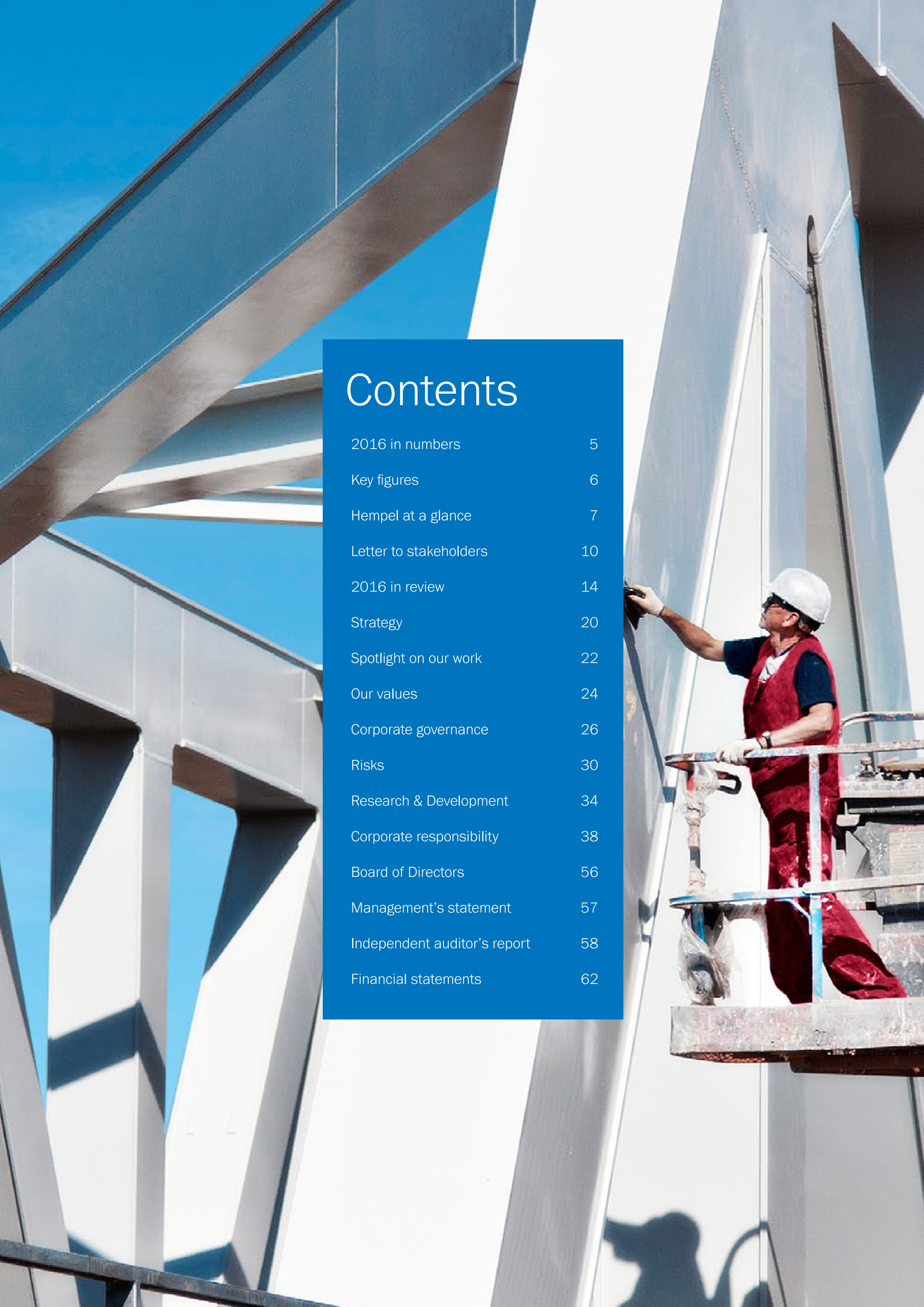
Annual Report 2016

The company	Hempel A/S Lundtoftegårdsvej 91 DK-2800 Kgs. Lyngby Denmark Tel: +45 4593 3800 Fax: +45 4588 5518 hempel.com CVR no. 59946013 Financial year: 1 January - 31 December
Board of Directors	Richard R. Sand, Chairman Lars Aaen, Deputy Chairman Peder Holk Nielsen Anders Pettersson Leif Jensen Helle Fiedler, elected by the employees Henrik Bach Falkenberg, elected by the employees Kim Scheibel, elected by the employees
Executive Management Board	Henrik Andersen Group President & Chief Executive Officer (CEO) Anders Boyer Executive Vice President & Chief Financial Officer (CFO) Lars J. Petersson Executive Vice President & Chief Operating Officer (COO) Peter Kirkegaard Executive Vice President & Chief People & Culture Officer (CPCO) From May 2017: Michael Hansen Executive Vice President & Chief Commercial Officer (CCO)
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup Denmark
Bankers	Nordea Bank HSBC Group SEB (Skandinaviska Enskilda Banken) BNP Paribas



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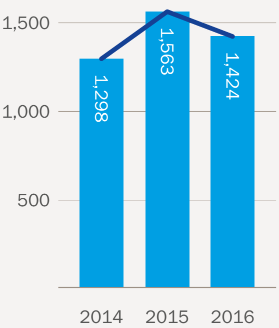
2016 in numbers

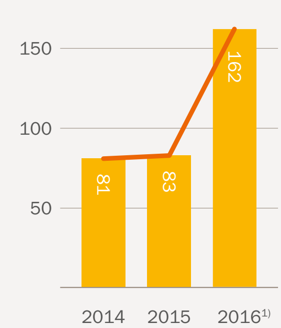
Revenue (EUR million)



- Organic growth was -4.5% in 2016
- Challenging conditions in the Marine and Oil & Gas segments as well as in China
- Overall turnover was negatively affected by 4.0% (EUR 62 million) from currencies, including a weakened GBP following Brexit

Organic growth
-4.5%
vs 2015

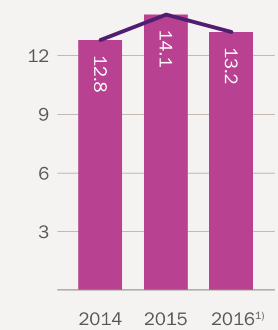
Cash conversion (%)



- Intensified focus on improving working capital drove solid cash conversion in 2016
- Net working capital days at the lowest level for more than 10 years
- 56% reduction in net debt, dropping from EUR 272 million to EUR 119 million by the end of 2016

+79p.p.
vs 2015

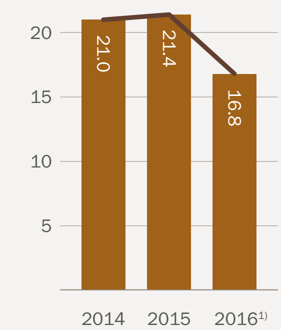
EBITDA margin (%)



- Solid EBITDA margin in 2016 driven by progress on operational excellence projects
- EBITDA margin down versus 2015 due to investments in building a platform for future growth
- Higher raw material prices during the second half of 2016 put pressure on margins

-0.9p.p.
vs 2015

ROIC (%)



- Full-year impact of acquisition of Jones-Blair in 2015 decreased ROIC by 2p.p. in 2016
- Intensified focus on working capital drove reduction in invested capital during 2016 and will support ROIC in 2017
- Lower operating profits also negatively impacted ROIC in 2016

-4.6p.p.
vs 2015

1) Excluding special items related to compliance issues.

Key figures

Key figures in EUR million (unless otherwise stated)

	2016	2015	2014	2013 [1]	2012
Income statement					
Revenue	1,424	1,563	1,298	1,239	1,242
EBITDA	188 [2]	220	166	165	126
Amortisation, depreciation and impairment	58	62	37	40	43
Operating profit	130 [2]	158	129	125	83
Share of net profits of associates	2	2	2	2	3
Net financials	-18	-22	-17	-19	-21
Profit before tax	78	138	114	108	65
Net profit for the year	47	108	82	78	46
Financial position					
Total assets	1,265	1,377	1,162	1,056	1,067
Shareholder's equity	458	488	421	377	356
Net interest-bearing debt	119	272	146	133	192
Cash flows					
Total cash flow from operating activities	265	145	100	146	128
Total cash flow from acquisitions / divestments of enterprises	N/A	-141	-13	N/A	-9
Total cash flow from net investments in property, plant and equipment and intangible assets	-36	-47	-23	-45	-28
Free cash flow	231	-42	65	102	92
Employees					
Average number of employees	5,787	5,661	5,134	5,029	4,977
Employee Net Promoter Score (eNPS)	25	N/A	N/A	N/A	N/A
Ratios (%)					
Organic growth	-4.5	5.5	5.2	1.7	-2.0
Gross margin	43.7	41.7	41.0	40.5	37.2
EBITDA margin	13.2 [2]	14.1	12.8	13.3	10.2
Operating profit margin	9.1 [2]	10.1	10.0	10.1	6.7
Return on invested capital	16.8 [2]	21.4	21.0	20.8	13.2
Equity ratio	36.2	35.4	36.2	35.6	33.3
Leverage ratio (Net interest-bearing debt/EBITDA)	0.6 [2]	1.2	0.9	0.8	1.5
Cash conversion	162 [2]	83	81	114	120

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

We paint our world stronger

From bridges and boats to power stations and homes, our coatings can be found around the globe, helping make our world safer, stronger, longer lasting and more beautiful.

As a world-leading supplier of trusted coating solutions, we work in the protective, marine, decorative, container and yacht industries. Across the globe, our coatings protect structures and equipment from corrosion. They extend asset lifetime, improve efficiency, reduce maintenance costs and bring colour to our homes and places of work.

As guardians of our customers' most valuable assets, we work closely with our customers on every project, large or small. We are there every step of the way, offering advice, support and inspiration – and solutions that provide superior protection and performance.

We never stand still. We are constantly innovating, always looking for new ways to add value to our customers' businesses: making production processes cleaner and faster, reducing energy consumption, improving environmental efficiency, and further driving down maintenance costs.

We enjoy being challenged by our customers. We partner with them in projects across the world that help them become or remain leaders in their respective industries. We are committed to collaborating, innovating, exchanging information and improving every customer relationship in the more than 80 countries where we operate.

We come from almost every corner of the world and speak many languages. We have R&D centres and production units across the globe. We have a broad range of expertise and work in almost every area of business. But wherever we work and whatever we do, we always make sure our customers enjoy the renowned Hempel quality and service.

The Hempel Foundation
Our founder, J.C. Hempel, believed that a company has a responsibility to its staff, the environment and society in general. In 1948, he created the Hempel Foundation and transferred all his shares to it, essentially putting ownership of the company into the hands of its employees.

The Hempel Foundation remains the sole owner of the Hempel Group today. As a commercial foundation, its primary purpose is to provide and maintain a solid economic base for the Hempel Group. The Foundation's secondary purpose is a social and charitable one: to support cultural, social, humanitarian, scientific and artistic purposes around the globe, with special focus on the education of children in need and research into environmentally sustainable solutions within the coatings industry.

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

At Hempel, we see ourselves as guardians of our customers' most valuable assets.

We never stand still, united by our promise to deliver trusted coating solutions.

Around the globe, we give our customers advice, support and products they can depend on: coating solutions that not only provide superior protection, but also help improve the efficiency of what they do. This is why we exist and why we are the partner of choice in over 80 countries worldwide.

Adding value to every business

Protective

In the harshest industrial environments
Across infrastructure and industries, our coatings protect valuable industrial structures and heavy-duty equipment, extend maintenance intervals, improve safety and increase production speeds.

Marine

An energy-efficient fleet
With advanced coatings for every part of the ship, we protect vessels around the world from corrosion, reduce maintenance costs and help lower fuel consumption and emissions.

Decorative

A world of colour
From our homes and places of work to our museums, schools and public buildings, our coatings are all around us – helping make our lives safer, brighter and more colourful.

Container

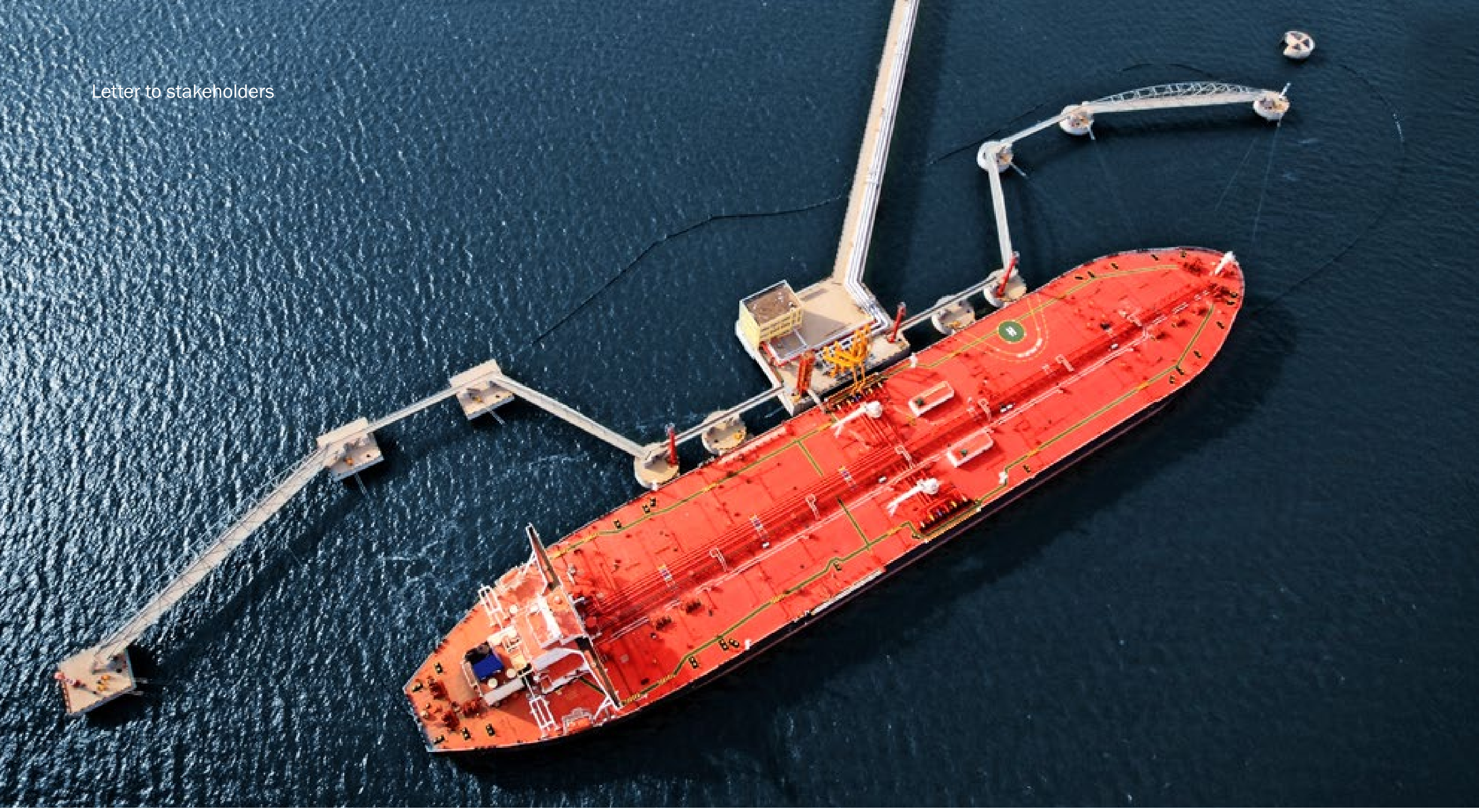
Safeguarding our cargo
Every day, millions of tons of goods are transported across the world by container. Our coatings provide long-lasting protection for containers, both inside and out.

Yacht

Under wind and sail
With a full range of products for pleasure and racing vessels, we help sailing enthusiasts keep sailing smoothly.

Technical Service

Behind every great coating
From specification through to application and final curing, our coating advisors ensure that our customers' coatings are applied correctly and efficiently.



Letter to stakeholders

Building a platform for accelerated growth.

Our coatings have never been more in demand than they are today. Our world's infrastructure is rapidly expanding, we are building more homes, and global industry demands increasingly efficient transportation. Our coatings are an essential part of this development, as they protect man-made structures and equipment from corrosion. But we offer more than just protection. We listen to our customers and create innovative coatings that they can depend on; trusted solutions that help them reduce costs, increase efficiency and improve environmental performance. This customer focus is at the heart of what we do, and has helped us build a leading market position in many industry segments over the years.

Building a platform
In late 2015, we launched our new five-year strategy, *Journey to Excellence*. The strategy plan has been fully endorsed by the new Executive Management Board as well as the Board of Directors. Our goal remains to grow faster than the market and improve profitability by striving for excellence across our organisation and delivering trusted customer solutions globally. To achieve this, we concentrated on laying the foundation for accelerated growth in 2016, and took a number of fundamental and important steps towards building an excellent organisation.

Most importantly, we created a new organisational structure with two dimensions. Strategic and operational execution continues mainly to take place through our regions, but in order to increase excellence and operational synergies across the globe we have now created four strong Group functions, including a new Commercial function representing the 'voice of the customer'. The Commercial function will work closely with R&D and our other support functions to ensure our products and solutions are tied closely to customer needs. It will drive commercial excellence across the Group and make sure that we serve our customers even better in the future.

The new organisation brings management closer to the business in one united Operational Management Board, which enables us to drive Group-wide initiatives, and helps speed up decision-making processes and strategy execution. It also gives us greater oversight, control and alignment across the business. We call it 'collaborate like crazy' and we do it with all stakeholders.

Another important element in building a platform for growth is our new Annual Management Cycle, a yearly management wheel that ensures our management teams across the globe understand and share a common vision, work closely together and make – as well as execute – decisions easily and at the locations where needed. We are strengthening our foundation and platform for future success.

The year in review

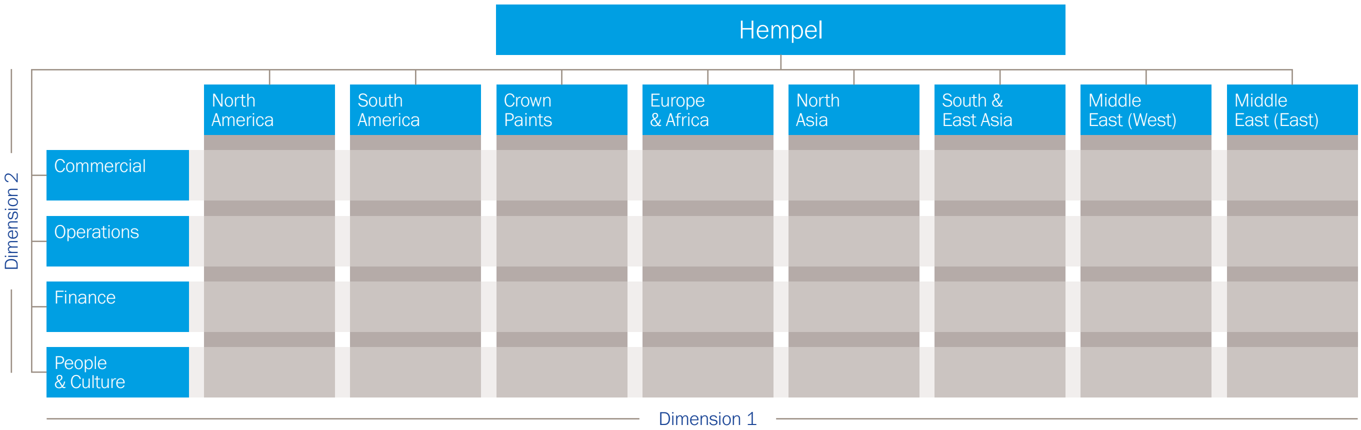
In last year's Annual Report, the outgoing CEO stated that 2016 could be a challenging year. This proved to be true. We faced a world with increasingly uncertain macro-economic conditions and industries such as oil and gas and marine continue to be challenged. When our customers are challenged, we share those challenges, and unsurprisingly this influenced our performance in 2016.

Organic growth was -4.5 per cent, which was partly due to the loss of two large customers towards the end of 2015 and partly due to Hempel's disproportionate exposure to challenging market conditions. However, this was partially compensated for by good performance in other areas, such as power and renewable energy, as well as our growing exposure to infrastructure projects across countries around the world.

While sales development was below expectations for 2016, we were pleased by our performance in many other areas. Our EBITDA margin was a very solid 13.2 per cent, driven by a number of factors, including solid progress on our internal excellence projects, not least within our supply chain and manufacturing. We also saw a strong cash flow, driven by a large reduction in our net working capital. Together, these factors ensure we have the ability to continue to make strategic investments in the future as we look to further accelerate *Journey to Excellence* in 2017. We know that only our continued strong focus on cash, profits and excellence will provide our customers with a trustworthy long-term global partner, who shares both new innovations and efficiencies.

In August, compliance issues involving inappropriate practices were uncovered in our office in Germany. We deeply regret

Group organisational structure



The Hempel Leadership Summit in Barcelona in November 2016

that in some instances our internal rules were deliberately circumvented and non-compliant practices took place. On behalf of both the Executive Management Board and Board of Directors, we would like to apologise for the inappropriate behaviour and state unequivocally that it is not acceptable. It is a direct attack on the integrity of our customers, culture, values and employees.

The inappropriate practices were stopped effectively at once. An internal investigation was launched and concluded and the appropriate disciplinary actions taken. As a consequence of the inappropriate practices uncovered in Germany, the Board of Directors and the Executive Management Board proactively launched thorough compliance investigations in other relevant jurisdictions worldwide in the Hempel Group with the assistance of external global advisors from the audit and legal industry. As a result of these investigations, we have expensed EUR 40 million in the financial statements for 2016 and we will make substantial investments internally and externally to prevent compliance issues or similar from happening in the future.

These investments include examining and improving our internal processes; strengthening and improving cooperation between the Audit Committee, Executive Management Board and compliance functions; appointing a Group Internal Auditor and significantly upgrading the Group's internal audit resources; and upgrading our whistleblower system to an externally operated system – known as the Hempel Ethics Hotline – that is open for reporting by employees, customers, suppliers and other stakeholders. Most importantly, we will continuously communicate our clear position: Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first.

We have a strong heritage and culture and it is important that every one of our colleagues feels this on a daily basis. This is how we can support every employee and their families, and ensure they feel our founder's words: 'Employees are a company's greatest asset'. At Hempel, every voice and opinion counts.

Looking towards a strong 2017

We expect the coatings market to remain challenging in 2017, especially the marine and the oil and gas industries where investments remain low. However, we look forward to another year of solid progress with organic growth returning to positive territory, continued strong margins and further reductions in our net working capital. Our internal excellence projects are already beginning to pay-off – not just in terms of cost reductions and greater efficiency, but also by streamlining our processes and developing our capabilities. In addition, many of the customer-focused projects introduced in 2016 will begin to come to fruition. Together, these projects are strengthening our ability to develop unique value-adding solutions for our customers, and we anticipate many exciting contracts and projects in 2017. Importantly, we will ask for our customers' opinions to make sure that we learn from them how we can achieve excellence together. Our customer survey will be a continuing process that is combined with our daily dialogue with customers, because together we should settle for nothing less than excellence.

Henrik Andersen Richard R. Sand

Hempel at Heart
Hempel has always been a company with strong values. However, we had never described them in words. This changed in 2016. Our values – Connecting to customers; Constantly challenging; Socially committed; and Inspiring confidence – capture the unique characteristics of the Hempel culture. They unite us as members of the Hempel family, and give us a shared sense of identity, pride and belonging. When we feel and live these values at work, we have Hempel at Heart.

While these values describe the way we are, they also contain an element of aspiration. The task for all of us at Hempel now is to ensure our values are embedded in our own behaviour and that we live them in our daily work. Our values were launched at the first ever Hempel Leadership Summit, a new annual event and part of our Annual Management Cycle. Held in Barcelona in November, the summit gathered 150 leaders and selected talents from across the globe. It was an exciting and energising two days, in which we shared our long-term vision and ensured everyone is on board. Following the summit, the task for our leaders is to pass this information, enthusiasm, energy and will to succeed onto our employees and customers. After all, we as leaders can talk all we like, but it is everyone together who turns words into action.

With this in mind, we held our first ever Employee Engagement Survey in 2016. Every one of us had the chance to take part, and the response rate of 93 per cent shows that we are all committed to making Hempel an even better place to work. The survey shows that satisfaction and motivation across the Group is 68, slightly above the global average for companies of our size. However, we want to be more than average. We want to be excellent. We will repeat the survey every year to assess progress.

As with any company, a strong brand is essential for success. It builds bridges to both new and potential customers and improves our ability to attract and retain the greatest talents. In 2016, we launched a new communication strategy to increase communication to customers, potential employees and other stakeholders through the media and other channels, including social media channels such as LinkedIn.

Thank you
Our achievements and progress are down to the dedication and hard work of our approximately 6,000 employees across the globe. On behalf of the Executive Management Board and the Board of Directors, we would like to thank you for your work, loyalty and enthusiasm in 2016. We would also like to take this opportunity to thank our customers, shareholder and other stakeholders for their continued support.

We look forward to another exciting year ahead.

Henrik Andersen
Group President &
Chief Executive Officer (CEO)

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

2016 in review

We embarked on and invested in building a foundation for accelerated growth in 2016 – and we are now well placed to accelerate execution on our *Journey to Excellence* strategy.

It was stated in the Annual Report for 2015 that 2016 could be a challenging year – and so it proved to be. But, we also made strong progress in many areas. The Hempel Group's revenue for the year was EUR 1,424 million, corresponding to organic growth of -4.5 per cent and a negative foreign exchange rate impact (FX-impact) of another 4.0 per cent. While revenue development was both disappointing and below the general market, the Group's EBITDA margin of 13.2 per cent was stronger than expected, very much driven by the operational excellence initiatives in our *Journey to Excellence* strategy. We also made good progress on cash flow generation. By the end of the year, the Group's net working capital was at 89 days, down from 122 days by the end of 2015 and the lowest for more than 10 years. Our net working capital process is much about discipline and keeping our promises to each other and our customers and suppliers, as well as our control of inventory. We still have room for improvement in this, so the journey will continue in 2017.

Sales
In 2016, sales ended at EUR 1,424 million, corresponding to organic growth of -4.5 per cent and a negative FX-impact of 4.0 per cent compared to sales of EUR 1,563 million in 2015. The negative organic growth was partially due to the fact that two large contracts were lost in late 2015 and partially due to the fact that Hempel has an above industry average exposure to industries and regions that struggled in 2016 – including marine, oil and gas, and China. The negative organic growth in 2016 should also be seen in connection with the fact that Hempel delivered organic growth above market level in 2015, with marine performing particularly strongly due to a change in legislation.


SEA INSTALLER
A2SEA

Opened in 2015, our factory in Ulyanovsk, Russia has a capacity of 19 million litres a year

During 2016, we continued to invest in improving our service to customers. We established a new global Commercial function that will drive commercial excellence across the globe and work closely with R&D and our other support functions to ensure our products and solutions are tied closely to customer needs.

We also launched My Hempel, an online customer sales and service tool that will make it easier for customers to do business with us and make our local customer service departments more efficient. In addition, we developed a new Global Key Account Management concept that better reflects the global structure and decision-making processes of our large global customers, and will ensure that we can serve them even better in the future.

Regions and segments
Our eight regions are grouped into three main regions. All three of our main regions and most segments generated negative organic growth in 2016. In particular, Europe and Asia-Pacific were impacted, as expected, by lower activity in the marine industry, and both regions were also affected by the loss of a Decorative contract in late 2015. The Asia-Pacific region was also affected by difficult business conditions in China, including a tight credit situation.

In September 2016, Hempel extended a long-lasting and important joint venture agreement in the Middle East covering Saudi Arabia, Bahrain and Kuwait, among others. The joint venture was formed more than 50 years ago and has now been extended for another 10 years.

The Marine segment – including Container – saw lower maintenance activity following the peak in late 2015. A further slowdown driven by marine newbuilding is expected in 2017, although the recent ratification of the Ballast Water Management Convention may have a positive effect on the marine maintenance industry.

Our Protective segment was affected by low activity in the oil and gas industry across the globe. However, we saw strong performance in Power Generation, with our Wind segment in particular performing well. We also took our first steps into the heavy-duty equipment manufacturing sector, where establishing a strong market presence is a key goal in our *Journey to Excellence* strategy.

Our Decorative segment was affected by the loss of two large customers at the end of 2015. However, we continued to invest in our Decorative segment by expanding our sales

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

network with the opening of 17 new showrooms across the Middle East and 4 new Crown Decorating Centres in the UK and Ireland.

Operating expenses
In 2016, operating expenses increased by around 6 per cent measured in fixed currencies. During 2016, we invested in building a platform for accelerated growth in line with our *Journey to Excellence* strategy. Among other things, this included additional resources within R&D, Marketing and certain Group functions, as well as compliance-related areas. Fixed expenses, measured in reported currencies, declined by approximately 2 per cent.

EBITDA
Our EBITDA margin (before special items) was 13.2 per cent, slightly down from 14.1 per cent in 2015. The EBITDA margin was delivered despite lower sales and was supported by progress on our operational excellence projects as part of the execution of our *Journey to Excellence* strategy. Progress on our operational excellence projects enabled us to invest in building a platform for future growth and at the same time maintain solid margins during the first part of 2016. Although raw material prices increased towards the end of the year, raw material prices in 2016 were on average below 2015 and thereby supported margins compared to last year.

In absolute terms, EBITDA (before special items) amounted to EUR 188 million, compared to EUR 220 million in 2015.

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

The effective tax rate for the year was 41.3 per cent. Excluding one-off costs related to compliance issues, the effective tax rate was 24.2 per cent. The low effective tax rate in 2015 of 22.0 per cent was impacted by capitalisation of previously unrecognised tax assets and a lower Danish corporate tax rate.

Net profit amounted to EUR 47 million, down from EUR 108 million last year.

Capital expenditure

During 2016, we continued to invest in new factories, additional production capacity and the optimisation of our manufacturing footprint. We finalised and inaugurated our new factory in Russia, completed our factory expansion project in Malaysia and opened a new factory in Vietnam. We also continued our investments in new capacity in Oman, Kuwait and Yantai, China. Other capital investments in 2016 included a warehouse consolidation project in Europe and a new distribution centre in the US. As part of optimising our manufacturing footprint, we closed factories in France, Saudi Arabia and Singapore.

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

Cash flow and net interest-bearing debt

During 2016, we intensified focus on improving net working capital. Hempel's net working capital has historically been well above industry peers and improvement was needed across all three components – receivables, inventories and payables. Significant progress was made during 2016 and, by the end of the year, net working capital days had decreased to 89 days, down from 122 days in 2015.

As a consequence, total cash flow from operating activities ended at EUR 265 million in 2016, up 83 per cent from EUR 145 million in 2015. By the end of the year, net interest-bearing debt had been reduced significantly to EUR 119 million, equalling a ratio of 0.6 to EBITDA, down from 1.2 in 2015.

Balance sheet and financial position

Partly due to our focus on reducing net working capital and thereby invested capital, total assets decreased by EUR 112 million, or 8 per cent, from 2015 to 2016. By the end of 2016, total assets amounted to EUR 1,265 million as per the financial statements.

Invested capital decreased from EUR 835 million by the end of 2015 to EUR 702 million excluding special items by the end of 2016 – a decline of 16 per cent. Despite the decrease in invested capital, the Return on Invested Capital (ROIC) decreased from 21.4 per cent in 2015 to 16.8 per cent in 2016 (excluding special items related to compliance issues) due to the full-year impact of the acquisition of Jones-Blair in 2015 as well as lower operating profits.

Expectations for 2017

The coatings market is expected to remain challenging in 2017, not least in the marine industry, the oil and gas industry, and related markets. At the same time, average raw material prices are expected to be higher compared to 2016. Despite these challenges, we expect the Hempel Group to deliver single-digit organic growth and a solid EBITDA margin in line with 2016, while still continuing to invest in building a platform for accelerated growth as outlined in our *Journey to Excellence* strategy.

750

Around 750 litres of Hempel coatings are applied somewhere in the world every minute.

“ Crown Paints have worked effortlessly providing ideas, advice and solutions along the way in order to transform the way customers shop not only when it comes to colour but functionality as well.”

Emma Morris, Buyer,
and Caroline Bacon, Category Manager,
Homebase/Bunnings UK

Strategy

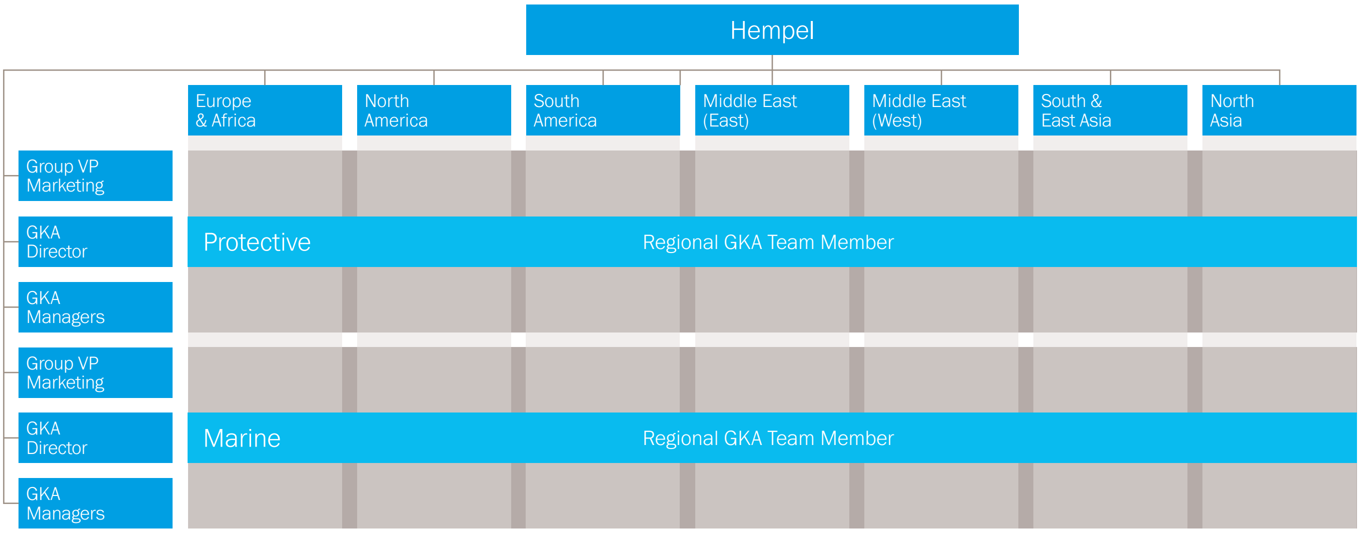
2016 was the first full year of our *Journey to Excellence* strategy and we remain on course to achieve our long-term goals.

2016 was a year of succession and transformation for Hempel's top management team. We welcomed a new Chief Executive Officer and Chief Financial Officer, and replaced our Executive Group Management Team with a more streamlined Executive Management Board. The new management team has embraced *Journey to Excellence* and our vision remains to grow faster than the market by being customer-centric and achieving higher profitability through operational excellence. The successful execution of *Journey to Excellence* will form the platform for expansion of both our geographical footprint and skills through acquisitions in our key markets.

Accelerating our journey
In 2016, we set in motion initiatives to support and accelerate our strategy execution. These initiatives included:

- Creating a new organisational structure to enable greater alignment across regions and stronger focus on key enabling global functions
- Establishing a new Commercial function to ensure we take a common best practice approach to sales, key account management, our commercial processes and raise the voice of our customers
- Sharpening our focus on Solution Excellence to ensure our products and solutions better meet our customers' needs
- Introducing an Annual Management Cycle, a yearly management wheel that will ensure the Executive Management Board and management teams across the globe understand and share a common vision, and execute with greater coherence in the future
- Launching Foundation for Leadership as a key element to our strategy. Foundation for Leadership is designed to ensure we become an excellent organisation in terms of people and leadership. It will focus on improving our internal capabilities around global talent and employee development – with our values as a starting point – and will ensure our entire organisation is engaged and ready to support our strategy execution

Global Key Account Management (GKAM)



Improving internal excellence
We continued to invest in R&D, Marketing and other selected Group functions in 2016 to ensure that we have the capabilities needed to pursue strong organic growth in our key markets. We also began a number of internal excellence projects focused on improving efficiency, reducing costs and improving our operational excellence. Many of these initiatives have already had a visible impact on our bottom-line performance, and we will continue to focus on excellence in 2017, including streamlining and exploiting best practices across 25 manufacturing sites to yield efficiency improvements.

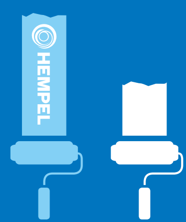
In 2017, we will further continue to implement and rollout the initiatives that will fuel organic growth in the years to come. As well as internal excellence projects, these include customer-focused initiatives – such as our new Global Key Account Management concept – which will help us build even closer relationships with customers.

Our mission

Hempel delivers trusted coating solutions.

Our vision

To grow faster than the market by being customer-centric, achieving higher profitability through operational excellence.



Our ambition

- To grow at least 2 per cent faster than the market
- To achieve an EBITDA margin in line with top-tier competitors

Spotlight on our work

As a trusted coatings supplier, we work with many great companies and supply coatings to a wide range of projects around the globe. Here are a few of our stories from 2016.

Partnership with Teekay leads to the industry's first interactive paint training app for ships' crews

Teekay is one of the world's largest marine energy transportation, storage and production companies. As a key strategic supplier, our coatings have been used for a number of years to protect Teekay's vessels and help reduce vessel fuel consumption and maintenance costs. Then, in 2015, Teekay set us an interesting challenge.

Teekay's mission statement – 'We will operate the best ships in the industry' – includes operating the industry's best-looking ships. This has much to do with the skill and diligence of the crew. To keep a vessel in pristine condition, the crew carry out coating maintenance work at sea. Many factors need to be considered, including safety, weather, manpower and planning.

Teekay asked us how we could help raise their vessels' cosmetic standards to best-in-class. Our solution was to improve the coating application skills of Teekay's crews through a coatings course that covers everything from safety and planning through to application. However, we also know that crews cannot spend time onshore sitting in a classroom, so we made the course accessible through the Onboard Training App, the industry's first interactive paint training iPad app for ships' crews.

The app was developed in close cooperation with Teekay. We began by taking a 12-day voyage on Teekay's LR2 tanker Ganges Spirit to better understand the conditions that the crews work under – then used these insights to create an app that Teekay's crews could use for training on board. Using video clips, quizzes and other training materials, the app educates individual crew members in the best way to paint different parts of the ship in a variety of conditions – and so helps ensure onboard painting work is carried out to a high standard.

Discussing paint application on board a Teekay vessel

The app will be rolled out to Teekay's vessels in early 2017. As an integral part to Teekay's crew training, it is a major step towards achieving the company's goal of operating the best-looking ships in the industry.

Giving Bunnings' customers a new world of colour

When the Wesfarmers Group acquired Homebase in 2016, they had an ambitious plan to rejuvenate the fortunes of the UK home improvement retailer. The Group planned to use the experience and success achieved from its Australian DIY chain Bunnings, where the focus is on providing excellent service and in-store advice to customers to ensure Bunnings' customers always get the right product for the job – an approach that has enabled the chain to build a very loyal customer base.

One of the biggest challenges the Group faced with the acquisition is that the UK market is predominately geared towards ready-mixed paint and self-service. To overcome this challenge, we worked closely with Bunnings to develop a new collection of 680 colours to provide more customer choice, as well as an impactful in-store Colour Wall display that showcases the product benefits to customers and makes colour selection easier. We also worked with Bunnings to train store staff so they have the confidence to mix paint and provide colour advice to customers.

As a result, Bunnings' customers in the UK can purchase the highest quality Crown paint in any colour and in any finish,

A new Colour Wall display in a Bunnings store

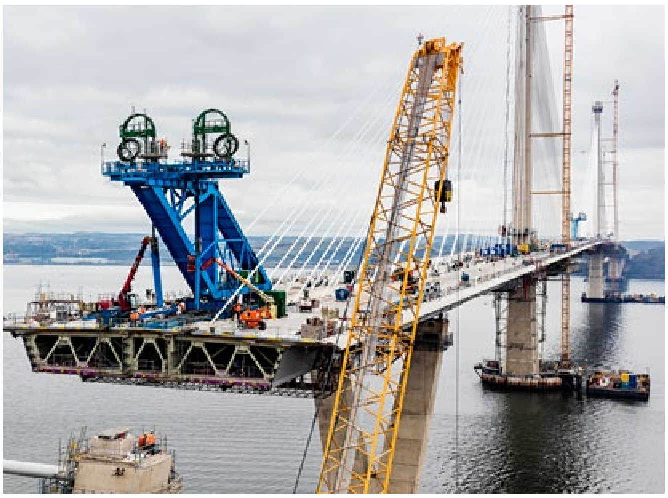
and can get creative and practical inspiration from staff for every home decoration need. The first Bunnings store opened in the UK in February 2017, with a further 20-30 stores planned to open throughout the year.

Queensferry Crossing, Scotland

Due to open in summer 2017, the Queensferry Crossing is a stunning piece of modern engineering. Spanning the busy Forth Estuary near Edinburgh on the east coast of Scotland, it has a total length of 2.7 kilometres, making it the longest three-tower cable-stayed bridge in the world. At its highest point, the road deck is elevated approximately 60 metres above sea level, the equivalent of nearly 14 double-decker buses stacked one on top of the other.

The bridge's road deck is constructed from over 35,000 tons of steel, which was manufactured in the UK and China. The coatings needed to be tough enough to withstand impacts and exposure during the 7,700-kilometre sea journey from China, and robust enough to protect the bridge from the tough Scottish climate and coastal conditions for years to come. Thanks to our long track record of protecting infrastructure – including four of the world's ten largest cable-stayed bridges – the steel manufacturer Shanghai Zhenhua Heavy Industry Co., Ltd. (ZPMC) knew our coatings were ideal for the job.

The Queensferry Crossing project required close collaboration and coordination between teams on different sides of the world. We worked with both the steel manufacturer and the owner's advisory engineering team in the UK during specification to ensure the coating systems were up to the



The Queensferry Crossing under construction
(photo courtesy of Transport Scotland)

task. In addition, our Technical Service teams worked at the steel yard in China and the construction site in the UK to oversee application and ensure the coatings were applied accurately and efficiently.

In total, we had supplied over 600,000 litres of coatings to the project as at December 2016.

Our values

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

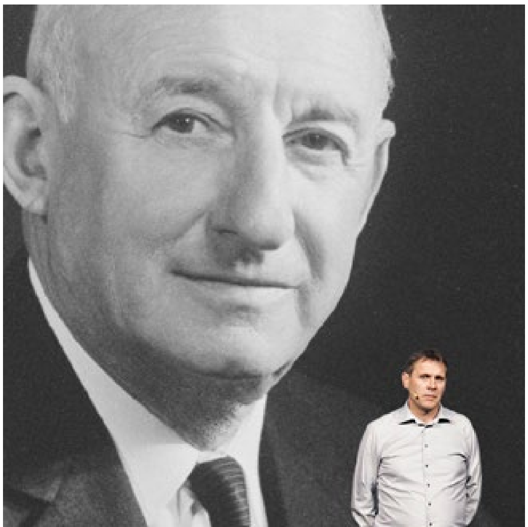
On 4 July 1915, J.C. Hempel erected a sign saying *J.C. Hempel, Import-Export* in Havnegade in Copenhagen, Denmark. He was just 21 years of age at the time, but his plan to sell ready-mixed paints to the ships that plied their trade in and around Copenhagen would go on to revolutionise the marine coatings industry, and form the foundations of our modern global company.

J.C. Hempel was a visionary business leader and humanitarian, who founded his company on three of his favourite sayings: ‘Quality & Service’, ‘It is the will to want that creates the skill to do’ and ‘Employees are a company’s greatest asset’. The company he founded has changed considerably over the last 100 years, but these guiding principles remain. They have been passed on from employee to employee, and have shaped the unique Hempel culture at the heart of our company, the unique attitude that sums up the ‘Hempel way’.

Hempel at Heart
Our values have taken more than 100 years to create. In 2016, we wrote them down for the first time. We call them Hempel at Heart.

Our values define what it means to be part of the Hempel family. They give us a shared sense of identity, pride and belonging. They guide us when we interact with colleagues, business partners and other stakeholders, and help ensure we make the right decisions in challenging situations. They are a signal to customers and new colleagues of what they can expect when they work with us – and they will form the foundation of our future growth.

Our values were launched at the Hempel Leadership Summit in Barcelona in November 2016



Inspiring confidence

Constantly challenging

To mark and celebrate the launch of our values, we asked the renowned Danish painter Anders Moseholm to create a series of paintings that draw inspiration from our values. At the end of 2016, every Hempel office around the world received lithographs of the original paintings to display in their offices.

Socially committed

Connecting to customers

Corporate governance

Our corporate governance and management structure was upgraded during 2016 to ensure the continuing development and strengthening of the Hempel Group.

Hempel's success is based on building trusted relationships with customers, suppliers, employees and the communities in which we operate, and delivering trusted solutions to our customers wherever they are.

2016 raised a number of questions regarding compliance and showed that we can do more to strengthen compliance within our company. Therefore, we changed our focus on corporate governance in 2016 and are committed to strengthening our processes and control systems in 2017 in line with the values and vision of the Hempel Foundation, Hempel's Board of Directors and the Executive Management Board.

Management

The Hempel Group's organisational structure has two dimensions. Strategic and operational execution mainly takes place through the regions, while four strong Group functions ensure excellence and operational synergies across the Group. This structure was established in 2016.

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

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

Board of Directors

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

Members of the Board of Directors elected by the shareholder at the Annual General Meeting are elected for an annual term (until Hempel's next Annual General Meeting). Board members who retire are eligible for re-election. Board members can be elected to the Board of Directors up until the Annual General Meeting in the calendar year in which the member reaches 70 years of age.

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

Composition and responsibilities of the Board of Directors

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

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

Competencies of the Board of Directors

Hempel's Board of Directors strives to recruit board members with a diverse range of mutually complementary skills and expertise. When the Board of Directors proposes new board members, a curriculum vitae and thorough description of the candidate's qualifications are made available to the shareholder.

Hempel is a global leader and, to successfully develop and maintain its position, Hempel is dependent on global expertise and experience at board level. Today, the Board of Directors is a diverse group of individuals mixing global experience, functional competencies and industry background, which ensures that it can fulfil its obligations. As well as in-depth knowledge of Hempel's business, board members possess expertise within a wide range of areas, from innovation, product development, online marketing and commercialisation through to financial and human resource expertise.

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

Diversity and talent management

The Board of Directors fundamentally believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies.

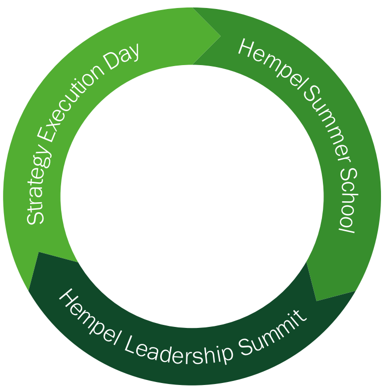
Hempel has an action plan in place to increase the number of women in senior management positions and places special focus on this during its talent review, successor planning process, leadership development, etc. Currently, women fill 18 per cent of the company's senior management positions. Hempel continues to strengthen its efforts to build a pipeline of future female candidates and is committed to creating a much more representative distribution of men and women at management level.

Remuneration

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

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

The Annual Management Cycle



Strategy Execution Day (April)	**Hempel Summer School (June)**	**Hempel Leadership Summit (November)**
The Executive Management Board meets with the Hempel Board of Directors to confirm our strategy	Hempel's top managers review and refine our strategy at IMD Business School	Hempel's top managers gather to set the agenda for the year ahead

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

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

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

The Remuneration and Nomination Committee
According to its charter, the Remuneration and Nomination Committee assists the Board of Directors with the recruitment of its executives registered in the Danish Business Authority. In addition, it assists with the establishment of remuneration for the Group's executives, etc., and helps ensure that the Group's general remuneration policies are balanced appropriately. In 2016, the committee supervised and reviewed the salary, bonus and long-term incentive programmes, as well as the results of these programmes.

Furthermore, the Remuneration and Nomination Committee advises and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Management Board must have to best perform their tasks. Each year, the committee evaluates the structure, size, composition and performance of the Board of Directors and the Executive Management Board, and makes recommendations to the Board of Directors in regard to any changes.

The Board of Directors believes in a global, transparent and thorough search and selection process for board candidates. The committee helps prepare the Board of Directors' work by selecting candidates with the assistance of a professional global search firm. In 2016, activities primarily included the recruitment of Henrik Andersen as Chief Executive Officer of the Hempel Group and Anders Boyer as Chief Financial Officer. The committee convenes as necessary. However, it has two fixed meetings during the year, in February and November.

The Audit Committee
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, etc.

According to its charter, the Audit Committee's work includes assisting the Board of Directors with fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the Group's process for monitoring compliance with laws and regulations and its Code of Conduct, as well as risk management.

A member of the Board of Directors of the Hempel Foundation is part of the Audit Committee and acts as the accounting expert.

In 2016, extensive time was spent on reviewing the financial impact of alleged compliance issues uncovered in a number of jurisdictions, including Germany, as well as already planned strengthening of the Hempel Group's finance functions, control mechanisms and the materiality level of the external audit. In addition, the committee reviewed the Group's whistleblower reporting system, main accounting principles, tax compliance and key risks, etc.

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

In 2016, the decision was taken to establish a Group Internal Audit function in order to strengthen focus on compliance and ethical behaviour, as well as the control environment in general. This was being implemented before the alleged compliance issues were discovered. However, in light of these compliance issues, implementation was accelerated.

The Group Internal Audit function is part of the Group's Finance function. The Head of the Group Internal Audit function will meet separately with both the Audit Committee and the Group's external auditors once a year.

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

Business ethics and compliance
Hempel's commitment to business ethics and compliance with international regulations and internal policies is anchored in its Code of Conduct, Business Ethics Policy and other internal corporate guidelines. These outline the fundamental requirements for how Hempel operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners. To ensure and document employees' familiarity with the Code of Conduct, Business Ethics Policy and other key policies, relevant employees electronically sign off on their compliance within specific areas. In addition, they take e-learning courses within anti-corruption and competition compliance on a regular basis.

Hempel Ethics Hotline

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

Meeting activities of the Board of Directors and Audit Committee during 2016

Board of Directors	Audit Committee
8 February	17 March
29 March	17 June
21 June	5 September
20 September	22 November
24 October	
29 November	

The whistleblower reporting system
Hempel has had an internal whistleblower reporting system since 2012. However, during 2016 a project was completed to enhance the current whistleblower solution and implement a new global Hempel Ethics Hotline. Following the receipt of approval for the system from the Danish Data Protection Agency, the system will be rolled out during 2017. Run by an independent third party, the system is available in multiple languages and enables all employees and external stakeholders to anonymously report potentially irregular or unethical conduct through an internet portal or via a local phone number. The system is an important tool to ensure that allegations of irregular or unethical conduct are reported and addressed quickly. All complaints are treated confidentially and followed up by an objective and independent investigation.

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

Risks

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

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

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

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

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

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

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

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

Risk management process

Main risks

Sales

Risk	Mitigating actions taken
Business ethics Despite our best efforts and intentions, there is a possibility that one or more Hempel employees – either on purpose or by mistake – do not follow our Code of Conduct and act contrary to our Business Ethics Policy. This could negatively impact our business in a number of ways, from potential penalties and loss of business, customers or licences to loss of trust and brand reputation.	• Vigorously communicated the tone from the top: Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first • Took steps to strengthen our compliance function and our internal control framework • Committed to launching an external Hempel Ethics Hotline in 2017 that allows any internal as well as external person to raise concerns *In 2016, we identified practices in our German office in which a small number of employees had deliberately circumvented internal rules. As a result, we:* • *Launched internal audits into the situation in Germany by an independent external law firm – the inappropriate practices were stopped effectively at once and anyone found to have deliberately broken our own internal policies was dismissed* • *Launched internal audits in other relevant jurisdictions by an independent audit firm*
Market trends There is a risk that future market trends are not fully understood due to inadequate trend analysis and risk management processes. This could result in Hempel failing to foresee market disruption and changing market (customer) trends – and thereby losing market share.	• Market Intelligence centre established to track and analyse market trends and challenge predictions • Project model (stage gate) in place for new technology projects • Enterprise risk management process now includes emerging and strategic risks • Partnering with our customers to become an innovative leader

Operations

Risk	Mitigating actions taken
Product quality Possible product defects can lead to major product claims. This can result in significant financial losses, and/or loss of customer loyalty. There are some areas where claims could be critical from both a financial and reputational perspective.	• Established clear organisational responsibility to strengthen our way of working with customer quality and ensure proper data capture, root cause analysis, and corrective and preventive action implementation
Raw material supply Certain critical raw materials are dependant on a single source supplier. In addition, certain critical raw materials with multiple suppliers only have one supplier with enough flexibility to deliver additional volume.	We continually: • Work to minimise dependency on single source suppliers • Test and seek approval of alternative raw material suppliers • Test and seek approval of materials from other supplier production site(s) if single source suppliers only have single source factories
Raw material prices Hempel operates in an industry that is significantly exposed to developments in underlying raw material prices.	• As only a part of key raw materials are traded on a commodity exchange, effective hedging on most raw materials is not possible. Hempel currently hedges part of its annual consumption of zinc and copper, which constitutes less than 10 per cent of its total raw material costs. Hedging of Hempel's raw material exposure thus mainly takes place through continuous adjustment of the sales prices of our products
Employee safety Employee safety can be an issue for employees working or travelling in certain countries.	• Conducted an external macro study of all the countries where Hempel does business and rated them according to risk potential • Used the study findings to identify the actions needed • Conducted onsite inspections of high-risk locations and recommended actions to increase safety of employees and assets – actions implemented in most critical countries, including hostile environment awareness training

Research & Development

Partnering with our customers, leading innovation.

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

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

Examples of partnerships

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

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

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

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

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

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

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

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

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

In October 2016, we voted in favour of the CEPE's (the European Council of the Paint, Printing Ink and Artists' Colours Industry) new Paint Formula Stewardship Policy. (See page 44 for more information.)

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

15

Our 15 R&D centres across the globe develop innovative new solutions and tailor products to our customers' needs.

Our customers' biggest challenges

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

Reducing environmental impact

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

Increasing asset lifetime

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

Improving efficiency

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

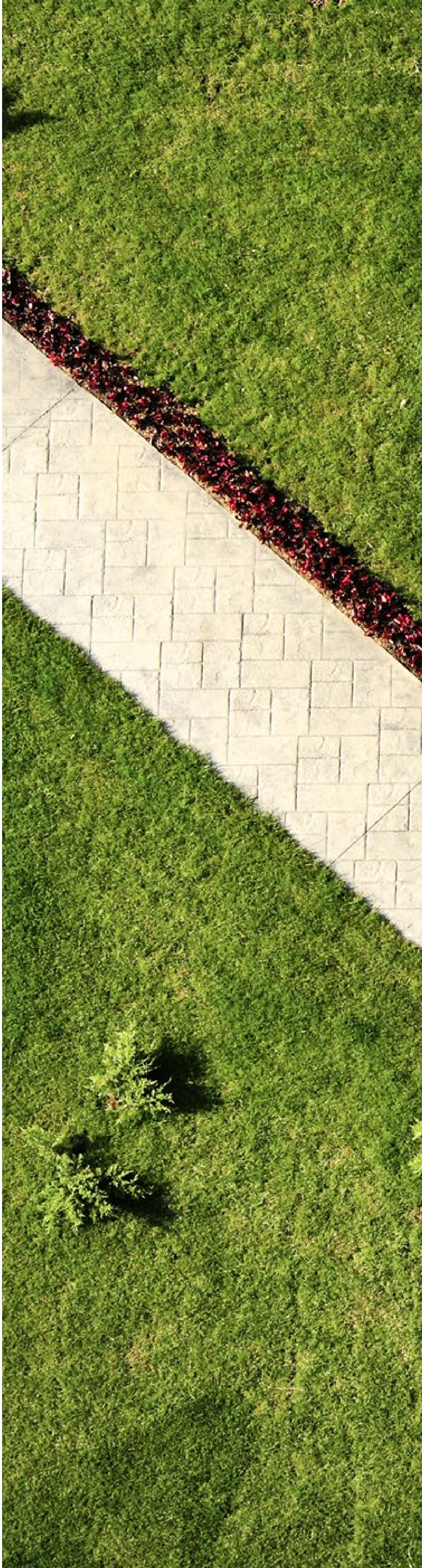
Sustainable beauty

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

Meeting global regulations

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

Corporate responsibility



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

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

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

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

Did you know...?

We are committed to implementing the United Nations' Guiding Principles on Business and Human Rights.

25

With 25 production facilities across the globe, we can deliver products quickly to almost anywhere in the world.

8

Our special coatings for ships' hulls reduce a vessel's fuel consumption and CO_2 emissions by up to 8 per cent, significantly improving efficiency and environmental performance.

Ethical behaviour

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

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

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

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

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

We have a risk assessment programme in place to ensure we evaluate, mitigate and monitor potential risk to the company, including HSE risk, safety risk and risk concerning business ethics. (See page 30 for more information.)

Strengthening our compliance function
Hempel does not accept inappropriate practices or violations of internal rules. They are a direct attack on the integrity of Hempel's customers, culture, values and employees. We decided to strengthen our compliance culture in 2016. This involved several changes, including the following.

- We will consistently and repeatedly communicate from the top of our organisation that Hempel has zero-tolerance for inappropriate practices. The integrity of the business must always come first.
- We replaced our internal whistleblower system with a new Hempel Ethics Hotline, operated by an external partner. The new Hempel Ethics Hotline will become operational in early 2017 in some countries. It will become operational in other countries once legal approvals have been received.
- We established an Internal Audit function. The head of Internal Audit will join Hempel in early 2017. The Internal Audit function will have a reporting obligation to the Audit Committee of the Board of Directors.

2016 Whistleblower statistics[1]

Category	Number of cases reported	Substantiated cases	Closed cases
Theft	2	1	2
Accounting	2	2	2
Bribery	9	5	9
Conflicts of interest	1	0	1
Employment	3	1	3
Commercial disagreement	2	1	2
Total numbers of cases	19	10	19

1) The table shows cases reported in 2016 only, although cases may have been closed after that date.

Health & safety

Our goal is to have zero accidents.

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

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

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

More factories included in our ISO certification

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

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

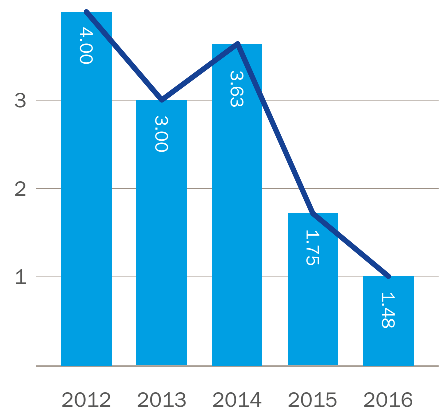
The focus on zero accidents

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

6,000

We are around 6,000 employees, united by our desire to protect our customers' most valuable assets.

Number of accidents per 1 million working hours



20

A truckload of our coatings leaves one of our factories roughly every 20 minutes.

Environment

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

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

Reducing emissions by 12 per cent by 2020

Our goal is to reduce CO_2 emissions from energy consumption by 12 per cent per litre of product produced by 2020 compared to 2015. In order to achieve this, we launched an energy programme in 2016, focusing on reducing energy consumption in our factories and offices around the globe.

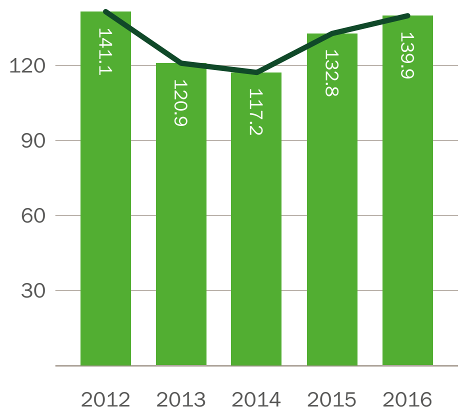
Our energy programme includes performing energy audits to develop accurate energy-use forecasts for different factories. We then use this information to establish targets for each factory. While this work is still in the preparatory stage, we have already identified a number of energy reduction programmes for the next three years. These include installing meters and low-energy LED (light-emitting diode) lights in all Hempel factories; improving control and monitoring of our HVAC (Heating, Ventilation and Air Conditioning) systems; and running awareness campaigns designed to make employees more aware of energy use.

Successful energy saving campaign in R&D

We began an energy saving campaign in R&D in Denmark in 2016 that included behavioural awareness, investing in a new control system for ventilation, replacing energy consuming equipment, installing LED lights in some offices and rebuilding climate-controlled spray cabinets.

The campaign reduced energy consumption in a number of areas:
- Heating: 8 per cent
- Heating water: 6 per cent
- Electricity use: 28 per cent

Total energy in kWh per ton of product manufactured



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

- Newly acquired factories in the US (acquired as part of our acquisition of Jones-Blair) and the Netherlands (acquired as part of our acquisition of Schaepman), as well as our newly opened factory in Russia, were included in our energy statistics for the first time. Energy consumption per ton of product produced at these factories is higher than the Group average
- Our factories in Dammam, Saudi Arabia and Singapore produced less than in 2015. This increases the energy used per ton of product manufactured because much of the energy used at a factory is fixed – such as energy for lighting, heating and ventilation – and so does not alter if less product is produced

30

We were the first company to develop a two-coat system for wind turbine towers. Compared to equivalent three-coat solutions, the system reduces energy consumption, emissions and waste during application by around 30 per cent.

- Our factories in Kunshan and Yantai in China increased the use of air treatment systems in order to further reduce stack emissions
- Greater automation at our new factory in Vietnam

Managing waste

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

Total waste in kg per ton of product manufactured

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

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

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

Adopting the Paint Formula Stewardship Policy

Due to the fact that our products contain chemicals, we have an increased responsibility towards the environment. As part of this responsibility, we work continuously towards using safer raw materials in our products.

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

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

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

These special hull coatings improve a vessel's hydrodynamics by preventing marine organisms, such as barnacles and algae, from clinging to the vessel's hull. According to the Low Carbon Shipping Consortium, the shipping industry would pump an additional 384 million tons of CO_2 and 3.6 million tons of sulphur dioxide into the atmosphere each year without them.

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

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

Responsible supply chain management

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

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

Our aim is to work only with suppliers who share our business values. Our Supplier Policy clearly states what we expect of our suppliers, including our requirement that they work with respect for their employees and the environment. Before we enter into an agreement with a major supplier, we perform a due diligence assessment, covering a number of areas from human rights to environmental issues. In 2016, we gave our global procurement staff further training in how to perform due diligence, with special focus on eliminating child and forced labour from the supply chain.

Third-party auditing of the global supply chain

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

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

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

Conflict minerals

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

Our people

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

We are approximately 6,000 employees spread across 80 countries. We come from many different countries and walks of life, and bring many different skills and viewpoints to our work. We believe that this diversity is key to our business success. We do all we can to create an inclusive and supportive work environment, and strive to provide all our employees with a great place to work as well as opportunities for professional and personal development.

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

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

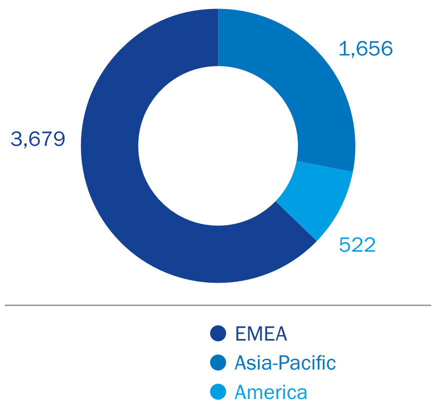
Employee Engagement Survey
The ultimate goal of any leader is to help their employees reach their full potential. The Employee Engagement Survey is a tool to help us in this process. Hempel's first worldwide Employee Engagement Survey was carried out among all our employees in 2016, covering 80 countries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

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

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

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

Employees



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

Our Diversity and Equal Opportunity Policy applies to all Hempel offices and ensures that all employment and career development decisions are based on merit and made to support business goals. As an employer, we do not tolerate any form of negative discrimination, including discrimination based on age, disability, gender, pregnancy, paternity, race, religion, political opinion, family responsibilities, marital or civil partnership status or sexual orientation.

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

As part of this work, our Diversity Board decided in 2016 to introduce training in how to avoid 'unconscious bias thinking' as a part of our training for managers. The training focuses on ensuring managers are not influenced in their hiring decisions by the unconscious bias towards people different from

Girls' Day in Science

Girls' Science Days are held across Denmark in November, and Hempel participated for the first time in 2016. The day is all about getting girls interested in science, and we gave 15 local schoolgirls the chance to visit and experiment in our labs. The day was a huge success. The girls learnt how our silicone coatings reduce vessel CO_2 emissions, and performed abrasion, pull off and flexibility tests in our labs. Following the success of the day, other Hempel offices are now adapting the concept. In Denmark, we will continue to invite students to visit our labs in the future, to awaken their interest in science and perhaps help launch the careers of new scientists and engineers.

themselves. This should help create more high-performance teams by increasing team diversity and ensuring we recruit from a wider group of talents.

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

An environment where everyone can develop

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

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

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

Explorer – Next Generation

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

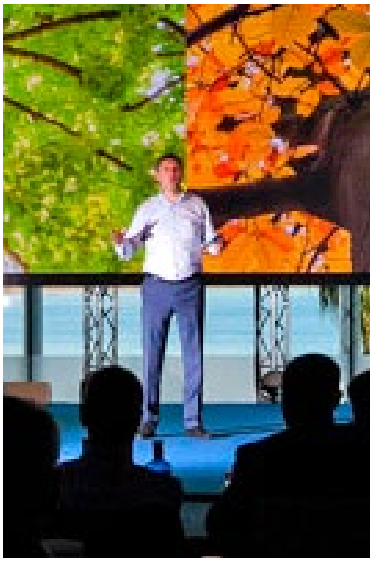
Hempel Leadership Summit

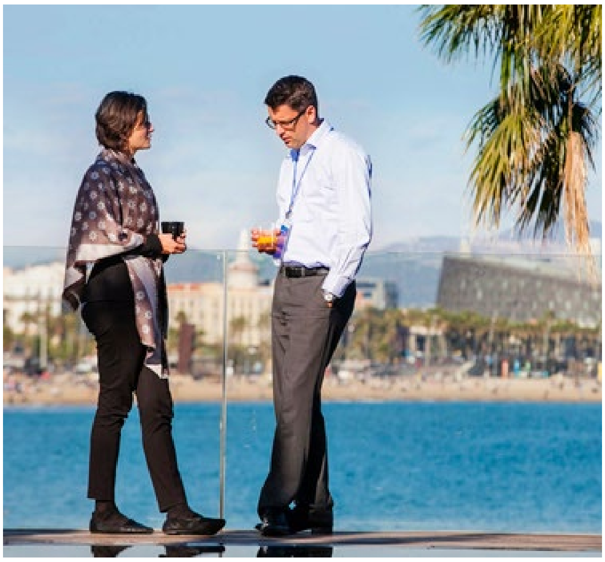
Our first annual Hempel Leadership Summit in November 2016 gathered top leaders and selected talents from around the globe to discuss how we can accelerate our *Journey to Excellence* strategy. It featured presentations, guest speakers, panel discussions and the first-ever Hempel Awards, and helped ensure alignment and enthusiasm among our top managers. The summit is now held annually. Following the summit, it is the managers' responsibility to ensure that the information and enthusiasm from the event are passed onto employees.

The Hempel Leadership Summit is part of a new Annual Management Cycle launched in 2016.









Community engagement

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

At Hempel, we believe corporate responsibility should not only be driven by company policies, but also by the employees. All Hempel offices are encouraged to support causes or events that can have an impact on their local communities or the wider world. In addition, we encourage our employees to take an active role in corporate responsibility by volunteering their time to the causes that mean the most to them.

Employee volunteering in Vietnam
For several years, we have given some of our employees the chance to take part in a week-long volunteering trip in connection with one of the projects supported by the Hempel Foundation. As well as helping out at the project, when the employees return they should inform staff in their country about the Foundation's work. In previous years, employees have given their time to projects in Cambodia, Mozambique, Bolivia and Indonesia.

In 2016, eight Hempel employees volunteered at the Hempel Foundation project in Lao Cai in Vietnam. Lao Cai is one of the poorest areas of Vietnam. Around 70 per cent of the population live in deep poverty, and very few children have the opportunity to get an education. Schools are often many kilometres away from the local village and most children have to make the journey – often through steep mountains – on foot. The government has established Monday to Friday boarding schools in an effort to keep the children in school, but the schools lack study materials and well-educated teachers, and the classrooms and dormitories are in very poor condition.

The work of the Hempel Foundation
Our owner, the Hempel Foundation, has a primary purpose to provide and maintain a solid economic base for the Hempel Group. Its secondary purpose is a social and charitable one: to support cultural, social, humanitarian, scientific and artistic purposes around the globe. The Foundation focuses on two main areas: the education of children in need and research into environmentally sustainable solutions. Both these areas support the Sustainable Development Goals laid out in the United Nations' 2030 Agenda for Sustainable Development.

Education of children in need
The Foundation's educational projects help more than 67,000 underprivileged children around the world receive a better education so they have the chance to build a better future for themselves and their families. The projects are designed specifically to address the challenges of the region and people where they take place, as this will have the most sustainable long-term impact.

Research into environmentally sustainable solutions
The world needs sustainable new technology. Through a long-term partnership with the Technical University of Denmark, the Hempel Foundation helps drive research into, and raise awareness of, environmentally sustainable technologies for the coatings industry.

Run in collaboration with UNICEF, the project in Vietnam is helping two large boarding schools attended by 600 children. During the trip, the Hempel volunteers played games with the children, introduced them to their home country and culture, and taught classes; the children taught the volunteers about their lives and culture. Many of the children have never been outside of their local communities, and this exchange of experiences and cultures was extremely valuable for both the children and the employees.

8

In 2016, eight Hempel employees were given the opportunity to volunteer at an educational project supported by the Hempel Foundation in Lao Cai, Vietnam.

Changing lives in India

Group President & CEO Henrik Andersen visited a Kasturba Gandhi Balika Vidyalaya (KGBV) Girls' Boarding School supported by the Hempel Foundation in November 2016. The Foundation supports 22 KGBV schools in India, giving 2,800 girls the chance to build a better future for themselves and their families.

> The girls here have the chance to create a different future for themselves. To realise that this is possible because of our support is extremely humbling.
>
> Henrik Andersen,
> Group President & CEO

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Through their work with Hempel, every Hempel employee supports the education of around 11 children in need.


Henrik Bach Falkenberg
Lars Aaen
Peder Holk Nielsen
Kim Scheibel
Richard R. Sand
Anders Pettersson
Helle Fiedler
Leif Jensen

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 2016.

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

In our opinion, the parent company's financial statements and the consolidated financial statements give a true and fair view of the assets, liabilities and financial position at 31 December 2016 of the parent company and the Group and of the results of the parent company's and the Group's operations and the consolidated cash flows for 2016.

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

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

Kgs. Lyngby, 29 March 2017.

Executive Management Board

Henrik Andersen
Group President & Chief Executive Officer (CEO)

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

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

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

Board of Directors

Richard R. Sand
Chairman

Lars Aaen
Deputy Chairman

Peder Holk Nielsen

Anders Pettersson

Leif Jensen

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 2016, and of the results of the Group's and the parent company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the consolidated financial statements and the parent company financial statements of Hempel A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the parent company, as well as 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 Review
Management is responsible for the Management Review.

Our opinion on the financial statements does not cover the Management 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 the Management Review and, in doing so, consider whether the Management 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 the Management Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, the Management 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 the Management 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 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, 29 March 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Lars Baungaard
State Authorised Public Accountant

Mads Melgaard
State Authorised Public Accountant

"We had been struggling with heavy fouling when outfitting new vessels and had to clean many vessels before delivery to the customer. Thanks to Hempel's Globic 9500S antifouling hull coating, this is no longer an issue. Thanks Hempel for your swift action and continuous support."

S.L. Cho, GM Design Department, DSME OKPO Shipyard, Korea

Financial statements

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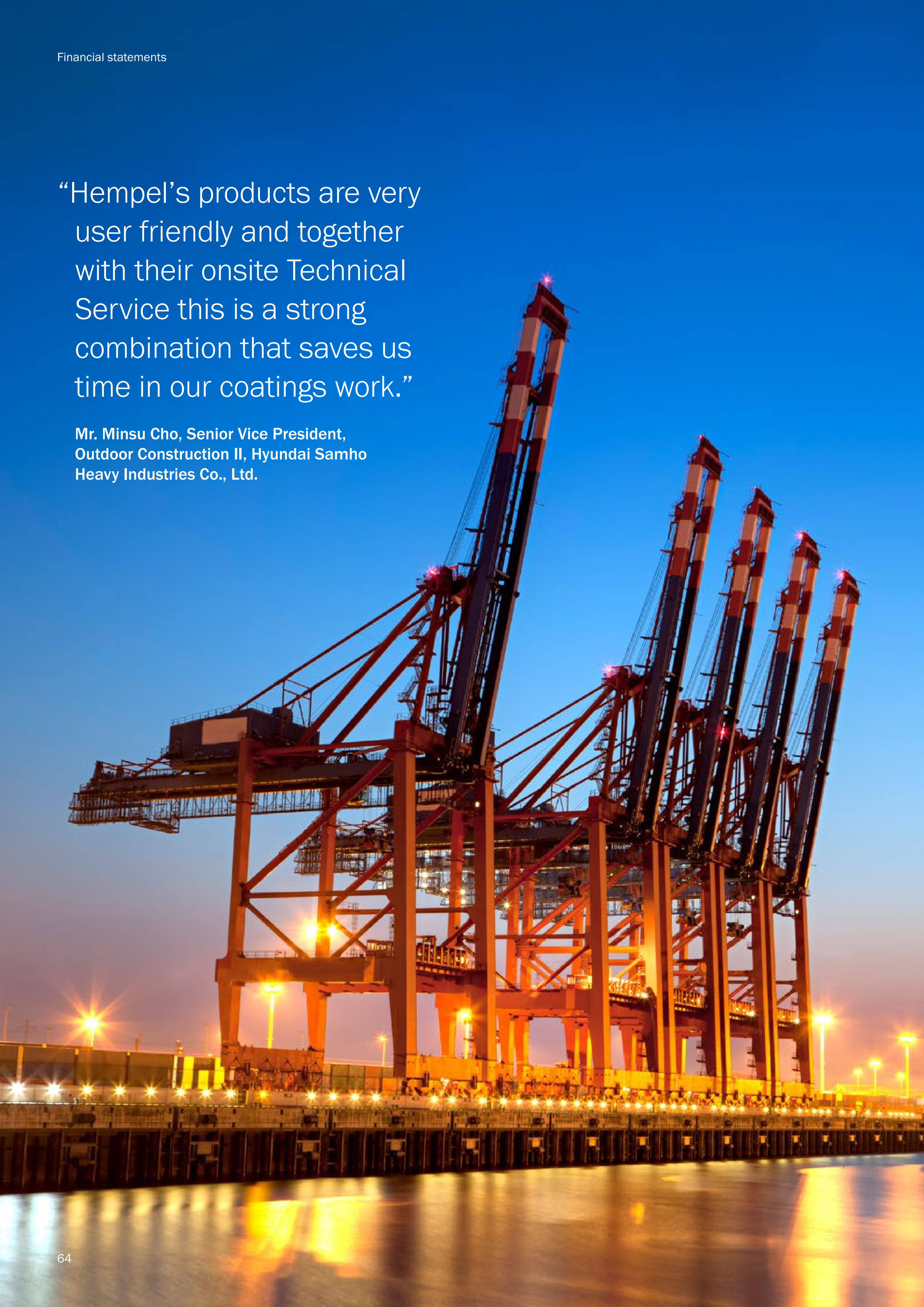

“Hempel’s products are very user friendly and together with their onsite Technical Service this is a strong combination that saves us time in our coatings work.”

Mr. Minsu Cho, Senior Vice President, Outdoor Construction II, Hyundai Samho Heavy Industries Co., Ltd.

Income statement

In EUR million

Note		Group 2016	Group 2015	Parent company 2016	Parent company 2015
2.1	Revenue	1,424	1,563	110	112
	Production costs	-802	-911	-47	-45
	Gross profit	**622**	**652**	**63**	**67**
	Sales and distribution costs	-349	-367	-18	-16
	Administrative costs	-144	-128	-32	-37
2.3	Other operating income	1	1	–	–
	Operating profit before special items	**130**	**158**	**13**	**14**
2.4	Special items	-36	–	-1	–
	Operating profit	**94**	**158**	**12**	**14**
2.5	Income from investments in subsidiaries			26	87
2.5	Income from investments in associates	2	2	–	–
	Profit before financial income and expenses	**96**	**160**	**38**	**101**
4.5	Net financials	-18	-22	1	1
	Profit before tax	**78**	**138**	**39**	**102**
2.6	Income tax	-31	-30	-6	-6
	Net profit for the year	**47**	**108**	**33**	**96**

In EUR million

Distribution of profit	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Proposed distribution of profit:				
Proposed dividend	27	48	27	48
Reserve for net revaluation under the equity method	1	2	26	87
Reserve for development costs			2	–
Minority interests	14	12		
Retained earnings	5	46	-22	-39
	47	**108**	**33**	**96**

Balance sheet as at 31 December – assets

In EUR million

Note		Group 2016	Group 2015	Parent company 2016	Parent company 2015
	Goodwill	95	112	–	–
	Software	5	7	1	1
	Software under development	3	2	3	2
	Customer relationships	55	64	–	–
	Other intangible assets	61	73	14	16
3.1	**Intangible assets**	**219**	**258**	**18**	**19**
	Land and buildings	141	147	–	–
	Assets under construction	25	23	1	1
	Plant and machinery	78	65	2	1
	Other fixed assets	21	20	1	2
3.2	**Property, plant and equipment**	**265**	**255**	**4**	**4**
5.6	Investments in subsidiaries			380	406
5.6	Investments in associates	–	19	–	–
	Loans to Group enterprises	–	–	219	251
2.6	Deferred tax assets	36	32	–	–
	Deposits etc.	4	4	–	–
	Fixed asset investments	**40**	**55**	**599**	**657**
	Total non-current assets	**524**	**568**	**621**	**680**
3.3	**Inventories**	**190**	**221**	**5**	**7**
	Trade receivables	366	436	4	4
	Receivables from Group enterprises	–	–	32	90
2.6	Tax receivables	5	6	–	–
	Other receivables	60	20	20	19
3.4	Prepayments	5	12	3	3
3.5	**Receivables**	**436**	**474**	**59**	**116**
	Cash at bank and in hand	**115**	**114**	**5**	**18**
	Current assets	**741**	**809**	**69**	**141**
	Total assets	**1,265**	**1,377**	**690**	**821**

Balance sheet as at 31 December – equity and liabilities

In EUR million

		Group		Parent company	
Note		2016	2015	2016	2015
4.1	Share capital	15	15	15	15
	Reserve for net revaluation under the equity method	–	19	21	57
	Reserve for development costs			2	–
	Retained earnings	416	406	393	368
	Proposed dividend for the year	27	48	27	48
	Shareholders in Hempel A/S share of equity	**458**	**488**	**458**	**488**
	Minority interests	**67**	**63**		
	Total equity	**525**	**551**	**458**	**488**
2.6	Deferred tax liabilities	23	27	–	–
3.6	Pension obligations and similar obligations	21	18	1	1
3.7	Other provisions	90	56	–	–
	Provisions	**134**	**101**	**1**	**1**
4.2	Bank loans etc.	99	259	76	234
3.8	Other payables	–	2	–	1
	Long-term debt	**99**	**261**	**76**	**235**
	Overdraft facilities	67	97	45	18
4.2	Short-term part of bank loans etc.	10	6	–	–
	Trade payables	185	162	12	5
	Payables to group enterprises	58	23	72	44
2.6	Tax liabilities	19	21	–	–
3.8	Other liabilities	168	155	26	30
	Total current liabilities	**507**	**464**	**155**	**97**
	Total liabilities	**606**	**725**	**231**	**332**
	Total equity and liabilities	**1,265**	**1,377**	**690**	**821**

Statement of changes in equity as at 31 December

In EUR million — **Group**

Note		Share capital	Reserve for net revaluation	Retained earnings	Proposed dividend	Shareholders in Hempel A/S share of equity	Minority interest	Total equity
	Equity							
	Equity at 1 January 2015	15	16	350	40	421	55	476
	Reclassification 1 January 2015	–	–	–	–	–	1	1
	Net profit for the year	–	2	94	–	96	12	108
	Exchange adjustment at year-end rate	–	2	4	–	6	6	12
	Hedging of future transactions	–	–	3	–	3	–	3
	Remeasurements of defined benefit plans net of tax	–	–	2	–	2	–	2
	Dividend distributed	–	-1	1	-40	-40	-11	-51
	Proposed dividend	–	–	-48	48	–	–	–
4.1	**Equity at 31 December 2015**	**15**	**19**	**406**	**48**	**488**	**63**	**551**
	Net profit for the year	–	1	32	–	33	14	47
	Exchange adjustment at year-end rate	–	1	-14	–	-13	–	-13
	Hedging of future transactions	–	–	1	–	1	–	1
	Remeasurements of defined benefit plans net of tax	–	–	-3	–	-3	–	-3
	Dividend distributed	–	-2	2	-48	-48	-10	-58
	Disposal	–	-19	19	–	–	–	–
	Proposed dividend	–	–	-27	27			–
4.1	**Equity at 31 December 2016**	**15**	**–**	**416**	**27**	**458**	**67**	**525**

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 2015	15	–		366	40	421
	Net profits	–	87		9	–	96
	Dividend received	–	-39		39	–	–
	Exchange adjustment at year-end rate	–	6		–	–	6
	Hedging of future transactions	–	1		2	–	3
	Remeasurements of defined benefit plans net of tax	–	2		–	–	2
	Dividend distributed	–	–		–	-40	-40
	Proposed dividend	–	–		-48	48	–
4.1	**Equity at 31 December 2015**	**15**	**57**	**–**	**368**	**48**	**488**
	Net profit for the year	–	26	2	5	–	33
	Dividend received	–	-46	–	46	–	–
	Exchange adjustment at year-end rate	–	-13	–	–	–	-13
	Hedging of future transactions	–	–	–	1	–	1
	Remeasurements of defined benefit plans net of tax	–	-3	–	–	–	-3
	Dividend distributed	–	–	–	–	-48	-48
	Proposed dividend	–	–	–	-27	27	–
4.1	**Equity at 31 December 2016**	**15**	**21**	**2**	**393**	**27**	**458**

Cash flow statement

In EUR million

Note		Group 2016	Group 2015
	Cash flows from operating activities		
	Operating profit	94	158
5.2	Adjustment for non-cash items	95	55
	Income tax paid	-40	-34
	Total cash flows from operating activities before changes in working capital	**149**	**179**
	Change in receivables	50	-29
	Change in inventories	31	-6
	Change in trade payables	35	1
	Total change in working capital	**116**	**-34**
	Total cash flows from operating activities	**265**	**145**
	Cash flows from investing activities		
4.7	Acquisition of enterprises	–	-141
3.2	Purchase of property, plant and equipment	-40	-39
3.1	Purchase of intangible assets	-4	-10
	Sale of property, plant and equipment	3	2
	Received grant	5	–
5.5	Dividend received from associates	2	1
	Total cash flows from investing activities	**-34**	**-187**
	Free cash flow	**231**	**-42**
	Cash flows from financing activities		
	Change in bank borrowings etc.	-123	80
	Interest income and expenses, net	-15	-14
	Change in minority shares (dividend distributed etc.)	-10	-11
	Dividend distributed to shareholders	-48	-40
	Capital losses and gains, net	-4	-10
	Total cash flows from financing activities	**-200**	**5**
	Net cash flow	**31**	**-37**
4.6	Cash and equivalents, net, beginning of year	17	54
	Exchange adjustment	–	–
4.6	**Cash and equivalents, net, end of year**	**48**	**17**

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

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

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

2. **Reserve for development costs**
   An amount corresponding to development costs capitalised as intangible assets is transferred to 'Reserve for development cost' under equity. The reserve is reduced with amortisation of the intangible assets.

None of the above mentioned changes have effect on the comparative figures in the income statement or the balance sheet.

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

Apart from this the accounting policies applied remain unchanged from previous years.

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

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

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

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

Basis of consolidation
The consolidated financial statements comprise the parent company, Hempel 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.

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

Sales and distribution costs

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

Administrative costs

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

Cash flow statement

The cash flow statement for the Group shows the cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as cash and cash equivalents for the Group at the beginning and end of the year.

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Cash and cash equivalents

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

Section 2 Results of the year

2.1 Revenue, segment information

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

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

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

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
EMEA	816	892	110	112
Asia-Pacific	414	464	–	–
Americas	194	207	–	–
	1,424	**1,563**	**110**	**112**

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

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	
	2016	2015	2016	2015
Employee costs:				
Directors' fees	1	1	1	1
Remuneration of the Executive Board [1)]	5	3	5	3
Wages and salaries etc.	267	259	25	25
Pension contributions	14	15	2	2
	287	**278**	**33**	**31**
Employees:				
Average number of employees	5,787	5,661	250	244
Employee costs have been recognised in the income statement as follows:				
Production costs	71	70	9	9
Selling and distribution expenses	157	156	9	8
Administrative expenses	59	52	15	14
	287	**278**	**33**	**31**

1) Remuneration of the Executive Board increased by 41% to EUR 4.7 million in 2016 and was affected by, among other things, one additional member in 2016.

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	
	2016	2015	2016	2015
Other operating income [1]	1	1	–	–
	1	**1**	**–**	**–**

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

2.4 Special items

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Special items:				
Administrative costs	-36	–	-1	–
Operating profit	**-36**	**–**	**-1**	**–**
Net financials	-1	–	–	–
Profit before tax	**-37**	**–**	**-1**	**–**
Income tax	-3	–	–	–
Net profit for the year	**-40**	**–**	**-1**	**–**

2.5 Income from investments in subsidiaries and associates

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Income from investments in subsidiaries:				
Profit before tax			65	126
Amortisation of goodwill			-14	-15
Tax for the year			-25	-24
Profit after tax			**26**	**87**
Income from investments in associates:				
Profit after tax	**2**	**2**	**–**	**–**

2.6 Income tax and tax assets and liabilities

Income tax
Accounting policies
Income tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Hempel is subject to income taxes around the world. Significant 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 in assessing whether deferred income tax assets should be recognised. In the course of conducting business globally, transfer pricing disputes with tax authorities may occur, and management'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	
	2016	2015	2016	2015
Hempel Group, income tax:				
Profit before tax	78	138		
Income from investments in associates	-2	-2		
	76	**136**		
Income tax on profit for the year:				
Total tax	-34	-30	-31	-30
Tax in respect of subsidiaries			25	24
Tax in respect of associates	3	–		
	-31	**-30**	**-6**	**-6**
Current tax for the year	-38	-40	–	–
Deferred tax for the year	9	6	–	–
Of which entered at equity	–	-1	–	–
Adjustment in respect of previous years	-2	5	–	–
Income tax	**-31**	**-30**	**-6**	**-6**

	Group		Parent company	
	2016	2015	2016	2015
Effective tax rate of the Group	**41.3%**	**22.0%**		
Reconciliation of tax rate:				
Danish tax rate	22.0%	23.5%		
Higher/lower tax rates of foreign subsidiaries	-3.8%	-3.3%		
Weighted tax rate of the Group	**18.2%**	**20.2%**		
Permanent differences	1.1%	1.4%		
Unrecognised deferred tax assets	3.5%	1.6%		
Recognised deferred tax assets related to prior year	-0.6%	-5.8%		
Adjustments related to previous years	-0.1%	0.1%		
Other adjustments	-1.0%	2.3%		
Withholding taxes etc.	3.1%	2.2%		
Effective tax rate of the Group before special items	**24.2%**	**22.0%**		
Adjustments related to previous years, special items	17.1%	–		
Effective tax rate of the Group	**41.3%**	**22.0%**		

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 carryforwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by setoff against deferred tax liabilities within the same legal tax entity.

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

In EUR million	**Group**		**Parent company**	
	2016	2015	2016	2015
Deferred tax (net):				
Deferred tax, beginning of year	5	-9		
Exchange adjustment at year-end rate	1	-2		
Acquisition of enterprises	–	7		
Deferred tax for the year	9	6		
Adjustment in respect of previous years	-2	2		
Tax in Equity	–	1		
	13	**5**	**–**	**–**

In EUR million	**Group**		**Parent company**	
	2016	2015	2016	2015
Deferred tax (net) relates to the following items:				
Intangible assets	-5	-9		
Property, plant and equipment	-1	–		
Fixed asset investments	–	-2		
Inventories	5	4		
Trade receivables	2	2		
Provisions and other payables	7	7		
Tax losses	5	3		
	13	**5**	**–**	**–**

At 31 December 2016, the Group recognised a deferred tax asset comprising tax losses carried forward of EUR 5 million (2015: EUR 3 million). Management 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 28 million (2015: EUR 29million) of which the parent company part represents EUR 13 million (2015: EUR 15 million).

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
The net value is recognised in the balance sheet as follows:				
Deferred tax assets	36	32	–	–
Deferred tax liabilities	-23	-27	–	–
	13	**5**	**–**	**–**

Current tax receivables and liabilities
Accounting policies
Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account.

Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

In EUR million	Group		Parent company	
	2016	2015	2016	2015
The net value is recognised in the balance sheet as follows:				
Current tax assets	5	6	–	–
Current tax liabilities	-19	-21	–	–
	-14	**-15**	**–**	**–**

Section 3
Operating assets and liabilities

3.1 Intangible assets

Accounting policies
Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life on the basis of management experience within the individual areas. The amortisation period is 2-20 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 expenses, including salaries and amortisation, directly or indirectly attributable to these development projects.

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

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

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

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

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

Impairment
The carrying amounts of intangible assets are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation.

If so, the asset is written down to its lower recoverable amount.

In EUR million **Group**

	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets						
Costs, beginning of year	163	32	2	126	99	422
Exchange adjustment at year-end rate	-4	–	–	-2	-7	-13
Additions for the year	–	2	2	–	0	4
Transfer to/from other items	–	1	-1	–	–	–
Costs, end of year	**159**	**35**	**3**	**124**	**92**	**413**
Accumulated amortisation, beginning of year	51	25	–	62	26	164
Exchange adjustment at year-end rate	-1	–	–	1	-1	-1
Amortisation for the year	14	5	–	6	6	31
Accumulated amortisation, end of year	**64**	**30**	**–**	**69**	**31**	**194**
Carrying amount, end of year	**95**	**5**	**3**	**55**	**61**	**219**

Other intangible assets comprise brands, formulas, non-compete agreements and lease rights.
Other intangible assets comprise EUR 14 million on lease rights for sale.

In EUR million — **Parrent company**

	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets						
Costs, beginning of year	–	4	2	–	25	31
Additions for the year	–	1	2	–	–	3
Disposals for the year	–	–	-1	–	–	-1
Costs, end of year	**–**	**5**	**3**	**–**	**25**	**33**
Accumulated amortisation, beginning of year	–	3	–	–	9	12
Amortisation for the year	–	1	–	–	2	3
Accumulated amortisation, end of year	**–**	**4**	**–**	**–**	**11**	**15**
Carrying amount, end of year	**–**	**1**	**3**	**–**	**14**	**18**

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

In EUR million	**Group**		**Parent company**	
	2016	2015	2016	2015
Amortisation and impairment are specified as follows:				
Production costs	1	1	–	–
Sales and distribution costs	1	1	–	–
Administrative costs	29	32	3	3
	31	**34**	**3**	**3**

3.2 Property, plant and equipment

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

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

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

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Group.

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

Buildings (max.)	50 years
Laboratory equipment	10 years
Plant and machinery	10 years
Other fixtures and fittings, tools and equipment	3-10 years

Leasehold improvements are included in other operating equipment and are recognised at cost and depreciated over the term of the lease; however, not exceeding 10 years.

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

Impairment of fixed assets
The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

In EUR million **Group**

	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs, beginning of year	212	217	88	23	540
Exchange adjustment at year-end rate	1	-7	-3	1	-8
Additions for the year	1	17	7	15	40
Disposals for the year	-2	-18	-4	-1	-25
Transfer to/from other items	1	12	–	-13	–
Costs, end of year	**213**	**221**	**88**	**25**	**547**
Accumulated depreciation, beginning of year	65	152	68	–	285
Exchange adjustment at year-end rate	1	-5	-4	–	-8
Depreciation for the year	7	13	7	–	27
Reversal of depreciation of assets sold	-1	-17	-4	–	-22
Accumulated depreciation, end of year	**72**	**143**	**67**	**–**	**282**
Carrying amount, end of year	**141**	**78**	**21**	**25**	**265**
Including leased assets of	4	–	–	–	4
Including interest expenses of	1	–	–	–	1

Land and buildings for sale amounts to EUR 4 million.

In EUR million

Parent company	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs, beginning of year	–	3	5	1	9
Additions for the year	–	1	–	–	1
Costs, end of year	**–**	**4**	**5**	**1**	**10**
Accumulated depreciation, beginning of year	–	2	3	–	5
Depreciation for the year	–	–	1	–	1
Accumulated depreciation, end of year	**–**	**2**	**4**	**–**	**6**
Carrying amount, end of year	**–**	**2**	**1**	**1**	**4**

In EUR million

	Group		Parent company	
	2016	2015	2016	2015
Depreciation and impairment are specified as follows:				
Production costs	18	18	–	–
Sales and distribution costs	5	5	–	–
Administrative costs	4	5	1	1
	27	**28**	**1**	**1**

3.3 Inventories

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

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

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

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

In EUR million	**Group**		**Parent company**	
	2016	2015	2016	2015
Raw materials and consumables	66	76	4	4
Work in progress	5	4	–	–
Finished goods	119	141	1	3
Inventories	**190**	**221**	**5**	**7**

3.4 Prepayments

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

3.5 Receivables

Accounting policies
Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable and, in respect of trade receivables, a general provision is also made based on the company's experience from previous years.

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

In EUR million	**Group**		**Parent company**	
	2016	2015	2016	2015
Receivables	436	474	59	116
of which due more than one year from balance sheet date	3	6	–	–

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

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Pension and similar obligations comprise:				
Pension and similar obligations	58	54	1	1
Fair value of assets related to the plans	-37	-36	–	–
Pension obligations, net	**21**	**18**	**1**	**1**
Recognition in the balance sheet:				
Liabilities	21	18	1	1
Pension obligations recognised in the balance sheet	**21**	**18**	**1**	**1**
Defined benefit plans				
Specification of plan assets:				
Shares and properties	30%	38%	–	–
Fixed interest current asset investments	69%	59%	–	–
Cash at bank and in hand	1%	3%	–	–
Total	**100%**	**100%**	**–**	**–**
Weighted average assumptions:				
Discount rate	2.1%	2.9%	3%	3%
General wage inflation	2.6%	2.5%	–	–
General price inflation	1.6%	1.5%	–	–

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 economic benefits must be given up to settle the obligation.

Provisions comprising provisions for environmental, warranty and restructuring obligations as well as other obligations are recognised and measured based on a best estimate of the expenses necessary to fulfil the obligations at the balance sheet date. Provisions with an expected maturity exceeding one year from the balance sheet date are discounted at the average bond yield.

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

In EUR million

	Group				
	Environmental obligations	Warranty commitments	Other provisions	2016	2015
Total provisions, beginning of year	22	14	20	56	35
Reclassification 1 January	-1	–	-2	-3	–
Acquisition of enterprises	–	–	–	–	19
Additions for the year	–	–	39	39	3
Reversed	–	-1	–	-1	-1
Consumed	–	–	-1	-1	–
Total provisions, end of year	**21**	**13**	**56**	**90**	**56**
Maturities are expected to be:					
Within 1 year	1	1	6	8	2
Between 1 and 5 years	13	11	33	57	40
After 5 years	7	1	17	25	14
	21	**13**	**56**	**90**	**56**

3.8 Other liabilities

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

Section 4 Capital structure and financing items

4.1 Share capital, distribution to shareholders

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

The share capital amounts to DKK 115 million (EUR 15 million) comprising 110 A shares of DKK 1 million each, one A share of DKK 900,000, four B shares of DKK 1 million each and four B shares of DKK 25,000 each. B shareholders enjoy special dividend rights.

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Long-term bank borrowings etc. including short-term part:				
Due within 1 year	10	6	–	–
Due within 1 to 5 years	99	256	76	234
Due after 5 years	–	3	–	–
	109	**265**	**76**	**234**

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.

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 a large extent, the Group's income and expenses in foreign currencies nets out and creates a natural hedge of the Group's profitability. Hempel hedges the short-term transactional exposure in the major currencies using financial instruments.

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

4.4 Derivative financial instruments

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

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

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

In EUR million

	Contract amount based on exercise price [1]	Fair value	Term to maturity (months)
AUD	-2.7	0.1	1
BRL	-1.3	-0.1	1
CAD	2.1	0.0	1
CLP	-0.9	0.0	1
CZK	-1.5	0.0	1
EUR	0.0	0.0	1
GBP	-4.7	0.0	1
HKD	4.9	0.0	1
IDR	-4.9	-0.1	1
KRW	2.4	0.0	1
NOK	0.2	0.0	1
PLN	-6.8	0.0	1
RUB	-14.8	-1.1	5
SEK	0.5	0.0	1
SGD	-2.6	0.1	1
USD	-56.9	-0.2	1
ZAR	-2.8	-0.1	1
		-1.4	

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

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

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

	Group		Parent company	
	2016	2015	2016	2015
Bank borrowings etc.	2.3%	2.8%	1.7%	2.4%

4.5 Net financials

Accounting policies
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

In EUR million	Group		Parent company	
	2016	2015	2016	2015
External interest income	1	1	–	–
Interest income from subsidiaries			11	10
External interest expenses	-15	-15	-6	-5
Interest paid to group enterprises	-1	–	-1	–
Realised and unrealised exchange gains/ losses, net	-3	-8	-3	-4
	-18	**-22**	**1**	**1**

4.6 Cash and cash equivalents, net

Accounting policies
Cash and cash equivalents consist of cash at bank and in hand offset by overdraft facilities.

In EUR million	Group	
	2016	2015
Cash at bank and in hand, beginning of year	114	138
Overdraft facilities, beginning of year	-97	-84
	17	**54**
Cash, end of year	115	114
Overdraft facilities, end of year	-67	-97
	48	**17**

4.7 Acquisitions of enterprises

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

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be adjusted until the end of the financial year following the year of acquisition. These adjustments are also reflected in the value of goodwill, including in amortisation already made. Amortisation of goodwill is allocated in the consolidated financial statements to administrative costs.

In EUR million	Group	
	2016	2015 1)
Balance sheet items of acquired enterprises		
Intangible assets	–	113
Property, plant and equipment	–	20
Deferred tax asset	–	7
Inventories	–	20
Receivables	–	10
Provisions	–	-19
Short-term payables	–	-10
Acquisition costs	**–**	**141**
Cash and cash equivalents, net	–	–
Settlement of intercompany loan	–	–
Net cash flows from acquisition	**–**	**141**

1) 6 March 2015.

Section 5
Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Audit fee	1	1	–	–
Other assurance engagements	–	–	–	–
Tax advice	1	1	–	–
Other fees	1	1	–	–
	3	**3**	**–**	**–**

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	
	2016	2015
Amortisation, depreciation and impairment, including goodwill	58	62
Provisions	34	2
Exchange rate adjustments	4	-9
Gains and losses on the sale of fixed assets	-1	–
	95	**55**

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	
	2016	2015	2016	2015
Rental and lease obligations:				
Due within 1 year from the balance sheet date	16	14	2	2
Due within 1 to 5 years from the balance sheet date	35	37	7	7
Due more than 5 years from the balance sheet date	8	10	4	6
	59	**61**	**13**	**15**
Guarantees:				
For local loans and bank credits to subsidiaries [1)]			146	131
Other guarantees	5	4	–	–
	5	**4**	**146**	**131**

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

Other contingent liabilities:
As part of its current operations, the Group is a party to certain legal disputes, and certain claims have been advanced against the Group concerning complaints, pollution and environmental issues. In August 2016, certain compliance issues were discovered in Germany. Subsequently, management decided to investigate potential compliance issues in a number of other jurisdictions. As a result hereof, management decided to expense EUR 40 million in the financial statements for 2016. (Please refer to note 2.4.) The investigations are, however, still ongoing in a number of jurisdictions and the outcome is subject to considerable uncertainty, and it is not possible to estimate the related potential financial impact reliably.

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

5.4 Events after the reporting period

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

5.5 Related parties and ownership

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

5.6 Investments in subsidiaries and associates

Accounting policies

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

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

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

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Investments in subsidiaries				
Costs, beginning of year			346	300
Additions for the year			8	46
Costs, end of year			**354**	**346**
Net revaluations, beginning of year			57	–
Exchange adjustment at year-end rate			-11	6
Hedging of future transactions			–	1
Remeasurements of defined benefit plans			-3	2
Profit before tax			65	126
Amortisation of goodwill			-14	-15
Tax for the year			-25	-24
Dividend received			-46	-39
Reversed			-2	–
Net revaluations, end of year			**21**	**57**
Carrying amount, end of year			**375**	**403**
Recognised in the balance sheet as follows:				
Subsidiaries with negative equity			-5	-3
Investments in subsidiaries			380	406
			375	**403**
Subsidiaries with negative equity are recognised in the balance sheet as follows:				
Recognised in receivables from subsidiaries			-5	-3
Net value, end of year			**5**	**-3**

In EUR million	Group		Parent company	
	2016	2015	2016	2015
Investments in associates				
Costs, beginning of year	–	–	–	–
Costs, end of year	**–**	**–**	**–**	**–**
Net revaluations, beginning of year	19	16	–	–
Exchange adjustment at year-end rate	1	2	–	–
Net profit	1	2	–	–
Dividend received	-2	-1	–	–
Disposals	-19	–	–	–
Net revaluations, end of year	**–**	**19**	**–**	**–**
Carrying amount, end of year	**–**	**19**	**–**	**–**

5.7 The Hempel Group including foreign branches

Country	Name	Currency	Share capital	Ownership
Denmark	Hempel A/S	DKK	115,000,000	100%
Argentina	Hempel Argentina S.R.L.	ARS	338,774,200	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	700,000	100%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	BHD	15,000,000	51%
Bahrain	Hempel Paints (Bahrain) S.P.C.	BHD	300,000	51%
Brazil	Hempel Tintas do Brasil Ltda.	BRL	31,211,487	100%
Canada	Hempel (Canada) Inc.	CAD	1,776,005	100%
Chile	Hempel A/S (Chile) Ltda.	CLP	1,651,829	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (China) Management	CNY	10,000,000	100%
China	Hempel (Kunshan) Coatings Co. Ltd.	CNY	110,035,054	100%
China	Hempel (Yantai) Coatings Co. Ltd.	CNY	16,803,936	100%
China	Hempel (Guangzhou) Coatings Co. Ltd.	CNY	185,327,620	100%
China	Hempel-Hai Hong Coatings (Shenzhen) Co. Ltd.	HKD	40,000,000	100%
China	Hempel (Seagull) Coatings Co. Ltd.	HKD	20,000,000	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	31,019,200	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	Hempel Properties A/S	DKK	1,000,000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Egypt L.L.C.	EGP	200,000	100%
Egypt	Hempel Paints (Egypt) L.L.C	EGP	250,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Greece	Hempel Coatings (Hellas) S.A.	EUR	7,800,000	100%
India	Hempel Paints (India) Pvt. Ltd.	INR	690,000,000	100%
Indonesia	P .T . Hempel Indonesia	IDR	830,000,000	100%
Iraq	Hempel (Iraq) Ltd.	USD	8,300	31%
Ireland	Crown Paints Ireland Ltd.	EUR	127	100%
Italy	Hempel (Italy) s.r.l.	EUR	50,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	600,000	51%
Malaysia	Hempel (Malaysia) Sdn. Bhd.	MYR	5,000,000	100%

Country	Name	Currency	Share capital	Ownership
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	9,500,000	100%
Mexico	Pinturas Hempel de Mexico S.A. de C.V.	MXN	9,943,450	100%
Morocco	Hempel (Morocco) SARL	MAD	2,500,000	100%
New Zealand	Hempel (New Zealand) Ltd.	NZD	300,000	100%
Norway	Hempel (Norway) AS	NOK	4,981,428	100%
Oman	Hempel (Oman) L.L.C	OMR	500,000	20%
Poland	Hempel Paints (Poland) Sp. z o.o.	PLN	60,500,000	100%
Portugal	Hempel (Portugal) Lda.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
Russia	ZAO Hempel	RUB	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints (South Africa) Pty Ltd.	ZAR	118,906,790	100%
Spain	Pinturas Hempel S.A. (Spain)	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	100%
Switzerland	Hempel Switzerland	CHF	100,000	100%
Syria	Hempel Paints (Syria) L.L.C.	SYP	121,600,000	49%
Taiwan	Hempel (Taiwan) Co. Ltd.	TWD	20,000,000	100%
Thailand	Hempel (Thailand) Ltd.	THB	3,000,000	100%
The Netherlands	Hempel (The Netherlands) B.V.	EUR	500,000	100%
The Netherlands	Schaepman's Lakfabrieken B.V.	EUR	306,302	100%
Turkey	Hempel Coatings San. Ve Tic Ltd. Sti.	TRY	2,789,300	100%
UK	Crown Brands Ltd.	GBP	1	100%
UK	Crown Paints Ltd.	GBP	1	100%
UK	Crown Paints Group Ltd.	GBP	1,000,000	100%
UK	Crown Paints Holding Ltd.	GBP	1,000,000	100%
UK	Hempel Decorative Paints UK Ltd.	GBP	2,000	100%
UK	Hempel UK Ltd.	GBP	4,100,000	100%
UK	Reebor Ltd.	GBP	100	100%
Ukraine	Hempel Ukraine LLC	UAH	656,291	100%
United Arab Emirates	Hempel Paints (Abu Dhabi) L.L.C.	AED	150,000	23%
United Arab Emirates	Hempel Paints (Emirates) L.L.C.	AED	4,000,000	29%
Uruguay	Hempel (Uruguay) S.A.	UYU	8,000,000	100%
USA	Hempel (USA) Inc.	USD	20,000,000	100%
USA	Jones-Blair Company, LLC	USD	17,664,600	100%
Vietnam	Hempel Vietnam Company Limited	VND	116,498,272	100%

Foreign branches	
Caribbean	Pinturas Hempel (Caribbean)
Hungary	Hempel (Czech Republic) s.r.o., Magyarorszagi Fioktelepe
India	Hempel (Singapore) Pte Ltd India Representative Office
Japan	Hempel (Singapore) Pte Ltd Japan Branch Office, Tokyo
Slovakia	Hempel (Czech Republic) s.r.o., org. zlozka Slovensko
Vietnam	Hempel (Singapore) Pte Ltd Vietnam Representative Office

5.8 Financial definitions

Financial ratios have been calculated as follows:		
Organic growth	=	Absolute organic revenue growth / 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	=	Gross profit / Revenue
EBITDA margin	=	EBITDA / Revenue
EBITDA	=	Operating profit (and loss) before amortisations and depreciations
Operating profit margin	=	Operating profit (loss) / Revenue
Return on invested capital	=	Operating profit (loss) / Average invested capital
Invested capital	=	Intangibles + property, plant and equipment + deposits etc. + inventories + receivables - other provisions - trade payables - other payables
Equity ratio	=	Shareholder's equity / Total assets
Leverage ratio	=	Net interest-bearing debt / EBITDA
Net interest-bearing debt	=	Overdraft facilities + bank loans etc. + interest-bearing payables to Group enterprises - cash at bank and in hand
Cash conversion	=	Total cash from operating activities + income tax paid / EBITDA

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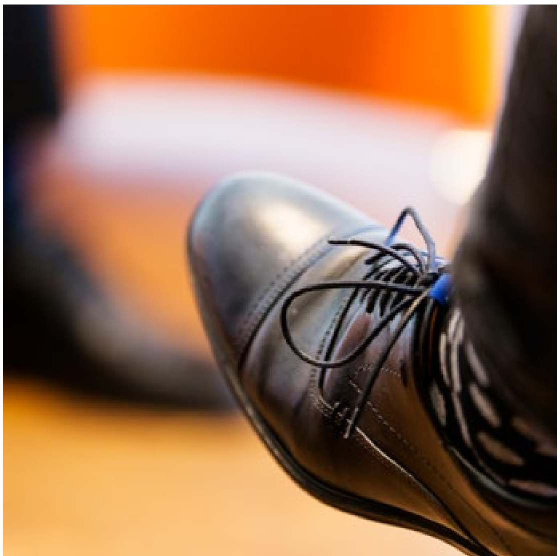
> Hempel takes care of its most important asset: its employees. The company wants employees to be happy and motivated.

Maria Gomis,
Project Manager,
Group Supply Chain



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