

Annual Report 2017



The Foundation

Hempel Foundation
Amaliegade 8
1256 Copenhagen K
Denmark

Tel: +45 4527 3074
Fax: +45 3315 6044
hempelfoundation.com

CVR no. 21518018
Financial year: 1 January - 31 December

Home municipality: Copenhagen

Board of Trustees

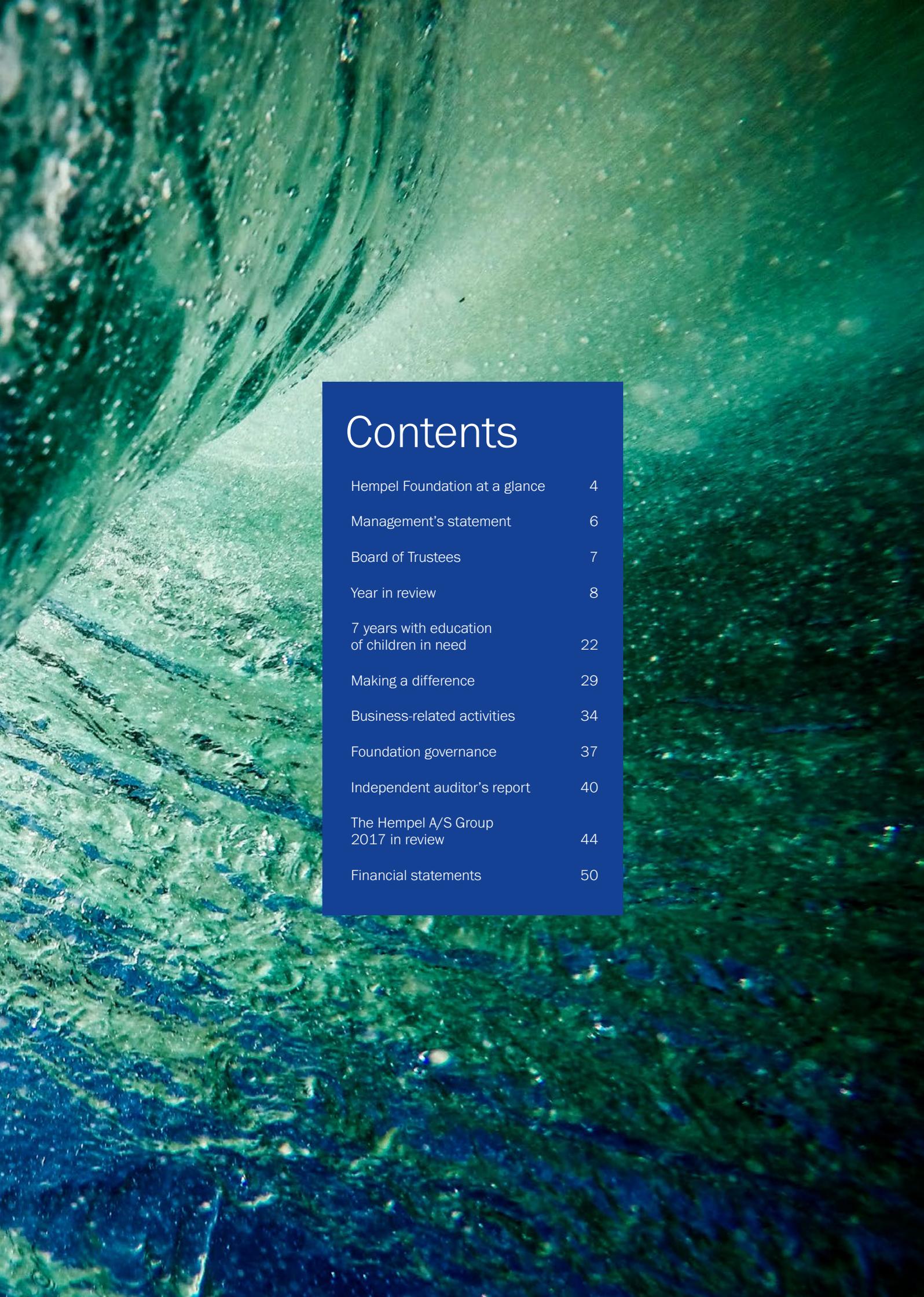
Richard Sand, Chairman
Leif Jensen, Deputy Chairman
Kim Dam-Johansen
Carsten Gerner
Birgitte Hagemann Snabe
Lars Aaen
Martin Bøgsted, elected by the employees
Louise Krüger Kofoed, elected by the employees
Claus Juul Petersen, elected by the employees

Executive Management

Anders Holm,
Executive Director, Grant Areas and Administration

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

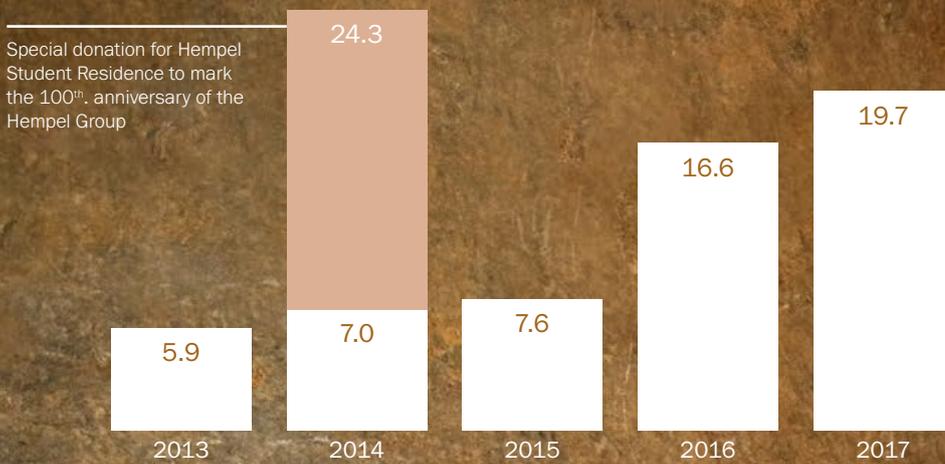


Contents

Hempel Foundation at a glance	4
Management's statement	6
Board of Trustees	7
Year in review	8
7 years with education of children in need	22
Making a difference	29
Business-related activities	34
Foundation governance	37
Independent auditor's report	40
The Hempel A/S Group 2017 in review	44
Financial statements	50

Hempel Foundation at a glance

Donations (EUR million)



102,000

children reached
through our
education projects
since 2010

176

organisations
supported since
2010

The Hempel Foundation

Owner of the Hempel Group and dedicated to making a difference

The Hempel Foundation is a commercial foundation dedicated to making a difference. The Foundation is the sole shareholder of the Hempel Group – a world-leading supplier of coatings for man-made structures – and a committed philanthropist within the fields of education, sustainable coatings technology and environmental sustainability.

The Hempel Foundation was established in 1948 by Jørgen Christian Hempel, the founder of the Hempel Group. The main purpose of the Hempel Foundation is to provide and maintain a solid economic base for the Hempel Group – which operates in more than 80 countries, with 5,900 employees, 27 factories and 12 R&D centres around the world. The stability of ownership provides a framework for the continued prosperity of the Hempel Group.

The Hempel Foundation's secondary purpose is philanthropic: To support and make a difference to social, humanitarian, cultural, scientific and artistic causes around the world. We are especially concerned with the education of children in need.

Today, there are millions of children around the world without access to a good basic education who therefore have little chance of building a better future for themselves. So far, we have reached more than 100,000 children – and our work continues.

In addition, we facilitate scientific research into coatings technology. Coatings extend the lifetimes of man-made structures and equipment by protecting them, mainly against corrosion. Through our support, we want to help make coatings longer lasting, more efficient and more environmentally sustainable for the benefit of science, the industry and the common good.



70 years

The Hempel Foundation was established in 1948 and has been the sole shareholder of the Hempel Group for 70 years

Management's statement

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

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

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

In our opinion, the year in review includes a true and fair account of the development of the Foundation's operations and financial affairs, the profit for the year and the Foundation's financial position together with a description of the principal risks and uncertainties that the Foundation faces.

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

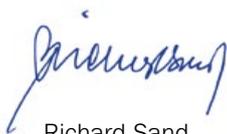
Kgs. Lyngby, 6 April 2018.

Executive Management



Anders Holm
Executive Director,
Grant Areas and Administration

Board of Trustees



Richard Sand
Chairman



Leif Jensen
Deputy Chairman



Kim Dam-Johansen



Carsten Gerner



Birgitte Hagemann Snabe



Lars Aaen



Martin Bøgsted
Elected by the employees



Louise Krüger Kofoed
Elected by the employees



Claus Juul Petersen
Elected by the employees

Board of Trustees

Richard Sand
Chairman



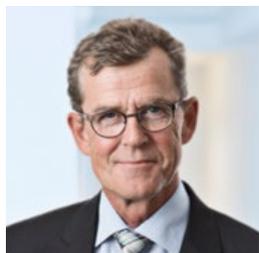
Leif Jensen
Deputy Chairman



Kim Dam-Johansen



Carsten Gerner



Birgitte Hagemann Snabe



Lars Aaen



Martin Bøgsted
Elected by the employees



Louise Krüger Kofoed
Elected by the employees



Claus Juul Petersen
Elected by the employees



Executive Management

Anders Holm
Executive Director,
Grant Areas and Administration



Information about each Board member's background, competencies, election period, etc. can be found at hempelfoundation.com/Hempel-foundation/Board-of-Trustees

Year in review

Building a stronger Foundation

Giving back to society is a cornerstone of the Hempel Foundation's work. The Hempel Group is 100 per cent owned by the Hempel Foundation, and all dividend paid to the Foundation is either spent on philanthropic work or kept as a financial reserve. The Foundation's philanthropic scope has grown substantially over the last couple of years. In 2010, the Foundation donated EUR 1.9 million. In 2017, the Foundation was able to donate almost EUR 20 million.

Larger donations provide us with a better opportunity to make a bigger and more positive impact around the world. They also entail greater responsibility: To work with the donations and our partners in order to make the largest impact possible.

To support this, the Board of Trustees decided to employ an Executive Director from 1 March 2017, and a great deal of work was done in 2017 to update the way the Foundation works. This included establishing a new online digital application system that enables the Foundation to work more systematically with applications, and more accurately follow up on the donations and the impact they have.

The Foundation has refined its overall donation strategy and has adopted a more focused strategic approach, with the



overall purpose of making a larger impact. We want to ensure we are making a significant difference in our strategic areas. To be able to do that, we decided also to invest in our organisation.

Empowering children to learn

One of our strategic focus areas over the next couple of years continues to be empowering children to learn, with the mission of creating sustainable change by enabling children living in poverty to develop their potential. We want to achieve this in a more powerful way and to create more impact through partnerships and a focus on innovation. Since 2010, the Hempel Foundation has donated almost EUR 16 million to education of children in need, reaching more than 100,000 children. Building on our results so far, in the future we want to increase our donations and coordinate and integrate our work with international efforts in order to find solutions that reach even more children around the world in the most cost-effective way. To achieve this aim, we have invested internally in our organisation to ensure that we have the necessary competencies and resources.

Sustainable coating technologies

Another strategic area for the Foundation is sustainable coating technologies. As part of this work, the Foundation

supported the establishment of CoaST – the Hempel Foundation Coatings Science and Technology Centre – which opened at DTU - Technical University of Denmark in 2017. We want coatings to be more efficient and more environmentally friendly. We are continuing to support CoaST heavily, and our vision is for it to become a globally leading centre for research, innovation and education in sustainable coating technologies. To advise the Foundation on how to fulfil this vision, the Hempel Foundation is establishing an Advisory Board.

Inspiring others

In 2018, we will also work on creating a new website and communication strategy that will better communicate the impact of our work in order to attract new partners and inspire others. We employed a Communication Manager in 2017 to lead this work.

In the future, our partners and potential partners will meet a Hempel Foundation with higher demands and goals, as well as a greater capacity to form strategic partnerships that work catalytically to find solutions to – and so have a greater impact on – some of the world's greatest challenges.

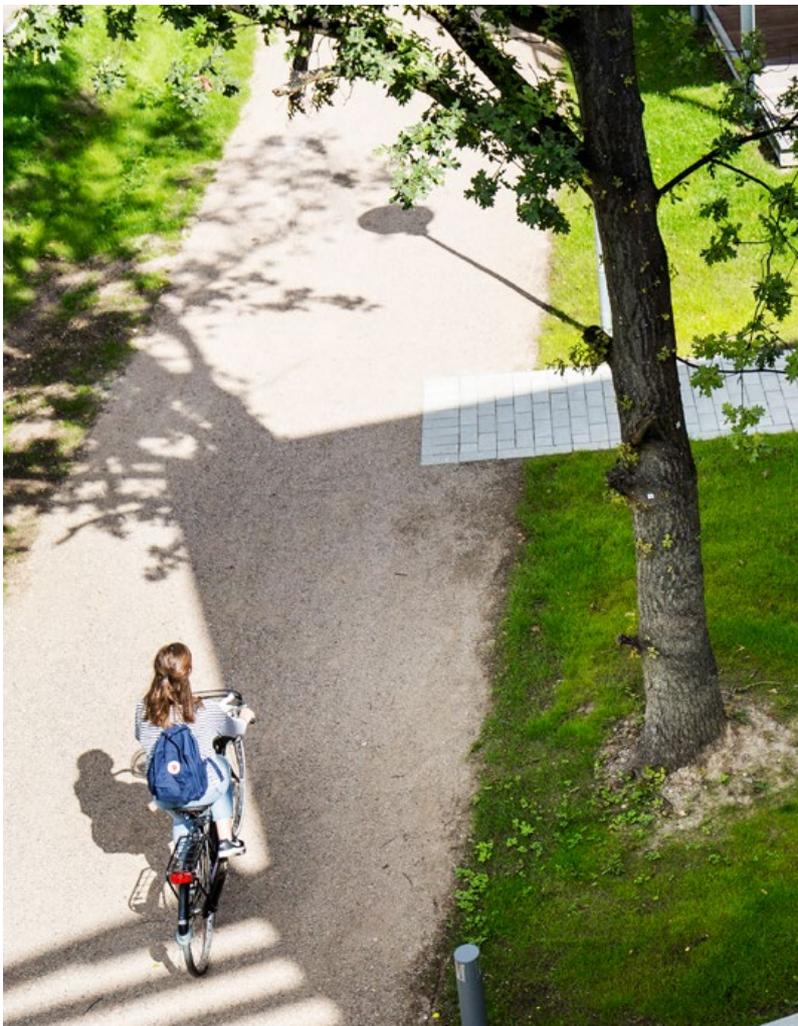
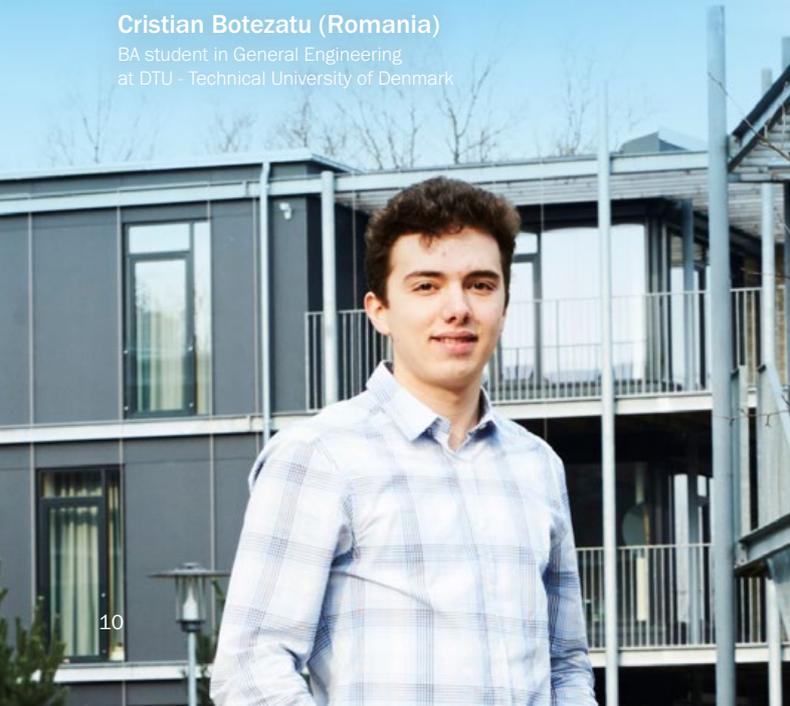


© G&H: kom-fotografie

“Living at Hempel Student Residence is wonderful and it has made me understand better how people from other countries are.”

Cristian Botezatu (Romania)

BA student in General Engineering at DTU - Technical University of Denmark



Activities in 2017 that were made possible by the Hempel Foundation

Hempel Student Residence now home to 200 students from all over the world

To mark the 100th anniversary of the Hempel Group in 2015, the Hempel Foundation granted the largest single donation in its history so far (EUR 18 million in 2014), to build an affordable and modern student residence at DTU - Technical University of Denmark. In August 2017, the first students moved into the new Hempel Student Residence, and it was officially inaugurated by HRH Crown Princess Mary of Denmark on 13 September.

The Hempel Student Residence consists of a cluster of three U-shaped buildings, all pointing towards common green outside areas where the students can gather. The buildings have two or three floors, and all rooms have access to a common kitchen and study lounge.

The idea behind the residence and the architecture is to create and strengthen social communities among students from all over the world and give them a chance to engage on different levels and around common professional areas. The Hempel Foundation's goal is that the Hempel Student Residence will create a social and energetic student environment with both Danish and international students – a global community that inspires future personal and professional cooperation across borders.





Credit: Luna Signe Hardin Nielsen



Opening Copenhagen Dome a socio-economic centre of excellence

At the Hempel Foundation, we believe that we need to find new solutions to make the labour market more accessible for young people with special needs. In 2016, the Foundation supported the development of Copenhagen Dome, a socio-economic centre of excellence established as a social enterprise at Grennessminde near Copenhagen. The overall purpose of the centre is to challenge and rethink access to the present labour market, create jobs for young people with special needs and support the development of an economy that includes jobs for those who find it hard to fit in.

The social-economic centre opened in November 2017. In addition to being a knowledge centre for social enterprises, it also serves as a conference centre, meeting house and knowledge exchange centre, and hosts lectures and events with a focus on sustainability. The centre is also an employer of young people who find themselves outside of the traditional labour market due to physical or mental disability. Through their work at the centre, these people can improve their skills, abilities and general education.

The centre is bridging gaps between different socio-economic stakeholders, including educational institutions, businesses and labour unions, in order for them to learn from each other and develop new sustainable methods and solutions. In this role, the centre helps ensure that knowledge is shared between all stakeholders and policy makers, both locally and internationally.

The Hempel Foundation will support the operation of the centre for the first three years with a total donation of EUR 0.6 million, after which the centre is expected to be economically sustainable.

350

Copenhagen Dome is a 350m² geodesic dome that contains 4 work spaces and seats 150 guests for conferences and events



Exploring new solutions to global problems by launching UNLEASH

To solve some of the biggest global problems, we need to think differently and motivate and promote new ideas. For this reason, the Hempel Foundation is part of the founding formation of UNLEASH and is thereby supporting a global innovation lab for sustainable development. The primary purpose of the UNLEASH organisation is to create and implement scalable solutions, targeted towards the UN Sustainable Development Goals, by engaging and connecting young talents from all over the world. In addition, it is building an ecosystem of partners and companies ready to support these young talents and implement their solutions.

The first UNLEASH Innovation Lab was hosted in Copenhagen in August 2017. One thousand young talents from 130 different countries gathered in order to come up with new strategies and groundbreaking solutions to the challenges laid out in the 17 UN Sustainable Development Goals, in collaboration with a range of Danish companies.

UNLEASH Innovation Lab 2018 will be hosted in Singapore where the Hempel Foundation will take part in discussions on how to achieve Goal 4 of the UN Sustainable Development Goals: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Building a new campus for Copenhagen International School

The new campus of Copenhagen International School (CIS) was officially inaugurated on 7 March 2017. The Hempel Foundation supported the construction of the new campus in Nordhavn in Copenhagen. The new campus is designed with sustainability in mind. Its façade consists of 12,000 solar panels, all of the building's interiors are made from natural materials and there is a large greenhouse on the roof of the building.

In total, around 900 pupils aged 3-18 study at the school. The school is culturally diverse, with pupils coming from more than 80 different countries. In June 2017, the first students graduated from the new campus, and many of them will go on to study at universities around the globe.

The Hempel Foundation donated EUR 1.3 million in 2013 for construction of the new campus.

130

A 1,000 young talents from 130 countries gathered in Copenhagen to come up with new solutions for reaching the 17 UN Sustainability Goals



Credit: Thorkild Christensen



Credit: Thorkild Christensen



20

CoaST is expected to have more than 20 PhD students engaged in projects related to coatings science and technology



Larger donations in 2017

The total amount granted by the Hempel Foundation in 2017 was EUR 19.7 million. Some of the larger donations are described below.

Creating CoaST

a globally leading coatings science and technology centre

In January 2017, CoaST – the Hempel Foundation Coatings Science and Technology Centre – opened at DTU - Technical University of Denmark with the vision of becoming a globally leading centre for research, innovation and education within sustainable coating technologies. The Hempel Foundation granted EUR 13.4 million to CoaST in 2017. Together with the donation in 2016, the Foundation has granted a total of EUR 23.5 million to CoaST.

The donation for the research centre will help ensure:

- Improved functionality in coatings
- Optimal protection of valuable constructions
- Reduced emissions in coatings production and application
- A better environment for people and the planet

CoaST draws on the best professional expertise in both academia and industry, and seeks to make a profound difference to both the coatings industry and the environment. Besides research and innovation, CoaST provides high-quality, industrially relevant education in the field of functional coatings by contributing to teaching and supervision of Bachelor's, Master's and PhD students enrolled at DTU. When fully operational, CoaST is expected to have an experienced faculty, a number of visiting professors as well as 20 PhD students engaged in projects related to sustainable coatings research. The close link between research, industry and education supports the centre's mission to attract and train a new generation of expert engineers within the field of coatings, while also generating valuable knowledge on coatings for a better future.





Education of children in need

Improving access to quality education for ethnic minorities in Vietnam

Even though Vietnam is a low middle income country, part of its population still lives in poverty. Those most affected are the country's 54 different ethnic groups, which mainly live in remote mountain areas, where life is difficult and access to quality education is limited. One of these areas is Lào Cai in the north of the country, close to the Chinese border. Over the last two years, the Hempel Foundation has worked closely with UNICEF to increase access to quality education for children in primary and preschool, and to develop a model for how the education system can be improved for ethnic minorities based on bilingual education.

The Hempel Foundation is now working to further develop and refine the education model in Lào Cai to enable more children to be reached and more teachers educated. As part of the project, we are working closely with other stakeholders in order to create acceptance for the new education model and further implement it in other parts of the country.

The Hempel Foundation granted EUR 0.6 million to this work in 2017.

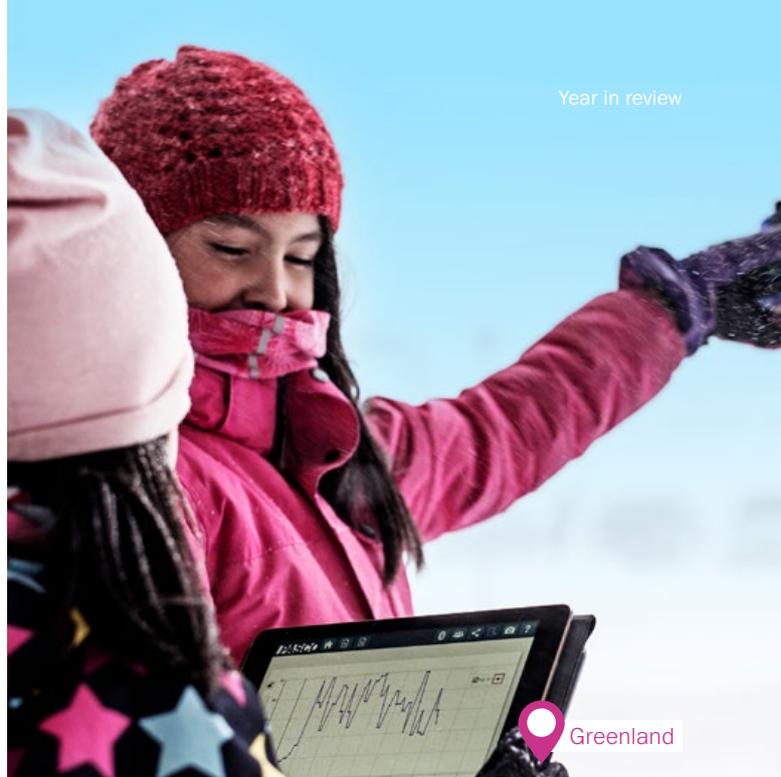
Renovating schools and improving teacher's competencies in Somaliland

Somaliland is a self-declared state that is internationally recognised as an autonomous region of Somalia. Somaliland is mostly dry and arid, and the level of poverty is high. Only half of 6-13 year olds attend primary school and many schools are run down.

In 2014, the Hempel Foundation began working with SOS Children's Villages in the Sheikh district to help renovate schools, improve the learning environment, develop a teacher training programme to improve teachers' competencies and reduce the high number of out-of-school children.

We are now using the learnings from previous years to include more remote schools, further develop the teacher training programme and to work thoroughly with the Ministry of Education, the district education office and parent committees to ensure the changes are sustained and replicated successfully in other schools.

In 2017, the Hempel Foundation granted EUR 0.7 million to continue the project for another three years.



Working with individual families and the school system in Ethiopia

Ethiopia is one of the world's poorest countries and around half of its population live below the poverty line. The country is often hit by serious droughts, which lead to hunger and the loss of lives. Education is low on the list of priorities. More than half of the country's 15-24 year olds are illiterate, and the number of children who do not attend primary school is high.

In 2012, the Hempel Foundation partnered with SOS Children's Villages in the remote Dara district to try a new approach to improving the level and quality of education in primary schools in the most deprived areas. The approach involves identifying and working with the barriers to education within individual families, such as the loss of a parent, unemployment or malnutrition. The local civil community is involved in sustainable change. At the same time, the project works with the schools to improve the quality of education by training teachers and school management and providing new kinds of learning materials.

In 2017, the Hempel Foundation granted EUR 0.7 million to continue the project for another three years. This will provide more time to further explore the new approach, extract learnings and extend the project into the local communities and education authorities.

Getting public schools in Greenland ready for the future

Research conducted by the Economic Council of Greenland in 2015 showed that half of the people aged 25-34 in Greenland only completed primary and lower secondary education. The main reason for this is believed to be the quality of public schools in Greenland, a country with many small and isolated communities. Digital access to these communities will soon improve with the completion of 'søkablet', an undersea cable that will bring higher bandwidth internet to 92 per cent of Greenland's inhabitants, giving opportunities for new ways of learning.

At the Hempel Foundation, we believe that education is one of the best ways to shape a better future. Therefore, the Hempel Foundation, other private Danish foundations and the municipalities of Greenland formed a partnership in 2017 to transform the public school system. The project's goal is to create a public school system that provides a better quality of learning, which will ensure more students are ready and motivated to graduate from further education.

The project will run for five years and will focus on using digital solutions to make public schools in Greenland more sustainable and resilient. Over the next five years, all students in Greenland will receive a tablet computer, all teachers and school managers will receive extensive competency development training, and all teaching and school administration will become digital.

The Hempel Foundation granted EUR 2.0 million in 2017 to the partnership.

Setting sail for the Hempel Foundation's Youth League

There is no competitive youth league for sailing clubs in Denmark. As a result, many young sailors leave the sport because there are few opportunities for them to meet and sail with people of their own age.

The Hempel Foundation's Youth League will be the first sailing league for young people in Denmark. The league's first races will be held in 2019 but, in the meantime, young people from across the country are invited to participate in sail camps, called Youngsters Sail Camps. The purpose of the camps is to create a strong culture among the young sailors and an attractive sailing environment for young people. The young participants will be largely responsible for creating and facilitating the camps themselves.

The implementation strategy has been conceived by 15 young people from across the country, making it an initiative created by young people for young people. The goal of the project is to create a league that attracts and retains young sailors (aged between 15 and 23), and develop it until it becomes a visible and integrated part of the Danish sailing environment.

The Hempel Foundation supported the Youth League through a donation of EUR 0.3 million in 2017.





Youngster

Did you know the word 'youngster' was a common 19th century naval expression meaning 'junior seaman on board ship'?



Uniting art and the UN Sustainable Development Goals

We believe that art can change the way people think and how they perceive things, which is why we became a founding partner of ART 2030.

ART 2030 connects art with the UN Sustainable Development Goals in order to help open people's hearts, minds and imaginations as we strive towards creating the world we want by 2030. ART 2030 is a movement of visionary artists and influencers from the art world, who are all determined to place art in a bigger world context and make their contributions towards sustainable development visible.

Working with visionary artists Yoko Ono from the US, and Lilibeth Cuenca Rasmussen and Christian Falsnaes, both from Denmark, ART 2030 is creating projects for 2018 with a focus on education. The projects will involve and engage many people in public performances in Denmark and the US, and will reach an international audience through online initiatives.

The Hempel Foundation donated EUR 0.3 million to the project in 2017.



Support for vulnerable children in Denmark

We believe that it is important to help vulnerable children and support projects and organisations working towards a greater inclusion of vulnerable children and young people in Danish society. To this end, the Hempel Foundation supported a number of Danish organisations in 2017, including:

- Julemærkefonden (Christmas Seal Foundation), which helps vulnerable children, such as children who have been bullied or isolated, through a stay at one of their homes.
- Mødrehjælpen (Mother's Aid), which provides support to pregnant women and families with young children who find themselves in difficult situations.
- Danner, a humanitarian organisation that runs a crisis centre, offers advice to abused women and their relatives, and works to reduce violence against women and children.
- Dansk Folkehjælp (Danish People's Aid), which helps vulnerable families with Christmas and holiday aid.

Renovating the Georg Stage

Every year, the Georg Stage, a three-masted sailing ship built in 1934, sails out on new expeditions with new students. The ship offers young people from Denmark and Greenland a basic naval education, focusing on joint responsibility in an active learning environment, encouraging responsibility and independence. The school ship is currently going through the most intensive rehabilitation process in its history, and will be ready for new expeditions and students in June 2018.

The Hempel Foundation supported the rehabilitation of Georg Stage in 2017 through a donation of EUR 0.4 million.



7 years with education of children in need

In 2010, the Hempel Foundation decided to play an active role in helping solve one of the world's biggest challenges: the high level of poverty around the world. We believe that education is one of the best ways to fight poverty, reduce inequality and enable children to make a better living for themselves and their family. We were inspired by the UN's Millennium Development Goals, which were launched in 2000. We wanted to help achieve them.

Our learnings

We have been working with the education of children in need for seven years. During that time, we have seen first hand that, by giving underprivileged children a chance to go to

school, to learn, to grow and to play with others, we can make a real difference; not just in their lives, but in their families and in the local community. We have learned that we have most impact when coordinating and working with others, and that a truly successful project must continue to have an impact after it is finished: it must be sustainable.

Our work and results

Our work started in this area with one project in Cambodia with SOS Children's Villages in 2010. Through the project, we helped build a brand new school in Battambang and ensured that the poorest children in the area had access to the school. Since this first project, many more projects have come into being, and our focus on education of children in need has grown significantly, helping more and more children each year.

Since 2010, we have:

- Initiated 30 projects in 19 countries
- Worked with 9 different global and local partners
- Donated EUR 15.6 million to the education of the world's poorest children

This has resulted in:

- Providing around 85,000 children with a basic education of much higher quality than they would otherwise have received. This has enabled them to learn to read, write and do maths, as well as pass exams with higher grades or simply complete their education



- Making it possible for 3,400 younger children to attend preschool, so they are ready for primary school
- Helping 14,000 out-of-school children into education – children. Children who are now studying and playing with their fellow students instead of being left behind
- Training and educating around 2,800 teachers, who are now teaching children better and enjoying their own personal development

Our approach

A good basic education has the power to transform a child's life by improving health, wealth and self-esteem. It is an important building block in strengthening vulnerable communities and promoting peace. For this reason, the Foundation has special focus on making good quality basic education available for hard-to-reach, poor and vulnerable children.

We have worked with some of the biggest international non-government organisations (NGOs), such as Save the Children, UNICEF, Oxfam IBIS and SOS Children's Villages. Trusted local NGO's have also been our partners. Together on each project, we have identified the local challenges, the barriers that stop children from attending school or learning at school in this particular area. We have analysed these barriers and developed a targeted approach. When we have affected change, we have advocated for change in the region, trying to inspire local education authorities to incorporate or replicate our most important findings and most effective methods to achieve sustainable change. It has not always been easy.

In some countries, we have not reached our goal of creating sustainable change; in others, our work has led to very good long-term sustainable results.

Whenever we have worked in conjunction with other donor projects, government projects or other important stakeholders – either directly or indirectly – our results have created a proportionally higher impact.

We are now ready to open a new chapter: To work even harder, focus our resources on larger projects, work with more stakeholders, and strive for even greater sustainable change to empower more children to learn.

85,000

children provided with a basic education of much higher quality



3,400

young children provided
with preschooling



Making a real difference: example projects

At the Hempel Foundation, we want to give underprivileged children the chance to create a better future for themselves through education. We want our projects to create change that is stable and enduring, so that many more children benefit, even after the project has finished. The projects in Ghana and Bolivia are two examples of how we are working together with our partners to create this type of long-term change.

Getting out-of-school children into school in Ghana

The Saboba district is one of Ghana's most rural and educationally deprived, and it is where the majority of the country's out-of-school children live. This is mostly due to the lack of schools: Often a child must walk 10-15 kilometres each way just to go to school – if there is a school to go to at all.

In 2012, the Hempel Foundation partnered with Oxfam IBIS to pursue a solution to this problem. Our solution was to build small schools in the most remote areas that provide quality primary education, as well as teaching and learning materials in the local children's mother tongue. At the same time, we worked to raise awareness of the importance of education through radio broadcasts, mobilised public demand for more schools, and worked closely with the district education authorities to ensure the changes we were making were sustained.

The project began with four schools and 400 children, but very quickly other parents in the district began to demand the right to education for their children. A further eight schools were built and a teacher training programme launched. The results were clearly visible: The children came to school, they stayed in school and they learned. The education authorities were highly involved and, once they witnessed the results, they constructed eleven more schools using government funds, but supervised by Oxfam IBIS in order to ensure the same quality across the region.

Today, after six years, a total of 3,800 children, who did not previously have a chance to go to school, are now receiving a quality basic education. The first 400 children are about to graduate from 6th grade. The local education authorities are in the process of taking over all the schools, making them part of the formal education system. They are even replicating the model, building more schools to reach more children. This engagement with the local authorities is essential, as it ensures that the improvements will live on, even after the Hempel Foundation project is finished.



Bilingual education in the Andes Mountains

Bolivia is one of the poorest countries in South America, with around 60 per cent of its population living in poverty. It is the indigenous people in the highland regions who suffer most. One reason for this is the lack of quality education. Formal education in Bolivia is in Spanish, a language that most indigenous children do not speak. This makes it very difficult for the children to understand, let alone to complete, their education.

In 2010, Bolivia passed a law that stated it must be possible for the children to be taught in their mother tongue. However, implementation of the law proved difficult. Therefore, the Hempel Foundation and Oxfam IBIS began a project with the aim of developing a model for how to implement and sustain bilingual education in the highland regions.

The project started in 2012 in the town of Jesús de Machaca in the Andes Mountains. The objective was to develop a training programme for teachers that would enable them to use modern pedagogical teaching methods and deliver teaching in both Spanish and the local language Aymara. New educational material was developed in both languages, with content relevant to children's lives in the mountains. In addition, the local communities formed local education councils, and these were trained to monitor the implementation and development of bilingual education, helping cement it in the local education system.

So far, 23 schools and 2,400 children have been involved in the project and the results are significant. When the children began to understand the instruction, delivered in their own language, they began to enjoy school and their performance improved significantly. This has been reflected in an increase in grades. The increase varies according to the age of the children, but the average increase is around 40 per cent.

In total, 300 teachers have been trained. In addition, the local education authorities are beginning to implement the teaching model in other schools and are producing additional educational material. This is creating the conditions required for long-term sustainable change.

2,800

teachers trained and educated

The Hempel Foundation's education projects around the world

Since 2010 the Hempel Foundation has funded 30 educational projects in 19 different countries



Guatemala

Quetzaltenango. 2012-2014
Providing education for child labourers

Brazil

Rio de Janeiro. 2012-2015
Providing cultural and educational development to children after school
Rio de Janeiro. 2012-2017
Helping unemployed youth find work

Peru

Ayacucho. 2016-2019
Providing quality bilingual education to indigenous children

Bolivia

Jesús de Machaca, Alto Plano. 2012-2017
Providing quality bilingual education to indigenous children

Argentina

Luján. 2012-2015
Improving reading and writing skills after school
San Juan. 2012-2015
Improving reading and writing skills in local schools
Salta. 2015-2019
Improving reading, writing and mathematics skills in local schools

You can read more about these projects at hempelfoundation.com

15.6

EUR 15.6 million donated to education of the world's poorest children



Sierra Leone

Tonkolili. 2014-2018
Building preschools and providing high quality education

Somaliland

Sheikh. 2014-2021
Renovating schools and training teachers

South Africa

Johannesburg. 2011-2019
Helping children receive a good primary education

Ghana

Saboba. 2012-2018
Building schools and getting out-of-school children into school

Tanzania

Iringa. 2016-2019
Improving the quality of education

Uganda

Amuru. 2012-2015
Increasing early grade literacy

Ethiopia

Dara. 2014-2021
Helping out-of-school children into school

Mozambique

Alto Molocue. 2011-2016
Improving the quality of education

Kasese. 2016-2019
Helping out-of-school children into school

Russia

Ulyanovsk. 2015-2017
Providing English classes after school

China

Xinjiang. 2012-2017
Teaching life skills and upgrading schools
Yunnan. 2015-2018
Providing quality basic education
Shanghai. 2012-2020
Supporting five migrant schools
Chengdu. 2009-2017
An SOS Children's Village house for eight children

Vietnam

Lao Cai. 2015-2021
Providing quality bilingual education

Cambodia

Battambang. 2010-2017
Supporting construction and the daily running of a new large school

Indonesia

Kupang, West Timor. 2104-2020
Teaching reading and writing skills
Bandung. 2012-2015
Upgrading secondary schools

India

Rajasthan. 2012-2017
Providing high quality education for girls
Pune. 2012-2014
Upgrading primary schools
Kolkata. 2012-2014
Providing education for child labourers
Nashik. 2014-2017
Improving the quality of primary education



Making a difference

The donation strategy of the Hempel Foundation

The Hempel Foundation has increased the donation amounts substantially over the last few years. We intend to increase our donations further in the future. Our goal is to make the largest impact possible with our resources. To achieve this, we refined our donation strategy in 2017. We have divided our strategy in two. One part is strategic in that we work catalytically in partnerships with highly specialised organisations to solve specific problems. The other part involves philanthropic donations by application to organisations who show initiative, primarily within three fields of interest.

Main strategic areas

The Hempel Foundation has two main strategic areas. A third will follow in the future.

- Education: We want to empower children living in poverty to learn so they can realise their potential
- Science: We want to make coatings more efficient and more environmentally friendly

Education	Science	Application
We want to empower children living in poverty to learn and develop their potential	We want to make coatings more efficient and more environmentally friendly	Social inclusion of vulnerable children and youth Activities at sea Talents within art, culture and entrepreneurship

- Fields of strategic partnership
- Fields of donation by application



We have been working within our education and science focus areas for a number of years. Our work in these areas is described in more detail in this Annual Report. A third strategic focus area is expected to be developed in 2018 within environmental sustainability.

Support for organisations by application

The Hempel Foundation also believes in the importance of supporting organisations that work to make a difference in their specialist areas. It can be very difficult for organisations, especially small ones, with great ideas to get funding. For this reason, we support a variety of organisations, with specific focus on:

- Helping and promoting social inclusion of vulnerable children and youth in Denmark and Greenland
- Activities at sea
- Initiatives for talented individuals within art, culture and entrepreneurship



Education: We want to empower children living in poverty to learn and develop their potential

We believe that the best way to fight poverty is through education. Our mission in this strategic focus area is to create sustainable change by enabling children living in poverty to learn so they can realise their potential – for the benefit of themselves and their families – and for a better tomorrow.



Since 2010, the Hempel Foundation has donated EUR 15.6 million to the education for children in need. We are proud to have reached more than 100,000 children in the projects that we have funded so far. Still, 57 million children remain out of school, and at least 250 million children are unable to read, write or do basic mathematics because they lack



Within our fields of strategic partnership, we strive to support the UN Sustainable Development Goals

**SUSTAINABLE
DEVELOPMENT
GOALS**

access to quality education. The majority of these children are girls, and the vast majority live in rural areas.

According to UNESCO, there is an annual financing gap of USD 39 billion that must be filled in order to provide education of good quality in low and lower middle income countries. We believe we need to find smarter solutions. We have to think differently, and we need to leverage technology and other innovative solutions to give many more children access to high quality education in the most effective way.

Over the next three years, we plan to donate up to EUR 25 million to help empower children to learn. In our work in this area, we follow four guiding principles.

- We focus on creating sustainable change.
- We attempt to work holistically and coordinate our support with other stakeholders and ecosystems in order to maximise our impact.
- We focus on cost-effective solutions to ensure our contribution achieves the greatest possible impact.
- We share knowledge and experience to strengthen the impact of our work and spread innovation.

Why we focus on education

- If all children in low income countries learned basic reading skills, 171 million people could be lifted out of extreme poverty.
- One extra year of schooling is associated with a 10 per cent higher income.
- One extra year of schooling for mothers reduces the infant mortality rate by 5-10 per cent.
- If a girl gets an extra year of schooling, she is 5 per cent less likely to enter a child marriage and she will have 10 per cent fewer children.



Science: We want to make coatings more efficient and more environmentally friendly

Coatings are the origin and the basis of the continued existence of the Hempel Foundation. Applied to man-made structures and equipment, coatings protect them from corrosion. Without them, most man-made structures would soon need to be replaced. Coatings extend the structure's useful lifetime, vastly reducing its overall environmental impact, and most man-made structures are protected by some sort of coating. There is significant research potential within coatings technology, with a global focus on safety, efficiency and sustainability.

Currently, corrosion is one of the largest single expenses in the global economy. In the US, for example, expenses connected to corrosion make up around 6.2 per cent of GDP. This makes the search for more efficient protective coatings an important one. Coatings can also improve the environmental performance of the structures and equipment they are applied to. Special hull coatings, for example, improve a vessel's hydrodynamics and so reduce emissions by up to 8 per cent.

We want to help improve coatings technology. To achieve this, the Hempel Foundation funds CoaST – The Hempel Foundation Coatings Science and Technology Centre – an independent international research centre at DTU - Technical University of Denmark, where researchers push the boundaries of how to produce and apply coatings in a more efficient and more sustainable manner.

The Hempel Foundation is the founding partner in CoaST. Aided by CoaST's independent professional Advisory Board, we expect the centre to become a globally leading research facility that attracts and produces leading scientists, generates new knowledge and expands global interest in the field of coatings – with the ultimate aim of increasing the effectiveness and sustainability of coatings.

Donations by application

Every year, the Hempel Foundation receives hundreds of applications for financial support for various projects. In the spirit of our founder, J.C. Hempel, we want to remain accessible to organisations that we believe can help make a significant difference in the areas they work in.



There are three specific areas of special interest to the Foundation. This focus helps us select which applicants to support and makes it clear to potential applicants, partners and other stakeholders the type of projects that we prefer to support. The Hempel Foundation's main focus areas for donation by application are:

- *Helping and promoting social inclusion of vulnerable children and youth*

We believe in the potential of all people and want to use our privileged position to humbly and effectively help the best organisations to unfold this potential in others. Inspired by the UN's Sustainable Development Goal 10, we work with organisations that support the thousands of vulnerable children and youths in Denmark and Greenland who find themselves excluded from society to various extents and for various reasons.

- *Activities at sea*

The Hempel Foundation has its roots in the maritime world, and we want to support the development of life at sea in Denmark. This includes contributing to carrying on the Danish

naval identity and position as a seafaring nation, so there will continue to be life and trade on the Danish waterways.

- *Initiatives for talented individuals within art, culture and entrepreneurship*

We support talented people and students on their paths to becoming successful entrepreneurs, and help maintain and develop the arts – both niche and popular genres – to allow artists and performers to lift their art forms to new heights.

In special cases, funding may also be granted to projects outside these main fields.

With every donation, we aspire to become better at what we do. As a consequence, we expect our beneficiaries to share with us how the donation has made an impact. These beneficiaries are dedicated to making an impact in a certain field, and we can learn a great deal by seeing how they work. This way, we can learn from the best in order to leave an even bigger mark tomorrow.

Business-related activities



The Hempel Foundation's business-related activities include ownership of the Hempel Group companies and various properties. The Hempel Foundation's most important and significant investment is the ownership of Hempel A/S and its subsidiaries worldwide. Net income from this was EUR 41 million in 2017, compared to EUR 33 million in 2016. Please refer to the separate review of the activities of the Hempel Group on page 44.

Properties

The Hempel Foundation is located in a property in Amaliegade 8 in central Copenhagen, Denmark. The Foundation owns the building and has a financial income from tenants.

The Hempel Foundation is also the owner of the property Lundtoftegårdsvej 91, Lyngby, Denmark where the Hempel Group headquarters and an R&D department are located. In January 2018, Hempel Holding A/S, which is 100 per cent owned by the Hempel Foundation, acquired a site opposite the Hempel Group's current headquarters to construct additional facilities for the Hempel Group, expected to be completed in 2020.

Hempel Holding A/S is also the owner of shareholdings in two forests located in Denmark and a major property company listed on the OMX stock exchange.

Financial investment activities and investment strategy

An Investment Committee, appointed by the Hempel Foundation's Board of Trustees, prepares decisions on the Foundation's financial investments. Investments in bonds, shares and other financial instruments are managed by 4-5 professional external portfolio managers. This split is intended to increase the risk-adjusted net return of the total portfolio.

In order to better manage risk and generate sustainable medium-term returns, the Hempel Foundation has certain requirements for portfolio managers. They are expected to follow the UN's Principles for Responsible Investment (UN PRI) or make investments according to corresponding principles taking into account other assessments regarding environmental, social and governance (ESG) factors.

The Board has set down overall guidelines and policies for investing in different types of assets, such as different kinds of properties, bonds, shares and alternative investments.

A conservative financial investment strategy is adopted, and a robust portfolio is managed with a limited risk appetite. The majority of investments are in listed securities that can be redeemed within a few days, and the financial portfolio of the Foundation is considered part of the financial instruments for the Hempel Group.



The net financial income in the Hempel Foundation resulted in a satisfactory return from the portfolio of EUR 9.4 million in 2017, compared to a net financial income of EUR 14.6 million in 2016.

The Investment Committee also advises Hempel Holding A/S on its investment activities including shareholdings, private equity and properties.

Social impact investments

The Hempel Foundation made its first social impact investment, Den Sociale Kapitalfond Invest (SKFI), in 2017. SKFI is a new Danish fund targeting and investing in social corporations in Denmark with the intention of generating social and environmental impact alongside a financial return. Apart from the financial return, there are two reasons for this investment: To empower marginalised people through the creation of jobs, training positions, education and other enabling services and products; and to invest in the first social impact investment fund in Denmark, which can act as a model for social impact businesses in the future.

Financial report of the parent foundation

The financial outcome of the Hempel Foundation's activities in 2017 is considered satisfactory.

The Hempel Foundation's total revenue in 2017 remained at EUR 1,853 thousand (as 2016). The Foundation's net profit after tax increased to EUR 50 million in 2017, compared to EUR 46 million in 2016. Net profit in 2016 was influenced by a special item of EUR 40 million in the accounts of Hempel A/S.

The financial situation of the Hempel Foundation is considered satisfactory.

For 2018 the outcome is expected to be satisfactory, although lower than 2017. Please see page 44 for information about the Hempel Group.

Subsequent events

No significant events have occurred subsequent to the balance sheet date that are considered to have a significant influence on the evaluation of the Annual Report for the parent Foundation.



Foundation governance

The Hempel Foundation's Trust Deed defines the overall principles for the Foundation's activities. In addition, the Hempel Foundation is governed by a set of Rules of Procedures for Board work and an Annual Wheel for planning work during the year.

Based on the Trust Deed, Rules of Procedure and the Annual Wheel, the Board of Trustees considers the Hempel Foundation to be in full compliance with the legislation and to basically comply with all recommendations from the committee for good governance in commercial foundations.

Regarding the recommendations from the committee for good governance in foundations, the Board of Trustees has made a full report, which is available at: hempelfonden.dk/redegoerelse-for-god-fondsledelse-2017

Purpose of the Foundation and ownership structure of Hempel A/S

According to the Trust Deed, the Hempel Foundation's primary purpose is to provide and maintain a solid economic base for Hempel Group companies, and to ensure that the companies are able to operate on a sound business and financial basis. This is of greatest importance, since the Foundation is 100 per cent owner of the Hempel Group companies.

A second purpose of the Foundation is, in accordance with the Trust Deed and the policies and priorities adopted by the Foundation, to support charitable purposes. The Foundation has been able to increase this activity in recent years.

Board of Trustees

The Hempel Foundation is administered by a Board of Trustees comprising 5-7 members elected by the Foundation and 3-4 members elected by employees.

The Foundation's Trust Deed states that the Board is a self-electing entity. Elections take place annually. Board members appointed by the Foundation are elected for a three-year term, and may be re-elected. The three-year term is stipulated in the Trust Deed, with a view to maintaining satisfactory continuity in the Board's activities. Board members must be no more than 65 years of age when elected for the first time.

The age limit for Board members elected by the Foundation is 70 years, subject to an extension to 75 years in special circumstances. The members appointed by employees are elected under Danish legislative provisions for employee representation on boards of directors and, accordingly, are elected for a term of four years.

Under the Trust Deed, the following requirements apply to Board members appointed by the Foundation:

- A majority cannot at the same time be Board members of Hempel A/S.
- A majority should preferably be current or former Hempel employees or somehow involved with the Hempel Group over many years.
- At least two of the members must have international business experience.

The Board of Trustees has additionally set targets for gender representation for members elected by the Foundation. In April 2015, a new female Board member joined the Board of Trustees and, as such, the first target was achieved. A new target has therefore been set: No later than 2020 at least two Board members appointed by the Foundation should be female.

The Board of Trustees has also decided that competencies within charitable donations, commercial business, and financial investments should be present among members of the Board.

The Chairman and Deputy Chairman are elected from among the Board members, each for a three-year term.

The Chairman and the Deputy Chairman of the Board monitor and assess the composition of the Board and its performance on an ongoing basis, in consultation with individual Board members and the Board as a whole. Once a year, the Board performs a formalised internal Board evaluation in accordance with the detailed recommendations from the committee for good governance in commercial foundations. This evaluation aims to ensure that the required commercial, investment and personal skills, as well as competencies regarding charitable donations, are available among the Board members appointed by the Foundation.

Detailed information on Board of Trustee members can be found at: www.hempelfoundation.com/hempel-foundation/board-of-trustees

All new Board members appointed by the Foundation are selected through a structured process based on the above-mentioned evaluation, as well as any specific needs for additional competencies on the Board. A professional executive search firm is used for external searches. To meet the specific requirement stipulated in the Trust Deed that certain Board members must preferably have been involved with the Hempel Group, the Chairman and Deputy Chairman use a regularly updated list of potential candidates, which is presented to the Board members appointed by the Foundation for evaluation and selection.

The Foundation has elected and established an Investment Committee made up of Board members for the preparation of the Board's higher-level decisions regarding the Foundation's financial investments, among other things, as well as evaluating portfolio managers. The Foundation has also elected and established a Donations Committee. The Donations Committee examines and evaluates the high number of applications the Foundation receives every year, many of which are for large and complex projects. The final decisions on donations are, in accordance to an agreement made within the Board, made by all Board members and not only by the Board members appointed by the Foundation (ref. Commercial Foundations Act § 64). The final decision on the total amount of yearly contribution to donations is also taken by all Board members.

For preparation of specific purposes, the Board of Trustees can decide to establish ad hoc committees, which are dissolved when the specific tasks are completed.

Finally, the Board has also appointed from among its members honorary Board members of the two related Foundation entities: the Hempel Employee Foundation and the Hempel Cultural Foundation.

The Chairman of the Board is entitled to speak on behalf of the Foundation and the Board. The Executive Director of the Foundation is entitled to inform the media concerning facts related to his fields of responsibility; other statements to the media must only be given after approval by the Chairman of the Board.

Meetings, committees and remuneration

The Board of Trustees generally holds 5-6 all-day meetings a year. Two of these meetings take place as soon as possible after the completion of the Foundation's half-yearly and annual financial statements. The Board of Trustees has a continuing involvement in the Hempel Group's operations on an overall strategic level, with a view to maintaining the required degree of consultation and consensus between the two entities.

The Investment Committee usually holds 5-6 meetings a year with each of the Foundation's four different portfolio managers, as well as meetings on strategic investment issues. The Donations Committee generally holds four meetings each year.

Members of the Board of Trustees are paid a fixed annual remuneration that must not be above what is deemed to be usual in relation to workload, nature of the job and competencies involved. As is customary, a higher level of remuneration is received by the Chairman (+200%) and Deputy Chairman (+50%). Except for the Chairman, members of the Investment Committee and the Donations Committee receive a fixed annual remuneration for committee work. Trustees serving on the boards of the Hempel Employee Foundation or Hempel Cultural Foundation do not receive remuneration for these services.

Remuneration is decided by the Board of Trustees on an annual basis, using a structured process that takes into account: the amount of working hours spent by the Trustees; the overall responsibilities of the Trustees and activities carried out by the Trustees; the purpose of the Foundation

as well as the total activities of the Foundation; the leading role of the Trustees and the major responsibility of the Trustees in relation to the overall leadership of the Hempel Group; the Trustees participation in all major and strategic decisions in the Hempel Group; and the income derived by the Trustees from other positions in the Group.

To further support the correct handling of decisions on remuneration issues, the Trustees additionally, and from a critical standpoint, make sure that the suggested remuneration is reasonable in relation to the overall interest of the Foundation, as well as comparable to the level of remuneration in other commercial foundations of some similarity. This work includes peer group benchmarking, which is carried out by an independent external consultancy.

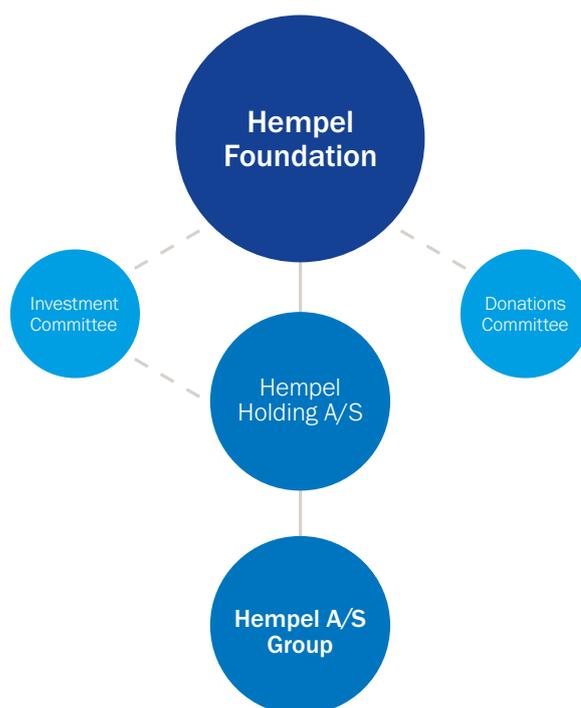
It is the firm commitment and aim of the Trustees at all times that the Foundation and the Group will not accept costs or remunerations to Management, Board members, Trustees and other kind of administrative costs that do not support and strengthen the purpose of the Foundation as well as its charitable donations.

The total remuneration paid to the Board in 2017, including remuneration for work on Board committees, was EUR 442,630. The base remuneration paid to each Board member in 2017 was EUR 33,580.

Conflicts of interest

The Foundation is committed to ensuring that all persons involved in its investment and donation processes possess the requisite skills. The Foundation is committed to avoiding any potential conflict of interest, in order to ensure the integrity of decisions made regarding investment proposals and donation applications.

All decisions are made in accordance with common conflict of interest principles. In practice this means that no Board member or Foundation employee can take part in any decisions in which they may be deemed to have a material personal interest. When the Foundation uses the services of advisors, they too are expressly requested to provide details of any personal links to applicants that might influence their recommendations.





Independent auditor's report

To the Board of Trustees
of the Hempel Foundation

Opinion

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

We have audited the financial statements of Hempel Foundation for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of cash flows, statement of changes in equity and notes ("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 Hempel Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Profes-



sional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of 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 Hempel Foundation'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 Hempel Foundation 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 Hempel Foundation'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 Hempel Foundation'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 Hempel Foundation 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.

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.

Kgs. Lyngby, 6 April 2018.

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR no. 33771231



Lars Baungaard
State Authorised Public Accountant
mne23331



Mads Melgaard
State Authorised Public Accountant
mne34354



The Hempel A/S Group 2017 in review

In 2017, Hempel focused on getting ready for accelerated growth. The Hempel A/S Group now has the foundation in place needed to accelerate execution on the Group's *Journey to Excellence* strategy and get back on a positive organic and acquisition-driven growth trajectory.

It was stated in the Annual Report for 2016 that the global coatings market was expected to remain challenged throughout 2017. In addition, the Board of Directors and Executive Management Board emphasised that they would conduct thorough compliance investigations to make certain that any inappropriate practices were brought to an end.

2017 turned out to be more challenging than anticipated, and growth did not pick up as quickly as expected. However, despite the challenging business environment and uncompromising efforts to stop inappropriate practices, the Hempel A/S Group managed to make strong progress in many areas and took important steps in the execution of its *Journey to Excellence* strategy. The Hempel A/S Group now has a platform for accelerating organic growth and taking an active part in the consolidation of the global coatings industry.

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







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

Considering the development of the coatings market and increasing raw material prices, the Hempel A/S Group considers the financial results in 2017 satisfactory. The relentless focus on operational excellence and proactive implementation of cost-saving initiatives where needed almost offset the adverse earning effects of increases in raw material prices. The Hempel A/S Group's operational excellence initiatives also led to continued strong cash flow generation. Hempel's net interest-bearing debt reduced from EUR 119 million by the end of 2016 to just EUR 21 million and thus made the Hempel A/S Group a virtually debt-free company at the end of 2017. The Group's net working capital was reduced to an all-time low of 59 days by the end of 2017, down from 89 days at the end of 2016. The Hempel A/S Group thereby delivered on one of the Group's 2020 ambitions in its *Journey to Excellence* strategy – net working capital in line with best-in-class peers – three years early.

Sales

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

In 2017 the Hempel A/S Group saw positive organic growth in its large Europe & Africa region, its two regions in the

Middle East as well as South America. It was encouraging to see that both Middle East regions saw positive growth, despite a very complicated business environment following the geo-political crisis in the region. The Hempel A/S Group also succeeded in further establishing its strategically important Industrial segment.

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

As expected, the Hempel A/S Group experienced tough market conditions in the marine industry globally, where the combination of slowing demand and increasing competition contributed to negative organic growth in 2017. Significant negative impacts were observed in the marine newbuild markets in China and Korea. The inappropriate sales practices discovered during 2016 and early 2017 also negatively affected 2017 performance, both in terms of direct losses associated with the discontinuation of customer relationships and indirectly due to the resulting restructuring activities and changes to leadership and sales teams in both of the Group's Asia-Pacific regions. However, with the new Asia-Pacific



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

organisation and leadership team in place, the Hempel A/S Group has a strong foundation from which to drive an accelerated growth agenda in 2018 and beyond.

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

The Hempel A/S Group also launched its GKAM (Global Key Account Management) programme and saw important wins with customers as a result of the Group's ability to deliver strong and consistent services to large global companies. The Hempel A/S Group expects to further accelerate growth and increase its share of wallet with GKAM customers in 2018, and the Group will continue to invest in digitalisation, including the customer portal My Hempel, with the explicit ambition of improving measurable customer satisfaction.

Operating expenses

In 2017, operating expenses decreased 6.3 per cent in reporting currencies compared to 2016. The cost-saving and

operational excellence initiatives implemented during 2016 and 2017 as part of the *Journey to Excellence* strategy released funds, which were reinvested in accelerating execution of the Group's strategy. Continued investment in building a platform for accelerated growth included strengthening the Group's commercial organisation as mentioned above. Furthermore, the Hempel A/S Group continued to expand and invest in improving its Decorative distribution network in the Middle East and the UK, as well as a stronger and wider footprint in Africa. In addition, it continued to make significant investments to improve the internal controls and compliance organisation and framework, as well as other global functions.

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

EBITDA

The EBITDA margin for 2017 was 12.4 per cent. This was roughly in line with the 13.2 per cent reported in 2016, excluding special items. The continued solid EBITDA margin was delivered despite lower sales and increased raw material

prices, which were significantly higher than expected. Continued strong progress on the Hempel A/S Group's operational excellence journey enabled the Group to continue investing in its *Journey to Excellence* while at the same time protecting margins.

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

Net profit and special items

In 2016, Hempel expensed EUR 40 million related to compliance issues connected to inappropriate sales practices in a few jurisdictions. The provision covers potential tax consequences and an estimate of potential financial sanctions, including fines, advisor fees and severance payments. At the end of 2017, the provision amounted to EUR 22 million.

The effective tax rate for the year was 40.0 per cent compared to 41.3 per cent last year. The effective tax rate for 2017, excluding impact from the US tax reform, was 30.3 per cent (2016: 24.2 per cent excluding one-off costs related to compliance issues). The effective tax rate, before non-recurring items, increased by 6.1 percentage points from 2016 to 2017 due to re-assessment of uncertain tax positions as well as higher withholding taxes. The effective tax rate in 2018 and onwards, excluding potential non-recurring items, is expected to be lower than in 2017.

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

Capital expenditure

During 2017, the Hempel A/S Group continued to invest in new factories, modernisation of production capacity and optimisation of the manufacturing footprint. Total gross capital expenditure was EUR 44 million and in line with last year. As part of optimising its manufacturing footprint, the Hempel A/S Group is progressing with the optimisation and relocation of the Group's Yantai factory in China and working on finding a solution to fully complete the closure of the Group's factory in Dammam, Saudi Arabia. In addition, a new factory in Kuwait was finalised and inaugurated; factory and production technology expansion projects in Dallas, US and

Darwen, UK were completed; and strategic investments in passive fire protection technology in the Group's laboratories in Barcelona, Spain were continued. Other capital investments in 2017 include strategic investments in cutting-edge coatings technology for the wind industry and the opening of a new distribution centre in Texas, US.

The Hempel A/S Group will continue to invest in new capacity and manufacturing optimisation in the future in line with the Group's strategy plans in order to reduce operating costs and to ensure that products can be delivered when and where customers need them.

Acquisitions

An important part of the Hempel A/S Group's *Journey to Excellence* strategy is to participate in the consolidation in the coatings industry and grow through acquisition. During the year, significant steps were taken in the Group's preparation for acquisitions and the acquisition pipeline is healthy.

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

Cash flow and net interest-bearing debt

2017 was the second year with sharp focus on improving net working capital and bringing down Hempel's net debt, and very strong improvement was made. At the start of 2016, the Hempel A/S Group performed below industry peers in terms of net working capital. By the end of 2017, it was close to best-in-class. Net working capital days decreased to 59 days by the end of 2017, down from 89 days in 2016 and 122 days in 2015.

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

Balance sheet and financial position

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

Expectations for 2018: Ready to accelerate

The coatings market is expected to remain challenging in 2018, not least in the marine industry, which is expected to contract by more than 20 per cent as a result of low demand in the newbuilding market. Despite these challenges, the Hempel A/S Group expects to see underlying organic growth across most segments and geographies, driven by a stronger and more customer-focused commercial organisation. The Group will also continue its focus on ensuring all inappropriate sales practices are discontinued and the impact hereof is expected to offset the underlying organic growth generated throughout all regions and segments. All in all, the Hempel A/S Group expects to see flat organic growth in 2018. From an earnings perspective, the Group expects to deliver a solid EBITDA margin in line with 2017 despite further increases in raw material prices and while continuing to invest in its *Journey to Excellence* strategy.

Financial statements



Contents

52	Primary statements		
	Key figures	52	
	Income statement	53	
	Balance sheet	54	
	Statement of changes in equity	56	
	Cash flow statement	57	
58	Section 1 – Basis of preparation		
	1.1 General accounting policies	58	
60	Section 2 – Results for the year		
	2.1 Revenue	60	
	2.2 Employee costs	60	
	2.3 Income from investments in subsidiaries	60	
	2.4 Income tax	61	
63	Section 3 – Operating assets and liabilities		
	3.1 Property, plant and equipment	63	
	3.2 Other securities and investments	65	
	3.3 Prepayments	65	
	3.4 Receivables	66	
	3.5 Other liabilities	66	
69	Section 4 – Capital structure and financing items		
	4.1 Base capital	69	
	4.2 Financial risks	69	
	4.3 Net financials	69	
	4.4 Cash and cash equivalents, net	69	
	4.5 Changes in working capital	69	
70	Section 5 – Other disclosures		
	5.1 Fee to the auditors appointed at the General Meeting	70	
	5.2 Adjustments for non-cash operating items	70	
	5.3 Related parties and ownership	70	
	5.4 Investments in subsidiaries	71	
	5.5 Group overview	72	
	5.6 Financial definitions	74	

Key figures

In EUR thousands (unless otherwise stated)

	2017	2016	2015	2014	2013
Income statement					
Revenue	1,853	1,853	1,765	1,024	178
EBITDA	236	409	317	-271	-1,324
Amortisation, depreciation and impairment	972	968	969	551	140
Operating profit	-736	-559	-652	-822	-1,464
Income from investments in subsidiaries	41,706	32,202	95,347	67,163	64,871
Net financials	9,362	14,604	976	7,073	4,264
Profit before tax	50,332	46,247	95,671	73,414	67,671
Net profit for the year	50,325	46,246	95,514	71,226	67,031
Balance					
Balance sheet total	750,977	738,156	726,141	628,784	553,467
Equity	715,488	714,990	698,915	600,308	544,134
Cash flows					
Operating activities	-1,580	-3,646	-27	23,778	126
Investing activities	-7,705	36,457	8,701	-20,697	-31
- including net investments in property, plant and equipment and intangible assets	-15	0	-74	-25,680	-144
Financing activities	4,733	-16,681	-9,753	-4,081	-2,061
Change in cash and cash equivalents	-4,552	16,130	-1,079	-1,000	-3,338
Employees					
Average number of employees	4	3	3	3	3
Donations					
Donations for the year	19,696	16,568	7,589	24,320	5,934
Ratios (%)					
Gross margin	58.2	69.8	64.7	69.3	44.9
Profit margin	-39.7	-30.2	-36.9	-80.3	-822.5
Return on assets	-0.1	-0.1	-0.1	-0.1	-0.3
Solvency ratio	95.3	96.9	96.3	95.5	98.3
Return on equity	7.0	6.5	14.7	12.4	12.9

For definitions, see Accounting policies.

Income statement

In EUR thousands

Note		2017	2016
2.1	Revenue	1,853	1,853
	Other operating income	6	0
	Other external expenses	-781	-559
	Gross profit	1,078	1,294
2.2	Employee costs	-842	-885
3.1	Depreciation	-972	-968
	Operating profit	-736	-559
2.3	Income from investments in subsidiaries	41,706	32,202
	Profit before financial income and expenses	40,970	31,643
4.3	Net financials	9,362	14,604
	Profit before tax	50,332	46,247
2.4	Income tax	-7	-1
	Net profit for the year	50,325	46,246

Distribution of profit		2017	2016
<i>Proposed distribution of profit:</i>			
	Donations for the year	19,696	16,568
	Reservation for grant	3,361	0
	Reserve for net revaluation under the equity method	41,706	32,202
	Retained earnings	-14,438	-2,524
		50,325	46,246

Balance sheet as at 31 December

– assets

In EUR thousands

Note	2017	2016
Land and buildings	22,112	22,678
Other fixed assets	2,295	2,716
3.1 Property, plant and equipment	24,407	25,394
5.4 Investments in subsidiaries	527,379	515,548
3.2 Other securities and investments	178,434	173,032
2.4 Deferred tax asset	0	0
Fixed asset investments	705,813	688,580
Total non-current assets	730,220	713,974
Receivables from Group enterprises	5,437	4,690
Other receivables	1,419	1,007
3.4 Receivables	6,856	5,697
Cash at bank and in hand	13,901	18,485
Current assets	20,757	24,182
Total assets	750,977	738,156

Balance sheet as at 31 December

– equity and liabilities

In EUR thousands

Note		2017	2016
4.1	Base capital	4,691	4,691
	Reserve for net revaluation under the equity method	522,940	511,103
	Retained earnings	157,635	172,294
	Reservation for grants	30,222	26,902
	Total equity	715,488	714,990
	Pension obligations and similar obligations	259	275
	Provisions	259	275
	Payables to Group enterprises	1,224	1,976
3.5	Other liabilities	34,006	20,915
	Total current liabilities	35,230	22,891
	Total liability	35,230	22,891
	Total equity and liabilities	750,977	738,156



Statement of changes in equity as at 31 December

In EUR thousands

Note	Base capital	Reserve for net revaluation	Retained earnings	Reservation for grants	Total
Equity					
	4,691	492,416	175,007	26,801	698,915
		32,202	-2,524	16,568	46,246
		0	0		0
		-12,398	679	101	-11,618
		1,471			1,471
		-3,460	3		-3,457
		871	-871		0
				-16,568	-16,568
4.1	4,691	511,103	172,294	26,902	714,990
		41,706	-14,438	23,057	50,325
		0	0		0
		-27,890	-221	-41	-28,152
		1,477			1,477
		-3,473	17		-3,456
		17	-17		0
				-19,696	-19,696
4.1	4,691	522,940	157,635	30,222	715,488

Cash flow statement

In EUR thousands

Note	2017	2016
Cash flows from operating activities		
	-736	-559
	Operating profit	
5.2	966	968
	Adjustment for non-cash operating items	
4.5	-1,805	-3,900
	Changes in working capital	
	-5	-156
	Income tax paid	
	-1,580	-3,646
	Total cash flows from operating activities	
Cash flows from investing activities		
5.4		7,337
		Sale of subsidiaries
5.4		69,288
		Dividend received from subsidiaries
3.1	-21	
		Purchase of property, plant and equipment
3.2	-111,289	-161,769
		Purchase of fixed asset investments
	6	
		Sale of property, plant and equipment
3.2	103,599	121,601
		Sale of fixed asset investments
	-7,705	36,457
	Total cash flows from investing activities	
Cash flows from financing activities		
	11,401	4,802
	Interest income and expenses, net	
	-6,668	-21,483
	Paid grants	
	4,733	-16,681
	Total cash flows from financing activities	
	-4,552	16,130
	Change in cash and cash equivalents	
4.4	18,485	2,085
		Cash and equivalents, net, beginning of year
	-32	270
		Exchange adjustment
4.4	13,901	18,485
		Cash and equivalents, net, end of year

Section 1

Basis of preparation

1.1 General accounting policies

General

This section gives a summary of the significant accounting policies. Further accounting policies is presented in the specific notes.

The Annual Report of the Hempel Foundation for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C. The Annual Report for 2017 is presented in EUR thousands.

The accounting policies applied remain unchanged from previous years.

Consolidated financial statements

With reference to section 111 of the Danish Financial Statements Act, no consolidated financial statements are prepared.

Recognition and measurement

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

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

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Hempel Foundation, 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 Hempel Foundation, 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 that confirm or invalidate affairs and conditions existing at the balance sheet date. Euro is used as the presentation currency. All other currencies are regarded as foreign currencies.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Hempel Foundation entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

Translation of transactions and balances

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

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

recognised in financial income and expenses in the income statement.

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

Translation of Group companies

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

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

These specific exchange rate adjustments are recognised directly in equity.

Other operating income

Other operating income and operating expenses comprise items of a secondary nature relative to the Foundation's core activities, including gains or losses on the sale of fixed assets.

Other external expenses

Other external expenses include the year's expenses relating to the Foundation's core activities, including expenses relating to administration, premises, etc.

Cash flow statement

The cash flow statement for the Hempel Foundation 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 Hempel Foundation 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.

Cash and cash equivalents

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

Section 2

Results for the year

2.1 Revenue

Accounting policies

Revenue from rent income is recognised in the income statement in the periods the rent concerns.

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

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 the Hempel Foundation. Where the Hempel Foundation provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

In EUR thousands

	2017	2016
Board of Trustees	443	451
Wages and salaries	324	376
Pension contributions	75	59
	842	886
<i>Employees:</i>		
Average number of employees	4	3

An additional fee to the Board of Trustees in subsidiaries within the Hempel Foundation Group amounted to EUR 448 thousand (2016: EUR 855 thousand). For 2016, the vast majority related to remuneration of one member of the Executive Board in underlying subsidiaries.

2.3 Income from investments in subsidiaries

Accounting policies

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

In EUR thousands

	2017	2016
Profit before tax	78,733	63,364
Tax for the year	-37,027	-31,162
Profit after tax	41,706	32,202



2.4 Income tax

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 Danish subsidiaries of the Hempel Foundation are jointly taxed. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

In EUR thousands

	2017	2016
Total tax	-7	-1
	-7	-1
Current tax for the year	-7	-4
Deferred tax for the year	0	0
Adjustment in respect of previous years	0	3
	-7	-1

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 set off against deferred tax liabilities within the same legal tax entity.

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

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.



Section 3

Operating assets and liabilities

3.1 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 Hempel Foundation 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 Hempel Foundation.

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.)	50-100 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.

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

	Land and buildings	Other fixed assets	Total
Cost, beginning of year	24,675	4,220	28,895
Exchange adjustment at year-end rate	-35	-6	-41
Additions for the year	0	21	21
Disposals for the year	0	-57	-57
Cost, end of year	24,640	4,178	28,818
Accumulated depreciation, beginning of year	1,997	1,504	3,501
Exchange adjustment at year-end rate	-2	-3	-5
Depreciation for the year	533	439	972
Reversal of depreciation of assets sold	0	-57	-57
Accumulated depreciation, end of year	2,528	1,883	4,411
Carrying amount, end of year	22,112	2,295	24,407

3.2 Other securities and investments

Accounting policies

Other securities and capital investment, recognised under fixed assets, consist of listed bonds and shares measured at the fair value on the balance sheet date.

The fair value is calculated on the latest listed closing quote.

In EUR thousands

	2017	2016
Cost, beginning of year	175,851	134,602
Additions for the year	111,289	161,769
Disposals for the year	-110,599	-121,029
Exchange rate at year-end rate	-248	509
Cost, end of year	176,293	175,851
Net revaluations, beginning	-2,819	-12,023
Net revaluations for the year	4,956	9,251
Exchange rate at year-end rate	4	-47
Net revaluations, end of year	2,141	-2,819
Carrying amount, end of year	178,434	173,032

In EUR thousands

	2017	2016
<i>The net values are specified as follows:</i>		
Bonds	118,784	105,593
Shares	59,650	67,439
	178,434	173,032

3.3 Prepayments

Accounting policies

Prepayments comprise prepaid expenses relating to rent, insurance premium and interest.



3.4 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 Hempel Foundation's experience from previous years.

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

In EUR thousands

	2017	2016
Receivables	6,856	5,697
of which due more than one year from balance sheet date	0	0
	6,856	5,697

3.5 Other liabilities

Accounting policies

Other liabilities are measured at amortised cost, substantially corresponding to nominal value. Other liabilities comprise donations not yet paid, 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 Base capital

The base capital of the Foundation amounts to DKK 35 million.

4.2 Financial risks

The Foundation has adopted a conservative investment strategy and hence is not exposed to financial risks other than what is considered normal market risks.

4.3 Net financials

Accounting policies

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

In EUR thousands

	2017	2016
External interest income	1,260	1,896
Interest income from subsidiaries	74	107
External interest expenses	-154	-255
Interest paid to subsidiaries	0	-1
Dividend	10,369	4,241
Realised and unrealised exchange gains/losses, net	-2,187	8,616
	9,362	14,604

4.4 Cash and cash equivalents, net

Accounting policies

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

In EUR thousands

	2017	2016
Cash at bank and in hand, beginning of year	18,485	2,085
Overdraft facilities, beginning of year	0	0
	18,485	2,085
Cash at bank and in hand, end of year	13,901	18,485
Overdraft facilities, end of year	0	0
	13,901	18,485

4.5 Changes in working capital

Accounting policies

Working capital is defined as current operating assets less current operating liabilities.

In EUR thousands

	2017	2016
Change in receivables	-1,167	-4,786
Change in trade payables	-638	886
	-1,805	-3,900

Section 5

Other disclosures

5.1 Fees to the auditors appointed at the General Meeting

In EUR thousands

	2017	2016
Audit fee	16	24
Other assurance engagements	0	0
Tax advice	2	0
Other fees	9	8
	27	32

5.2 Adjustments for non-cash operating items

For the purpose of presenting the statement of cash flows, non-cash items with effect on the income statement must be reversed to identify the actual cash flow effect from the income statement. The adjustments are specified as follows:

In EUR thousands

	2017	2016
Depreciations and impairment	972	968
Gains and losses on the sale of fixed assets	-6	0
	966	968

5.3 Related parties and ownership

Related parties and ownership	Basis
<i>Controlling influence:</i>	
Hempel Holding A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel A/S, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby, Denmark	Related party
Members of the Executive Board and Board of Directors of Hempel A/S and Hempel Holding A/S as well as the Board of Trustees of the Hempel Foundation are also regarded as related parties. For remuneration to the Board of Trustees, please refer to note 2.2 Employee costs.	
<i>Other related parties:</i>	
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation of 2017, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby, Denmark	Related party
<i>Transactions:</i>	
All related-party transactions were carried out at arm's length	

The Hempel Foundation had the following transactions with related parties, (income)/expense:

In EUR thousands

	2017	2016
<i>Hempel Holding A/S</i>		
Administrative services provided by the Hempel Foundation	-127	-127
<i>Hempel A/S</i>		
Administrative services provided by Hempel A/S	26	17
Rent payments	-1,507	-1,486

In EUR thousands

	2017	2016
Costs, beginning of year	4,445	12,603
Additions	0	0
Disposals	0	-8,205
Exchange adjustment at year-end rate	-6	47
Costs, end of year	4,439	4,445
Net revaluations, beginning of year	511,103	492,416
Exchange adjustment at year-end rate	-29,450	-12,387
Hedging of future transactions	0	1,477
Remeasurements of defined benefit plans	-419	-3,473
Disposals	0	868
Profit before tax	78,733	63,364
Tax for the year	-37,027	-31,162
Dividend received	0	0
Net revaluations, end of year	522,940	511,103
Carrying amount, end of year	527,379	515,548

5.4 Investments in subsidiaries

Accounting policies

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

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



5.5 Group overview

Country	Name	Currency	Share capital	Ownership
Argentina	Hempel Argentina S.R.L.	ARS	338,774,200	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	700,000	100%
Bahrain	Hempel Paints (Bahrain) W.L.L.	BHD	300,000	51%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	BHD	15,000,000	51%
Brazil	Hempel Tintas do Brasil Ltda.	BRL	31,211,487	100%
Canada	Hempel (Canada) Inc.	CAD	1,776,005	100%
Chile	Hempel A/S (Chile) Ltda.	CLP	1,651,829	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (China) Management	CNY	10,000,000	100%
China	Hempel (Kunshan) Coatings Co. Ltd.	CNY	110,035,054	100%
China	Hempel (Yantai) Coatings Co. Ltd.	CNY	42,656,510	100%
China	Hempel (Guangzhou) Coatings Co. Ltd.	CNY	185,327,620	100%
China	Hempel-Hai Hong Coatings (Shenzhen) Co. Ltd.	HKD	40,000,000	100%
China	Hempel (Seagull) Coatings Co. Ltd.	HKD	20,000,000	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	31,019,200	100%
Cyprus	Hempel Coatings (Cyprus) Limited	EUR	1,000	100%
Czech Republic	Hempel (Czech Republic) s.r.o.	CZK	30,000,000	100%
Denmark	Hempel Foundation	DKK	35,000,000	-
Denmark	Hempel Holding A/S	DKK	115,000,000	100%
Denmark	Hempel A/S	DKK	115,000,000	100%
Denmark	Brænderupvænge ApS	DKK	130,000	100%
Denmark	Keldskov ApS	DKK	175,000	100%
Denmark	HSA (Denmark) A/S	DKK	10,000,000	100%
Denmark	Hempel Decorative Paints A/S	DKK	1,000,000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Egypt L.L.C.	EGP	200,000	100%
Egypt	Hempel Paints (Egypt) L.L.C	EGP	250,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Greece	Hempel Coatings (Hellas) S.A.	EUR	6,300,000	100%
India	Hempel Paints (India) Pvt. Ltd.	INR	690,000,000	100%
Indonesia	P.T. Hempel Indonesia	IDR	830,000,000	100%
Iraq	Hempel (Iraq) Ltd.	USD	8,300	31%
Ireland	Crown Paints Ireland Ltd.	EUR	127	100%
Italy	Hempel (Italy) s.r.l.	EUR	50,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	600,000	51%

Country	Name	Currency	Share capital	Ownership
Malaysia	Hempel (Malaysia) Sdn. Bhd.	MYR	5,000,000	100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	9,500,000	100%
Mexico	Pinturas Hempel de Mexico S.A. de C.V.	MXN	9,943,450	100%
Morocco	Hempel (Morocco) SARL	MAD	2,500,000	99%
New Zealand	Hempel (New Zealand) Ltd.	NZD	300,000	100%
Norway	Hempel (Norway) AS	NOK	4,981,428	100%
Oman	Hempel (Oman) L.L.C	OMR	500,000	20%
Poland	Hempel Paints (Poland) Sp. z o.o.	PLN	60,500,000	100%
Portugal	Hempel (Portugal) Lda.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
Russia	ZAO Hempel	RUB	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints (South Africa) Pty Ltd.	ZAR	118,906,790	100%
Spain	Pinturas Hempel S.A. (Spain)	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	100%
Switzerland	Hempel Switzerland AG	CHF	100,000	100%
Syria	Hempel Paints (Syria) L.L.C.	SYP	121,600,000	49%
Taiwan	Hempel (Taiwan) Co. Ltd.	TWD	20,000,000	100%
Thailand	Hempel (Thailand) Ltd.	THB	3,000,000	100%
The Netherlands	Hempel (The Netherlands) B.V.	EUR	500,000	100%
The Netherlands	Schaepman's Lakfabrieken B.V.	EUR	306,302	100%
Turkey	Hempel Coatings San. Ve Tic Ltd. Sti.	TRY	2,789,300	100%
UK	Crown Brands Ltd.	GBP	1	100%
UK	Crown Paints Ltd.	GBP	1	100%
UK	Crown Paints Group Ltd.	GBP	1,000,000	100%
UK	Crown Paints Holding Ltd.	GBP	1,000,000	100%
UK	Hempel Decorative Paints UK Ltd.	GBP	2,000	100%
UK	Hempel UK Ltd.	GBP	4,100,000	100%
UK	Reebor Ltd.	GBP	100	100%
Ukraine	Hempel Ukraine LLC	UAH	656,291	100%
United Arab Emirates	Hempel Paints (Abu Dhabi) L.L.C.	AED	150,000	23%
United Arab Emirates	Hempel Paints (Emirates) L.L.C.	AED	4,000,000	29%
Uruguay	Hempel (Uruguay) S.A.	UYU	8,000,000	100%
USA	Hempel (USA) Inc.	USD	20,000,000	100%
USA	Jones-Blair Company, LLC	USD	17,664,600	100%
Vietnam	Hempel Vietnam Company Limited	VND	116,498,272	100%

* Associate

Foreign branches

Austria	Hempel (Germany) GmbH Branch Office
Belgium	Hempel (The Netherlands) B.V. Branch Office
Caribbean	Pinturas Hempel (Caribbean)
Hungary	Hempel (Czech Republic) s.r.o. Magyarorszagj Fiolktelepe
India	Hempel (India) Liaison Office
Japan	Hempel (Singapore) Pte. Ltd. Tokyo Branch Office
Slovakia	Hempel (Czech Republic) s.r.o. org. zlozka Slovensko
Vietnam	Hempel (Singapore) Pte. Ltd. Vietnam Representative Office

5.6 Financial definitions

Financial ratios have been calculated as follows:

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



Hempel Foundation
Amaliegade 8
1256 Copenhagen K
Denmark

Tel: +45 4527 3074
Fax: +45 3315 6044