2013

Annual Report

HEMPEL FOUNDATION

The Foundation

Hempel Foundation
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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
Per Sørensen
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

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, J.C. Hempel transferred all his shares in J.C. Hempel's Marine Paints to the Hempel Foundation in 1948. The Hempel Foundation 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 and operates in more than 80 countries with 5,200 employees, 24 factories, 48 sales offices and more than 150 stock points strategically located around the world.

Hempel's coatings protect man-made structures – from windmills and bridges to ships and homes – from the corrosive forces of nature. This helps extend the structure's lifetime and 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 causes.

Two specific concerns have been placed at the top of the international corporate social responsibility agenda: the challenge of poverty across much of our planet, and environmental challenges. In its role as the owner of a global business operation (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 corporate social responsibility activities and the Foundation's donation allocation policy, in which the Foundation has chosen to focus on education of children in need and research into environmentally sustainable surface protection technologies.

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


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Report

Financial statements

Management's statement

The Board of Trustees have today considered and adopted the Annual Report of the Hempel Foundation for the financial year 1 January - 31 December 2013.

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 2013 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 2013.

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, 3 April 2014.

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Chairman

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Deputy Chairman

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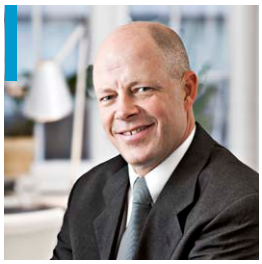

Helle Friberg

Martin Bøgsted

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 2013, which comprise accounting policies, income statement, balance sheet, statement of changes in equity and cash flow statement for both the Group and the Parent Foundation. 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 2013 and of the results and cash flows for the financial year 1 January - 31 December 2013 in accordance with the Danish Financial Statements Act.

Statement on management's review

We have read management's review, pages 11-35, 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 management's review is consistent with the consolidated financial statements and the Parent Foundation financial statements.

Hellerup, 3 April 2014.

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Lars Baungaard
State Authorised Public Accountant

Poul Madsen
State Authorised Public Accountant


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Key figures

Key figures in EUR million

Profit	2013	2012	2011	2010	2009
Revenue	1,239	1,243	1,078	889	714
EBITDA	164	125	105	117	91
Amortisation, depreciation and impairment	41	43	35	27	19
Operating profit	123	82	70	90	72
Income from investments in associates	3	3	2	2	4
Net financials	-15	-17	-17	-2	-4
Profit before tax	111	67	55	90	72
Net profit for the year	67	35	30	56	50
Balance					
Balance sheet total	1,232	1,216	1,215	897	706
Equity	544	498	472	445	367
Cash flows					
Cash flow from:					
Operating activities	145	126	63	23	120
Investing activities	-68	-31	-218	-86	-127
– including net investments in property, plant and equipment and intangible assets	-45	-28	-33	-40	-25
Financing activities	-37	-63	155	-13	48
Change in cash and cash equivalents	40	32	1	-77	41
Employees					
Average number of employees	5,032	4,980	4,471	3,642	2,873
Donations					
Donations for the year	6	4	4	1	2
Ratios (%)					
Gross margin	40.6	37.2	34.3	36.0	38.8
Operating profit margin	9.9	6.6	6.5	10.1	10.1
Return on assets	10.1	6.7	6.6	11.2	11.7
Solvency ratio	44.2	40.9	38.9	49.6	51.9
Return on equity	12.9	7.2	6.6	13.9	14.7

For definitions, see Accounting policies.

Board of Trustees' report
The Hempel Foundation's activities

The total revenue for 2013 of EUR 1,239 million was on the same level as 2012. However, the net profit for the year was EUR 67 million compared with a net profit of EUR 35 million in 2012. The main reasons for the satisfactory result were stable raw material prices, the launch of new products and the resulting change in the product mix, which led to improved profitability, as well as an efficient control of expenses. The activities undertaken by the Hempel Foundation are described in this report. These include grants and the return on financial investments as well as business-related activities.

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 causes.

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.

Three of the United Nation'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 give priority to projects providing education for children in need and carrying out research into environmentally sustainable surface protection technologies.

The aims of our projects are to help break the poverty cycle through education, and to find new ways to safeguard our planet.

The Hempel Foundation provided support for 18 projects for the education of children in need in 2013. Six projects were in South and Central America, four in Africa and eight in Asia.

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 thirteen of the educational projects, the Hempel Foundation works together with Save the Children, the Danish non-government organisation IBIS, or SOS Children's Villages. The remaining five projects are run directly with local organisations.

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.

Furthermore, the Foundation provides support for the international Elite Master's Programme 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.

A laboratory, the Hempel Student Innovation Laboratory, has been made available to the students where they can test their own original ideas.

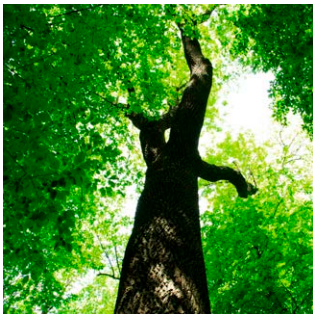
In 2013, the Foundation continued support for HRH Crown Princess Mary's Foundation, the Mary Foundation, a charitable foundation in which the Hempel Foundation is operating partner. Support for the Royal Danish Theatre also continued, and the Foundation donated funds to the construction of the new Copenhagen International School in 2013. As previously mentioned, the Hempel Foundation also supports other charitable and social initiatives as well as arts and culture initiatives.

Grants over the last three years have been allocated within the following areas:

In EUR thousands

HEMPEL FOUNDATION GRANTS

	2013	2012	2011
Education of children in need	1,697	1,696	646
Research into environmentally sustainable technologies	758	760	1,271
Charitable donations	278	1,138	85
Art and culture	1,344	290	1,116
Education	1,488	279	563
Other	416	215	57
	5,981	4,378	3,737
Reversal of previously approved grants and adjustment	-47	-373	-132
Total grants	**5,934**	**4,005**	**3,604**



Investment activities

The Hempel Foundation's Board of Trustees has appointed an investment committee, which manages the Foundation's financial investments together with external portfolio managers. The Board has also laid down overall guidelines and policies for investing in different types of assets, such as properties, bonds and shares.

The financial investments are a financial instrument for the Hempel Group, and the majority of the investments are in cash and listed securities that can be redeemed within a few days.

A low-risk investment strategy is adopted in order to avoid loses, and a lower overall return is accepted.

The net financial income was EUR 4.3 million in 2013 compared with net financial income of EUR 3.5 million in 2012. Shares in particular returned good earnings in 2013.

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. Net income from this was EUR 65 million in 2013, up from EUR 35 million in 2012.

No dividend was received from this holding in 2013.

Please refer to the separate report on the activities of the Hempel Group on pages 20-35.

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

Amaliegade 8 was purchased by J.C. Hempel in 1933 and was the headquarters for the Hempel companies before they relocated to Lundtofte, north of Copenhagen, in 1972. The Hempel Foundation remained in Amaliegade 8 and today it has offices and rooms on two of the building's five floors. The other three floors 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 expenses have been incurred in recent years, and in some years this has resulted in operating losses.

The Hempel Foundation is also 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, rental of properties as well as hunting licenses have delivered positive net returns to both companies in recent years.

Employees of the Hempel Group can make use of rental holiday accommodation 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

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

The Hempel Foundation's trust deed defines the overall principles for the Foundation's activities.

The deed states that the Foundation's purpose is to provide and maintain a solid economic base for Hempel A/S (as an entity wholly owned by the Hempel Foundation), and to ensure that the company is able to operate on a sound business and economic footing.

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 our support for social causes, are to be focused primarily on our 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.

At present the Board includes six members elected by the Foundation and three employee representatives.

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, subject to an extension to 75 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 also hold a position on the Board of Hempel A/S)
- A majority must be current or former Hempel employees or people who have been involved with the Hempel Group over many years
- At least two of the members must have international financial and business experience

Currently, there are no female members on the Board of Trustees of the Hempel Foundation. However, a new policy states that the Board will have a least one female member before the Annual General Meeting in spring 2017.

Please see page 32 for information about the Board of Directors of Hempel A/S.

The Board of Trustees 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 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.

Remuneration, meetings and committees, etc.
The total remuneration paid to the Board in 2013, including the Chairman and Deputy Chairman, was EUR 622,000. The base remuneration paid to Board members in 2014 is EUR 57,000. As is customary, a higher level of remuneration is received by the Chairman and Deputy Chairman.

The Board of the Foundation 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 the Foundation 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.

The Foundation has selected and established an Executive Committee drawn from Board members for the implementation of the Board's higher-level decisions regarding the Foundation's financial investments. This committee usually holds 8-12 meetings a year with the Foundation's portfolio managers.

The Foundation has also selected and established an honorary Grants Committee 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.

Conflicts of interest
The Foundation is committed to ensuring that all persons involved in its investment and donation processes possess the requisite skills. The Foundation is also required to monitor their circumstances for any potential conflicts 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 2014.
Please see page 27 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.

Statement from the CEO of the Hempel Group

Despite stagnant revenue growth in 2013, our improved efficiency and profitability has placed us in a strong position to achieve our 2015 targets through a combination of organic and external growth.

We reviewed and adjusted our *One Hempel – One Ambition* strategy plans in 2013. Our goal remains to become one of the world's top-10 coatings manufacturers by 2015. However, the worldwide growth we predicted when developing the strategy has been lower than anticipated and, as a result, we now expect more growth will come from acquisitions. We still know that nothing is better than organic growth and we will continue to target organic growth in the future in all our main segments and regions. We know this is possible, as shown by the performance of our Protective segment, where we effectively grew by nine per cent in 2013.

I am confident that our updated strategy will enable us to reach our goals for 2015 and beyond. The updated strategy was approved by the Board of Directors in August, and I would like to thank them for their continued support and trust, as well as our employees for their dedication and hard work throughout the year.

Hempel's performance

Although we did not deliver top-line growth as anticipated, 2013 proved to be a decent year for the Group. Our revenue reached the same level as 2012 despite a two per cent increase in volume. This was partly due to the negative exchange rate effect caused by the declining US dollar against the euro, as well as a sharper decline in the Marine Newbuilding segment than anticipated, where overcapacity in several shipping segments led to a drop in demand for marine coatings. Our other key segments, however, performed well. The Protective and Marine Maintenance segments proved to be our main growth drivers, while our Decorative segment was on par with 2012 after a slow start to the year.

In terms of earnings, we have reached a margin level where we need to be. Our EBITDA of EUR 165 million was the highest in the Group's history, while net interest bearing debt amounted to EUR 133 million, or a ratio of 0.8 to EBITDA. This gives us the room needed to acquire new companies while also financing organic growth, and will enable us to grow faster than the market over the coming years. This strong performance in 2013 was only possible thanks to the efficiency and productivity measures implemented over the last few years. These measures, combined with stable raw material prices and a controlled change in our segment mix, led to a significantly improved gross profit margin, which increased from 37 per cent in 2012 to 41 per cent in 2013.

***One Hempel – One Ambition:* stage 3**

The profitability we delivered in 2013 came without compromising the key investments we are making to ensure a sustainable future for the Group as part of our *One Hempel – One Ambition* strategy.

In 2014, we will open new factories in Saudi Arabia and India, as well as a new headquarters and warehouse in the US and a high-speed filling line in the UK. We are also working on new factories and factory expansions in Malaysia, Kuwait and Russia. By 2015, we will have the capacity to produce approximately 230 million litres more per year compared to 2010, which will ensure that we can maintain a steady and timely supply of high-quality coatings to our customers anywhere on the globe.

We have continued to invest in new staff and better training for our employees in order to ensure that our sales and service capabilities are in line with our customers' expectations. In addition, as a result of our investment in IT systems, such as our global Customer Relationship Management system, we now better understand the requirements of our customers and can provide them with the products, service and technical support they need.

With the acquisition of Crown Paints in 2011, we took our first step towards establishing a strong Decorative platform in Europe. In the coming years, we will continue this expansion through the acquisition of a few carefully selected companies. This work will complement our own organic growth in Europe, the Middle East and China, where we are investing in our Decorative brand and expanding our network of distributors to reach more customers in more regions.

Over the last few years, our Protective segment has expanded in key geographical markets and into new sub-segments to become one of the industry's strongest global suppliers. The first full year with Blome International Inc. as part of the Hempel Group has been a great success and we have seen significant growth in the Americas as a result. The global launch of Versiline – a range of high-performance coatings developed by Blome International Inc. for the challenging environments encountered in many process industries – has also helped many of our global customers solve the challenges of asset protection in extreme conditions. The global marine industry continued to slow down in 2013, but we remain a key player in marine coatings and our Marine Maintenance segment showed good growth during the year. We have continued to invest in product development and the launch of HEMPAGUARD® has proven that we can win the technology battle. A new fouling defence product that reduces vessel fuel bills and associated CO_2 emissions by six per cent compared to traditional anti-fouling products, HEMPAGUARD® has been well accepted by the industry and saw more than 60 full ship applications in 2013 alone, despite being launched late in the year.

We still have more work to do as we optimise our Group and develop our organisation. But we have shown that we have the ability to adapt and change, and that we are taking significant steps in the right direction.

The future

It is essential that we continue to focus on developing the financial, business and organisational capabilities needed to grow faster than the market. We have started a number of initiatives in recent years to achieve this, and I am convinced that we will see a return on our investments in 2014. Our first priority remains to grow organically. We have become better at spotting and assessing opportunities for growth and we have proven that we can adjust in order to meet changing market requirements. Our product development already puts us at the forefront of coatings technology, and we have now become a more professional organisation and are better placed to take advantage of opportunities as they arise, in both new and existing markets. At the same time, we want to focus more on finding potential new partners and companies that can broaden our customer, geographical and technology base. We will choose these partners carefully, looking not only at the business benefits and potential synergies, but also the culture. We know that the alignment of the two companies' cultures is essential to the success of any partnership or acquisition and understand the added value that new knowledge and skills from another company can bring to our Group.

Finally, I would like to take this opportunity to thank everybody who helped make 2013 a successful year for our Group. I would also like to thank the Board of Directors of Hempel A/S and the Board of the Hempel Foundation for their continued support – and I would like to extend my gratitude to all our customers, business partners and other stakeholders. Your continued loyalty is extremely important to us.

Pierre-Yves Jullien
Hempel Group President and CEO

The Hempel Group 2013 in review
One Hempel – One Ambition strategy continued in 2013

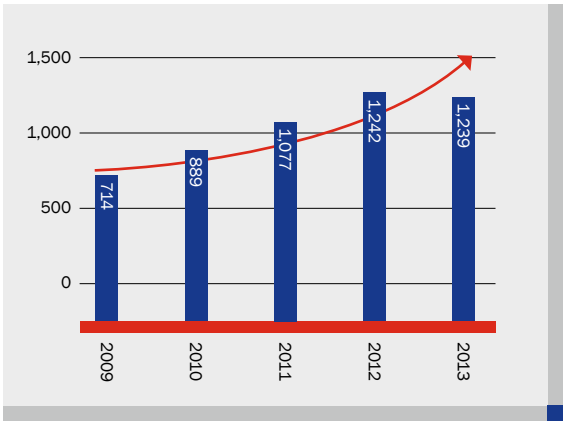
In 2013, we reviewed our *One Hempel – One Ambition* strategy to ensure we are still on target to achieve our ambitious 2015 goals. The review led to a few strategic changes, which were approved by the Board of Directors in August, and we remain on track to become one of the world's top-10 coatings suppliers by 2015.

We saw lower sales growth in 2013 than anticipated. However, the launch of new products and the resulting change in the product mix led to increased profitability. Due to the lower than planned organic growth, we have now decided that more growth needs to come from strategic acquisitions.

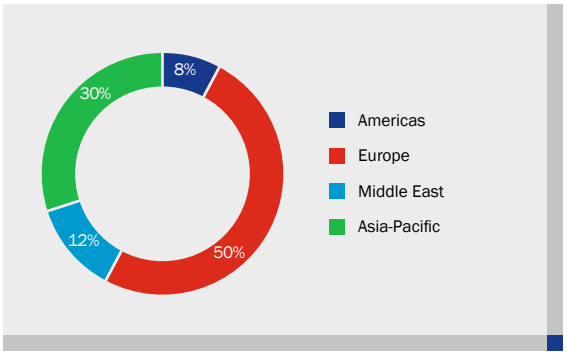
In 2013, the Hempel Group's revenue reached the same level as 2012 despite an increase in volume of two per cent. This was partly due to the negative exchange rate effect caused by the declining US dollar against the euro. Using exchange rates comparable to 2012, our revenue grew three per cent in 2013.

The Protective and Marine Maintenance segments continued to grow during 2013 and proved to be our main growth drivers. Our Decorative segment was on par with 2012, despite a slow start to the year. As anticipated, sales in the Marine Newbuilding sub-segment fell due to significant reductions in the Korean and Chinese newbuilding markets. Our Container and Yacht segments both saw slight declines during 2013 and the Hempel Group's total organic revenue growth failed to meet our ambitious targets.

Revenue (EUR million)



Regional sales



Regional sales led by the Americas

Sales within our different geographical markets developed in different ways. The Americas continued to see significant growth rates, with a 12 per cent increase over 2012, primarily driven by our Protective segment. Following the acquisition of Blome International Inc. in 2012 and a successful integration project, we launched Blome International Inc.'s Versiline product range on the global market in 2013.

Sales in Asia-Pacific dropped during the year, primarily due to a decline in the Marine Newbuilding sub-segment. However, this was somewhat offset by significant growth in Protective.

In the Middle East, revenue dropped slightly, mainly due to the impact of exchange rates. Europe achieved similar revenue to 2012.

Gross profit margin continues to grow

Our focus on restoring gross profit continued in 2013 with positive results. We increased focus on profit margins when developing new product solutions as well as the cost structures in our factories. Combined with stable raw material prices and a controlled change in our segment mix, this resulted in a significant improvement in the Group's gross profit. In 2013, the Hempel Group achieved a gross profit margin of 40.5 per cent, compared to 37.2 per cent in 2012.

We continued to increase efficiency and thereby improved our control of fixed expenses. We further invested in new employees, especially in sales, marketing and R&D. However, the resulting increase in expense was offset by declining amortisations, depreciations and costs for bad debt and claims. We are continuing a number of productivity and efficiency projects into 2014 to ensure that this positive trend continues.

An improving EBITDA margin

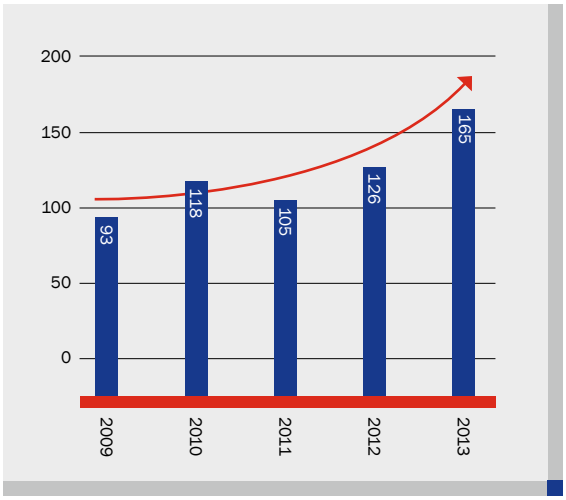
After a period of significant strategic investments, the EBITDA margin rebounded in 2013 thanks to a significant increase in gross margin and our control of expenses. The EBITDA margin was 13.3 per cent compared to 10.2 per cent in 2012.

The EBITDA amounted to EUR 165 million compared to EUR 126 million in 2012. This is a significant improvement and the highest EBITDA recorded in the Group's history.

The Hempel Group's operating profit for 2013 amounted to EUR 125 million compared to EUR 83 million in 2012. The operating profit margin improved, rising from 6.7 per cent in 2012 to 10.1 per cent in 2013. Interest rates remained low and the net financials amounted to EUR 19 million, just below the 2012 level.

After income tax of EUR 30 million and minority interests of EUR 13 million, the Hempel Group's net profit amounted to EUR 65 million. The Group's effective tax rate was 29 per cent, compared to 30 per cent in 2012.

EBITDA (EUR million)



Change in equity

The company's equity increased to EUR 381 million from EUR 356 million in 2012, corresponding to a solvency ratio of 36 per cent. Equity was mainly affected by net profit and the dividend of EUR 25 million paid to the Group's shareholders in 2013.

CAPEX: new factories and head office

Our planned expansion of production capacity continued in 2013 with new factories in Jeddah, Saudi Arabia, and Mumbai, India, which will open in 2014. We also began construction of a new factory in Ulyanovsk, Russia, which is planned to open in 2015. The Hempel Group's new head office was finalised and inaugurated in 2013 and our former headquarters and production site were sold with a booked profit of EUR 4 million, which is included in 2013 under operating income.

Significant decrease in working capital

Working capital decreased significantly during 2013, amounting to EUR 255 million compared to EUR 289 million at the end of 2012. The drop of EUR 34 million was a result of our increased focus on accounts receivable and stronger control of our inventories, which continued to decline throughout 2013. Our focus on accounts receivable will continue during 2014.

Strong cash flow

The Hempel Group's cash flow continued to be strong. The cash flow from operating activities ended 2013 at EUR 146 million, EUR 18 million above 2012, or close to 19 per cent of EBITDA.

The high level of investment activities continued throughout 2013. Our capacity expansion projects and new head office were our most significant investments during the year. In addition, we completed our global Enterprise Resource Planning system in Europe and Asia-Pacific and continued rollout in the Americas.

Capital resources

Operational credit facilities provided by the relationship banks of the Hempel Group amounted to EUR 180 million at the end of 2013 compared to EUR 170 million at the end of 2012. The facilities are a mix of current and non-current agreements.

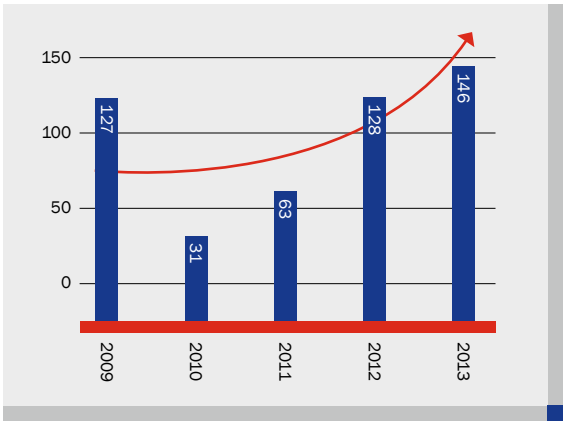
The term loan obtained in connection with acquisitions in 2009 and 2011 amounted to EUR 194 million at the end of 2013. The term loan is repaid with EUR 25 million annually and matures in 2016 with a final repayment of EUR 145 million.

At the end of 2013, net interest bearing debt amounted to EUR 133 million compared to EUR 192 million at the end of 2012, or a ratio of 0.8 to EBITDA.

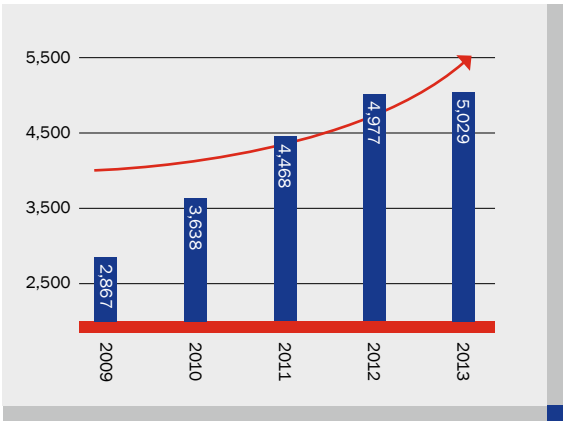
Increasing number of employees

The average number of employees increased to 5,029 during 2013 from 4,977 in 2012.

Cash flow from operating activities (EUR million)



Average number of employees



Strategy and objectives

Hempel is continuing its five-year strategy, *One Hempel – One Ambition*, with the goal of becoming one of the world's top-10 largest coatings suppliers by 2015 in order to better leverage economies of scale across the Group.

The growth required in our five-year strategy is expected to be achieved through three key areas: we will continue to grow our Decorative segment, mainly through acquisitions, and increase our market presence in the Protective and Marine segments.

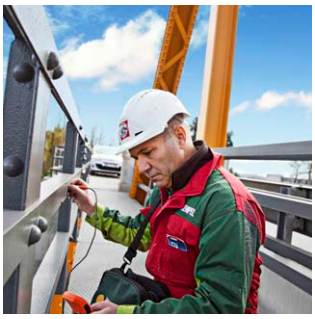
The acquisition of Crown Paints in 2011 was the first step towards establishing a sustainable platform for Hempel in Europe within the Decorative segment. Following a very successful integration, we are now ready to take the next step in the expansion of our Decorative business through the acquisition of a few carefully selected companies in Europe. We will also continue to grow our Decorative presence in the Middle East and China, mainly by investing in our existing brand and expanding our customer base.

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 geographical markets 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 business for the company. Our Marine business declined during 2013, mainly due to a sharp reduction in the number of new vessels being built around the world, as well as our decision to reduce business risk for a period of time due to the financial uncertainties surrounding many shipowners and shipyards.

Hempel is recognised as a reliable Marine supplier of advanced coating technology. We have continued to invest in cutting-edge technology and the recent launch of our new fouling defence product, HEMPAGUARD®, demonstrates our continuing ability to meet customer demands for coating systems that add value to their business. We plan to improve our market position in the coming years by continuing to focus on technology development and expanding 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, Saudi Arabia and India. Our sales and service organisations are being expanded 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 coming years, we are planning to significantly increase spending within marketing and R&D in order to ensure we can deliver solutions and support that enable us to gain market share in all our business segments.

Expectations for the year ahead

The marine market remains cautious and we do not expect any significant improvements in the overall business climate. However, we anticipate that the marine newbuilding market will level off after the sharp decline seen during 2013.

Market developments in many parts of the world have been affected by the economic situation in China and the US and our business and revenue in both markets is expected to develop positively compared to 2013. Our growth opportunities in Europe will be driven by the German and Russian markets, which appear to be recovering slowly after the global financial crisis.

Overall, we expect to see a growth in revenue and believe that we will be able to maintain the level of earnings achieved during 2013.

Special risks

Currency risks
As significant parts of the Hempel Group's activities are carried out beyond the Eurozone, there is 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, primarily by achieving a natural balance between selling and purchasing currencies, but also through the use of standard financial instruments.

Emerging market currency risk is 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 banks is on a floating interest rate basis. In order to reduce interest cost fluctuations, part of our loan portfolio has been swapped to fixed-term interest rates 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 we assess risks in the Hempel Group. To support this process, we have created the Risk Assessment Workshop (RAW) tool, which helps facilitate our risk management work. The RAW tool is consistent with the existing generic frameworks that are considered best practice.


HEMPEL

Research & Development: constantly working to improve and innovate

With a strong focus on R&D, our goal is to develop coatings that deliver extra value to customers.

At Hempel, we are constantly working to develop new products and formulations that help customers achieve additional benefits, from saving energy and reducing fuel consumption to increasing line speeds. A consideration for health, safety and the environment is also a natural part of our work, and we develop products that meet or exceed both technical specifications and environmental legislation.

Decorative: focusing on sustainability

Hempel introduced Topaz Zero, a new range of environmentally friendly products, in the Middle East in 2013. Along with our Ecolabel products in Spain and the UK, the new range underlines our commitment to developing a greener product assortment.

We are committed to achieving sustainable operations across the production process, from the choice of raw materials to the recycling of excess post-consumer paint. As a result of our work in this area, our UK Decorative organisation won a number of sustainability awards in 2013, including being named Sustainable Manufacturer of the Year by the UK Manufacturer's Organisation.

Protective: the full coatings package

Developed by Blome International Inc., Versiline coatings offer superior protection against extreme abrasion, high temperatures and a wide range of chemicals – making them ideal for the challenging environments encountered in many process industries. In 2013, we worked extensively to utilise these products for other markets and the Versiline range was launched globally towards the end of the year.

HEMPACORE®, our passive fire protection range, was launched in Europe towards the end of 2012. In 2013, HEMPACORE® was certified in the Middle East, the Americas, China and Russia. We have also adjusted the products to make them compatible with more substrates, primers and topcoats and are now working on a new waterborne passive fire protection product, HEMPACORE AQ.

Marine: reducing fuel consumption and CO_2 emissions

Launched in 2013, HEMPAGUARD® is a fouling defence product that promises to have the most significant impact on vessel fuel consumption – and associated CO_2 emissions – for many years. Based on ActiGuard® technology, HEMPAGUARD® coatings retain small amounts of biocide on the hull's surface, which activate hydrogel polymers in the coating to keep fouling organisms at bay, even under the toughest service conditions, while utilising a minimum amount of biocide.

The success of products such as HEMPAGUARD® partly depends on the global fleet's ability to measure and benchmark fuel efficiency. We are an active player in developing new ISO/TC 8/SC 2/WG 7 standards that will create a framework for measuring changes in hull and propeller performance in order to clarify how fuel efficiency is measured across the industry.

In addition, HEMPADUR MULTI-STRENGTH GF 35870 achieved the Lloyd's Register "Recognised Abrasion Resistant Ice Coating" certificate in 2013 and the coating has since been applied on more than 100 vessels, many of which operate in tough ice conditions.

We also launched a new dedicated cargo hold coating, HEMPADUR IMPACT 47800. With 76 per cent volume solids, superior impact resistance, high abrasion resistance and the shortest time-to-first-hard-cargo in the industry, the product promises to extend major repair intervals and reduce operating costs for bulk carrier operators.

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, and so we constantly work to develop safer and more environmentally sustainable solutions.

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. We were among the first European companies to adopt REACH, for example, and are in constant dialogue with the EU Commission about industry issues.

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

As a company, we understand that being a good corporate citizen is essential to the success of our business.

We require that our employees follow the same Hempel values wherever they work. Our Code of Conduct and Business Ethics policy give our employees guidelines to ensure they conduct business ethically and professionally at all times, and all our employees underwent training in our Code of Conduct and Business Ethics policy in 2012 and 2013. In 2013, we extended our business ethics focus to our suppliers, external agents and distributors to ensure that we only work with external partners who share our business values.

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 a new policy states that the Board will have a least one female Non-Executive Director before the Annual General Meeting in spring 2017.

However, corporate responsibility is about more than just setting guidelines and goals. We want all our employees and partners to continually consider the effect of their daily work on society and the environment, and there were a number of examples of this in 2013.

In the UK, our Decorative organisation launched a number of initiatives to improve sustainability, including asking employees to drive enthusiasm for environmental practice by becoming Green Ambassadors – to date more than 1,200 employees have taken the role – and launching a "Kick Out the Can" campaign to encourage consumers to gather and recycle unused paint. As a result of these initiatives, our UK Decorative organisation won a number of awards in 2013, including being named Sustainable Manufacturer of the Year by the UK Manufacturer's Organisation.

In addition, our factory in Dammam in Saudi Arabia implemented new procedures that reduced wastewater by 21 per cent and hazardous waste by 15 per cent, and we completed construction of our first factory dedicated solely to producing waterborne coatings in the Middle East. Located in Jeddah in Saudi Arabia, the factory will begin operating early in 2014.

Our corporate donation through the Hempel Foundation is also an integrated part of what we do and the way we behave. We currently support 18 different projects around the world, working with others to give more than 30,000 children in need the opportunity to get a good education and the chance to build a better future for themselves, their families and their communities.

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 2013 at: **www.corporate-responsibility.hempel.com**


CPSA

Accounting policies: General

The Annual Report of Hempel Foundation for 2013 has been prepared in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from previous years. The Annual Report for 2013 is presented in EUR thousands.

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 (EUR) 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 company's share of the net asset value of subsidiaries stated at the time of consolidation.

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. Any 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. Any remaining negative differences are recognised in deferred income in the balance sheet as negative goodwill. 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. Negative goodwill not related to expected losses or expenses is recognised at an amount equal to the fair value of non-monetary assets in the income statement over the average useful life of the non-monetary assets.

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 or negative goodwill, including in amortisation already made.

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

Minority interests

On the 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.

Leases

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.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

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

Foreign currency translation

Functional and presentation currency

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

Translation of transactions and balances

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

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

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

Translation of Group companies

Financial statements of foreign subsidiaries and associates are translated into 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. All effects of exchange rate adjustment are recognised in the income statement, 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.

Derivative financial instruments

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 qualified as hedge accounting.

Income statement

Revenue
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.

Production costs
Production costs comprise costs incurred to achieve revenue for the year. Cost comprises 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.

Other operating income and expenses
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.

Income from investments in subsidiaries and associates
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.

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

Income tax
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.

Balance sheet

Intangible assets
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, which is assessed at 5-20 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 period of amortisation is 3-17 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.

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

Cost comprises 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, cost comprises 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 cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Depreciation based on cost 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 intangible assets and 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.

Investments in subsidiaries and associates
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 provisions.

Other securities and capital investments
Other securities and capital investment, recognised under fixed assets, consist of listed bonds and shares measured at the fair value at the balance sheet date. The fair value is calculated based on the latest listed closing quote.

Inventories
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.

Receivables
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.

Current asset investments
Current asset investments comprising primary listed bonds are measured at their fair values (market price) at the balance sheet date. Both realised and unrealised exchange adjustments are recognised in the income statement.

Prepayments
Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

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

Provisions
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.

Pension and similar obligations are measured at net present value based on an actuarial calculation. Actuarial gains and losses are amortised and recognised in the balance sheet over the remaining period until delivery of the service.

Other provisions comprising provisions for environmental, warranty and restructuring obligations as well as other obligations not covered by insurance 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.

Deferred tax assets and liabilities

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.

Current tax receivables and liabilities

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.

Financial debts

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.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

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.

Financial highlights

Financial ratios have been calculated as follows:

Gross margin	=	Gross profit x 100 / Revenue
Operating profit margin	=	Operating profit x 100 / Revenue
Return on assets	=	Operating profit x 100 / Average assets
Solvency ratio	=	Equity at year-end x 100 / Total assets
Return on equity	=	Net profit for the year x 100 / Average equity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Income statement

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
1	Revenue	1,239,201	1,242,583	178	157
	Production costs	-736,661	-780,675	-98	-136
	Gross profit	**502,540**	**461,908**	**80**	**21**
	Sales and distribution costs	-276,692	-259,802	–	–
	Administrative costs	-106,341	-120,713	-1,544	-1,606
	Other operating income	4,598	818	–	–
	Other operating expenses	-1,004	-335	–	–
	Operating profit	**123,101**	**81,876**	**-1,464**	**-1,585**
7	Income from investments in subsidiaries	–	–	64,871	34,569
8	Income from investments in associates	2,696	2,581	–	–
	Profit before financial income and expenses	**125,797**	**84,457**	**63,407**	**32,984**
2	Net financials	-14,560	-17,208	4,264	3,499
	Profit before tax	**111,237**	**67,249**	**67,671**	**36,483**
4	Income tax	-31,184	-20,154	-640	-1,327
	Profit after tax	**80,053**	**47,095**	**67,031**	**35,156**
	Minority interests	-13,022	-11,939	–	–
	Net profit for the year	**67,031**	**35,156**	**67,031**	**35,156**

	PARENT FOUNDATION	
Distribution of profit	**2013**	**2012**
Proposed distribution of profit:		
Donations for the year	5,934	4,005
Reserve for net revaluation under the equity method	64,871	34,569
Retained earnings	-3,774	-3,418
	67,031	**35,156**

Balance sheet as at 31 December – assets

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
	Goodwill	60,681	69,359	–	–
	Software	7,439	6,832	–	–
	Software under development	2,348	3,430	–	–
	Customer relationships	32,885	40,704	–	–
	Other intangible assets	54,667	46,018	–	–
5	**Intangible assets**	**158,020**	**166,343**	**–**	**–**
	Land and buildings	120,062	117,580	1,792	1,836
	Land and buildings for sale	–	5,662		
	Assets under construction	25,285	15,882	–	–
	Plant and machinery	45,804	48,723	–	–
	Other fixed assets	15,989	14,740	286	228
6	**Property, plant and equipment**	**207,140**	**202,587**	**2,078**	**2,064**
7	Investments in subsidiaries	–	–	414,445	364,042
8	Investments in associates	13,592	12,312	–	–
9	Other securities and investments	154,125	128,531	128,871	127,532
13	Deferred tax assets	24,709	28,612	2,181	2,825
14	Pension assets	5,842	5,600		
	Deposits etc.	3,081	3,205	–	–
	Fixed asset investments	**201,349**	**178,260**	**545,497**	**494,399**
	Fixed assets	**566,509**	**547,190**	**547,575**	**496,463**
	Raw materials and consumables	48,816	53,316	–	–
	Work in progress	2,995	1,846	–	–
	Finished goods	107,596	110,203	–	–
	Inventories	**159,407**	**165,365**	**–**	**–**
	Trade receivables	314,117	324,391	–	–
	Receivables from Group enterprises	–	–	16	10
	Tax receivables	4,502	4,221	–	–
	Other receivables	28,561	29,189	1,713	2,001
11	Prepayments	10,641	10,667	–	–
10	**Receivables**	**357,821**	**368,468**	**1,729**	**2,011**
	Securities	–	168	–	168
	Cash at bank and in hand	148,124	134,409	4,163	7,335
	Current assets	**665,352**	**668,410**	**5,892**	**9,514**
	Total assets	**1,231,861**	**1,215,600**	**553,467**	**505,977**

Balance sheet as at 31 December – equity and liabilities

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
12	Share capital	4,691	4,691	4,691	4,691
	Reserve for net revaluation under the equity method			401,973	351,570
	Retained earnings	539,443	492,810	137,470	141,240
	Total equity	**544,134**	**497,501**	**544,134**	**497,501**
	Minority interests	**46,716**	**43,149**	**–**	**–**
13	Deferred tax liabilities	29,219	34,286	–	–
14	Pension obligations and similar obligations	12,082	11,146	243	253
15	Other provisions	36,341	35,192	–	–
	Provisions	**77,642**	**80,624**	**243**	**253**
16	Bank loans etc.	181,489	199,967	–	–
	Other payables	6,104	10,301		
	Long-term debt	**187,593**	**210,268**	**–**	**–**
	Overdraft facilities	65,574	91,740	–	–
16	Short-term part of bank loans etc.	29,490	27,173	–	–
	Trade payables	132,986	123,815	–	–
	Payables to Group enterprises	–	–	1,673	1,419
	Tax liabilities	16,370	18,668	–	–
	Other payables	131,356	122,662	7,417	6,804
	Total current liabilities	**375,776**	**384,058**	**9,090**	**8,223**
	Total liabilities	**563,369**	**594,326**	**9,090**	**8,223**
	Total equity and liabilities	**1,231,861**	**1,215,600**	**553,467**	**505,977**

Statement of changes in equity as at 31 December

In EUR thousands

GROUP

Note		Share capital	Reserve for net revaluation	Retained earnings	Total
	Equity				
	Equity at 1 January 2012	4,708	–	467,785	472,493
	Net profit for the year			35,156	35,156
	Donations for the year			-4,005	-4,005
	Hedging of future transactions			-3,226	-3,226
	Exchange adjustment at the year-end rate	-17		-2,900	-2,917
12	**Equity at 31 December 2012**	**4,691**	–	**492,810**	**497,501**
	Net profit for the year			67,031	67,031
	Donations for the year			-5,934	-5,934
	Hedging of future transactions			4,501	4,501
	Exchange adjustment at year-end rate			-18,965	-18,965
12	**Equity at 31 December 2013**	**4,691**	–	**539,443**	**544,134**

In EUR thousands

PARENT FOUNDATION

Note		Share capital	Reserve for net revaluation	Retained earnings	Total
	Equity				
	Equity at 1 January 2012	4,708	322,625	145,160	472,493
	Net profit for the year		34,569	587	35,156
	Donations for the year			-4,005	-4,005
	Hedging of future transactions			–	–
	Exchange adjustment at year-end rate	-17	-5,624	-502	-6,143
12	**Equity at 31 December 2012**	**4,691**	**351,570**	**141,240**	**497,501**
	Net profit for the year		64,871	2,160	67,031
	Donations for the year			-5,934	-5,934
	Hedging of future transactions			–	–
	Exchange adjustment at year-end rate		-14,468	4	-14,464
12	**Equity at 31 December 2013**	**4,691**	401,973	**137,470**	**544,134**

Cash flow statement

In EUR thousands

Note		GROUP 2013	GROUP 2012
	Cash flows from operating activities		
	Operating profit	123,101	81,876
19	Adjustment for non-cash operating items	34,008	43,163
21	Change in working capital	21,657	23,692
	Income tax paid	-34,107	-22,492
	Total cash flows from operating activities	**144,659**	**126,239**
	Cash flows from investing activities		
22	Acquisition of enterprises	–	-9,844
22	Divestment of enterprises	–	691
6	Purchase of property, plant and equipment	-38,396	-26,602
5	Purchase of intangible assets	-19,137	-2,881
	Purchase of fixed asset investments	-198,386	-73,775
	Sale of property, plant and equipment	12,140	1,033
	Sale of intangible assets	226	–
	Sales of fixed asset investments	174,353	78,711
8	Dividend received from associates	985	1,174
	Total cash flows from investing activities	**-68,215**	**-31,493**
	Cash flows from financing activities		
	Change in bank borrowings etc.	-13,696	-35,406
	Interest income and expenses, net	-9,770	-12,744
	Change in minority shares (dividend distributed etc.)	-6,885	-4,442
	Other financial assets	312	-704
	Capital losses and gains, net	-1,859	-6,338
	Paid donations	-4,942	-2,880
	Total cash flows from financing activities	**-36,840**	**-62,514**
	Change in cash and cash equivalents	**39,604**	**32,232**
23	Cash at bank and in hand and current asset investments less overdraft facilities, beginning of year	**42,837**	**10,225**
	Exchange adjustment	109	380
23	Cash at bank and in hand and current asset investments less overdraft facilities, end of year	82,550	42,837
	Bank facilities available	181,092	170,275
	Capital resources available	**263,642**	**213,112**

Cash flow statement

In EUR thousands

Note		PARENT FOUNDATION 2013	2012
	Cash flows from operating activities		
	Operating profit	-1,464	-1,585
20	Adjustment for non-cash operating items	121	123
21	Change in working capital	159	-176
	Income tax paid	5	–
	Total cash flows from operating activities	**-1,179**	**-1,638**
	Cash flows from investing activities		
6	Purchase of property, plant and equipment	-177	-21
	Purchase of fixed asset investments	-149,634	-73,254
	Sale of property, plant and equipment	33	–
	Sale of intangible assets	–	–
	Sales of fixed asset investments	149,680	78,467
8	Dividend received from associates	–	–
	Total cash flows from investing activities	**-98**	**5,192**
	Cash flows from financing activities		
	Change in bank borrowings etc.		
	Interest income and expenses, net	2,881	2,890
	Other financial assets	–	–
	Capital losses and gains, net	–	–
	Paid donations	-4,942	-2,880
	Total cash flows from financing activities	**-2,061**	**10**
	Change in cash and cash equivalents	**-3,338**	**3,564**
23	Cash at bank and in hand and current asset investments less overdraft facilities, beginning of year	**7,503**	**3,957**
	Exchange adjustment	-2	-18
23	Cash at bank and in hand and current asset investments less overdraft facilities, end of year	4,163	7,503
	Bank facilities available	1,340	670
	Capital resources available	**5,503**	**8,173**

Notes to the financial statements

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
1	**Segment information**				
	Geographical markets: [1]				
	Europe	614,589	615,347	178	157
	Americas	104,231	93,310	–	–
	Asia-Pacific	370,853	379,485	–	–
	Middle East	149,528	154,441	–	–
		1,239,201	**1,242,583**	**178**	**157**
2	**Net financials**				
	External interest income	11,726	12,800	9,948	10,277
	Interest income from subsidiaries	–	–	1	4
	Interest paid to subsidiaries	–	–	-2	-2
	External interest expenses	-20,311	-25,179	-5,683	-6,780
	Dividend	185	116	–	–
	Realised and unrealised exchange gains/losses, net	-6,160	-4,945	–	–
		-14,560	**-17,208**	**4,264**	**3,499**
3	**Staff**				
	Average number of employees	**5,032**	**4,980**	**3**	**3**
	Staff expenses:				
	Board of Directors' fee	860	818	622	580
	Wages and salaries etc.	200,083	198,080	323	321
	Pension contributions	12,592	11,662	43	49
		213,535	**210,560**	**988**	**950**
	Staff expenses have been recognised in the income statement as follows:				
	Production costs	50,412	51,220	46	46
	Sales and distribution costs	119,634	115,516	–	–
	Administrative costs	43,489	43,824	942	904
		213,535	**210,560**	**988**	**950**

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

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
4	**Income tax**				
	Hempel Group:				
	Profit before tax	111,237	67,249		
	Income from investments in associates	-2,696	-2,581		
		108,541	**64,668**		
	Income tax on profit for the year:				
	Total tax	-31,406	-20,318	-640	-1,327
	Tax in respect of subsidiaries	–	–		
	Tax in respect of associates	222	164		
		-31,184	**-20,154**	**-640**	**-1,327**
	Current tax for the year	-33,232	-27,050		
	Deferred tax for the year	2,724	3,856	-664	-1,327
	Adjustment in respect of previous years	-681	3,040	19	–
	Foreign dividend tax	5	–	5	–
	Income tax	**-31,184**	**-20,154**	**-640**	**-1,327**
	Effective tax rate of the Group	28.7%	31.2%		
	Reconciliation of tax rate:				
	Danish tax rate	25.0%	25.0%		
	Higher/(lower) tax rates of foreign subsidiaries	-4.4%	-3.9%		
	Weighted tax rate of the Group:	20.6%	21.1%		
	Permanent differences	2.0%	5.4%		
	Non-capitalised losses	2.5%	3.2%		
	Utilisation of non-capitalised losses	-0.4%	-2.0%		
	Adjustments in respect of previous years	0.6%	-4.7%		
	Dividend tax and other taxes at source	3.4%	8.2%		
	Effective tax rate of the Group	**28.7%**	**31.2%**		

At 31 December 2013, the Group has a non-recognised tax asset of EUR 26 million (2012: EUR 28 million).

Notes to the financial statements

In EUR thousands

Note		Goodwill	Software	Software under develop-ment	Customer relation-ships	Other intangible assets	Total
		GROUP					
5	**Intangible assets**						
	Costs, beginning of year	86,210	15,953	3,430	78,443	54,804	238,840
	Additions for the year	136	199	4,674	–	14,128	19,137
	Disposals for the year	–	-673	–	–	–	-673
	Transfer to/from other items	–	5,756	-5,756	–	–	–
	Exchange adjustment at year-end rate	-2,773	-393	–	-2,642	-1,119	-6,927
	Costs, end of year	**83,573**	**20,842**	**2,348**	**75,801**	**67,813**	**250,377**
	Accumulated amortisation, beginning of year	16,851	9,121	–	37,739	8,786	72,497
	Transfer to/from other items	–	–	–	–	–	–
	Amortisation for the year	6,841	4,942	–	6,895	4,500	23,178
	Reversal of amortisation of assets sold	–	-447	–	–	–	-447
	Exchange adjustment at year-end rate	-800	-213	–	- 1,718	-140	-2,871
	Accumulated amortisation, end of year	**22,892**	**13,403**	**-**	**42,916**	**13,146**	**92,357**
	Carrying amount, end of year	**60,681**	**7,439**	**2,348**	**32,885**	**54,667**	**158,020**

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

	GROUP		PARENT FOUNDATION	
	2013	**2012**	**2013**	**2012**
Amortisation and impairment are specified as follows:				
Production costs	556	128	–	–
Sales and distribution costs	355	324	–	–
Administrative costs	22,267	25,079	–	–
	23,178	**25,531**	**-**	**-**


Vestas
Vestas

Notes to the financial statements

In EUR thousands

GROUP

Note		Land and buildings	Land and buildings for sale	Plant and machinery	Other fixed assets	Assets under construction	Total
6	**Property, plant and equipment**						
	Costs, beginning of year	167,691	7,100	176,261	80,492	15,882	447,426
	Additions for the year	778	–	3,791	6,405	27,422	38,396
	Disposals for the year	-3,064	-6,853	-4,170	-3,987	-272	-18,346
	Transfer to/from other items	13,827	-247	3,775	65	-17,420	–
	Exchange adjustment at year-end rate	-6,994	–	-6,299	-3,159	-327	-16,779
	Costs, end of year	**172,238**	**–**	**173,358**	**79,816**	**25,285**	**450,697**
	Accumulated depreciation, beginning of year	50,111	1,438	127,538	65,751	–	244,838
	Depreciation for the year	4,632	–	7,949	4,600	–	17,181
	Reversal of depreciation of assets sold	-448	-1,438	-3,764	-3,892	–	-9,542
	Exchange adjustment at year-end rate	-2,119	–	-4,169	-2,632	–	-8,920
	Accumulated depreciation, end of year	**52,176**	**–**	**127,554**	**63,827**	**–**	**243,557**
	Carrying amount, end of year	**120,062**	**–**	**45,804**	**15,989**	**25,285**	**207,140**
	including leased assets of	3,439	–	–	–	–	3,439
	including interest expenses of	149	–	102	2	51	304

In EUR thousands

PARENT FOUNDATION

Note		Land and buildings	Land and buildings for sale	Plant and machinery	Other fixed assets	Assets under construction	Total
6	**Property, plant and equipment**						
	Costs, beginning of year	2,431	–	–	635	–	3,066
	Additions for the year	–	–	–	177	–	177
	Disposals for the year	–	–	–	-41	–	-41
	Transfer to/from other items	–	–	–	–	–	–
	Exchange adjustment at year-end rate	–	–	–	–	–	–
	Costs, end of year	**2,431**	**–**	**–**	**771**	**–**	**3,202**
	Accumulated depreciation, beginning of year	595	–	–	406	–	1,001
	Depreciation for the year	44	–	–	96	–	140
	Reversal of depreciation of assets sold	–	–	–	-17	–	-17
	Exchange adjustment at year-end rate	–	–	–	–	–	–
	Accumulated depreciation, end of year	**639**	**–**	**–**	**485**	**–**	**1,124**
	Carrying amount, end of year	**1,792**	**–**	**–**	**286**	**–**	**2,078**
	including leased assets of	–	–	–	–	–	–
	including interest expenses of	–	–	–	–	–	–

	GROUP		PARENT FOUNDATION	
	2013	**2012**	**2013**	**2012**
Depreciation and impairment are specified as follows:				
Production costs	9,882	9,598	21	26
Sales and distribution costs	4,103	4,756	–	–
Administrative costs	3,196	3,059	119	102
	17,181	**17,413**	**140**	**128**

Notes to the financial statements

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
7	**Investments in subsidiaries**				
	Costs, beginning of year			12,472	12,516
	Exchange adjustment at year-end rate			–	-44
	Costs, end of year			**12,472**	**12,472**
	Net revaluations, beginning of year			351,570	322,625
	Exchange adjustment at year-end rate			-14,468	-5,624
	Profit			64,871	34,569
	Dividend received			–	–
	Net revaluations, end of year			**401,973**	**351,570**
	Carrying amount, end of year			**414,445**	**364,042**

In EUR thousands

Note		GROUP 2013	GROUP 2012
8	**Investments in associates**		
	Costs, beginning of year	84	84
	Exchange adjustment at year-end rate	–	–
	Net value, end of year	**84**	**84**
	Net revaluations, beginning of year	12,228	10,931
	Net profit	2,918	2,745
	Dividend received	-985	-1,174
	Exchange adjustment at year-end rate	-653	-274
	Net revaluations, end of year	**13,508**	**12,228**
	Carrying amount, end of year	**13,592**	**12,312**

Notes to the financial statements

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
9	**Other securities and investments**				
	Costs, beginning of year	131,551	135,918	130,592	135,233
	Additions for the year	198,386	73,775	149,634	73,254
	Disposals for the year	-164,284	-77,666	-139,612	-77,420
	Exchange adjustment at year-end rate	1	-476	2	-475
	Costs, end of year	**165,654**	**131,551**	**140,616**	**130,592**
	Net revaluations, beginning of year	-3,020	-2,602	-3,060	-2,631
	Net revaluations for the year	-8,507	-427	-8,685	-438
	Exchange adjustment at year-end rate	-2	9	–	9
	Net revaluations, end of year	**-11,529**	**-3,020**	**-11,745**	**-3,060**
	Carrying amount, end of year	**154,125**	**128,531**	**128,871**	**127,532**
	The net values are specified as follows:				
	Bonds	124,653	96,698	105,302	95,699
	Shares	29,472	31,833	23,569	31,833
		154,125	**128,531**	**128,871**	**127,532**
10	**Receivables**				
	Receivables	357,821	368,468	1,729	2,011
	of which due more than one year from the balance sheet date	1,459	6,180	–	–

11 **Prepayments**

Prepayments comprise prepaid expenses relating to rent, insurance premium and interest as well as unrealised exchange adjustments relating to financial instruments.

12 **Share capital**

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

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
13	**Deferred tax**				
	Deferred tax (net) relates to the following items:				
	Intangible assets	-15,347	-18,704	–	–
	Property, plant and equipment	247	-1,035	41	1
	Fixed asset investments	-3,698	-101	–	914
	Inventories	1,412	761	–	–
	Trade receivables	1,823	2,375	–	–
	Provisions and other payables	7,259	5,656	2,140	1,910
	Tax losses	3,794	5,374	–	–
		-4,510	**-5,674**	**2,181**	**2,825**
	Recognition in the balance sheet:				
	Deferred tax assets	24,709	28,612	2,181	2,825
	Deferred tax liabilities	-29,219	-34,286	–	–
		-4,510	**-5,674**	**2,181**	**2,825**

Notes to the financial statements

In EUR thousands

Note

14 **Pension and similar assets and obligations**

The majority of the employees are covered by defined-contribution plans. Part of the employees are covered by defined-benefit plans. Defined-benefit plans are primarily used in the Middle East, UK, Ireland and Germany.

In the Parent Foundation, the pension obligation covers the widow of a former chairman of the Foundation.

	GROUP		PARENT FOUNDATION	
	2013	2012	2013	2012
Pension and similar obligations comprise:				
Pension and similar obligations	47,411	46,221	243	253
Fair value of assets related to the plans	-35,702	-33,434	–	–
Pension obligations (net)	11,709	12,787	243	253
Unrecognised actuarial gains/(losses)	-5,469	-7,241	–	–
Pension obligations recognised in the balance sheet (net)	6,240	5,546	243	253
Recognition in the balance sheet:				
Assets	-5,842	-5,600	–	–
Liabilities	12,082	11,146	243	253
Pension obligations recognised in the balance sheet	6,240	5,546	243	253
Defined-benefit plans				
Specification of plan assets:				
Shares and properties	44%	42%	–	–
Fixed interest current asset investments	51%	53%	–	–
Cash at bank and in hand	5%	5%	–	–
Total	100%	100%		
Weighted average assumptions:				
Discount rate	4.0%	3.9%	4.3%	4.3%
Expected return	4.5%	4.6%	–	–
General wage inflation	3.0%	2.9%	–	–
General price inflation	1.9%	1.8%	–	–

In EUR thousands

GROUP

Note		Environ-mental obligations	Warranty commit-ments	Other provisions	2013	2012
15	**Other provisions**					
	Total provisions, beginning of year	22,702	10,214	2,276	35,192	34,592
	Reclassification 1.1.2013	–	–	1,924	1,924	–
	Exchange adjustments	-106	–	3	-103	126
	Additions for the year	–	–	2,931	2,931	3,907
	Reversed	-310	–	-7	-317	-2,147
	Disposals for the year	-1,188	-647	-1,451	-3,286	-1,286
	Total provisions, end of year	**21,098**	**9,567**	**5,676**	**36,341**	**35,192**
	Maturities are expected to be:					
	Within 1 year	–	–	519	519	1,498
	Between 1 and 5 years	21,098	9,567	4,938	35,603	33,694
	After 5 years	–	–	219	219	–
		21,098	9,567	5,676	36,341	35,192

Notes to the financial statements

In EUR thousands

Note

16 **Bank loans and derivative financial instruments:**

Risk management policy of the Group:

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 on page 28.

	GROUP		PARENT FOUNDATION	
	2013	2012	2013	2012
Long-term bank borrowings etc. including short-term part:				
Due within 1 year	29,490	27,173	–	–
Due within 1 to 5 years	181,489	199,967	–	–
Due after 5 years	–	–	–	–
	210,979	**227,140**	**–**	**–**

In EUR million	Bank borrowings etc.	Cash flow	Terms
Interest rate swaps	211	Average term to maturity 2 years	Average fixed interest rate of 3.5%

Total payables of EUR 211.0 million comprise loans denominated in euro of EUR 108.0 million and loans denominated in other currencies, primarily pound sterling, of EUR 103.0 million. The effect of interest rate swaps of EUR 104.1 million and GBP 74.6 million (EUR 89.2 million), respectively, is included in the calculated interest. The fair value adjustment of interest rate swaps of EUR -6.8 million in total at 31 December 2013 is recognised directly in equity. The weighted average effective interest rates as at the balance sheet date were as follows:

	GROUP	
	2013	2012
Bank borrowings etc.	3.5%	3.8%

In EUR thousands

Note

16 **Bank loans and derivative financial instruments (continued):**

Currency risks:

Open foreign currency hedges at 31 December 2013 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	1.4	0.0	1
EUR	-22.1	0.0	1
GBP	17.4	-0.2	1
KRW	-8.1	0.1	1
KWD	-11.7	0.1	3
PLN	-18.4	-0.1	1
SGD	-11.6	0.1	1
USD	-33.1	0.5	1
ZAR	-1.8	0.3	1
		0.8	

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

Credit risks:

The Group has no material risks relating to a single customer or business partner. It is the Group's credit policy to rate major customers and other business partners on a current basis. For further information on the Group's credit risks and covering of these risks, see the Special risks section of the management's review (page 28).

Notes to the financial statements

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
17	**Fee to the auditors appointed at the General Meeting**				
	Audit fee	973	988	24	21
	Other assurance engagements	21	24	–	–
	Tax advice	226	198	–	–
	Other fees	424	748	33	21
		1,644	**1,958**	**57**	**42**
18	**Contingent liabilities and other financial obligations**				
	Rental and lease obligations:				
	Due within 1 year from the balance sheet date	10,940	9,050	–	–
	Due within 1 to 5 years from the balance sheet date	24,522	22,594	–	–
	Due more than 5 years from the balance sheet date	8,018	9,404	–	–
		43,480	**41,048**	**–**	**–**
	Guarantees	**2,705**	**3,163**	**–**	**–**

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.

Note		Basis
19	**Related parties and ownership**	
	Controlling influence:	
	Hempel Holding A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
	Hempel A/S, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby, Denmark	Related party
	Members of the Executive Board and Board of Directors of Hempel A/S as well as the Board of Trustees of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. The members of the Boards of Directors of the Hempel Foundation and Hempel Holding coincide.	
	Other related parties:	
	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
	Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
	Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party

Notes to the financial statements

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
20	**Adjustment for non-cash operating items**				
	Amortisation, depreciation and impairment, including goodwill	40,359	42,944	140	128
	Provisions	32	1,368	-10	-5
	Exchange rate adjustment, operating profit	-2,961	-895	–	–
	Gains and losses on the sale of fixed assets	-3,422	-254	-9	–
		34,008	**43,163**	**121**	**123**
21	**Change in working capital**				
	Change in receivables	-5,048	14,371	282	-415
	Change in inventories	-2,022	19,420	–	–
	Change in trade payables	28,727	-10,099	-123	239
		21,657	**23,692**	**159**	**-176**

In EUR thousands

Note		GROUP 2013	GROUP 2012
22	**Balance sheet items of acquired enterprises**		
	Intangible assets	–	8,204
	Property, plant and equipment	–	209
	Fixed asset investments	–	1
	Inventories	–	532
	Receivables	–	1,619
	Cash at bank and in hand	–	508
	Long-term payables	–	-1,160
	Short-term payables	–	-1,206
	Net assets	–	8,707
	Intangible assets of parent company	–	1,669
	Property, plant and equipment of parent company	–	–
	Acquisition costs	–	10,376
	Cash at bank and in hand	–	-532
	Exchange adjustment	–	–
	Net cash flows from acquisitions	**–**	**9,844**
	Balance sheet items of divested enterprises		
	Property, plant and equipment	–	60
	Inventories	–	854
	Receivables	–	581
	Short-term bank borrowings	–	-344
	Short-term payables	–	-653
	Minority interests	–	-173
	Selling price	–	325
	Net overdraft facility of divested enterprise	–	344
	Exchange adjustment	–	22
	Net cash flows from divestment	**–**	**691**

Notes to the financial statements

In EUR thousands		GROUP		PARENT FOUNDATION	
Note		2013	2012	2013	2012
23	**Cash and cash equivalents, net**				
	Cash at bank and in hand, beginning of year	134,409	108,198	7,335	1,301
	Securities, beginning of year	168	2,656	168	2,656
	Overdraft facilities, beginning of year	-91,740	-100,629	–	–
		42,837	**10,225**	**7,503**	**3,957**
	Cash, end of year	148,124	134,409	4,163	7,335
	Securities, end of year	–	168	–	168
	Overdraft facilities, end of year	-65,574	-91,740	–	–
		82,550	**42,837**	**4,163**	**7,503**

The Hempel Group
including foreign branches

Note 24	Name	Currency	Share capital	Ownership
Argentina	Hempel Argentina S.R.L.	ARS	80,872,200	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	700,000	100%
Bahrain	Hempel Paints (Bahrain) W.L.L.	BHD	300,000	51%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	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	17,860,466	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	–	–
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	400,000,000	100%
Indonesia	P.T. Hempel Indonesia	USD	2,000,000	100%
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%

Note 24	Name	Currency	Share capital	Ownership
Oman	Hempel (Oman) L.L.C	OMR	500,000	20%
Poland	Hempel Paints (Poland) Sp. z o.o.	PLN	60,500,000	100%
Portugal	Hempel (Portugal) Lda.	EUR	1,246,995	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	4,000,000	29%
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	15,999,475	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	250,000	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%
USA	Blome International, Inc.	USD	18,314	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
Slovakia	Hempel (Czech Republic) s.r.o. org. zlozka Slovensko
Vietnam	Hempel (Singapore) Pte. Ltd. Vietnam Representative Office

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