working hours in 2017 to 1.72 in 2018. This significant reduction is a direct result of our Safety Excellence programme.

Safety Excellence

Launched at the end of 2017, our Safety Excellence programme has helped us to achieve a strong improvement in our safety performance. The initiative gives us a framework of procedures, standards and training to help eliminate unsafe actions and conditions at work. Safety Excellence covers our production sites, R&D facilities and services organisation and it had been launched in all our regions by the end of 2018.

As part of the programme, we provide tools for our colleagues to report and evaluate all incidents, including near misses. We encourage our teams to share this information, which we use to help prevent future accidents and repeat occurrences.

Phasing out red raw materials

We are committed to providing sustainable solutions to our customers that minimise their impact on the environment and do not jeopardise the health and safety of their employees. Our Group Health, Safety and Environmental Policy sets out our commitment to seek out safer materials when developing new products and solutions. We also work to phase out materials that are potentially harmful to the environment and people's health. We prioritise raw materials based upon their potential hazard and are committed to reducing or phasing out the more hazardous substances – known as red raw materials. Our priority list centres on carcinogenic, mutagenic and reprotoxic (CMR) substances. In 2018, we also included substances that the EU has decided to phase out in the future.

By the end of 2018, we had completely stopped the manufacture and sale of all coal tar products. We had also made good progress on other red raw materials by changing our solvent blends and phasing out raw materials that contain alkylphenol ethoxylates. In total, we phased out 35 red raw materials in 2018. However, due to the extended scope of our definition of red raw materials, consumption increased by 4 per cent. When comparing like-for-like, we reduced consumption by 15 per cent. Our efforts continue and we aim to reduce our total consumption of red raw materials in 2019.

Introducing Safety Walks

Our Safety Excellence programme is about embedding a strong safety culture. To help achieve this, we introduced Safety Walks across our production sites in 2018. Safety Walks involve production leaders walking the shop floor and taking time out to engage and coach colleagues regarding safety. This initiative has had positive results, and our colleagues are now more eager and willing to flag safety issues and work together to solve them. In 2018, our Safety Walk pilot factory in Dallas in the US identified and addressed 1,997 unsafe conditions through effective implementation of Safety Walks.

Our people

J.C. Hempel, founder

Our ambition is to provide a work environment in which every one of us can realise our full potential.

We are a truly global company, working in more than 80 countries and across every time zone. This gives us our most important asset – a diverse group of colleagues, with different backgrounds and experience. We want to be known as the best employer in the industry and we believe that one of the ways to do this is by creating a work environment where everyone can develop.

Employee Engagement Survey

Once again, 93 per cent of our people worldwide responded to our annual Employee Engagement Survey.

The transformation we are currently going through requires major changes in the way we operate globally and involves a significant cultural change for many of our people. This has been reflected in the results of our annual Employee Engagement Survey over the last three years. In 2018, Satisfaction and Motivation increased from 69 index points in 2017 to 71 index points, which is above the global benchmark of 70 index points but still below the best-in-class of 74+, which is where we aspire to be.

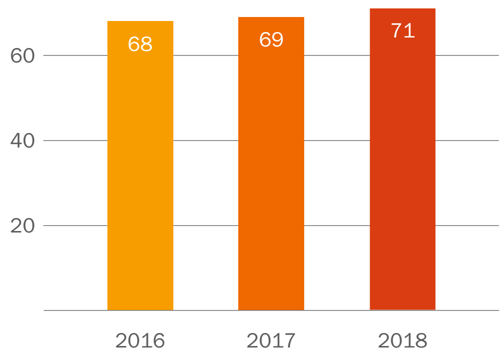
The survey showed that there is great variation across regions. Our global employee Net Promoter Score (eNPS) increased slightly, from 20 in 2017 to 21 in 2018. However, this was impacted by a decline in eNPS in Asia-Pacific, where major organisational and strategic changes negatively affected results. Our experience shows that to improve eNPS we must be committed and we must work visibly and directly with the individual manager and employees. We also know from our Employee Engagement Survey that our top leaders have a higher engagement score than our middle managers and other employees. We will work to close this gap by ensuring that information is cascaded from top management to the rest of the organisation. This is a key priority for us and ‘Engaging the full team’ was a key theme at this year’s Hempel Leadership Summit.

As in the last two years, employee Loyalty remained at a very high level of 82 index points, indicating that most employees across the world are very committed to the company.

Developing our leaders

Our transformational journey can only succeed if we are all engaged and passionate about moving our company forward. We believe that this engagement needs to be cascaded through the organisation. This begins with our leaders. In 2018, we defined and introduced the 10 essential leadership competencies that all our leaders should know and take to heart. In 2019, we will build learning and development solutions to help our leaders across levels, functions and geographies to further develop these ten leadership competencies.

Satisfaction & Motivation



Award-winning Let's Talk

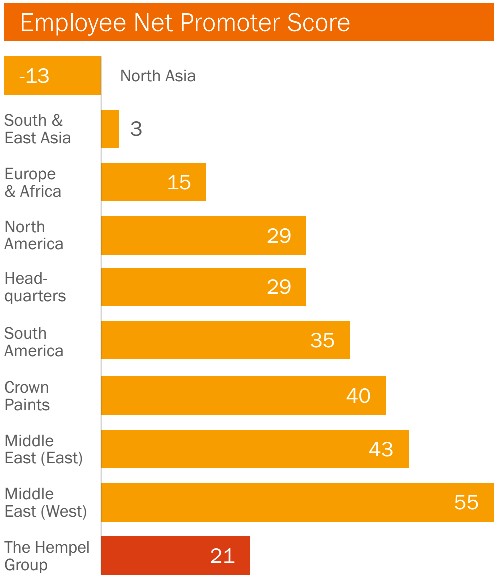
Crown Paints won the British Coatings Federation – Excellence in Training Award for Let's Talk in 2018, in recognition of how the Let's Talk people development programme has helped embed a sustainable coaching and feedback culture throughout the organisation.

5 GENDER EQUALITY

We aim to have internal succession for a minimum of two-thirds of all future management positions. As part of this, we are working to provide more focused development opportunities for high potential talents in all three areas of leadership: leading self, leading others and leading the business. When this work is complete in 2019, we will have programmes covering the full talent pipeline, from graduate through to executive level. These programmes include:

- *Pioneer.* A global graduate programme to attract high potential leadership talents at the beginning of their careers. (Launching in 2019.)
- *Explorer.* A talent programme for mid-level leaders, focusing on building leadership capabilities and accelerating personal development. (Revised in 2018.)
- *Challenger.* A talent programme for the most senior leaders in our organisation, with focus on strategy, execution and leadership for executives. (Launched in 2018.)

Diversity and equal opportunity through talent management
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. In 2018, our talent management process was rolled out globally and we assessed 2,200 employees to identify development opportunities and leadership potential.



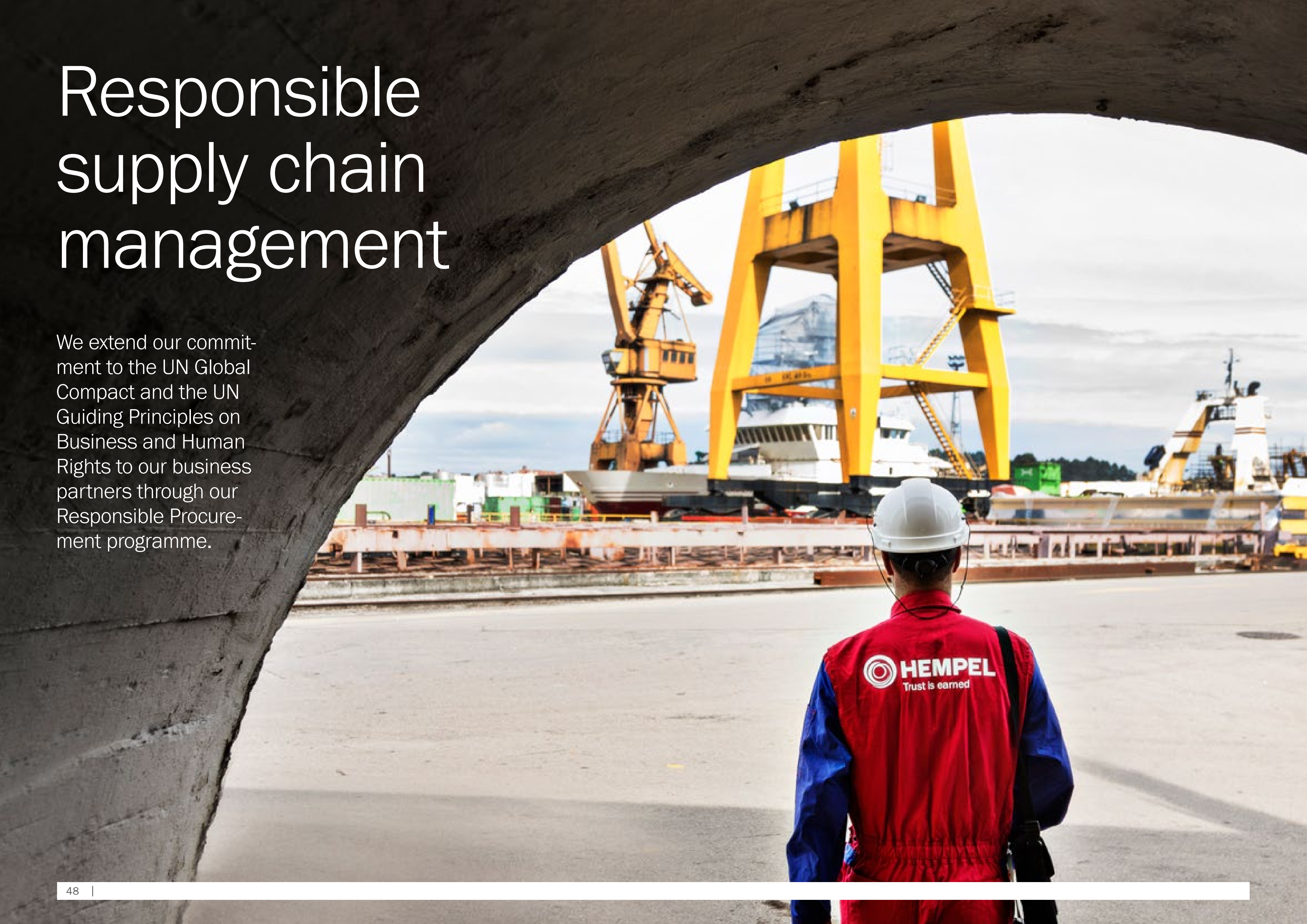
Our talent management process ensures that all our leaders are given equal opportunities for growth. However, we acknowledge that the number of women in management does not reflect the percentage of women in our organisation. Our target is for 25 per cent of our management positions to be filled by women by 2022, which is equal to the percentage of women in our organisation. At the end of 2018, the percentage of women in management positions was 21 per cent, up from 19 per cent at the end of 2017. To support our goal in this area, we introduced a new 12-month mentoring programme, in which female leaders are assigned a mentor to help them develop in their current role and prepare for future roles. So far, 18 female leaders have begun the programme. In the future, we expect 8-12 female talents to participate in this programme each year.

Learning and development through Let's Talk
Learning and development is a key priority across all functions and levels of our organisation. In 2017, we began the introduction of a new employee development tool called Let's Talk. In 2018, 85 per cent of all employees had a performance appraisal dialogue with their direct manager and created an individual development plan. The launch of Let's Talk has led to an increase in our Learning and Development score in our Employee Engagement Survey, up from 76 index points in 2016 and 78 index points in 2017 to 80 index points in 2018. This increase shows that our focus on creating an organisation where the individual can develop is having an effect.

As a pilot project, production and warehouse employees at our facilities in Portugal went through the Let's Talk process for the first time in 2018. Following the success of the pilot, Let's Talk will be rolled out to all our production and warehouse employees around the world in 2019.

Responsible supply chain management

We extend our commitment to the UN Global Compact and the UN Guiding Principles on Business and Human Rights to our business partners through our Responsible Procurement programme.



8 DECENT WORK AND ECONOMIC GROWTH

Our high standards are reflected in our Supplier Policy, in which we state what we expect from our suppliers regarding quality, environment, health and safety, human rights and business ethics. Our Responsible Procurement Committee ensures legal compliance and progress in this important area.

Our Responsible Procurement programme
The Hempel Responsible Procurement programme consists of:

- An independent annual evaluation of our suppliers, based on risk related to country and product category, conducted by EcoVadis
- Thorough screening of all new raw material suppliers worldwide
- Selected focus projects based on risk analysis
- Training of internal staff

One key focus area for us is ensuring good working conditions for the employees in our supply chain, and this is one of the things we evaluate our suppliers on as a part of our Responsible Procurement programme. During our annual evaluation of suppliers in 2018, six suppliers received a low score and were therefore identified for an onsite visit. These will be carried out in early 2019. If needed, we will request the supplier to commit to an improvement plan or we will find alternative suppliers.

Introducing our Business Partner Code of Conduct
In 2018, we introduced an updated Business Partner Code of Conduct clearly describing what we expect from our suppliers. Adherence to our Business Partner Code of Conduct is mandatory for all suppliers globally and is an integrated part of our newly introduced global e-sourcing system. Our procurement staff were trained in how to use the Business Partner Code of Conduct when in dialogue with suppliers in order to ensure their commitment to the Code.

Due diligence of forced labour
Our Human Rights Policy clearly states that we do not employ child labour or forced labour and that we extend this commitment to our business partners. The transport sector in general has been identified as a high-risk area for exploitation of forced labour. Therefore, due diligence of our transport suppliers was selected as a special focus project in 2018. As a consequence, inbound and outbound transporters were interviewed at two of our major sites in Europe. No signs of forced labour exploitation were found. We will continue to monitor this risk in 2019.

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.

Environment

At Hempel, we work to improve our environmental performance and mitigate our climate change impacts.

Our environmental commitment involves helping our customers to reduce their own environmental impact through the products, solutions and services we provide, as well as working to reduce energy consumption and waste across our own operations. This commitment is defined in our Group Health, Safety and Environmental Policy, which refers to environmental compliance, the prevention of pollution and continuous improvement.

Helping customers improve
We collaborate with our customers to find innovative solutions that address their environmental challenges. This is achieved through the products and services we offer – such as hull coatings for ocean-going vessels that reduce fuel consumption and emissions – as well as by working actively with customers to develop new solutions that further reduce their carbon impact.

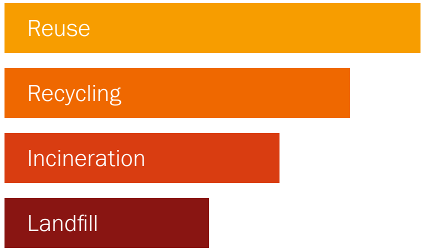
Reducing energy consumption
In 2018, we focused on electricity savings, using power monitoring data to reduce consumption. More than 60 per cent of our energy consumption is from electricity. In 2018, all of our regions committed to energy saving plans that target electricity. These involve introducing out-of-hours shutdown procedures, replacing equipment with more energy-efficient equivalents and optimising systems and machinery. These efforts resulted in a 1 per cent decrease in kilowatt hours per litre of paint produced in 2018 – and we forecast higher savings in 2019.

Cutting waste across the Group
In 2018, our efforts in waste reduction focused on improving the quality and accuracy of the data we collect. As a result of this work, we are able to include this data in our verified assurance statement in our annual report for the first time this year. The data provides us with a sound baseline to work from and will help us drive improvement in the future.

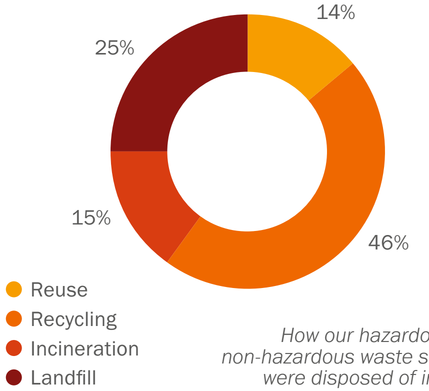
We asked all our regions to create waste reduction plans in 2018, including quantified and timebound deliverables. Initiatives in these plans included optimising our use of raw materials, improving wastewater treatment and solvent recovery and working with suppliers to mitigate packaging waste.

Adopting the waste hierarchy
We are taking steps across Hempel to increase our work with the waste hierarchy. This involves looking at our waste management practices and finding ways to improve; we look for opportunities to reduce and reuse our waste materials, with the elimination of waste at source being the preferred option wherever possible.

The Waste Hierarchy



Waste disposal



How our hazardous and non-hazardous waste streams were disposed of in 2018

Local focus: Diverting finished goods from landfill in the UK

Our production unit in Darwen, UK has a special team dedicated to waste management. As part of its work, finished goods that are close to expiry, have damaged packaging or are otherwise considered redundant are sorted by type and colour, and then sent to a local coatings supplier where they are treated, repackaged and reused. In 2018, 436 tons of finished goods were reused in this way.

Local focus: Compressor use in Malaysia

At our production site in Kluang, Malaysia, compressors account for around one-fifth of total energy consumption. In 2018, we put together a team to study the machinery's operating patterns, review data and identify opportunities to control compressed air consumption. Improvement actions were identified, including providing additional training to operators, repairing air leaks, establishing guidelines for air pressure settings and improving planning of production running times. This work resulted in a 27 per cent reduction in compressor energy use, bringing considerable environmental and efficiency benefits.

Ethical behaviour

The Hempel business is built on trust – the trust of our customers, business partners and colleagues. We earn that trust by inspiring confidence through the way we do business.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Hempel is committed to conducting business ethically, respectfully and honestly. Our Code of Conduct does more than just codify rules of conduct; it is the very foundation of how we behave and go about our business each and every day.

Sustaining a strong ethical culture at Hempel
In 2018, we further strengthened our high ethical standards across the entire organisation through a number of initiatives and actions.

- As in 2017, all employees except production, warehouse and store staff completed our annual mandatory Code of Conduct eLearning. The eLearning was tailor-made for Hempel by Hempel and inspired by real-life challenging situations faced by some of our employees. In total, 3,743 employees took the eLearning, with a pass rate of 100 per cent.

- Our Hempel Ethics Hotline, introduced last year, is now available at nearly all Hempel locations. In 2018, we received 51 whistleblower reports from 20 countries. The relatively high amount of reports confirms that we have a sound ‘speak up’ culture and our employees trust us to act upon the reports we receive.

To maintain our speak up culture, we launched a global Hempel Ethics Hotline awareness campaign. Our management teams continue to talk about the right ethical behaviour, openly and frequently, and business ethics are very much a part of our values and how we conduct business.

- The frequency in which international sanctions are introduced or amended by individual countries or groups of countries has increased notably in recent years. Therefore, we strengthened our sanctions and export control compliance by updating our procedures, guidelines and policies, and training key colleagues to ensure these are understood and followed.

- As mentioned in last year’s annual report, Hempel self-reported a number of uncovered illegal sales practices found in Germany, other countries in Europe and in Asia to SØIK, the Danish State Prosecutor for Serious Economic and International Crime, in April 2017. The unlawful practices were stopped immediately and the people responsible were replaced. Hempel has now been fined for these illegal practices. Hempel has cooperated fully with and had complete confidence in the authorities throughout this process and we have made substantial investments internally and externally to prevent compliance issues from happening in the future.

Whistleblower statistics

	2016	2017*	2017**	2018***
Cases reported	19	51	51	**51**
Hereof substantiated	10	13	22	**7**
Hereof not substantiated	9	18	27	**20**
Cases under investigation	0	20	2	**24**

* As published in the Annual Report for 2017 (status as of 2 March 2018)
** 2017 case substantiation rate updated as of 31 December 2018
*** Status as of 31 December 2018

Ensuring ethical behaviour beyond Hempel
In 2018, we took steps to ensure our high ethical standards reach beyond Hempel to our suppliers and other stakeholders.

- We launched a new Business Partner Code of Conduct that sets out what we expect of our suppliers, joint-venture partners, toll manufacturers, distributors, agents, consultants and other business partners. The Business Partner Code of Conduct takes into account the UN Global Compact’s ten fundamental principles within the areas of human rights, labour rights, the environment and anti-corruption. We expect our business partners to implement and adhere to the standards in the Code and to set the same expectations for their own business partners.

- We joined forces with other multinational companies, non-governmental organisations and the Danish Ministry of Foreign Affairs in the Fight Against Facilitation Payments Initiative (FAFPI). One of the main objectives of FAFPI is to collect real-life data on facilitation payment requests. Data submitted through FAFPI is shared with the Danish Ministry of Foreign Affairs, which can use diplomatic channels to address the issue with its local counterparts in order to terminate the demands. Hempel is a founding member of FAFPI.

Hempel Leadership Summit

For the Hempel Leadership Summit this year, our top leaders and selected talents from across the globe gathered in Texas, US from 31 October to 1 November. The event focused on how we can accelerate execution of our *Journey to Excellence* by being very explicit about our priorities for the coming year and engaging our global workforce in getting these priorities done.

During the two days, participants shared best practices from across the Hempel globe, took part in three intensive and highly focused learning labs and visited our facilities in nearby Conroe. In total, more than 50 colleagues took to the stage to talk about our progress and how we can further improve. One of the highlights of the event was the guest speaker Eric Alström, Deputy Chair of the Hempel Board, who provided facts and personal insight from the industrial transformation of Danfoss, a global engineering powerhouse that underwent a similar transformation to the one that Hempel is currently going through.

The Hempel Leadership Summit is part of our Annual Management Cycle. It ensures we are aligned across our regions and functions, and participants must meet with their teams after the event to ensure full understanding and engagement across the Hempel organisation. Since it was first held in 2016, the summit has become one of the most important events in the Hempel calendar. According to a survey held immediately after the event this year, 94 per cent of participants felt the event gave them the feeling of being part of a great company.

"The Hempel Leadership Summit has become one of the most important events in the Hempel calendar"

Official coatings partner to World Sailing

As Official Coatings Partner to World Sailing, Hempel is embracing its marine heritage and celebrating the power of collaboration and performance at the highest level.

As Official Coatings Partner of World Sailing, Hempel is:

- Title partner of the Hempel World Cup Series 2019-2022
- Title sponsor of the Hempel Youth Sailing World Championships 2019
- Official event partner to World Sailing

World Sailing | HEMPEL

Official Coatings Partner

Hempel entered into its first full sponsor partnership in 2018 when it became title sponsor of the Hempel Sailing World Championships 2018. The event, which took place in August in Aarhus, Denmark, was the largest sailing event ever held, with more than 1,400 sailors from 90 nations.

In Hempel, we are proud to have been an integrated partner for this very successful event. Our name was seen on televisions in 59 countries with a potential audience of more than 1 billion people, and we received numerous mentions on traditional and social media, driving brand awareness across the globe. The championships were also an excellent opportunity to get closer to customers and engage our employees. We held VIP events for selected customers, and our employees joined the excitement through specially arranged sailing days and a specially created online sailing regatta competition.

World Sailing's official partner
Following the success of the Hempel Sailing World Championships, we entered into a new partnership with World Sailing in 2018 to be the Official Coatings Partner of World Sailing up to and including 2022. We are looking forward to continuing our excellent collaboration with World Sailing over the coming years, and using our partnership to increase brand recognition, get closer to customers, increase employee engagement through local events in all our regions, and support sailors and the sport of sailing across the world.

Sailing and Hempel: A natural fit
The sport of sailing is a natural fit for Hempel. Our roots are in the maritime industry and we share several values with elite sailing: We see every challenge as achievable and every race worth winning. By sponsoring World Sailing, we are giving back to sailors, the maritime world and the sea – and giving more customers and people around the world the chance to learn about the advantages of using Hempel's services and solutions.

World Sailing
World Sailing is the world governing body for the sport of sailing, recognised by the International Olympic Committee and the International Paralympic Committee.

We believe that our work should contribute to the societies in which we operate and the world in general.

Community engagement

“I have seen the poverty, but I have also seen the difference that the Foundation is making, and it’s great to see”

John Vause,
Merchandising Sales Supervisor

At Hempel, social commitment is part of our values and identity. For more than 70 years, our owner the Hempel Foundation has used part of the dividends from our work to support good causes around the world – and our local offices are encouraged to support causes or events that can have a positive impact on their local communities.

Employee volunteers
We give a number of Hempel employees the chance to volunteer at one of the educational projects supported by the Hempel Foundation. During the trips, the employees help out at the project and see for themselves the impact that it is having. When they return, the employees must inform their colleagues about the project and the Foundation’s work. Hempel pays the employees’ travel costs and expenses; the employees donate their time. In previous years, employees have given their time to projects in Cambodia, Mozambique, Bolivia, Indonesia, Tanzania and Vietnam.

Making a difference in Peru
In 2018, nine Hempel employees volunteered at the Hempel Foundation project in Lares, high in the Andes Mountains in Peru. Life is hard in this area of the world, especially for the indigenous Quechua Indians, many of whom live in extreme poverty. Quechua children attend school, but what they learn is limited because the primary official language is Spanish, which is very hard for them to follow. In addition, malnutrition and hunger have an effect on their concentration and capability to learn.

The Foundation has been working in this area since 2016 to improve learning outcomes by developing a relevant intercultural bilingual education. Project activities include training teachers, developing bilingual teaching materials and building school greenhouses, where the children learn how to grow food.

During the eight-day trip, the volunteers led activities with the children, teaching them about their countries and the wider world. They also learnt about the children’s lives and their dreams for the future. For the children and the volunteers, it was an amazing experience that they will always remember.

Girl’s Day in Science

Girl’s Day in Science is a national campaign held in Denmark each year that gives schoolgirls the chance to meet women working in the sciences. For Girl’s Day in Science 2018, 22 girls from a local school visited our R&D facility in Lyngby, where they learned how our coatings reduce CO_2 emissions from ships, among other things. After the visit, 43 per cent of the students said that they were now more likely to choose an education within science.

Combating hunger in Conroe

In Montgomery County in the US, 85,000 people (17 per cent of the population) live below the poverty line and are food insecure. In 2018, our Conroe office worked with the Montgomery County Food Bank and Crisis Assistance Center to distribute food to 250 families in need.

Painting brighter local communities

Crown Paints supports a number of local community projects across the UK each year. In 2018, this included donating paint to the Scouts Association’s new National Activity Centre; Catherine Booth House in Portsmouth, which provides temporary accommodation to young mothers and vulnerable families; and Chesterfield Cricket Club.

Sustainability data

Accounting principles

Scope and consolidation

Unless otherwise stated, the sustainability data is reported based on the same principles as the financial statements. Thus, the sustainability data includes consolidated data from the parent company Hempel A/S and subsidiaries controlled by Hempel A/S. The environmental indicators cover all activities at locations where we have production. This includes 28 factories and 12 R&D facilities in 23 countries, which we refer to below as 'Hempel sites'. Data relating to lost time accidents is reported according to operational scope, which means that data is included with 100 per cent consolidation for operations where Hempel is responsible for safety, including the health and safety of external workers. Data from acquisitions and divestments is included/excluded from the date of acquisition/divestment. Changes made to historically reported data will only be commented on if material.

Business changes in 2018 impacting the Consolidated Sustainability Data Statement

- Acquisition of J.W. Ostendorf

J.W. Ostendorf data is included in the sustainability data from 1 October 2018 except for the following three indicators: Code of Conduct training, compliance cases and employee engagement.

Disclosure requirements, cf. §99a and 99b of the Danish Financial Statements Act

Disclosure requirements	See page
99a	
Policies on	
• Human rights	• 49
• Worker and social conditions	• 45 & 47
• Environment and climate	• 51
• Anti-corruption	• 53
Due diligence process	• 49
Activities during the year	
• Human rights	• 48-49
• Worker and social conditions	• 44-49
• Environment and climate	• 50-51
• Anti-corruption	• 52-53
KPIs and results	• 60-61 (data table)
Sustainability risks	• 32-35
99b	
Diversity in the Board of Directors (including current gender composition and target)	• 28
Diversity in management (including policy, activities during the year and results)	• 46-47

Percentage of employees with a Hempel email address completed and signed-off on Code of Conduct training

The percentage is calculated as the number of employees with a Hempel email address who have completed and signed off on the Code of Conduct eLearning in our learning management system out of the total number of employees with a Hempel email address during the year. Employees with management responsibility as well as employees in our Sales, Finance and Compliance functions receive Extended Code of Conduct eLearning. All other employees receive Basic Code of Conduct eLearning. The percentage includes employees who have completed either the Extended or Basic training.

Compliance cases reported

The number of compliance cases includes all cases recorded in the Hempel Ethics Hotline system, operated by Navex, which are handled in accordance with the guidelines for handling whistleblower reports, as approved by the Audit Committee. Compliance cases can be reported directly through the Hempel Ethics Hotline; by email to whistle-blower@hempel.com; by letter, telephone or email directly to management; or by internal finding.

Lost time accident frequency

Lost time accident frequency is calculated as the number of lost time accidents per one million working hours.

Lost time accidents are defined as the occupational accidents recorded in our SharePoint system that have resulted in at least one day's absence following the day of the accident. Only accidents involving employees employed directly or supervised by Hempel are reported. Accidents occurring when commuting to or from work are not included. 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 most recent OECD average for actual working hours of 1,759 hours per employee per year (2017).

Consumption of red raw materials

'Red raw materials' is a subset of raw materials used in our production, which is monitored and compiled in our ERP system. The consumption of red raw materials is calculated as kilograms of red raw materials registered in our ERP system per 1,000 litres of product produced. The volume of paint produced is calculated based on production data in our ERP system.

A raw material is considered a red raw material if it carries any of the following hazard classifications according to the United Nations' Globally Harmonised System for Classification and Labelling:

- Carcinogen mutagen reprotoxic (CMR) category 1A or 1B
- Acute toxic category 1, 2 or 3

Or if the raw material has the following properties:

- Persistent, bioaccumulative and/or toxic chemicals (PBT) or very persistent, very bioaccumulative (vPvB)

Or is listed on the REACH Authorisation list (Annex XIV) from 1 January 2018.

Energy

Energy consumption is defined as the energy used at Hempel's production sites and includes the amount of electricity, fuel, district heating and gas consumption registered in our SharePoint system. All energy consumption at Hempel sites is consolidated based on invoices. Energy consumption (kWh/1,000L paint produced) is calculated as kWh per 1,000L paint produced. The volume of paint produced is calculated based on production data in our ERP system.

Waste generation

Waste generation is based on amounts of waste recorded from all Hempel sites with production, including factories, R&D facilities and warehousing, which are registered in Hempel's SharePoint system. Waste generation is measured based on invoices or supporting documentation, such as weighing documents. Waste generation (kg/1,000L paint produced) is calculated as kg waste per 1,000L paint produced. The volume of paint produced is calculated based on production data in our ERP system. Waste includes hazardous and non-hazardous streams, both solid and liquid waste.

Carbon footprint scope 1

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) by Hempel, which is registered in our SharePoint system. 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.

Carbon footprint scope 2

Scope 2 covers indirect emissions from purchased electricity and district heating at Hempel sites, which is registered in our SharePoint system. 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 (2017 and 2018 v1.01) database.

Carbon footprint scope 3

Scope 3 covers the following: waste, consumed raw materials used as ingredients and purchased packaging, and volatile organic compounds (VOCs) in products and toll manufacturing. These are outlined in more detail below.

Waste

We apply the same methods for waste in scope 3 as in Waste generation. Waste is converted to CO_2 equivalents using Defra (2018 v1.01) conversion factors.

Ingredients

The calculation of CO_2 from ingredients used in Hempel's production is based on the type and amount of raw materials consumed during the year, which is registered in our ERP system. For each type of raw material, a relevant conversion from ecoinvent 3.4 or IPCC (2013) characterisation factors is applied to the amount used.

Packaging

The calculation of CO_2 from packaging used in Hempel's production is based on volumes purchased by material type during the year, which are registered in our ERP system. For each type of packaging, a relevant conversion factor from Defra (2018 v1.01) is applied to the amount used.

Volatile organic compounds in products

The calculation of CO_2 from VOCs in products is based on the amount of VOCs in products sold (i.e. grams per litre of product sold). Data relating to products sold is registered in our ERP system and the VOC content of the ingredients used in our production is registered and managed in our EHS system, ChemMate. The VOC values used for sold products are equivalent to the ones presented on the product safety data sheet. All VOCs are converted to carbon dioxide equivalent emissions using xylene as a representative profile.

Toll manufacturing

The calculation of CO_2 from toll manufacturing is based on the amount of product that has been manufactured at external partners, which is registered in our ERP system, under the assumption that one ton of toll-produced goods requires the same energy and waste generation as for Hempel production (i.e. the impact of these third-party emissions is estimated using the Hempel average material, energy and waste impacts per ton of paint).

Employee Engagement – Response rate

Hempel conducts an employee engagement survey once a year. All employees are invited to participate. The response rate is calculated as the number of employees who responded to the full survey out of the total number of employees.

Employee Engagement - eNPS

The employee Net Promoter Score (eNPS) is calculated using the answer distribution from the statement: 'I would recommend others to seek employment at the Hempel Group'. We calculate the eNPS by taking the percentage of employees who answered 9-10 and subtract the percentage who answered 1-6 on the 10-point scale.

Employee Engagement – Satisfaction & Motivation and Learning & Development

These scores are based on a number of questions included in the employee engagement survey. Answers are given on a 10-point scale and are converted to index figures on a scale from 0 to 100.

Key Performance Indicator	2018	2017
Ethical behaviour		
% of employees with a Hempel email address completed and signed off on Code of Conduct training	100%	100%
Compliance cases reported	51	51
Health & safety		
Lost time accident frequency (number/1,000,000 working hours)	1.72	2.27[1]
Consumption of red raw materials (kg/1,000L paint produced)	8.80[3]	8.47
Environment		
Energy (kWh/1,000L paint produced)	276	274
Waste generation (kg/1,000L paint produced)	49	NA
Carbon footprint scope 1 (tons CO_2/1,000L paint produced	0.02	0.02
Carbon footprint scope 2 (tons CO_2/1,000L paint produced)	0.09	0.10
Carbon footprint scope 3[2] (tons CO_2/1,000L paint produced)	4.05	NA
Our people		
Employee Engagement - Response rate	93%	93%
Employee Engagement - eNPS	21	20
Employee Engagement - Satisfaction & Motivation	71	69
Employee Engagement - Learning & Development	80	78

[1] 2017 data restated following a Group review of lost time injuries at site level in 2018.
[2] Scope 3 includes: consumption of raw materials, purchase of packaging material, CO_2 from toll manufacturing, CO_2 from waste treatment and VOC in products sold.
[3] Scope expanded compared to 2017 – see accounting principles. Due to the expanded scope, total consumption increased by 4 per cent. When comparing like-for-like, consumption reduced by 15 per cent.

The Board of Directors of Hempel A/S:
Richard Sand, Eric Alström, Marianne Wiinholt,
Søren P. Olesen, Leif Jensen, Susanna Schneeberger,
Helle Fiedler, Henrik Bach Falkenberg, Kim Scheibel.

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 2018.

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

In our opinion, the financial statements and the consolidated financial statements give a true and fair view of the financial position at 31 December 2018 of the company and the Group and of the results of the company's and Group's operations and cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the parent company, of the results for the year and of the financial position of the Group and the parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the parent company.

In our opinion, the sustainability data represents a reasonable, fair and balanced representation of the Group's sustainability performance and is presented in accordance with the stated accounting policies.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Kgs. Lyngby, 1 March 2019

Executive Management Board

Henrik Andersen
Group President & Chief Executive Officer (CEO)

Lars Jønstrup Dollerup
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)

Board of Directors

Richard Sand
Chair

Eric Alström
Deputy Chair

Marianne Wiinholt

Søren P. Olesen

Leif Jensen

Susanna Schneeberger

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 2018, 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 2018 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 2018, 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, 1 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Lars Baungaard
State Authorised Public Accountant
mne23331

Mads Melgaard
State Authorised Public Accountant
mne34354

Independent limited assurance report on the Sustainability Data 2018

To the stakeholders of Hempel A/S
Hempel A/S (Hempel) engaged us to provide limited assurance on the Sustainability Data on page 61 in the Annual Report of Hempel for the year ended 31 December 2018 (the "Selected Information").

Our conclusion
Based on the procedures we have performed and the evidence we have obtained:

- Nothing has come to our attention that causes us to believe that the Selected Information in Hempel's Annual Report for the year ended 31 December 2018 has not been prepared, in all material respects, in accordance with the Accounting Principles.

This conclusion is to be read in the context of what we say in the remainder of our report.

What we are assuring
The scope of our work was limited to assurance over:

- The Sustainability Data on page 61 in Hempel's Annual Report (the "Selected Information").

Professional standards applied and level of assurance
We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information'. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control
We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies
The Selected Information needs to be read and understood together with the Accounting Principles (pages 60-61) in Hempel's Annual Report 2018, which management of Hempel is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Work performed
We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:
- Conducted interviews with data owners to understand the key processes and controls for reporting site performance data
- Obtained an understanding of the key processes and controls for measuring, recording and reporting the Selected Information
- On a selective basis performed reviews of the Selected Information at corporate head office to check that data had been appropriately recorded, consolidated and reported
- Performed analysis of data from reporting sites, selected on the basis of risk and materiality to the Group
- Considered the disclosure and presentation of the Selected Information.

Hempel's responsibilities
Hempel's management are responsible for:
- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error
- Establishing objective Accounting Principles for preparing the Selected Information
- Measuring and reporting the Selected Information based on the Accounting Principles
- The content of the Sustainability Data in Hempel's Annual Report 2018.

Our responsibility
We are responsible for:
- Planning and performing the engagement to obtain limited assurance about whether the Selected Information has been prepared, in all material respects, in accordance with the Accounting Principles and in this context is free from material misstatement, whether due to fraud or error
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained
- Reporting our conclusion to the stakeholders of Hempel.

Hellerup, 1 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Lars Baungaard
State Authorised Public Accountant
mne23331

Mads Melgaard
State Authorised Public Accountant
mne34354

Financial statements


SAILING WORLD CHAMPIONSHIPS
03
SAILING WORLD CHAMPIONSHIPS

Income statement

In EUR million

Note		Group 2018	Group 2017	Parent company 2018	Parent company 2017
2.1	Revenue	1,346	1,378	123	117
	Production costs	-832	-815	-59	-53
	Gross profit	**514**	**563**	**64**	**64**
	Sales and distribution costs	-325	-327	-17	-13
	Administrative costs	-109	-135	-33	-52
2.3	Other operating income	10	14	–	–
	Operating profit before special items	**90**	**115**	**14**	**-1**
2.4	Special items	-13	–	–	–
	Operating profit	**77**	**115**	**14**	**-1**
2.5	Income from investments in subsidiaries	–	–	28	34
	Profit before financial income and expenses	**77**	**115**	**42**	**33**
4.5	Net financials	-5	-23	8	-1
	Profit before tax	**72**	**92**	**50**	**32**
2.6	Income tax	-24	-37	-7	9
	Net profit for the year	**48**	**55**	**43**	**41**

In EUR million

Distribution of profit	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Proposed distribution of profit:				
Proposed dividend	30	28	30	28
Reserve for net revaluation under the equity method	–	–	–	34
Reserve for development costs	–	–	3	1
Minority interests	5	14	–	–
Retained earnings	13	13	10	-22
	48	**55**	**43**	**41**

Balance sheet
as at 31 December – assets

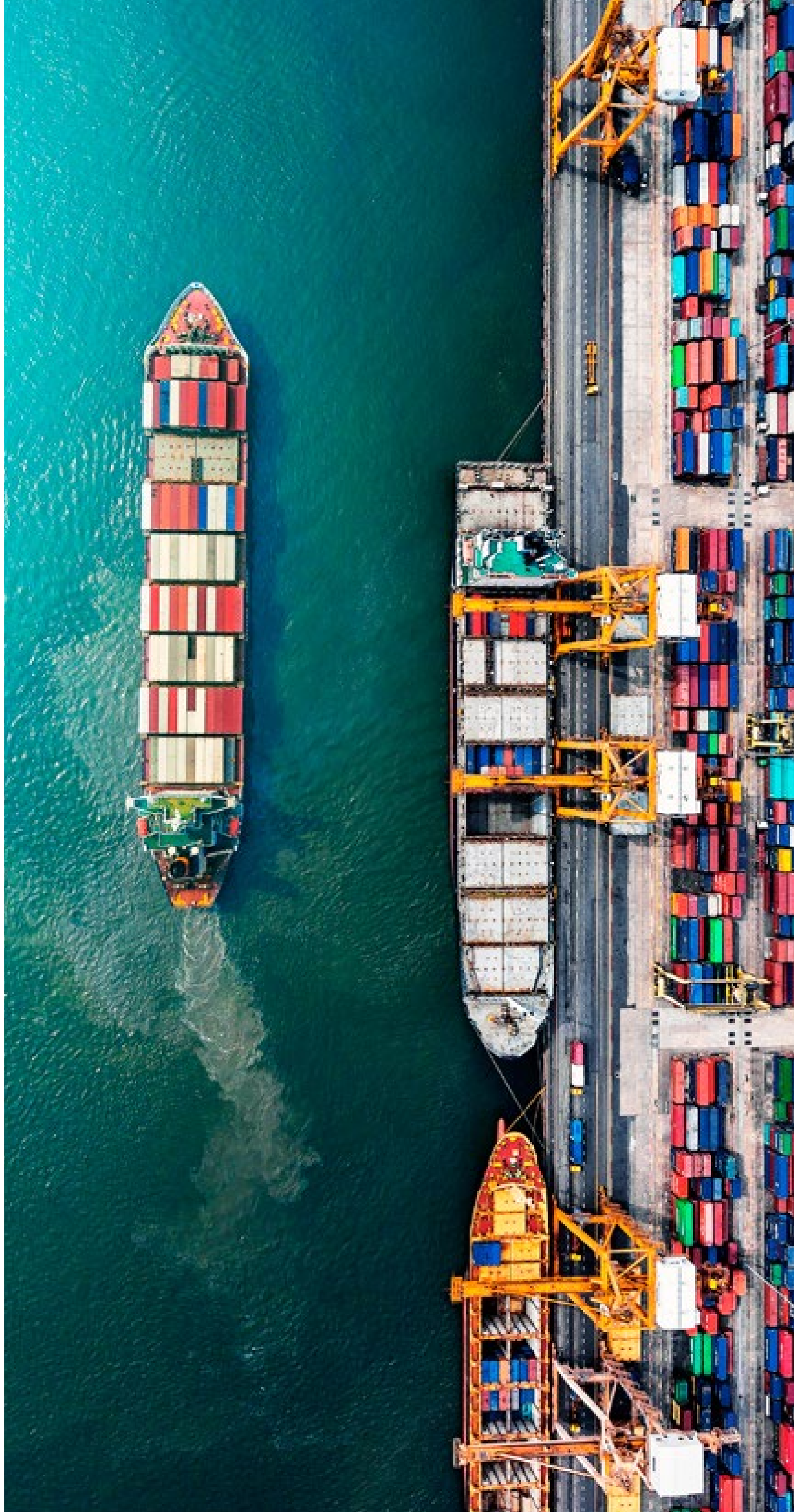
In EUR million

Note		Group 2018	Group 2017	Parent company 2018	Parent company 2017
	Goodwill	76	74	–	–
	Software	3	5	1	3
	Software under development	6	3	6	3
	Customer relationships	57	45	–	–
	Other intangible assets	42	57	14	16
3.1	**Intangible assets**	**184**	**184**	**21**	**22**
	Land and buildings	165	133	–	–
	Assets under construction	28	22	5	2
	Plant and machinery	90	75	1	1
	Other fixed assets	21	22	1	1
3.2	**Property, plant and equipment**	**304**	**252**	**7**	**4**
5.6	Investments in subsidiaries	–	–	326	330
	Loans to Group enterprises	–	–	188	189
2.6	Deferred tax assets	51	51	10	14
	Deposits etc.	19	6	1	1
	Fixed asset investments	**70**	**57**	**525**	**534**
	Total non-current assets	**558**	**493**	**553**	**560**
3.3	**Inventories**	**215**	**178**	**4**	**4**
3.5	Trade receivables	338	309	7	4
	Receivables from Group enterprises	–	–	172	94
2.6	Tax receivables	8	6	–	–
	Other receivables	81	39	30	18
3.4	Prepayments	10	8	3	3
3.5	**Receivables**	**437**	**362**	**212**	**119**
4.6	**Cash at bank and in hand**	**85**	**111**	**–**	**6**
	Current assets	**737**	**651**	**216**	**129**
	Total assets	**1,295**	**1,144**	**769**	**689**

Balance sheet
as at 31 December – equity and liabilities

In EUR million

Note		Group 2018	Group 2017	Parent company 2018	Parent company 2017
4.1	Share capital	15	15	15	15
	Reserve for net revaluation under the equity method	–	–	–	–
	Reserve for development costs	–	–	6	3
	Retained earnings	363	399	397	396
	Proposed dividend for the year	30	28	30	28
	Shareholders in Hempel A/S' share of equity	**408**	**442**	**448**	**442**
	Minority interests	**61**	**52**	–	–
	Total equity	**469**	**494**	**448**	**442**
2.6	Deferred tax liabilities	55	51	–	–
3.6	Pension obligations and similar obligations	21	22	1	1
3.7	Other provisions	84	69	2	–
	Provisions	**160**	**142**	**3**	**1**
4.2	Bank loans etc.	30	18	–	–
4.4	Other long-term payables	40	–	–	–
	Long-term debt	**70**	**18**	–	**–**
4.6	Overdraft facilities	57	49	36	21
4.2	Short-term part of bank loans etc.	22	12	15	–
3.8	Deferred income	7	6	–	–
	Trade payables	243	200	10	7
	Payables to Group enterprises	73	53	228	188
2.6	Tax liabilities	7	13	–	–
3.9	Other liabilities	187	157	29	30
	Total current liabilities	**596**	**490**	**318**	**246**
	Total liabilities	**666**	**508**	**318**	**246**
	Total equity and liabilities	**1,295**	**1,144**	**769**	**689**



Statement of changes
in equity as at 31 December

In EUR million

Note	Group	Share capital	Retained earnings	Proposed dividend	Shareholders in Hempel A/S' share of equity	Minority interest	Total equity
	Equity						
	Equity at 1 January 2017	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**
	Net profit for the year	–	43	–	43	5	48
	Exchange adjustment at year-end rate	–	-9	–	-9	2	-7
	Hedging of future transactions	–	–	–	–	–	–
	Remeasurements of defined benefit plans	–	–	–	–	–	–
	Dividend distributed	–	–	-28	-28	-11	-39
	Proposed dividend	–	-30	30	–	–	–
	Additions for the year	–	–	–	–	13	13
	Written put option, minorities	–	-39	–	-39	–	-39
	Fair value adjustment, put option	–	-1	–	-1	–	-1
4.1	**Equity at 31 December 2018**	**15**	**363**	**30**	**408**	**61**	**469**


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 2017	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**
	Net profit for the year	–	–	3	40	–	43
	Dividend received	–	–	–	–	–	–
	Exchange adjustment at year-end rate	–	–	–	-9	–	-9
	Hedging of future transactions	–	–	–	–	–	–
	Remeasurements of defined benefit plans	–	–	–	–	–	–
	Dividend distributed	–	–	–	–	-28	-28
	Proposed dividend	–	–	–	-30	30	–
	Retained earnings, transfer	–	–	–	–	–	–
4.1	**Equity at 31 December 2018**	**15**	**–**	**6**	**397**	**30**	**448**

Cash flow statement

In EUR million

Note		Group 2018	2017
	Cash flows from operating activities		
	Operating profit	77	115
5.2	Adjustment for non-cash items	56	22
	Total cash flows from operating activities before financial items, tax and changes in working capital	**133**	**137**
	Change in receivables	-5	33
	Change in inventories	-8	-1
	Change in trade payables	2	29
	Total change in working capital	**-11**	**61**
	Total cash flows from operating activities before financial items and tax	**122**	**198**
	Income tax paid	-26	-32
	Interest income and expenses paid, net	-10	-11
	Total cash flows from operating activities	**86**	**155**
	Cash flows from investing activities		
4.7	Acquisition of enterprises	-19	–
3.2	Purchase of property, plant and equipment	-32	-35
3.1	Purchase of intangible assets	-4	-6
	Sale of property, plant and equipment	2	18
	Change in deposits etc., net	-13	-2
	Received from sale of associate	3	14
	Total cash flows from investing activities	**-63**	**-11**
	Free cash flow	**23**	**144**
	Cash flows from financing activities		
	Change in bank and other borrowings etc.	-11	-81
	Change in minority shares (dividend distributed etc.)	-20	-20
	Dividend distributed to shareholders	-28	-27
	Capital losses and gains, net	3	3
	Total cash flows from financing activities	**-56**	**-125**
	Net cash flow	**-33**	**19**
4.6	Cash and equivalents, net, beginning of year	62	48
	Exchange adjustment	-1	-5
4.6	**Cash and equivalents, net, end of year**	**28**	**62**

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 2018 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 2018 is presented in EUR millions. The accounting policies applied remain unchanged from previous years.

In the Annual Report, the notes are grouped in sections and include the relevant accounting policies.

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 remeasurement of acquired assets and liabilities to fair value at the time of acquisition of subsidiaries.

The measurement is prorated according to the minority's share and goodwill related to minority interests is not recognised.

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, fixed asset investments, as well as acquistions of enterprises.

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 in 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 penalties, costs associated with investigations performed and severance payments. Management has found it necessary to present these costs separately as they are material to the Group, non-recurring and 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 13 million (2017: EUR 0 million). However, the change in presentation does not impact operating profit after special items, profit after tax, total assets, total equity or cash flow.

Section 2
Results for 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	
	2018	2017	2018	2017
EMEA	824	798	123	117
Asia-Pacific	340	398	–	–
Americas	182	182	–	–
	1,346	**1,378**	**123**	**117**

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	
	2018	2017	2018	2017
Employee costs				
Directors' fees	1	1	1	1
Remuneration of the Executive Board[1]	5	5	5	5
Wages and salaries etc.	266	260	39	36
Pension contributions	14	15	3	3
	286	**281**	**48**	**45**
Average number of employees	5,882	5,740	307	282
Employee costs have been recognised in the income statement as follows:				
Production costs	86	70	17	12
Selling and distribution expenses	149	146	8	7
Administrative expenses	51	65	22	26
	286	**281**	**47**	**45**

1) Executive Board registered with the Danish Business Authority (Erhvervsstyrelsen). As of 6 April 2018, the Executive Board has one more member.

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	
	2018	2017	2018	2017
Other operating income[1]	10	14	–	–
	10	**14**	**–**	**–**

1) Other operating income comprises sale of land and insurance recoverable. (2017: Sale of buildings.)

2.4 Special items

Special items comprise costs related to penalties, costs associated with investigations performed and severance payments.

In EUR million	Group		Parent company	
	2018	2017	2018	2017
Administrative costs	-13	–	–	–
Operating profit	**-13**	**–**	**–**	**–**
Profit before tax	**-13**	**–**	**–**	**–**
Income tax	–	–	–	–
Net profit for the year	**-13**	**–**	**–**	**–**

2.5 Income from investments in subsidiaries

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

In EUR million	Parent company	
	2018	2017
Income from investments in subsidiaries		
Profit before tax	56	92
Amortisation of goodwill	-11	-12
Tax for the year	-17	-46
Profit after tax	**28**	**34**

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	
	2018	**2017**	**2018**	**2017**
Hempel Group				
Profit before tax	72	92		
	72	**92**		
Income tax on profit for the year:				
Total tax	-24	-37	-24	-37
Tax in respect of subsidiaries	–	–	17	46
	-24	**-37**	**-7**	**9**
Current tax for the year	-22	-29	-3	-5
Deferred tax for the year	2	9	-4	2
Change in US tax rate	–	-9	–	–
Adjustment in respect of previous years	-4	-8	–	12
Income tax	**-24**	**-37**	**-7**	**9**

In EUR million	Group	
	2018	**2017**
Effective tax rate of the Group	**33.3%**	**40.0%**
Reconciliation of tax rate:		
Danish tax rate	22.0%	22.0%
Higher/(lower) tax rates of foreign subsidiaries	-5.5%	-4.5%
Weighted tax rate of the Group	**16.5%**	**17.5%**
Permanent differences	-0.1%	-2.1%
Unrecognised deferred tax assets	8.8%	1.4%
Recognised deferred tax assets related to prior years	-0.9%	-9.7%
Adjustments in respect of previous years	-0.8%	0.3%
Other adjustments	2.6%	17.8%
Change in US tax rate	0.0%	9.7%
Withholding taxes etc.	2.1%	5.1%
Effective tax rate of the Group before special items	**28.2%**	**40.0%**
Adjustment related to special items	5.1%	–
Effective tax rate of the Group	**33.3%**	**40.0%**

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	
	2018	2017	2018	2017
Deferred tax (net):				
Deferred tax, beginning of year	–	13	14	–
Exchange adjustment at year-end rate	-1	-2	–	–
Acquisition of enterprises	-1	–	–	–
Deferred tax for the year	2	9	-4	2
Adjustment in respect of previous years	-4	-11	–	12
Change in tax rate	–	-9	–	–
Deferred tax (net), end of year	**-4**	**–**	**10**	**14**

In EUR million	Group		Parent company	
	2018	2017	2018	2017
Deferred tax (net) relates to the following items:				
Intangible assets	4	6	7	11
Property, plant and equipment	-1	2	2	3
Inventories	2	3	–	–
Trade receivables	5	3	–	–
Provisions and other payables	-26	-26	1	–
Tax losses	12	12	–	–
	-4	**–**	**10**	**14**

At 31 December 2018, the Group had recognised a deferred tax asset comprising tax losses carried forward of EUR 12 million (2017: EUR 12 million). Management believes it is likely that the unutilised tax losses can be utilised within the next years.

The Group has a non-recognised tax asset of EUR 14 million (2017: EUR 9 million).

In EUR million	Group		Parent company	
	2018	2017	2018	2017
The net value is recognised in the balance sheet as follows:				
Deferred tax assets	51	51	10	14
Deferred tax liabilities	-55	-51	–	–
	-4	**–**	**10**	**14**

In EUR million	Group		Parent company	
	2018	2017	2018	2017
The net value is recognised in the balance sheet as follows:				
Current tax assets	8	6	–	–
Current tax liabilities	-7	-13	–	–
	1	**-7**	**–**	**–**

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.

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 of intangible assets
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 at 1 January 2018	144	36	3	112	92	387
Exchange adjustment at year-end rate	4	–	–	3	2	9
Acquisition of enterprises	11	–	–	17	2	30
Additions for the year	–	1	3	–	–	4
Disposals for the year	–	–	–	–	- 16	- 16
Costs at 31 December 2018	**159**	**37**	**6**	**132**	**80**	**414**
Accumulated amortisation at 1 January 2018	70	31	–	67	35	203
Exchange adjustment at year-end rate	2	–	–	2	–	4
Amortisation for the year	11	3	–	6	6	26
Exchange adjustment between average rate and year-end rate	–	–	–	–	–	–
Reversal of amortisation of assets sold	–	–	–	–	- 3	- 3
Accumulated amortisation at 31 December 2018	**83**	**34**	**–**	**75**	**38**	**230**
Carrying amount at 31 December 2018	**76**	**3**	**6**	**57**	**42**	**184**

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

In EUR million — **Parent company**

	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets						
Costs at 1 January 2018	–	7	3	–	30	40
Exchange adjustment at year-end rate	–	–	–	–	–	–
Additions for the year	–	–	4	–	–	4
Disposals for the year	–	–	- 1	–	–	- 1
Costs at 31 December 2018	–	**7**	**6**	–	**30**	**43**
Accumulated amortisation at 1 January 2018	–	4	-	–	14	18
Exchange adjustment at year-end rate	–	–	-	–	–	–
Amortisation for the year	–	2	-	–	2	4
Accumulated amortisation at 31 December 2018	–	**6**	**-**	–	**16**	**22**
Carrying amount at 31 December 2018	–	**1**	**6**	–	**14**	**21**

Other intangible assets mainly comprise brands and formulas.

In EUR million	Group		Parent company	
	2018	2017	2018	2017
Amortisation and impairment are specified as follows:				
Production costs	1	1	–	–
Sales and distribution costs	1	1	–	–
Administrative costs	24	26	4	3
	26	**28**	**4**	**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 con-struction	Total
Property, plant and equipment					
Costs at 1 January 2018	204	218	90	22	534
Acquisition of enterprises	35	16	1	1	53
Additions for the year	5	15	6	6	32
Disposals for the year	-2	- 5	-5	- 1	- 13
Costs at 31 December 2018	**242**	**244**	**92**	**28**	**606**
Accumulated depreciations at 1 January 2018	71	143	68	–	282
Exchange adjustment at year-end rate	1	1	–	–	2
Depreciation for the year	7	15	7	–	29
Reversal of depreciations of assets sold	-2	- 5	-4	–	-11
Accumulated depreciation at 31 December 2018	**77**	**154**	**71**	**–**	**302**
Carrying amount at 31 December 2018	**165**	**90**	**21**	**28**	**304**
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 con-struction	Total
Property, plant and equipment					
Costs at 1 January 2018	–	3	5	2	10
Additions for the year	–	–	1	4	5
Disposals for the year	–	–	–	-1	-1
Costs at 31 December 2018	**–**	**3**	**6**	**5**	**14**
Accumulated depreciations at 1 January 2018	–	2	4	–	6
Depreciation for the year	–	–	1	–	1
Accumulated depreciation at 31 December 2018	**–**	**2**	**5**	**–**	**7**
Carrying amount at 31 December 2018	**–**	**1**	**1**	**5**	**7**

In EUR million	Group		Parent company	
	2018	2017	2018	2017
Depreciation and impairment are specified as follows:				
Production costs	18	18	–	–
Sales and distribution costs	7	5	–	–
Administrative costs	4	5	1	1
	29	**28**	**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 the 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 the cost 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	
	2018	2017	2018	2017
Raw materials and consumables	70	62	4	4
Work in progress	6	6	–	–
Finished goods	139	110	–	–
Inventories	**215**	**178**	**4**	**4**

3.4 Prepayments

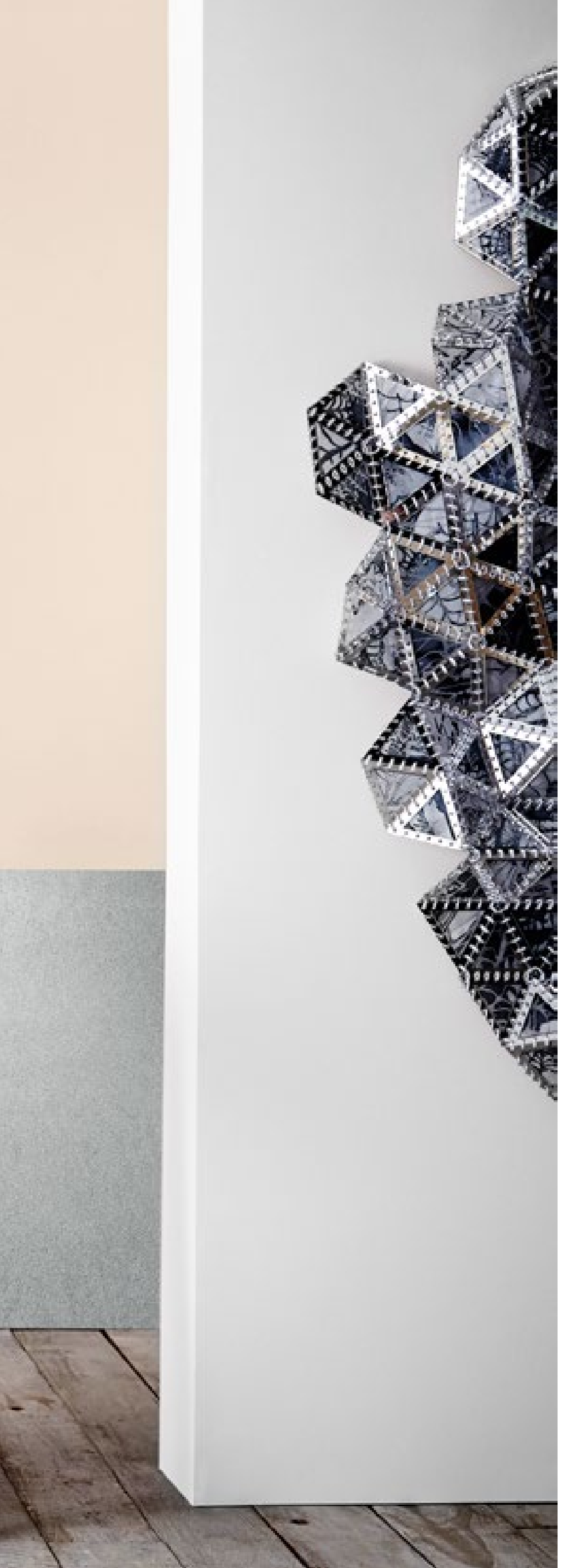
Accounting policies
Prepayments comprise prepaid expenses mainly relating to rent, licenses and insurance premiums.

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	
	2018	2017	2018	2017
Receivables	437	362	212	119
of which due more than one year from balance sheet date	2	2	–	–



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	
	2018	**2017**	**2018**	**2017**
Pension and similar obligations comprise:				
Pension and similar obligations	52	59	1	1
Fair value of assets related to the plans	-31	-37	–	–
Pension obligations, net	**21**	**22**	**1**	**1**
Recognition in the balance sheet:				
Liabilities	21	22	1	1
Pension obligations recognised in the balance sheet, net	**21**	**22**	**1**	**1**
Defined benefit plans				
Specification of plan assets:				
Shares and properties	14%	14%	–	–
Fixed interest current asset investments	85%	78%	–	–
Cash at bank and in hand	1%	8%	–	–
Total	**100%**	**100%**	–	**–**
Weighted average assumptions:				
Discount rate	2.1%	2.0%	2.0%	2.0%
General wage inflation	2.2%	2.7%	–	–
General price inflation	1.6%	1.7%	–	–

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 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 obligations, 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	2018 Total	2017 Total
Total provisions, beginning of year	20	11	38	69	90
Exchange adjustment at year-end rate	–	–	1	1	-2
Acquisition of enterprises	2	–	9	11	0
Additions for the year	–	3	13	16	1
Reversed	–	-2	-2	-4	-5
Consumed	-1	-3	-5	-9	-15
Total provisions, end of year	**21**	**9**	**54**	**84**	**69**
Maturities are expected to be:					
Within 1 year	8	5	32	45	9
Between 1 and 5 years	2	4	9	15	24
After 5 years	11	–	13	24	36
	21	**9**	**54**	**84**	**69**

3.8 Deferred income

Accounting policies
Deferred income comprises prepayments from customers where the related revenue cannot be recognised in the income statement until the next financial year.

3.9 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	**2018**	**2017**
Proposed distribution of profit:		
Proposed dividend	30	28
Reserve for net revaluation under the equity method	–	34
Reserve for development costs	3	1
Retained earnings	10	-22
	43	**41**

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	
	2018	**2017**	**2018**	**2017**
Long-term bank borrowings etc. including short-term part:				
Due within 1 year	22	12	15	–
Due within 1 to 5 years	29	17	–	–
Due after 5 years	1	1	–	–
	52	**30**	**15**	**–**

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 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

Derivative financial instruments are initially recognised at fair value on the acquisition date and subsequently remeasured at their fair value at the reporting date. Positive and negative fair values of derivative financial instruments are recognised as 'Other receivables' and 'Other payables', respectively. Fair values of derivate financial instruments are computed on the basis of market data and generally accepted valuation methods. Changes in the fair values of derivative financial instruments are recognised in the income statement under financial items 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.

Financial liabilities
Liabilities concerning minorities' put options are initially recognised at fair value directly in equity of the consolidated Group. Fair value is measured at the present value of the exercise price of the option. Subsequent fair value adjustments are recognised directly in equity.

Currency risks
Open foreign currency hedges at 31 December 2018 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	-3.2	0.1	1
BRL	-0.9	–	1
CAD	0.7	–	1
CZK	2.5	–	1
GBP	-23.9	0.4	1
HKD	83.5	-0.4	1
IDR	-4.2	-0.1	1
KRW	2.3	–	1
NOK	0.5	–	1
NZD	-0.6	–	1
PLN	-15.8	–	1
SGD	0.5	–	1
USD	-23.6	0.3	1
ZAR	-3.5	0.1	1
		0.4	

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

Bank borrowings of EUR 52 million comprise loans denominated in various currencies, mainly EUR 30 million, KWD 6 million (EUR 18 million) and other currencies amounting to EUR 4 million.

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

	Group		Parent company	
	2018	2017	2018	2017
Bank borrowings etc.	2.7%	3.1%	–	–

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	
	2018	**2017**	**2018**	**2017**
External interest income	1	1	1	–
Interest income from subsidiaries	–	–	9	9
External interest expenses	-11	-12	-3	-3
Interest paid to Group enterprises	-1	-1	-1	-1
Realised and unrealised exchange gains/losses, net	6	-11	2	-6
	-5	**-23**	**8**	**-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	
	2018	**2017**
Cash at bank and in hand, beginning of year	111	115
Overdraft facilities, beginning of year	-49	-67
	62	**48**
Cash, end of year	85	111
Overdraft facilities, end of year	-57	-49
	28	**62**

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 on which the parent company effectively obtains control of the acquired enterprise.

For acquisitions of new enterprises where control is obtained by the parent company, the acquisition method is used. The identifiable assets and liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. 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.

The purchase consideration of an enterprise is the fair value of the agreed payment in the form of assets transferred, liabilities assumed and equity instruments issued to the seller. Contingent considerations depending on future events or the performance of contractual obligations are also recognised at fair value at the date of acquisition. Fair value changes in contingent considerations are recognised in the income statement when incurred.

Transaction costs are recognised in the income statement when incurred.

If uncertainty regarding the identification and measurement of acquired assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition is done based on preliminary values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition. The effect of the adjustments are recognised in the opening balance of equity and comparative figures are restated.

In EUR million	Group	
	2018	**2017**
Balance sheet items of acquired enterprises:		
Intangible assets	19	–
Property, plant and equipment	53	–
Inventories	30	–
Receivables	50	–
Cash and cash equivalents	11	–
Provisions	-10	–
Deferred tax	-1	–
Bank loans etc.	-53	–
Trade payables	-33	–
Other liabilities	-30	–
Net assets acquired	**36**	–
Minorities 35%	-13	–
Goodwill	11	–
Consideration	**34**	–
Cash acquired	-11	–
Consideration payable	-4	–
Cash consideration	**19**	–

Section 5
Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

In EUR million	Group		Parent company	
	2018	2017	2018	2017
Audit fee	1	1	–	–
Tax advice	1	1	–	1
Other fees	–	1	–	–
	2	**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	
	2018	2017
Amortisation, depreciation and impairment, including goodwill	55	56
Provisions	2	-18
Exchange rate adjustment, operating profit	1	-2
Gains and losses on the sale of fixed assets	-2	-14
	56	**22**

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	
	2018	2017	2018	2017
Rental and lease obligations:				
Due within 1 year from the balance sheet date	17	15	2	2
Due within 1 to 5 years from the balance sheet date	38	34	7	8
Due more than 5 years from the balance sheet date	9	13	1	2
	64	**62**	**10**	**12**
Guarantees:				
For local loans and bank credits to subsidiaries[1)]			118	122
Other guarantees	5	3	–	–
	5	**3**	**118**	**122**

1) Parent company guarantees for unutilised local loans and bank credits to subsidiaries. The guarantees amount to EUR 53 million (2017: EUR 61 million).

Other contingent liabilities:
Following the compliance issues discovered in Germany in August 2016, followed by management's thorough internal investigations and full self-disclosure to the Danish State Prosecutor for Serious Economic and International Crime (SØIK) in April 2017, we completed the internal remediation within Hempel during 2018. As mentioned in the sections Letter to stakeholders and 2018 in review, Hempel agreed at the beginning of 2019 to settle the case with a fine. Based on this settlement, the provision was increased by EUR 13 million in 2018, amounting to EUR 31 million by the end of 2018, whereby management considers the matter closed.

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 result or equity, except for the resolution obtained in the beginning of 2019 of the compliance case reported to SØIK in April 2017. The financial implications have been fully recognised and disclosed in the Annual Report 2018.

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 Invest 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 Invest A/S are also regarded as related parties. The members of the Boards of Directors of the Hempel Foundation and Hempel Invest A/S 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

Accounting policies
Investments in subsidiaries are recognised and measured under the equity method. This implies that the investments are measured in the balance sheet at the proportionate ownership share of the net asset value of the enterprises with deduction or addition of shares of unrealised intercompany profits and losses.

The equity method is applied as a method of measurement.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to 'Reserve for net revaluation under the equity method' under equity. The reserve is reduced by dividend distributed to the parent company and adjusted for other equity movements in subsidiaries.

With reference to the accounting treatment of liabilities concerning minorities' put options described in section 4.4, these are recognised directly in equity of the consolidated Group. As this liability lies within a subsidiary, the liability is not presented in the parent company and hence not presented as such nor directly recognised against the equity of the parent company. The value of the liability will cause a difference between the Group's share of equity and the equity of the parent company. Once the put option has been settled, this difference will cease.

Subsidiaries 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.

In EUR million	**Parent company**	
	2018	**2017**
Investments in subsidiaries		
Costs, beginning of year	354	354
Additions for the year	17	–
Costs, end of year	**371**	**354**
Net revaluations, beginning of year	-30	21
Exchange adjustment at year-end rate	-9	-29
Remeasurements of defined benefit plans	0	-1
Profit before tax	56	92
Amortisation of goodwill	-11	-12
Tax for the year	-17	-46
Dividend received	-41	-55
Reversed	–	–
Net revaluations, end of year	**-52**	**-30**
Carrying amount, end of year	**319**	**324**
Recognised in the balance sheet as follows:		
Subsidiaries with negative equity	-7	-6
Investments in subsidiaries	326	330
	319	**324**
Subsidiaries with negative equity are recognised in the balance sheet as follows:		
Recognised in provisions to subsidiaries	-2	–
Recognised in receivables from subsidiaries	-5	-6
Net value, end of year	**-7**	**-6**

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%
Austria	Ostendorf GmbH	EUR	18,168	65%
Austria	Eurolor Brand GmbH	EUR	50,000	65%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	BHD	5,000,000	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	Pinturas Hempel Chile SpA	CLP	1,651,829	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (China) Management Co., Ltd.	CNY	50,000,000	100%
China	Hempel (Kunshan) Coatings Ltd.	CNY	110,035,054	100%
China	Hempel (Yantai) Coatings Ltd.	CNY	42,656,510	100%
China	Hempel (Guangzhou) Coatings Ltd.	CNY	185,327,620	100%
China	Hempel Coatings (Zhangjiagang) Ltd.	USD	0	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%
Denmark	Brifa Maling A/S	DKK	11,200,000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Coatings Egypt LLC	EGP	3,000,000	100%
Egypt	Hempel Paints Egypt L.L.C	EGP	250,000	100%
Egypt	Hempel Egypt L.L.C	EGP	200,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
France	BB Participations SAS	EUR	4,000,000	65%
France	BB Holding SAS	EUR	1,448,266	65%
France	BB Fabrications SAS	EUR	1,000,000	65%
France	Bontemps-Bonnarme SAS	EUR	75,000	65%

Country	Name	Currency	Share capital	Ownership
France	Renaulac Bearn SARL	EUR	8,000	65%
France	Renaulac Gironde SARL	EUR	10,000	62%
France	L.A.R.Y Peintures SARL	EUR	8,000	49%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Germany	Hempel Beteiligungsgesellschaft mbH	EUR	25,000	100%
Germany	J.W. Ostendorf GmbH & Co. KG	EUR	520,000	65%
Germany	Ostendorf-Beteiligungs GmbH	EUR	32,000	65%
Germany	FLT Handel & Service GmbH	EUR	25,565	65%
Germany	Brand.IQ GmbH	EUR	500,000	65%
Germany	Ostendorf Frankreich Holding GmbH	EUR	25,000	65%
Germany	Rottkamp Immoblilien GmbH & Co. KG	EUR	2,500	65%
Germany	Rottkamp Immobilien Verwaltung GmbH	EUR	25,000	65%
Greece	Hempel Coatings (Hellas) S.A.	EUR	6,300,000	100%
Hungary	Ostendorf Hungaria Kft.	HUF	15,000,000	65%
India	Hempel Paints (India) Private Limited	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 Limited	EUR	127	100%
Italy	Hempel (Italy) S.r.l.	EUR	50,000	100%
Kenya	Hempel Paints Kenya Company Limited	KES	10,000,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	600,000	51%
Malaysia	Hempel (Malaysia) Sdn. Bhd.	MYR	5,000,000	100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	9,500,000	100%
Mexico	Pinturas Hempel de Mexico S.A. de C.V.	MXN	3,750,000	100%
Morocco	Hempel Maroc 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) S.A.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
Russia	JSC Hempel	RUB	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Saudi Arabia	Painting Materials and Equipment Centre Co. LTD	SAR	1,000,000	26%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints South Africa Pty Ltd.	ZAR	9,500,000	100%
Spain	Pinturas Hempel SAU	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	100%
Switzerland	Hempel Schweiz AG	CHF	100,000	100%
Switzerland	J.W. Ostendorf (Schweiz) AG	CHF	100,000	65%
Syria	Hempel Paints (Syria) W.L.L.	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	Hempel Industrial B.V.	EUR	306,450	100%
Turkey	Hempel Coatings San. Ve Tic Ltd. Sti.	TRY	2,789,300	100%
UK	Crown Brands Limited	GBP	1,000	100%
UK	Crown Paints Limited	GBP	1,000	100%
UK	Crown Paints Group Limited	GBP	100,000	100%
UK	Crown Paints Holding Limited	GBP	100,000	100%
UK	Hempel Decorative Paints Limited	GBP	2,000	100%
UK	Hempel UK Ltd.	GBP	4,100,000	100%
UK	Reebor Limited	GBP	100	1%
UK	Ostendorf U.K. Ltd.	GBP	0	65%
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%
USA	Hempel (USA) Inc.	USD	50,000	100%
USA	Jones-Blair Company, LLC	USD	87,922,373	100%
Vietnam	Hempel Vietnam Company Limited	VND	16,498,272,000	100%

5.8 Financial definitions

Foreign branches	
Austria	Hempel (Germany) GmbH Branch office
Hungary	Hempel (Czech Republic) s.r.o., Magyarorszagi Fioktelepe
Japan	Hempel (Singapore) Pte Ltd Japan Branch Office, Tokyo
Slovakia	Hempel (Czech Republic) s.r.o., org. zlozka Slovensko

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
Free cash flow	=	Free cash flow is defined as net cash generated from operating activities less net cash used in investing activities.
Cash conversion	=	$\frac{\text{Total cash from operating activities + income tax paid + interest income and expenses paid, net}}{\text{EBITDA}}$
Accounts receivable days	=	$\frac{\text{Accounts receivable x 90}}{\text{Revenue (last 3 months)}}$
Accounts payable days	=	$\frac{\text{Accounts payable x 90}}{\text{Cost of goods sold + change in inventory (last 3 months)}}$
Inventory days	=	$\frac{\text{Inventory x 90}}{\text{Cost of goods sold (last 3 months)}}$
Net working capital days	=	Accounts receivable days + inventory days - accounts payable days

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hempel.com

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