Annual Report

2014

HEMPEL FOUNDATION

The Foundation

Hempel Foundation
Amaliegade 8
DK-1256 Copenhagen K
Denmark

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Fax: +45 3315 6044
Website: www.hempelfoundation.com

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

Home municipality: Copenhagen

Board of Trustees

Richard Sand, Chairman
John Schwartzbach, Deputy Chairman
Leif Jensen
Kim Dam-Johansen
Carsten Gerner
Morten Schaarup, elected by the employees
Helle Friberg, elected by the employees
Martin Bøgsted, elected by the employees

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

Contents

Key figures

Key figures in EUR million

Profit	2014	2013 [1]	2012	2011	2010
Revenue	1,298	1,239	1,243	1,078	889
EBITDA	161	163	125	105	117
Amortisation, depreciation and impairment	38	40	43	35	27
Operating profit	123	123	82	70	90
Share of net profits of associates	2	3	3	2	2
Net financials	-9	-15	-17	-17	-2
Profit before tax	117	111	67	55	90
Net profit for the year	71	67	35	30	56
Balance					
Balance sheet total	1,368	1,227	1,216	1,215	897
Equity	600	539	498	472	445
Cash flows					
Cash flow from:					
Operating activities	103	145	126	63	23
Investing activities	-74	-68	-31	-218	-86
– including net investments in property, plant and equipment and intangible assets	-49	-45	-28	-33	-40
Financing activities	-55	-37	-63	155	-13
Change in cash and cash equivalents	-26	40	32	1	-77
Employees					
Average number of employees	5,137	5,032	4,980	4,471	3,642
Donations					
Donations for the year	24	6	4	4	1
Ratios (%)					
Gross margin	41	41	37	34	36
Operating profit margin	10	10	7	7	10
Return on assets	10	10	7	7	11
Solvency ratio	44	44	41	39	50
Return on equity	13	13	7	7	14

1) Comparative figures have been restated according to the changed accounting policies in 2013 only.
For definitions, see Accounting policies.

About the Hempel Foundation

In July 1915, Jørgen Christian Hempel established J.C. Hempel's Marine Paints (J.C. Hempel's Skibsfarve-Fabrik A/S), which later became the Hempel Group. As the basis for the future viability and success of the Hempel Group, in 1948 J.C. Hempel transferred all his shares in J.C. Hempel's Marine Paints into the Hempel Foundation, which remains the sole shareholder of the Hempel Group to this day.

The Hempel Foundation is a commercial foundation, and the primary purpose of the Foundation is to provide and maintain a solid economic base for the Hempel Group.

Hempel is a world-leading coatings supplier for the decorative, protective, marine, container and yacht markets. It operates in more than 80 countries and has over 5,000 employees, 27 factories, and more than 150 stock points strategically located around the globe.

Hempel's coatings protect man-made structures – from windmills and bridges to ships and homes – from the corrosive forces of nature. They help extend each structure's lifetime, which reduces its overall environmental impact.

The Foundation's secondary purpose is a social and charitable one: to provide assistance for cultural, social, humanitarian, scientific and artistic purposes.

Two specific concerns have been placed at the top of the international Corporate Social Responsibility (CSR) agenda: The challenge of poverty over much of our planet, and environmental challenges. In its role as the owner of a global business, the Hempel Group, and as a foundation supporting the common good, the Hempel Foundation is committed to playing an active part in meeting these challenges. This is reflected in the Foundation's focus on the Hempel Group's CSR activities and in the Foundation's donation policy, in which the Foundation has chosen to focus on education for children in need and research in environmentally sustainable surface protection technologies.

The Hempel Foundation and Hempel Group are well aware of their responsibility beyond generating positive financial returns. CSR thus forms an integral part of the values and business approach of both the Hempel Foundation and the Hempel Group.

Management's statement

The Board of Trustees has today considered and adopted the Annual Report of the Hempel Foundation for the financial year 1 January - 31 December 2014.

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

In our opinion, the Parent Foundation's financial statements and the consolidated financial statements give a true and fair view of the assets, liabilities and financial position at 31 December 2014 of the Parent Foundation and the Group and of the results of the Parent Foundation's and the Group's operations and the cash flows for 2014.

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

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

Copenhagen, 7 April 2015.

Board of Trustees

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Chairman

John Schwartzbach
Deputy Chairman

Leif Jensen

Kim Dam-Johansen

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Elected by the employees

Helle Friberg
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Independent auditor’s report

To the Board of Trustees of the Hempel Foundation

Report on consolidated financial statements and Parent Foundation financial statements

We have audited the consolidated financial statements and the Parent Foundation financial statements of the Hempel Foundation for the financial year 1 January to 31 December 2014, which comprise income statement, balance sheet, statement of changes in equity and notes including accounting policies for both the Group and the Parent Foundation, as well as consolidated cash flow statements. The consolidated financial statements and the Parent Foundation financial statements are prepared in accordance with the Danish Financial Statements Act.

Management’s responsibility for the consolidated financial statements and the Parent Foundation financial statements

Management is responsible for the preparation of consolidated financial statements and Parent Foundation 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 consolidated financial statements and Parent Foundation financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the Parent Foundation financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements in accordance with Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and the Parent Foundation financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Foundation financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and the Parent Foundation financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation of consolidated financial statements and Parent Foundation financial statements that give a true and fair view 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 enterprise's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Foundation financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements and the Parent Foundation financial statements give a true and fair view of the financial position of the Group and the Foundation at 31 December 2014 and of the results of the Group and Foundation operations and cash flows for the financial year 1 January – 31 December 2014 in accordance with the Danish Financial Statements Act.

Statement on management's review

We have read the management review, pages 4-7 and 10-30, in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the consolidated financial statements and the Parent Foundation financial statements. On this basis, in our opinion, the information provided in the management review is consistent with the consolidated financial statements and the Parent Foundation financial statements.

Hellerup, 7 April 2015.

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Lars Baungaard
State Authorised Public Accountant

Poul Madsen
State Authorised Public Accountant

Board of Trustees' report
The Hempel Foundation's activities

The Hempel Group's total revenue increased to EUR 1,298 million in 2014, up from EUR 1,239 million in 2013. The Group's EBITDA was EUR 161 million, compared to EUR 163 million in 2013. Net profit after tax for 2014 increased to EUR 71 million, up from EUR 67 million. The satisfactory result was mainly due to a combination of stable raw material prices, the launch of new products and the resulting change in the product mix, which improved profitability, and the efficient control of expenses.

The activities undertaken by the Hempel Foundation are described in the following. These include grants and the return on financial investments as well as business-related activities. The activities for the Hempel Group are described on page 18-30.

Grants

The Hempel Foundation's primary purpose is to provide and maintain a solid economic base for the Hempel Group. The Foundation's secondary purpose is a social and charitable one: to support cultural, social, humanitarian, scientific and artistic purposes.

The total annual amount granted is decided by the Board in accordance with the Foundation's trust deed. There is no obligation to pay out the entire available amount each year. The Board may decide that the excess is to be carried over to the following year, or transferred to the Foundation's equity. Over recent years, the Foundation has progressively increased its donations to purposes for the common good. The total amount paid out in grants in 2014 by the Foundation was by far the largest amount ever in the history of the Hempel Foundation.

Three of the UN's eight goals formulated in the declaration of 2000 are the eradication of extreme poverty and hunger, universal primary education, and ensuring environmental sustainability.

To help achieve these goals, the Hempel Foundation decided to focus on projects that a) provide education for children in need or b) carry out research into environmentally sustainable surface protection technologies. The aim of this is to help break the poverty cycle through education, and to find new ways to safeguard our environment. In addition, the Foundation supports a number of cultural, social, humanitarian and other purposes, c) other grants.

a) Education

The Hempel Foundation currently gives strong support to 22 different educational projects spanning 16 countries around the world. The 16 countries are: Guatemala, Nicaragua, Bolivia, Argentina, Brazil, Mozambique, Uganda, Ghana, Sierra Leone, South Africa, Ethiopia, Somaliland, Cambodia, India, Indonesia and China. In total, these projects help more than 40,000 underprivileged children to receive a better education. The Hempel Foundation currently donates more than DKK 20 million (approx. EUR 2.7 million) each year to these projects.

The projects can be divided into four main categories: improving local schools, helping child labourers into education, building new schools and after-school education and clubs.

In 18 of the educational projects the Hempel Foundation works together with Save the Children, IBIS, a Danish non-government organisation, or SOS Children's Villages. The remaining four projects are run directly with local NGOs.

b) Research

The Hempel Foundation's support for research within environmentally sustainable surface protection technologies is provided through grants to the Technical University of Denmark (DTU).

Since 2000 the Foundation has been involved in creating an international research environment at DTU for the education of highly skilled engineers and researchers. The main focus of these efforts has been on setting up PhD programmes with projects on sustainable products and advanced technologies. Topics covered in recent years include anticorrosive coatings

for steel structures, blade coatings for wind turbines, intumescent coatings for passive fire protection, antifouling coatings for ships, insulation coatings, coatings for the cement and mineral industries, and coatings for oil and gas pipelines at high temperature and high pressure. The research conducted includes coating formulation, laboratory testing and pilot-scale experimental setups, and mathematical modelling of coating behaviour and coating degradation. A substantial number of scientific articles have been published as part of the PhD programmes.

Furthermore, the Foundation provides support for the Honours Masters Programme (Industrial Track) in Chemical and Biochemical Engineering. This programme gives students from all over the world the opportunity to undertake a master's degree programme with guidance from both industry professionals and university academics. In recent years, students from Spain, China, and Russia have participated in the programme.

A laboratory, the Hempel Student Innovation Laboratory, has been made available to the students for testing their own original ideas.

c) Other grants

On 4 July 2015, it will be exactly 100 years since J.C. Hempel founded the Hempel Group. To mark this impressive anniversary the Foundation decided in 2014 to give its largest single grant ever, a donation of DKK 130 million (approx. EUR 17.5 million) to DTU Boligfond for the establishment of a brand new student residence at DTU. This will be given the name “Hempel Student Residence, DTU” and it will be built on a beautiful and very well situated plot of land on the western part of the DTU Lyngby Campus. When finished, Hempel Student Residence, DTU, will consist of approximately 200 high-quality furnished apartments, each of a minimum of 19m^2 (net), in an inspiring architectural and social environment. The purpose of the donation, and of establishing Hempel Student Residence, DTU, is to create very affordable student apartments close to DTU for rent to students and researchers at DTU. The first apartments are expected to be ready for students in the third quarter of 2016.

In 2014 the Foundation continued support to HRH Crown Princess Mary's Foundation, the Mary Foundation, a charitable foundation, in which the Hempel Foundation is the operating partner.

Support also continued to the Royal Danish Theatre, Copenhagen International School, etc.

Grants are approved by the Grant Committee, which is appointed by the Board of Trustees, however educational grants as well as grants to DTU are all decided and approved directly at Board meetings.

For 2015 the Hempel Foundation has preliminary decided on a total amount of grants of EUR 13.4 million, which is shown as a special item in the Foundation’s equity as per 31 December 2014.

Investment activities

The Hempel Foundation's Board of Trustees has appointed an Investment Committee, which manages the Foundation's investments. Investments in bonds, shares and other financial instruments are managed together with five different professional external portfolio managers. The same committee also manages the Foundation's other investments. The Board has set down overall guidelines and policies for investing in different types of assets, such as different kinds of properties, bonds and shares.

A conservative 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 of the Hempel Foundation was EUR 7.1 million in 2014, compared to a net financial income of EUR 4.3 million in 2013. Shares in particular returned good earnings in 2014, but the Danish bond market also returned good earnings.

Business-related activities

The Hempel Foundation's business-related activities include ownership of the Hempel Group and managing various properties.

The Hempel Foundation's most important and significant investment is ownership of Hempel A/S and its subsidiaries worldwide. Net income from this was EUR 67 million in 2014, up from EUR 65 million in 2013.

Please refer to the separate report on the activities of the Hempel Group on pages 18-20.

The Hempel Foundation owns the property located at Amaliegade 8 in central Copenhagen, close to the royal residence Amalienborg. This property was built in 1785-88 as part of the newly established Frederiksstaden district.

Amaliegade 8 was acquired by J.C. Hempel in 1933 and was the headquarters for the Hempel companies before they relocated to Lundtofte, north of Copenhagen, in 1972.

In EUR thousands

HEMPEL FOUNDATION GRANTS

	2014	2013	2012
Education of children in need	2,685	1,697	1,696
Research into environmentally sustainable technologies	1,309	758	760
Art and culture	172	1,344	290
Student projects	17,954	1,488	279
Other donations	2,237	694	1,353
	24,357	5,981	4,378
Reversal of previously approved grants and adjustment	-37	-47	-373
Total grants	**24,320**	**5,934**	**4,005**

The Hempel Foundation remained in Amaliegade 8 and today it has offices and rooms on two of the building's five storeys. The other three storeys are rented out.

The Board of Trustees requires that the property shall remain in consistently excellent condition. Due to the age of the property, significant maintenance projects have been carried out in recent years.

As a new investment in 2014, the Hempel Foundation acquired the property Lundtoftegaardsvej 91, Lyngby, from the subsidiary Hempel A/S. The Hempel Group's headquarters and Danish R&D department are located at the property. The investment totals approximately EUR 25 million, and a 10-year lease back on arm's length terms concerning the entire property has been entered into with Hempel A/S.

The Hempel Foundation is also the owner of two forests in Denmark: Brænderupvænge, near Svendborg in Funen, and Keldskov, near Rødbyhavn in southern Lolland.

The two forests each have an area of approximately 160 hectares and consist of wooded areas and fields. Net income from forestry, hiring out houses as well as outdoor activity licenses have delivered positive net returns to both companies in recent years.

Employees of the Hempel Group can make use of rental accommodation during holidays and weekends in the houses at both forests. The facilities can also be used by Hempel's customers and staff for conferences.

The forests are managed carefully with appreciation of their valuable grandeur and the flora and fauna present.

Foundation governance

As per 1 January 2015, the legislation for corporate foundations in Denmark has been modernised with focus on transparency, openness, management, remunerations and grants, etc. A committee for good governance in foundations issued a number of recommendations in this respect in late 2014. The recommendations are "soft law" and considered as supplementary to the legislation for corporate foundations with rules of comply or explain procedures.

The Hempel Foundation's trust deed has been modernised over recent years and defines the overall principles for the Foundation's activities. The trust deed is considered already to be in compliance with the new legislation.

The Board of Trustees will make a full report on the new recommendations from the committee for good governance in foundations in the Annual Report for 2015.

Purpose of the Foundation and ownership structure of Hempel A/S
The trust deed states that the Foundation's purpose is to provide and maintain a solid economic base for Hempel A/S (as an entity 100 per cent owned by the Hempel Foundation), and to ensure that the company is able to operate on a sound business and economic basis.

According to the goals stated in the trust deed, the policies and priorities adopted by the Foundation for its activities, including decisions on the extent of Foundation support for social causes, are to be focused primarily on the continued ability to provide a solid economic base for the optimum business performance of the Hempel Group.

Board membership
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 objective of the Foundation is to have at least one female Board member out of six members elected by the Foundation. This goal was achieved on 7 April 2015, when a new female member joined the Board of Trustees.

The Foundation's trust deed states that the Board is a self-electing entity. Regular Board elections take place at the first Board meeting of a new financial year. 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. 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.

Under the trust deed the following requirements apply to Board members elected by the Foundation:

- A majority cannot at the same time be Board members of Hempel A/S (for the moment two out of six hold a position also on the Board of Hempel A/S)
- A majority should preferably be current or former Hempel employees or persons who have somehow been involved with the Hempel Group over many years
- At least two of the members must have international financial and business experience

All new Board members elected by the Foundation are selected through a structured search process. A professional executive search firm is used for external searches. To meet the specific requirement stipulated in the trust deed, that certain Board members should preferably have been involved with the Hempel Group, the Chairman and Deputy Chairman use a regularly updated list of potential candidates to be presented to the Board for evaluation and selection.

The Board constitutes itself at the meeting considering the financial statements for the past year, and elects a Chairman and Deputy Chairman from among its members for a three-year term. The next such election will take place in 2016.

The Chairman of the Board or, by prior agreement with the Chairman, the Administration Manager of the Foundation, is entitled to speak on behalf of the Foundation and the Board.

The Chairman of the Board monitors and assesses the composition of the Board and its performance on an ongoing basis, in consultation with individual Board members and the Board as a whole, and ensures that the required skills are available.

In cooperation with external consultation, the Board of Trustees will supplement the annual internal self-evaluation with a more extensive self-evaluation every second year, starting in spring 2016.

Remuneration, meetings and committees, etc.

The total remuneration paid to the Board in 2014, including the Chairman and Deputy Chairman, was EUR 539,325. The base remuneration paid to Board members in 2014 was EUR 43,597. As is customary, a higher level of remuneration was received by the Chairman and Deputy Chairman.

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 half-yearly and annual financial statements for the Foundation. The Board of Trustees has a continuing involvement in Group operations on an overall strategic level, with a view to maintaining the required degree of consultation and consensus between the two entities.

Along with the activities of the Board as such, the Foundation has also elected and established an Investment Committee among Board members for the implementation of the Board's higher-level decisions regarding the Foundation's financial investments. This committee usually holds 6-8 meetings a year with each of the Foundation's five portfolio managers.

The Foundation has also elected and established an honorary Grants Committee, primarily drawn from Board members, to examine, evaluate and decide on the several hundred applications the Foundation receives every year, many of which are for large and complex projects. The Grants Committee generally holds four meetings each year.

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

The additional remuneration paid to selected committees established by the Board in total amounted to EUR 20,122 in 2014.

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 makes sure to avoid any potential conflict of interest. The aim is to ensure the integrity of decisions made on investment proposals and donation applications.

All decisions are made in accordance with common conflict of interest principles.

In practice this means that no Board members or Foundation employees can take any part in 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.

Report of the Parent Foundation's activities and financial situation

The outcome of the Foundation's activities is considered satisfactory.

A similarly satisfactory outcome is expected for 2015. Please see page 23 for information about the Hempel Group.

Subsequent events

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

2014 in review
One Hempel – One Ambition strategy continues

The following pages, page 18-30, are an extract of the Managements Review included in the consolidated financial statements of Hempel A/S for 2014. The financial figures in Hempel A/S' consolidated financial statements are in all material aspects the same as what is stated as the consolidated financial statements included in this Annual Report. The Board of Trustees considers this extract to be including a true and fair description of the development of the Group's operations and financial affairs, the profit for the year and the Group's financial position etc.

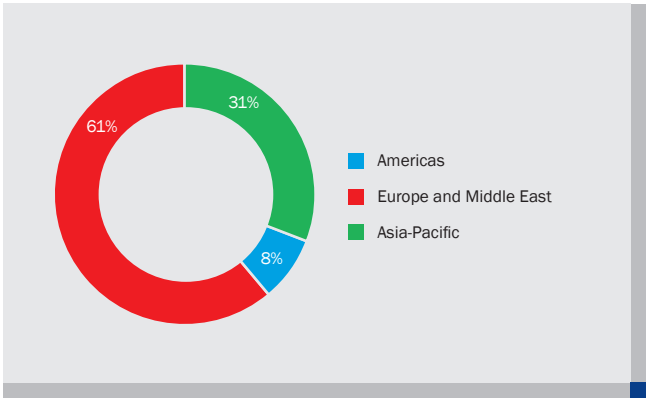
In 2014, we continued our *One Hempel – One Ambition* growth strategy.

After a stable first six months in 2014, we delivered strong sales growth in the second half of the year, with the launch of new products as a key contributor. Overall profitability for 2014 was successfully maintained at the same level as 2013.

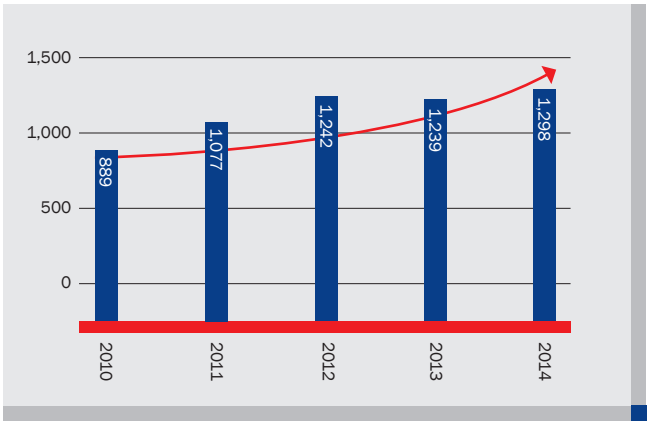
We continued our efforts to achieve additional growth from strategic acquisitions. In late 2014, we completed the acquisition of Schaepman's Lakfabrieken B.V. in the Netherlands, which is included in the Group accounts.

In 2014, the Hempel Group's revenue increased by five per cent compared to 2013. Over the full year, sales volume increased by eight per cent compared to 2013.

Regional sales



Revenue (EUR million)



Regional sales

Sales in our geographical markets developed differently. Revenues in the Americas delivered double-digit sales growth in local currencies. Asia-Pacific also showed good overall growth rates, with an eight per cent increase over 2013.

Sales in EMEA showed modest growth over last year, despite the negative impact of the economic situation in the EU as well as the crisis in the Ukraine. The Middle East saw positive developments, primarily benefiting from revenue growth in Saudi Arabia.

Gross margin

We successfully maintained our gross margin at the same level as last year. This was partly realised through continued focus on profit margins when developing new product solutions, as well as

Pierre-Yves Jullien,
Group President and CEO in Hempel A/S

Kim Junge Andersen,
Group Executive Vice President and CFO In Hempel A/S

focus on reducing cost structures in our factories. We overcame the challenge presented by continued pressure on sales prices by controlling development within our segment mix. This was supported by stable raw material prices.

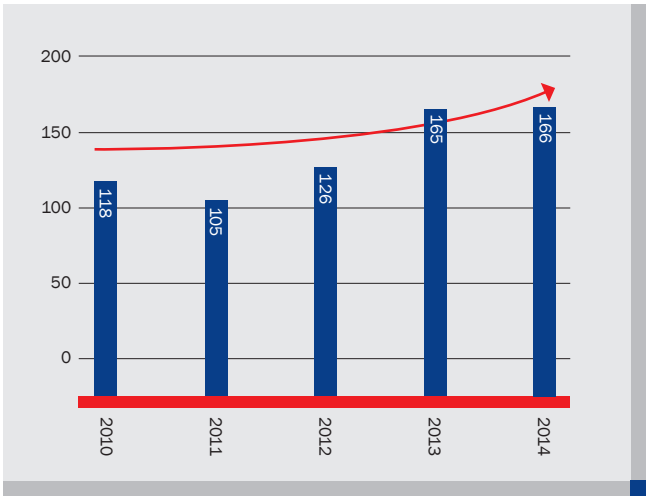
As in the past, we strictly monitored our fixed expenses during 2014. However, we saw a slight increase in fixed expenses due to our continued investment in new employees, especially within sales, marketing and R&D. The resulting increase in expenses was, however, partly countered by declining amortisation and depreciation. We are continuing a number of efficiency projects into 2015 to maintain focus on controlling fixed costs development.

EBITDA margin

After a period of significant strategic investment during 2011 and 2012, our EBITDA margin was 13 per cent in 2014, which was in line with 2013 and significantly higher than 2012.

Our 2014 EBITDA amounted to EUR 166 million, which was the highest EBITDA recorded in the Group's history and modestly ahead of 2013. In conclusion, the Hempel Group's overall financial performance can be considered satisfactory, despite lower than anticipated revenue growth.

EBITDA (EUR million)



The Hempel Group's operating profit for 2014 amounted to EUR 129 million, which was slightly above 2013. Our operating margin remained at 10 per cent. Interest rates were low and our net financial expenses amounted to EUR 17 million, just below the 2013 level. The Hempel Group's net profit after tax of EUR 32 million and minority interests of EUR 11 million for 2014 amounted to EUR 71 million. The Group's effective tax rate was 28 per cent in 2014, level with 2013.

Change in equity

The company's equity increased to EUR 421 million from EUR 377 million in 2013, corresponding to a solvency ratio of 36 per cent, which was in line with last year. Equity was mainly affected by net profit and the dividend of EUR 40 million paid to the Group's shareholder in 2014.

CAPEX: new factories and head office

The planned expansion of production capacity was realised in 2014 and new factories were inaugurated and began production in Jeddah, Saudi Arabia, and Mumbai, India. In addition, a new factory in Russia is scheduled to open in 2015. The Hempel Group's premises in Denmark, including the new head office, were sold to our owner and leased back. The sale resulted in a profit of EUR 5 million, which is included as other operating income in 2014.

Working capital

Working capital increased during 2014 and amounted to approximately EUR 302 million, compared to EUR 255 million at the end of 2013. The increase of EUR 47 million was partly due to the exchange rate effect caused by the strengthening of the US dollar against the euro, and the acquisition of Schaepman's Lakfabrieken B.V. The remaining increase of EUR 31 million was a net result of increasing receivables and inventories offset partly by increasing payables. This impact was mainly a result of high sales growth in the second half of the year. Our focus on managing inventory and receivables will continue during 2015.

Strong cash flow

The Hempel Group's cash flow continued to be strong despite the increased working capital. The cash flow from operating activities ended 2014 at EUR 100 million.

Our high level of investment activities continued throughout the year, and our capacity expansion projects were our most significant investments. We also finalised the rollout of our global Enterprise Resource Planning (ERP) system in the Americas and the Middle East. The ERP system has now successfully been implemented in all our companies worldwide. Rollout will continue during 2015 and 2016 to newly acquired companies.

Capital resources

Operational credit facilities provided by the relationship banks of the Hempel Group amounted to EUR 219 million at the end of 2014, compared to EUR 180 million at the end of 2013. The facilities are a mix of current and non-current agreements.

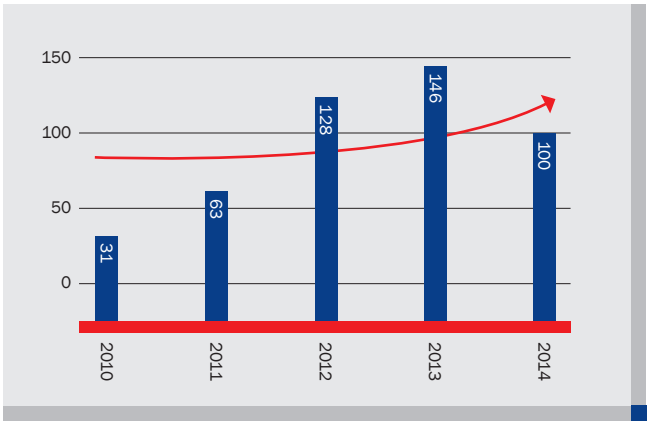
Term loans obtained in connection with acquisitions in 2009 and 2011 amounted to EUR 173 million at the end 2014. The term loan is amortising with EUR 27 million annually and matures in 2016 with a final repayment of EUR 146 million.

At the end of 2014, net interest-bearing debt amounted to EUR 147 million, compared to EUR 133 million at the end of 2013, a ratio of 0.9 to EBITDA.

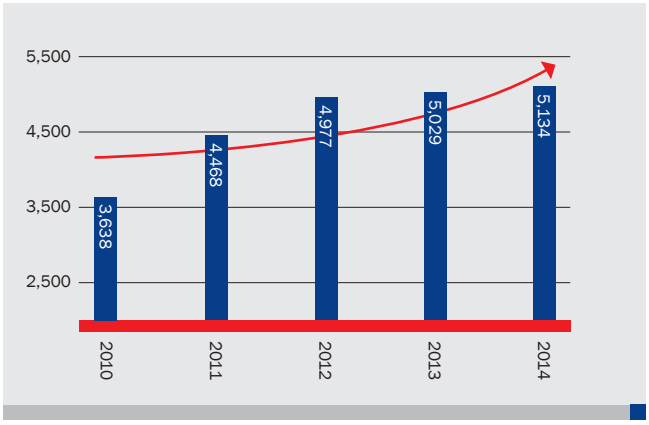
Increasing number of employees

The average number of employees increased to 5,134 during 2014, up from 5,029 in 2013.

Cash flow from operating activities (EUR million)



Average number of employees



EXTRACT FROM HEMPEL A/S ANNUAL REPORT

166 million

EBITDA (IN EUR), THE HIGHEST IN THE GROUP'S HISTORY

Strategy and objectives

As Hempel enters the last year of its growth strategy, *One Hempel – One Ambition*, we are continuing to consolidate our position as a leading coatings supplier.

Since the Group embarked on its growth strategy in 2010, turnover has increased by almost 50 per cent and, more importantly, we have created momentum within our businesses for continued growth in all three main segments: Decorative, Protective and Marine.

Crown Paints is a cornerstone of our expansion plans within the Decorative segment in Europe and we are continuing to pursue additional acquisitions of a few carefully selected companies to establish a sustainable platform for Hempel in Europe. We will continue to grow our Decorative presence in the Middle East and Asia, mainly by investing in our existing brand and expanding our customer base. In addition, we are looking into acquiring established platforms in other key markets.

Protective is our fastest growing segment and we are seeing the benefits of a strong and established global Protective platform. Over the last few years, we have expanded in key geographies and established leading positions in well-established markets to become one of the industry's strongest global suppliers with the capability to serve customers throughout the world. We will continue to invest in developing new solutions and enlarging our customer base with the aim of becoming the world's leading protective coatings supplier.

Traditionally, the Marine segment has been our strongest business platform and it continues to be an important strategic segment for the company. Our Marine segment has declined over the past few years, mainly due to a reduction in the number of new ships being built around the world, as well as our decision to temporarily reduce business risk due to the financial uncertainties surrounding many shipowners and shipyards. Hempel is recognised as a reliable supplier of advanced marine coatings technology. We have continued to invest in cutting-edge technology and technical service capabilities, and we plan to improve our market position in the coming years by focusing on trustworthy service, technology development and the expansion of our customer base.

Our growth strategy requires investment in our support functions, from production to sales and training. We are increasing production capacity in a number of countries, including new factory projects in Russia, Kuwait, Vietnam and South Africa. Expansions have taken place within our sales and service organisations, and we are increasing our internal training programmes through the Hempel Academy to ensure that our sales and service capabilities are in line with those of a leading global coatings company. Over the past few years, we have significantly increased spending within marketing and R&D in order to ensure that we can deliver solutions and support that enable us to gain market share in all our business segments.

Expectations for the year ahead

The sharp decline in oil prices is bound to have an impact on our Oil & Gas sub-segment. However, we are seeing an increase in infrastructure investment by many governments and we expect that the overall trend for our Protective segment will remain positive.

It is difficult to predict how much the unrest in Ukraine will affect our key markets in Europe, including Russia, as well as the economic development in many European countries. We remain cautious about predicting any significant growth opportunities in these markets.

Our businesses in the Americas and Asia-Pacific are developing positively, and we continue to invest in the expansion of our market presence.

The decline in marine newbuilding has levelled off and entered into a new phase where more shipowners are taking advantage of the overcapacity in the main shipbuilding countries in Asia. As a result, we have strengthened our resources to increase focus on shipowners and ship management companies. We expect to regain part of our lost market share and expect to see a positive development in sales within our Marine segment over the coming year.

EXTRACT FROM HEMPEL A/S ANNUAL REPORT

The acquisition of carefully selected companies remains an important part of our growth strategy. In December 2014, we acquired Schaepman's Lakfabrieken B.V., a Dutch supplier of specialised industrial, protective and decorative coatings. In addition, at the start of 2015 we acquired TCMC, a manufacturer in South Africa that we have worked with since 2011, and Jones-Blair Company, a leading North American coatings supplier to the protective and waterproofing markets. These acquisitions add specialist products, technologies and manufacturing expertise to our organisation and we will work closely with our new colleagues to ensure the acquisitions further strengthen our presence, product portfolio, customer service and manufacturing capabilities in key segments and regions.

Overall, we expect to see revenue growth and believe that we will be able to maintain the level of earnings achieved during 2014 in 2015.

46%

INCREASE IN TURNOVER SINCE 2010

3

NUMBER OF ACQUISITIONS IN LATE 2014 AND EARLY 2015

Specific risks

Currency risks
As significant parts of the Hempel Group's activities are carried out outside of the eurozone, there is a considerable currency risk relating to the US dollar, US dollar-linked currencies and the British pound. It is our policy to hedge our transactional currency risk. This is done primarily by achieving a natural balance between sales and purchasing currencies. We also use standard financial instruments.

Emerging market currency risks are hedged on a case-by-case basis when possible and deemed cost effective.

As a general rule, translation risks relating to investments in foreign subsidiaries and associates are not hedged. This is because we believe currency hedging of this type of long-term investment is not optimal from an overall risk and cost perspective.

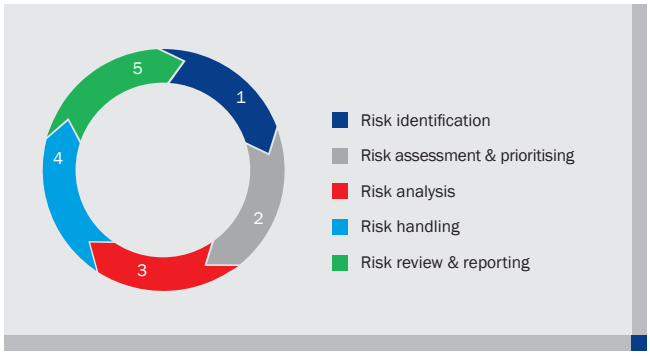
Interest rate risks
The Hempel Group's loan portfolio with the banks is on a floating interest rate basis.

In order to reduce interest cost fluctuations, part of the loan portfolio has been swapped to fixed-term interest rates by using standard financial instruments.

Credit risks
Credit risk related to trade receivables is managed locally in the operating entities, and credit limits are set as deemed appropriate for the customer. Our company policy is to rate major customers and business partners on a current basis. Hempel has no material risks relating to single customers or business partners.

Credit risk related to cash, investments and financial instruments is managed by Group Treasury. The Group's strategy is to set minimum credit ratings for financial counterparties and monitor these on a regular basis.

Risk management



Risk management
Risk management is characterised by systematic management practices that enable us to assess and monitor risk and improve the way identified risks are managed. The Risk Management Wheel is the effective framework that we use when performing risk assessments. To support our risk management work, we use our Risk Assessment Workshop (RAW) tool, which is consistent with the existing generic frameworks considered best practice.

We continuously improve the way we work with risk management to ensure that we utilise the enormous knowledge existing within the Hempel Group. We aim to make risk management an easy-to-access process without jeopardising quality.

Research & Development
Creating extra value for customers

We are constantly working to improve and innovate for the benefit of customers and the environment.

At Hempel, our success is based on high-performance, environmentally friendly and efficient coating solutions. R&D is an essential aspect of this and we are continuously working to develop new products and formulations that give customers additional benefits, such as reduced fuel consumption or increased production speeds. Our goal is to produce products that meet or exceed both technical specifications and environmental legislation – and we take the environment into account in our development work, without compromising the performance of our coatings.

Protective: redefining anti-corrosion

We introduced a number of new protective products and technologies in 2014. This included AvantGuard®, a unique and patent-protected technology based on activated zinc that redefines the corrosion protection offered by organic zinc coatings. The first AvantGuard®-enabled epoxy primers provide novel 3-in-1 protection, as well as improved mechanical properties and application tolerances. As a result, they help increase both long-term anti-corrosive protection and application productivity. The coatings comply with current global standards to ensure easier market acceptance of this novel technology.

In addition, HEMAPCORE® AQ 60, the first waterborne product in our HEMPACORE® passive fire protection range, was launched in Europe in 2014. We also launched Versiline CUI 56990, our first product designed specifically to protect hot pipes under insulation jackets. The product gained a good specification position during 2014, which will put us in a strong position for sales in 2015.

Decorative: filling important product gaps

We successfully completed a total of 23 new products and 21 customisations in our Decorative segment in 2014, including an anti-graffiti coating launched in China.

Increasing legislation on local, national and international levels means that compliancy and choice of appropriate raw materials are essential in any formulating exercise. In 2014, we successfully met the requirement to remove cobalt driers from solvent-based systems, and we will continue to work to ensure compliance with any pending legislation.

Marine: expanding our assortment

In 2014, we significantly improved our product assortment for the newbuilding marine market with the launch of HEMPADUR QUATTRO XO, a series of IMO PSPC (Performance Standard for Protective Coatings) approved pure epoxy universal primers for water ballast tanks. These coatings range from 72-80 per cent solids volume and offer extended over-coating windows and optimised workability. All the products in the series can be upgraded with Hempel's proprietary mechanical reinforcement based on micro-fibre technology, which greatly improves the crack and impact resistance of the coating system to minimise ballast tank maintenance requirements over the lifetime of the vessel.

Sales of our ActiGuard®-based HEMPAGUARD® series led to the best silicone fouling control results in the Hempel Group's history in 2014. Customers recognise that HEMPAGUARD® systems provide superior smoothness and best-in-class fouling prevention properties, especially under slow steaming or idle conditions. HEMPAGUARD® systems provide the best long-term fuel efficiency of any underwater hull coating system on the market, and the upcoming ISO 19030 methodologies will help quantify this to an even broader customer base.

In addition, we significantly reinforced our antifouling range with the launch of three new products in 2014. Two of these, GLOBIC 8000 (based on nano acrylate technology) and DYNAMIC 8000 (based on silylated acrylate technology), offer similar benefits to customers but use different self-polishing binder systems. GLOBIC 8000 is more suitable for slow-steaming vessels due to the special characteristics of nano acrylate technology, while DYNAMIC 8000 is more suitable for higher sailing speeds. The third product, BASIC, is a cost-efficient alternative that can be specified for up to 36 months and is designed for situations where less stringent antifouling protection is required.

Finally, Hempel introduced two 77 per cent volume solids pure epoxy coatings in late 2014. HEMPADUR 15600 is a PSPC-approved high-solids pure epoxy tank coating. The coating cures at low temperatures and provides resistance to crude oil, product oils, wastewater, mud, brines and seawater, as well as a wide selection of commonly transported chemical products. HEMPADUR EASY 47700 is a fast-drying 'all seasons' high-solids pure epoxy primer that is surface-tolerant and can be used to protect most vessel areas from corrosion, including the underwater hull and dry bulk cargo holds.

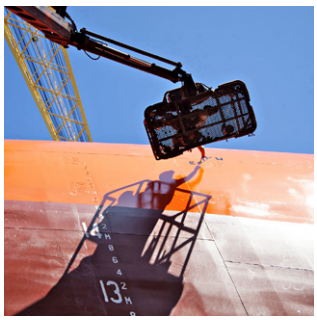
HSE: the drive for sustainable products

Paints are, by nature, sustainable products, as they prolong the service life of structures and equipment. However, we believe that a prolonged lifetime is not enough, so we constantly work to develop safer and more environmentally sustainable solutions. Today, our decorative assortment is lead-free worldwide, and we are implementing a new lead-free tinting system for industrial and marine products in 2015.

In recent years, legislation has been driven by measures such as the EU's regulation on chemical use (REACH) and limits on the use of volatile organic compounds. Hempel is actively involved in this process and we are in constant dialogue with the EU Commission about industry issues. We were among the first European companies to adopt the Globally Harmonised System for Labelling and Classification of Chemicals (GHS).

As part of our work to develop sustainable products, we focus on a number of areas:

- Increasing resource efficiency (raw materials, energy and finished products)
- Increasing functionality, such as improving energy efficiency or eradicating bacteria
- Increasing the life expectancy of our products
- Reducing the amount of volatile organic compounds used



Corporate responsibility

For 100 years, Hempel has proven that business and care for people, the environment and society can go hand-in-hand.

Our coatings make man-made structures and equipment more beautiful, extend asset lifecycles and help increase customers' energy and fuel efficiency. This focus on solutions that both add value and improve environmental sustainability shows that business and care for the environment can go hand-in-hand. We encourage all our employees to consider the wider impact of their work on health & safety, the environment and society. There were a number of examples of this in 2014.

Our Code of Conduct and Business Ethics Policy provide guidelines for our employees when dealing with customers, suppliers, each other and any other business partner. We trained all our employees in our Code of Conduct in 2012 and 2013. In 2014, we extended this work by updating our e-learning Code of Conduct training. We also formalised a Human Rights Policy and began training selected stakeholders. In addition, we further strengthened our safety training efforts by developing a new programme for all factory employees on static electricity, and we ran safety awareness campaigns in most of our production units.

We also made a commitment to phase out lead from our products. Our decorative assortment is already lead-free, and we are implementing a new lead-free tinting system for industrial and marine products in 2015. In the Middle East, we launched the Purearth initiative, which will ensure we are at the forefront of the industry in the area of green building.

We acknowledge that our operations have an impact on the environment, and we remain committed to cutting energy consumption, reducing waste and removing dangerous substances from our products whenever possible. We have achieved stable energy use per ton of product manufactured over the past five years despite increasing the amount of automated equipment in our factories. In addition, we managed to reduce the amount of waste produced per ton of product in 2014 by 16 per cent.

We place great value on maintaining an efficient and ethical global supply chain. In 2014, we continued to work with an external partner to assess selected suppliers on a number of aspects of their operations, including business ethics, human resources, and health, safety and the environment. If a supplier does not meet our standards, we work with the supplier to address areas of improvement.

As an employer, we are committed to eliminating any form of negative discrimination in our places of work. We have a policy in place that ensures all employment and career development decisions are based on merit and are made to support business goals. Currently, there are no female Non-Executive Directors on the Board of Directors of Hempel A/S, however our goal is that the Board will have a least one female Non-Executive Director before the Annual General Meeting in spring 2017.

Our corporate donation through the Hempel Foundation is an integrated part of what we do. The Foundation supports research into environmentally sustainable technologies within the coatings industry and educational projects that focus on children in need. Currently, it supports 22 educational projects around the globe, working with others to give more than 40,000 children in need the opportunity to get a good education.

Our Corporate Responsibility Report provides a detailed account of our work and goals in these and other areas, as well as additional information as required by the Danish Financial Statements Act (Årsregnskabsloven) §99a and §99b.

You can find the Hempel Corporate Responsibility Report 2014 at **www.corporate-responsibility.hempel.com**

EXTRACT FROM HEMPEL A/S ANNUAL REPORT

Financial statements

In 2014, Hempel restructured the consolidated financial statements. The notes structure is grouped into five sections, focusing on different aspects of the financial information. The accounting policies and key accounting estimates and judgments are incorporated into the notes to make the note information more transparent and clear.

Contents

Income statement

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2014	2013	2014	2013
2.1	Revenue	1,298,240	1,239,201	1,024	178
	Production costs	-766,275	-736,661	-518	-98
	Gross profit	**531,965**	**502,540**	**506**	**80**
	Sales and distribution costs	-299,057	-276,692	–	–
	Administrative costs	-110,425	-106,341	-1,328	-1,544
2.3	Other operating income	1,050	4,598	–	–
2.3	Other operating expenses	-67	-1,004	–	–
	Operating profit	**123,466**	**123,101**	**-822**	**-1,464**
2.4	Income from investments in subsidiaries			67,163	64,871
2.4	Income from investments in associates	2,162	2,696	–	–
	Profit before financial income and expenses	**125,628**	**125,797**	**66,341**	**63,407**
4.5	Net financials	-8,912	-14,560	7,073	4,264
	Profit before tax	**116,716**	**111,237**	**73.414**	**67,671**
2.5	Income tax	-33,945	-31,184	-2,188	-640
	Profit after tax	**82,771**	**80,053**	**71,226**	**67,031**
	Minority interests	-11,545	-13,022	–	–
	Net profit for the year	**71,226**	**67,031**	**71,226**	**67,031**

	PARENT FOUNDATION	
Distribution of profit	**2014**	**2013**
Proposed distribution of profit:		
Donations for the year	24,320	5,934
Reserve for net revaluation under the equity method	67,163	64,871
Retained earnings	-20,257	-3,774
	71,226	**67,031**


HEMPEL

Balance sheet as at 31 December – assets

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2014	2013	2014	2013
	Goodwill	59,165	60,682	–	–
	Software	9,315	7,439	–	–
	Software under development	1,077	2,347	–	–
	Customer relationships	33,109	32,886	–	–
	Other intangible assets	55,609	54,667	–	–
3.1	**Intangible assets**	**158,275**	**158,021**	**–**	**–**
	Land and buildings	149,413	120,062	23,716	1,792
	Assets under construction	28,867	25,285	–	–
	Plant and machinery	51,981	45,804	–	–
	Other fixed assets	19,091	15,989	3,495	286
3.2	**Property, plant and equipment**	**249,352**	**207,140**	**27,211**	**2,078**
5.5	Investments in subsidiaries	–	–	467,825	409,794
5.5	Investments in associates	16,473	13,592	–	–
3.3	Other securities and investments	172,770	154,125	129,458	128,871
2.5	Deferred tax assets	19,875	24,709	–	2,181
3.7	Pension assets	–	921	–	–
	Deposits etc.	3,139	3,081	–	–
	Fixed asset investments	**212,257**	**196,428**	**597,283**	**540,846**
	Total non-current assets	**619,884**	**561,589**	**624,494**	**542,924**
	Raw materials and consumables	59,918	48,816	–	–
	Work in progress	5,306	2,995	–	–
	Finished goods	123,534	107,596	–	–
3.4	**Inventories**	**188,758**	**159,407**	**–**	**–**
3.6	Trade receivables	374,415	314,117	–	–
	Receivables from Group enterprises	–	–	236	16
2.5	Tax receivables	4,595	4,502	–	–
	Other receivables	24,267	28,561	879	1,713
3.5	Prepayments	13,319	10,641	–	–
3.6	**Receivables**	**416,596**	**357,821**	**1,115**	**1,729**
	Cash at bank and in hand	**142,433**	**148,124**	**3,175**	**4,163**
	Current assets	**747,787**	**665,352**	**4,290**	**5,892**
	Total assets	**1,367,671**	**1,226,941**	**628,784**	**548,816**

Balance sheet as at 31 December – equity and liabilities

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2014	2013	2014	2013
4.1	Share capital	4,691	4,691	4,691	4,691
	Reserve for net revaluation under the equity method	–	–	455,324	397,322
	Retained earnings	582,183	534,792	126,859	137,470
	Reservation for grants	13,434	–	13,434	–
	Total equity	**600,308**	**539,483**	**600,308**	**539,483**
	Minority interests	**54,715**	**46,716**	–	–
2.5	Deferred tax liabilities	28,946	28,402	–	–
3.7	Pension obligations and similar obligations	19,793	12,629	295	243
3.8	Other provisions	35,311	36,341	–	–
	Provisions	**84,050**	**77,372**	**295**	**243**
4.2	Bank loans etc.	168,579	181,489	–	–
3.9	Other payables	4,385	6,104	–	–
	Long-term debt	**172,964**	**187,593**	**–**	**–**
	Overdraft facilities	84,058	65,574	–	–
4.2	Short-term part of bank loans etc.	31,897	29,490	–	–
	Trade payables	158,331	132,987	–	–
	Payables to Group enterprises	–	–	1,878	1,673
2.5	Tax liabilities	14,166	16,370	–	–
3.9	Other liabilities	167,182	131,356	26,303	7,417
	Total current liabilities	**455,634**	**375,777**	**28,181**	**9,090**
	Total liabilities	**628,598**	**563,370**	**28,181**	**9,090**
	Total equity and liabilities	**1,367,671**	**1,226,941**	**628,784**	**548,816**

Statement of changes in equity as at 31 December

In EUR thousands

GROUP

Note		Share capital	Reserve for net revaluation	Retained earnings	Reservation for grants	Total
	Equity					
	Equity at 1 January 2013	4,691	–	492,810	–	497,501
	Change in accounting policies	–	–	-6,150	–	-6,150
	Equity at 1 January 2013 after change in accounting policies	4,691	–	486,660	–	491,351
	Net profit for the year	–	–	67,031	–	67,031
	Exchange adjustment at year-end rate	–	–	-18,965	–	-18,965
	Hedging of future transactions	–	–	4,501	–	4,501
	Remeasurements of defined benefit plans	–	–	1,499	–	1,499
	Grants for the year	–	–	-5,934	–	-5,934
4.1	**Equity at 31 December 2013**	**4,691**	**–**	**534,792**	**–**	**539,483**
	Net profit for the year	–	–	71,226	–	71,226
	Exchange adjustment at year-end rate	–	–	16,862	–	16,862
	Hedging of future transactions	–	–	2,238	–	2,238
	Remeasurements of defined benefit plans	–	–	-5,181	–	-5,181
	Grants for the year	–	–	-24,320	–	-24,320
	Reservation for grants	–	–	-13,434	13,434	–
4.1	**Equity at 31 December 2014**	**4,691**	**–**	**582,183**	**13,434**	**600,308**

In EUR thousands

PARENT FOUNDATION

Note		Share capital	Reserve for net revaluation	Retained earnings	Reservation for grants	Total
	Equity					
	Equity at 1 January 2013	4,691	351,570	141,240	–	497,501
	Change in accounting policies	–	-6,150	–	–	-6,150
	Equity at 1 January 2013 after change in accounting policies	4,691	345,420	141,240	–	491,351
	Net profits for the year	–	64,871	2,160	–	67,031
	Exchange adjustment at year-end rate	–	-18,969	4	–	-18,965
	Hedging of future transactions	–	4,501	–	–	4,501
	Remeasurements of defined benefit plans	–	1,499	–	–	1,499
	Grants for the year	–	–	-5,934	–	-5,934
4.1	**Equity at 31 December 2013**	**4,691**	**397,322**	**137,470**	**–**	**539,483**
	Net profit for the year	–	67,163	4,063	–	71,226
	Dividend received	–	-22,838	22,838	–	–
	Exchange adjustment at year-end rate	–	16,568	294	–	16,862
	Hedging of future transactions	–	2,238	–	–	2,238
	Remeasurements of defined benefit plans	–	-5,129	-52	–	-5,181
	Grants for the year	–	–	-24,320	–	-24,320
	Reservation for grants	–	–	-13,434	13,434	–
4.1	**Equity at 31 December 2014**	**4,691**	**455,324**	**126,859**	**13,434**	**600,308**

Cash flow statement

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2014	2013	2014	2013
	Cash flows from operating activities				
	Operating profit	123,466	123,101	-822	-1,464
5.2	Adjustment for non-cash operating items	40,778	34,008	602	121
4.7	Changes in working capital	-27,672	21,657	1,298	159
5.5	Dividend received from subsidiaries	–	–	22,838	–
	Income tax paid	-33,757	-34,107	-5	5
	Total cash flows from operating activities	**102,815**	**144,659**	**23,911**	**-1,179**
	Cash flows from investing activities				
4.8	Acquisition of enterprises	-13,327	–	–	–
4.8	Divestment of enterprises	–	–	–	–
3.2	Purchase of property, plant and equipment	-45,446	-38,396	-25,680	-177
3.1	Purchase of intangible assets	-6,098	-19,137	–	–
3.3	Purchase of fixed asset investments	-248,727	-198,386	-166,921	-149,634
	Sale of property, plant and equipment	2,595	12,140	–	33
	Sale of intangible assets	–	226	–	–
	Sales of fixed asset investments	235,585	174,353	171,621	149,680
5.5	Dividend received from associates	1,579	985	–	–
	Total cash flows from investing activities	**-73,839**	**-68,215**	**-20,980**	**-98**
	Cash flows from financing activities				
	Change in bank borrowings etc.	-18,907	-13,696	–	–
	Interest income and expenses, net	-9,271	-9,770	2,045	2,881
	Change in minority shares (dividend distributed etc.)	-10,330	-6,885	–	–
	Other financial assets	-213	312	–	–
	Capital losses and gains, net	-9,973	-1,859	–	–
	Paid grants	-5,889	-4,942	-5,889	-4,942
	Total cash flows from financing activities	**-54,583**	**-36,840**	**-3,844**	**-2,061**
	Change in cash and cash equivalents	**-25,607**	**39,604**	**-913**	**-3,338**
4.6	Cash and equivalents, net, beginning of year	82,550	42,837	4,163	7,503
	Exchange adjustment	1,432	109	-75	-2
4.6	Cash and equivalents, net, end of year	58,375	82,550	3,175	4,163
	Bank facilities available	219,856	181,092	672	1,340
	Capital resources available	**278,231**	**263,642**	**3,847**	**5,503**

Section 1
General accounting policies

All entities in the Hempel Group follow the same Group accounting policies. This section gives a summary of the significant accounting policies.

General
The Annual Report of Hempel Foundation for 2014 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 2014 is presented in EUR thousands.

Changes in accounting policies and disclosures
The Group has changed the accounting policy in respect of the recognition and measurement of defined benefit obligations. Defined benefit plans are fully recognised in the balance against the previous corridor method.

Management evaluates that recognition through equity and not through the income statement gives a more truer and fairer picture of the income statement since changes in the actuarial gains and losses can be random and not related to the ordinary and underlying operations of the company. In addition, immediate recognition is a better alternative for the balance sheet to reflect the full liability of the company.

As a result in the change in accounting policy, equity has decreased by EUR 10 million. Pension liability (net) has increased by EUR 12 million and deferred tax liability has decreased by EUR 2 million. The balance sheet total at 31.12.2014 has decreased by EUR 6 million.

The comparative figures for balance in 2013 are adjusted to the new accounting policies.

The results and cash flow are unaffected by the rescheduled accounting policies.

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

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

Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that 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 Group, and the value of the asset can be measured reliably.

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

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

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

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

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised

and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Foundation's investments in the consolidated subsidiaries are set off against the Parent Foundation's share of the net asset value of subsidiaries stated at the time of consolidation.

Amortisation of goodwill is allocated in the consolidated financial statements to administrative costs.

Minority interests

On statement of Group results and Group equity, the shares of results and equity of subsidiaries attributable to minority interests are recognised as separate items in the income statement and the balance sheet. Minority interests are recognised on the basis of a remeasurement of acquired assets and liabilities to fair value at the time of acquisition of subsidiaries.

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

Foreign currency translation

Functional and presentation currency

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

Translation of transactions and balances

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

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

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

Translation of Group companies

Financial statements of foreign subsidiaries and associates are translated into 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.

Classification of operating expenses in the income statement

Production costs

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

Production costs also include research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs. Finally, provisions for losses on contract work are recognised.

Sales and distribution costs

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

Administrative costs

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

Cash flow statement

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Cash and cash equivalents

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

Hempel's accounting policies are described in each of the individual notes to the consolidated financial statements.

Section 2
Results for the year

2.1 Revenue, segment information

Accounting policies

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

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

Segments

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

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
EMEA	788,878	764,117	1,024	178
Asia-Pacific	401,732	370,853	–	–
Americas	107,630	104,231	–	–
	1,298,240	**1,239,201**	**1,024**	**178**

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

2.2 Employee costs

Accounting policies

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are rendered by employees of the Hempel Group. Where the Hempel Group provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Employee costs:				
Directors' fees	887	877	539	649
Wages and salaries etc.	214,791	200,093	382	323
Pension contributions	12,787	12,592	55	43
	228,465	**213,562**	**976**	**1,015**
Employees:				
Average number of employees	5,137	5,032	3	3
Employee costs have been recognised in the income statement as follows:				
Production costs	52,337	50,412	59	46
Selling and distribution expenses	127,095	119,634	–	–
Administrative expenses	48,792	43,516	917	969
	228,224	**213,562**	**976**	**1,015**

2.3 Other operating income and expenses

Accounting policies

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprise, including gains and losses on the sale of intangible assets and property, plant and equipment.

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Other operating income [1]	1,050	4,598	–	–
Other operating expenses	-67	-1,004	–	–
	983	**3,594**	**-**	**-**

[1] *Other operating income comprises income from sale of properties in 2013.*

2.4 Income from investments in subsidiaries and associates

Accounting policies

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Income from investments in subsidiaries:				
Profit before tax	–	–	98,920	95,414
Tax for the year			-31,757	-30,543
Profit after tax	–	–	**67,163**	**64,871**
Income from investments in associates:				
Profit after tax	2,162	2,696	–	–
Profit after tax	**2,162**	**2,696**	–	–

2.5 Income tax and deferred tax assets and liabilities

Income tax

Accounting policies

Income tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The 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.

Key accounting estimates

The Hempel Group is subject to income taxes around the world. Significant judgment is required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities, and provision for uncertain tax positions. The Hempel Group recognises deferred income tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management has considered future taxable income in assessing whether deferred income tax assets should be recognised. In the course of conducting business globally, transfer pricing disputes with tax authorities may occur, and management's judgment is applied to assess the possible outcome of such disputes. Hempel believes that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Hempel Group:				
Profit before tax	116,716	111,237		
Income from investments in associates	-2,162	-2,696		
	114,554	**108,541**		
Income tax on profit for the year:				
Total tax	-34,201	-31,406	-2,188	-640
Tax in respect of subsidiaries	–	–	–	–
Tax in respect of associates	256	222	–	–
	-33,945	-31,184	-2,188	-640
Current tax for the year	-31,326	-33,232	-5	–
Deferred tax for the year	1,693	2,724	-2,181	-664
Of which entered at equity	-1,004	-681	–	19
Adjustment in respect of previous years	-3,308	5	-2	5
Income tax	**-33,945**	**-31,184**	**-2,188**	**-640**

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Effective tax rate of the Group	**29.6%**	**28.7%**		
Reconciliation of tax rate:				
Danish tax rate	24.5%	25.0%		
Higher/lower tax rates of foreign subsidiaries	-3.2%	-4.4%		
Weighted tax rate of the Group	21.3%	20.6%		
Permanent differences	0.1%	2.0%		
Non-capitalised losses	3.0%	2.5%		
Utilisation of non-capitalised losses	-0.4%	-0.4%		
Adjustments in respect of previous years	2.9%	0.6%		
Dividend tax and other taxes at source	2.7%	3.4%		
Effective tax rate of the Group	**29.6%**	**28.7%**		

Deferred tax assets and liabilities

Accounting policies

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by setoff against deferred tax liabilities within the same legal tax entity.

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Deferred tax (net) relates to the following items:				
Intangible assets	-13,525	-15,347	–	–
Property, plant and equipment	-1,260	247	–	41
Fixed asset investments	181	-3,698	–	–
Inventories	1,605	1,412	–	–
Trade receivables	1,082	1,823	–	–
Provisions and other payables	2,609	8,076	–	2,140
Tax losses	237	3,794	–	–
	-9,071	**-3,693**	**–**	**2,181**

At 31 December 2014, the Group has a non-recognised tax asset of EUR 30 million (2013: EUR 26 million), of which the parent company represents EUR 13 million (2013: EUR 13 million).

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
The net value is recognised in the balance sheet as follows:				
Deferred tax assets	19,875	24,709	–	2,181
Deferred tax liabilities	-28,946	-28,402	–	–
	-9,071	**-3,693**	**–**	**2,181**

Current tax receivables and liabilities

Accounting policies

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

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
The net value is recognised in the balance sheet as follows:				
Current tax assets	4,595	4,502	–	–
Current tax liabilities	-14,166	-16,370	–	–
	-9,571	**-11,868**	**–**	**–**

Section 3
Operating assets and liabilities

3.1 Intangible assets

Accounting policies

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life on the basis of management's experience within the individual areas. The amortisation period is 2-20 years.

Development projects concerning products, processes and software that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the product or process in question, are recognised as intangible assets. The costs comprise expenses, including salaries and amortisation, directly or indirectly attributable to these development projects.

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

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

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

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

Impairment

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

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

In EUR thousands

GROUP

	Goodwill	Software	Software under develop-ment	Customer relation-ships	Other intan-gible assets	Total
Intangible assets						
Costs, beginning of year	83,573	20,842	2,347	75,801	67,813	250,376
Exchange adjustment at year-end rate	8,053	461	5	7,674	4,503	20,696
Acquisition of enterprises	410	–	–	708	1,339	2,457
Additions for the year	–	438	5,660	–	–	6,098
Disposals for the year	–	-221	–	–	–	-221
Transfer to/from other items	–	6,935	-6,935	–	–	–
Costs, end of year	**92,036**	**28,455**	**1,077**	**84,183**	**73,655**	**279,406**
Accumulated amortisation, beginning of year	22,891	13,403	–	42,915	13,146	92,355
Exchange adjustment at year-end rate	3,123	300	–	5,444	706	9,573
Amortisation for the year	6,857	5,576	–	2,715	4,194	19,342
Reversal of amortisation of assets sold	–	-139	–	–	–	-139
Accumulated amortisation, end of year	**32,871**	**19,140**	**–**	**51,074**	**18,046**	**121,131**
Carrying amount, end of year	**59,165**	**9,315**	**1,077**	**33,109**	**55,609**	**158,275**

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Amortisation and impairment are specified as follows:				
Production costs	621	556	–	–
Sales and distribution costs	288	355	–	–
Administrative costs	18,433	22,267	–	–
	19,342	**23,178**	**–**	**–**

3.2 Property, plant and equipment

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

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

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

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

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

Buildings (max.)	50-100 years
Laboratory equipment	10 years
Plant and machinery	10 years
Other fixtures and fittings, tools and equipment	3-10 years

Leasehold improvements are included in other operating equipment and are recognised at cost and depreciated over the term of the lease; however, not exceeding 10 years. Assets costing less than EUR 3,500 per unit are expensed in the year of acquisition.

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 thousands

GROUP

	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs, beginning of year	172,238	173,358	79,816	25,285	450,697
Exchange adjustment at year-end rate	8,389	10,100	5,181	1,495	25,165
Acquisition of enterprises	9,100	630	106	–	9,836
Additions for the year	7,842	8,106	5,435	24,063	45,446
Disposals for the year	-4,261	-6,023	-6,697	-580	-17,561
Transfer to/from other items	14,620	6,433	343	-21,396	–
Costs, end of year	**207,928**	**192,604**	**84,184**	**28,867**	**513,583**
Accumulated amortisation, beginning of year	52,176	127,554	63,827	–	243,557
Exchange adjustment at year-end rate	4,645	8,840	4,477	–	17,962
Depreciation for the year	5,214	8,089	5,121	–	18,424
Reversal of depreciation of assets sold	-3,520	-3,860	-8,332	–	-15,712
Accumulated depreciation, end of year	**58,515**	**140,623**	**65,093**	**–**	**264,231**
Carrying amount, end of year	**149,413**	**51,981**	**19,091**	**28,867**	**249,352**
Including leased assets of	3,733	–	–	–	3,733
Including interest expenses of	376	239	1	292	908

In EUR thousands

	PARENT FOUNDATION				
	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs, beginning of year	2,431	–	771	–	3,202
Exchange adjustment at year-end rate	6	–	2	–	8
Additions for the year	22,208	–	3,472	–	25,680
Costs, end of year	**24,645**	**–**	**4,245**	**–**	**28,890**
Accumulated amortisation, beginning of year	639	–	485	–	1,124
Exchange adjustment at year-end rate	2	–	2	–	4
Depreciation for the year	288	–	263	–	551
Accumulated depreciation, end of year	**929**	**–**	**750**	**–**	**1,679**
Carrying amount, end of year	**23,716**	**–**	**3,495**	**–**	**27,211**
Including leased assets of	–	–	–	–	–
Including interest expenses of	–	–	–	–	–

In EUR thousands

	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Depreciation and impairment are specified as follows:				
Production costs	10,758	9,882	447	21
Sales and distribution costs	4,185	4,103	–	–
Administrative costs	3,482	3,196	104	119
	18,425	**17,181**	**551**	**140**

3.3 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 of the balance sheet date.

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Costs, beginning of year	165,654	131,551	140,616	130,592
Additions for the year	248,727	198,387	166,921	149,634
Disposals for the year	-233,071	-164,285	-168,739	-139,612
Exchange adjustment at year-end rate	372	2	315	2
Costs, end of year	**181,682**	165,655	**139,113**	**140,616**
Net revaluations, beginning of year	-11,529	-3,021	-11,745	-3,060
Net revaluations, for the year	2,643	-8,507	2,116	-8,685
Exchange adjustment at year-end rate	-26	-2	-26	–
Net revaluations, end of year	**-8,912**	-11,530	**-9,655**	**-11,745**
Carrying amount, end of year	**172,770**	**154,125**	**129,458**	**128,871**

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
The net values are specified as follows:				
Bonds	102,677	124,653	91,686	105,302
Shares	70,093	29,472	37,772	23,569
	172,770	**154,125**	**129,458**	**128,871**

3.4 Inventories

Accounting policies

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

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

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

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Raw materials and consumables	59,918	48,816	–	–
Work in progress	5,306	2,995	–	–
Finished goods	123,534	107,596	–	–
Inventories	**188,758**	**159,407**	**–**	**–**

3.5 Prepayments

Accounting policies

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

3.6 Receivables

Accounting policies

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

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Receivables	416,596	357,821	1,115	1,729
of which due more than one year from balance sheet date	5,160	1,459	–	–

3.7 Pension and similar assets and obligations

Accounting policies

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

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Pension and similar obligations comprise:				
Pension and similar obligations	59,401	47,410	295	243
Fair value of assets related to the plans	-39,608	-35,702	–	–
Pension obligations, net	19,793	11,708	295	243
Recognition in the balance sheet:				
Assets	–	-921	–	–
Liabilities	19,793	12,629	295	243
Pension obligations recognised in the balance sheet, net	19,793	11,708	295	243
Defined benefit plans				
Specification of plan assets:				
Shares and properties	37%	44%	–	–
Fixed interest current asset investments	61%	51%	–	–
Cash at bank and in hand	2%	5%	–	–
Total	100%	100%	–	–
Weighted average assumptions:				
Discount rate	2.6%	4.0%	2.8%	4.3%
General wage inflation	2.5%	3.0%	–	–
General price inflation	1.5%	1.9%	–	–

3.8 Provisions

Accounting policies

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

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

Key accounting estimates

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

In EUR thousands

	GROUP				
	Environmental obligations	Warranty commitments	Other provisions	2014	2013
Total provisions, beginning of year	21,098	9,567	5,676	36,341	35,192
Exchange adjustment at year-end rate	286	–	280	566	-103
Reclassification 1 January	–	-1,190	-487	-1,677	1,924
Additions for the year	–	732	113	845	2,931
Reversed	–	–	2	2	-317
Disposals for the year	–	–	-766	-766	-3,286
Total provisions, end of year	**21,384**	**9,109**	**4,818**	**35,311**	**36,341**
Maturities are expected to be:					
Within 1 year	–	–	–	–	519
Between 1 and 5 years	20,409	9,109	4,818	34,336	35,603
After 5 years	975	–	–	975	219
	21,384	**9,109**	**4,818**	**35,311**	**36,341**

3.9 Other liabilities

Accounting policies

Other liabilities are measured at amortised cost, substantially corresponding to nominal value. Other liabilities comprise employee costs payable, VAT and duties payable, accruals, other payables and fair values of derivative financial instruments. In Parent Foundation, Other liabilities primarily relates to grants not yet paid.

Section 4
Capital structure and financing items

4.1 Share capital

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

4.2 Financial debt

Accounting policies
Fixed-interest loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Long-term bank borrowings etc. including short-term part:				
Due within 1 year	31,897	29,490	–	–
Due within 1 to 5 years	167,468	181,489	–	–
Due after 5 years	1,111	–	–	–
	200,476	**210,979**	**–**	**–**

4.3 Financial risks

Due to its operations, investments and financing, the Group is exposed to changes in exchange rates and interest rates. The Group's financial management is focused only on managing financial risks relating to operations and financing. Accordingly, it is Group policy not to speculate actively in financial risks. For further information on the Group's exchange and interest rate risks and the management of these risks, see the management's review (page 25).

The Group has no material risks relating to a single customer or business partner. It is the Group's credit policy to rate major customers and other business partners on a current basis. For further information on the Group's credit risks and covering of these risks, see the Specific risks section of the management's review (page 25).

4.4 Derivative financial instruments

Accounting policies

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

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

In EUR million

Currency risks:

Open foreign currency hedges at 31 December 2014 entered into in order to hedge future purchases and sales, as well as receivables and payables in foreign currencies, are specified as follows:

EUR million	Contract amount based on exercise price[1]	Fair value	Term to maturity (months)
CZK	1.8	0.0	1
EUR	-8.0	0.0	1
GBP	-19.2	-0.1	1
KRW	10.9	0.2	1
PLN	-16.2	0.1	1
RUB	-8.5	1.8	3
SGD	-14.9	-0.1	1
USD	-73.6	-0.7	1
ZAR	-1.8	0.1	3
		1.3	

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

	Bank borrowings etc.	Cash flow	Terms
Interest rate swaps		Average term to maturity	Average fixed interest rate
Financial instruments at 31 December 2014	201	1.5 years	of 3.3%

Total payables of EUR 201 million comprise loans denominated in euro of EUR 94 million and loans denominated in other currencies, primarily British pounds, of EUR 107 million. The interest effect of interest rate swaps of EUR 90 million and GBP 65 million (EUR 83 million), respectively, is included in the calculated interest. The fair value adjustment of interest rate swaps of EUR -4 million (2013: EUR -7 million) in total at 31 December 2014 is recognised directly in equity. The weighted average effective interest rates as at the balance sheet date were as follows:

	GROUP	
	2014	2013
Bank borrowings etc.	3.3%	3.5%

4.5 Net financials

Accounting policies

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
External interest income	3,882	11,726	1,820	2,814
Interest income from subsidiaries	–	–	1	1
External interest expenses	-14,257	-20,311	-879	-954
Interest paid to subsidiaries	–	–	-5	-2
Dividend	1,500	185	1,101	831
Realised and unrealised exchange gains/ losses, net	-37	-6,160	5,035	1,574
	-8,912	**-14,560**	**7,073**	**4,264**

4.6 Cash and cash equivalents, net

Accounting policies

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Cash at bank and in hand, beginning of year	148,124	134,409	4,163	7,335
Securities, beginning of year	–	168	–	168
Overdraft facilities, beginning of year	-65,574	-91,740	–	–
	82,550	**42,837**	4,163	**7,503**
Cash, end of year	142,433	148,124	3,175	4,163
Securities, end of year	–	–	–	–
Overdraft facili-ties, end of year	-84,058	-65,574	–	–
	58,375	**82,550**	**3,175**	**4,163**

4.7 Changes in working capital

Accounting policies

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Change in receivables	-32,225	-5,048	880	282
Change in inventories	-18,122	-2,022	–	–
Change in trade payables	22,675	28,727	418	-123
	-27,672	**21,657**	**1,298**	**159**

4.8 Acquisitions of enterprises

Accounting policies

On acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities have been adjusted to fair value (the purchase method). This includes allowing for any restructuring provisions determined in relation to the enterprise acquired. Remaining positive differences are recognised in intangible assets in the balance sheet as goodwill, which is amortised in the income statement on a straight-line basis over its estimated useful life, but not exceeding 20 years. Amounts attributable to expected losses or expenses are recognised as income in the income statement as the affairs and conditions to which the amounts relate materialise.

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

In EUR thousands	GROUP	
	2014[1)]	2013
Balance sheet items of acquired enterprises		
Intangible assets	2,457	–
Property, plant and equipment	9,836	–
Inventories	2,945	–
Receivables	2,736	–
Provisions	-1,736	–
Short-term payables	-5,838	–
Acquisition costs	10,400	–
Cash and cash equivalents, net	716	–
Settlement of intercompany loan	2,502	–
Non cash	-291	–
Net cash flows from acquisitions	**13,327**	**–**

[1)] *11 December 2014.*

Section 5
Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Audit fee	952	973	23	24
Other assurance engagements	30	21	–	–
Tax advice	245	226	6	–
Other fees	305	424	10	33
	1,532	**1,644**	**39**	**57**

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	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Amortisation, depreciation and impairment, including goodwill	37,766	40,359	551	140
Provisions	-783	32	52	-10
Exchange rate adjustment, operating profit	4,431	-2,961	-1	–
Gains and losses on the sale of fixed assets	-636	-3,422	–	-9
	40,778	**34,008**	**602**	**121**

5.3 Contingent liabilities and other financial obligations

The operating lease commitments are related to non-cancellable operating leases primarily related to premises, company cars and office equipment.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Other guarantees primarily relate to bid and performance bonds.

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Rental and lease obligations:				
Due within 1 year from the balance sheet date	12,267	10,940	–	–
Due within 1 to 5 years from the balance sheet date	29,619	24,522	–	–
Due more than 5 years from the balance sheet date	6,648	8,018	–	–
	48,534	**43,480**	**–**	**–**
Guarantees:				
For local loans and bank credits to subsidiaries [1]				
Other guarantees	3,130	2,705	–	–
	3,130	**2,705**	**–**	**–**

[1] *Unutilised guarantees for local loans and bank credits to subsidiaries amount to EUR 35 million (2013: EUR 19 million).*

Other contingent liabilities:
As part of its current operations, the Group is a party to certain legal disputes, and certain claims have been advanced against the Group concerning complaints, pollution and environmental issues. It is management's assessment that these disputes and claims will have no material effect on the Group's financial position.

5.4 Related parties and ownership

In EUR thousands

	Basis
Related parties and ownership	
Hempel Holding A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel A/S, Lundtoftegaardsvej 91, 2800 Kgs. Lyngby, Denmark	Related party
Members of the Executive Board and Board of Directors of Hempel A/S as well as the Board of Directors of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. Except for John Schwartzbach, the members of the Boards of Directors of the Hempel Foundation and Hempel Holding coincide.	
Other related parties:	
Saudi Arabian Packaging Industry W.L.L., P.O. Box 1966, Dammam 31441, Saudi Arabia	Associate
Sapin United Arab Emirates L.L.C., P.O. Box 115132, United Arab Emirates	Associate
Keldskov Aps, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge Aps, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party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5.5 Investments in subsidiaries and associates

Accounting policies

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

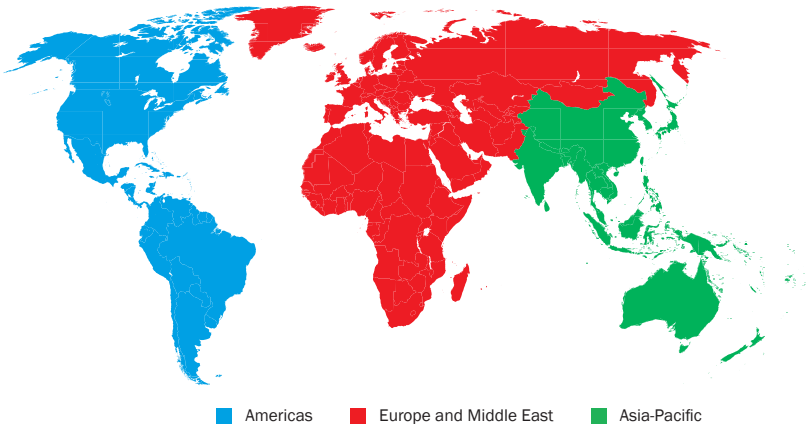
The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to 'Reserve for net revaluation under the equity method' under equity. The reserve is reduced by dividend distributed to the parent company and adjusted for other equity movements in subsidiaries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

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

In EUR thousands	GROUP		PARENT FOUNDATION	
	2014	2013	2014	2013
Investments in subsidiaries				
Costs, beginning of year			12,472	12,472
Exchange adjustment at year-end rate			29	–
Costs, end of year			**12,501**	**12,472**
Net revaluations, beginning of year			397,322	351,570
Change in accounting policies			–	-6,150
Net revaluations at 1 January after change in accounting policies			397,322	345,420
Exchange adjustment at year-end rate			16,568	-14,468
Other adjustments			-2,891	1,499
Profit before tax			98,920	95,414
Tax for the Year			-37,757	-30,543
Dividend received			-22,838	–
Net revaluations, end of year			**455,325**	**397,322**
Carrying amount, end of year			**467,825**	**409,794**
Investments in associates				
Costs, beginning of year	84	84		
Costs, end of year	**84**	**84**		
Net revaluations, beginning of year	13,508	12,228		
Exchange adjustment at year-end rate	2,042	-653		
Net profit	2,418	2,918		
Dividend received	-1,579	-985		
Net revaluations, end of year	**16,389**	**13,508**		
Carrying amount, end of year	**16,473**	**13,592**		

5.6 The Hempel Group including foreign branches

Country	Name	Currency	Share capital	Ownership
Argentina	Hempel Argentina S.R.L.	ARS	98,971,160	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)	USD	65,637,500	51%
Brazil	Hempel Tintas do Brasil Ltda.	BRL	10,054,760	100%
Canada	Hempel (Canada) Inc.	CAD	1,776,005	100%
Chile	Hempel A/S (Chile) Ltda.	CLP	6,558,960	100%
China	Hempel (China) Limited	HKD	106,000,000	100%
China	Hempel (Kunshan) Coatings Co. Ltd.	CNY	38,400,015	100%
China	Hempel (Yantai) Coatings Co. Ltd.	CNY	16,803,936	100%
China	Hempel (Guangzhou) Coatings Co. Ltd.	CNY	185,327,620	100%
China	Hempel-Hai Hong Coatings (Shenzhen) Co. Ltd.	HKD	40,000,000	100%
China	Hempel (Seagull) Coatings Co. Ltd.	HKD	20,000,000	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	31,019,200	98%
Cyprus	Hempel (Cyprus) Ltd.	EUR	17,100	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	125,000	100%
Denmark	Keldskov ApS	DKK	175,000	100%
Denmark	HSA (Danmark) A/S	DKK	10,000,000	100%
Denmark	Hempel Decorative Paints A/S	DKK	1,000,000	100%
Denmark	Hempel Properties A/S	DKK	1,000,000	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100,000	100%
Egypt	Hempel Egypt L.L.C.	EGP	200,000	100%
Finland	OY Hempel (Finland) AB	EUR	63,000	100%
France	Hempel (France) S.A.	EUR	1,220,000	100%
Germany	Hempel (Germany) GmbH	EUR	1,533,876	100%
Greece	Hempel Coatings (Hellas) S.A.	EUR	7,800,000	100%
India	Hempel Paints (India) Pvt. Ltd.	INR	690,000,000	100%
Indonesia	P.T. Hempel Indonesia	USD	2,000,000	100%
Iraq	Hempel (Iraq) Ltd.	USD	8,300	31%
Ireland	Crown Paints Ireland Ltd.	EUR	127	100%
Italy	Hempel (Italy) s.r.l.	EUR	50,000	100%
Korea	Hempel Korea Co. Ltd.	KRW	1,450,000,000	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	600,000	51%
Malaysia	Hempel (Malaysia) Sdn. Bhd.	MYR	5,000,000	100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	9,500,000	100%
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%



Country	Name	Currency	Share capital	Ownership
Portugal	Hempel (Portugal) Lda.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
Romania	Hempel (Romania) S.R.L.	EUR	420,100	100%
Russia	ZAO Hempel	RUR	95,000	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	24,500,000	51%
Saudi Arabia	Saudi Arabian Packaging Industry W.L.L.*	SAR	20,000,000	18%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	2,700,000	100%
South Africa	Hempel Paints (South Africa) Pty Ltd.	ZAR	38,078,425	100%
Spain	Pinturas Hempel S.A. (Spain)	EUR	1,202,000	100%
Sweden	Hempel (Sweden) AB	SEK	2,500,000	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%
The Netherlands	Sabel Coatings B.V.	EUR	22,689	100%
Turkey	Hempel Coatings San. Ve Tic Ltd. Sti.	TRY	2,789,300	100%
UK	Crown Brands Ltd.	GBP	1	100%
UK	Crown Darwen Ltd.	GBP	200	100%
UK	Crown Decorative Production Ltd.	GBP	2	100%
UK	Crown Paints Ltd.	GBP	1	100%
UK	Grown Paints Group Ltd.	GBP	1,000,000	100%
UK	Crown Paints Holding Ltd.	GBP	1,000,000	100%
UK	Donald Macpherson And Company Ltd.	GBP	50,000	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%
United Arab Emirates	Sapin United Arab Emirates L.L.C.*	AED	1,000,000	18%
Uruguay	Hempel (Uruguay) S.A.	UYU	8,000,000	100%
USA	Hempel (USA) Inc.	USD	9,000,000	100%
Vietnam	Hempel Vietnam Company Limited	USD	2,690,017	100%

* Associate

Foreign branches

Caribbean	Pinturas Hempel
Hungary	Hempel (Czech Republic) s.r.o. Magyarorszagi Fioktelepe
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

5.7 Financial definitions

Financial ratios have been calculated as follows:

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

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