Hempel Invest A/S

Amaliegade 8, DK-1256 København K

Annual Report for 1 January - 31 December 2021

CVR No 32 05 82 05

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 02/05 2022

Ulrik Thougaard Jensen
Chairman of the General Meeting

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Hempel Invest A/S for the financial year 1 January - 31 December 2021.

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

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2021 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2021.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

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

Copenhagen, 2 May 2022

Executive Board

Anders Holm
Executive Director, Administration

Board of Directors

Richard Sand Chairman	Leif Jensen Deputy Chairman	Britt Meelby Jensen
Lars Aaen	Birgitte Hagemann Snabe	Kim Dam-Johansen
Henrik Bach Falkenberg Staff Representative	Claus Juul Petersen Staff Representative	Morten Schaarup Staff Representative

Independent Auditor's Report

To the Shareholder of Hempel Invest A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of the Group's and the Parent Company's operations and of consolidated cash flows for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Hempel Invest A/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("the Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

Independent Auditor's Report

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

Independent Auditor's Report

audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 2 May 2022
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Anders Stig Lauritsen	Kristian Pedersen
statsautoriseret revisor	statsautoriseret revisor
mne32800	mne35412

Company Information

The Company	Hempel Invest A/S Amaliegade 8 DK-1256 København K CVR No: 32 05 82 05 Financial period: 1 January - 31 December Municipality of reg. office: Copenhagen
Board of Directors	Richard Sand, Chairman Leif Jensen Britt Meelby Jensen Lars Aaen Birgitte Hagemann Snabe Kim Dam-Johansen Henrik Bach Falkenberg Claus Juul Petersen Morten Schaarup
Executive Board	Anders Holm
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Group is described by the following financial highlights:

	Group				
	2021	2020	2019	2018	2017
	mEUR	mEUR	mEUR	mEUR	mEUR
Key figures					
Profit/loss					
Revenue	1.773	1.542	1.534	1.346	1.378
EBITDA	145	150	155	135	156
Amortisation, depreciation and impairment	82	62	65	55	56
Operating profit/loss	63	88	90	80	100
Profit/loss before financial income and expenses	83	89	91	77	114
Net financials	1	-24	0	4	-21
Profit/loss before tax	84	65	91	81	93
Net profit/loss for the year	56	47	59	55	56
Balance sheet					
Balance sheet total	2.398	1.531	1.390	1.353	1.186
Shareholders Equity	666	581	566	492	531
Investment in tangible assets	101	92	42	48	25
Number of employees	6.748	6.099	6.219	5.882	5.740
Ratios					
Gross margin	35,6%	39,2%	39,0%	38,1%	40,9%
EBITDA margin	8,2%	9,7%	10,1%	10,0%	11,3%
Return on assets	3,5%	5,8%	6,5%	5,7%	9,6%
Solvency ratio	27,8%	37,9%	40,7%	36,4%	44,8%
Return on equity	8,4%	8,1%	10,4%	11,2%	10,5%

Management's Review

Main Activity

Hempel Invest A/S' main activity is the ownership of Hempel A/S. Furthermore, the activities include investments including acquisition and management of real estate, financial investments as well as other activities, which the Board of Directors assesses to be relevant.

Financial Development - Parent

Income Statement

Hempel Invest A/S has in 2021 finalised the construction of Hempel A/S' new headquarter which as of April 2021 has been rented to Hempel A/S. The rent contract is non-cancellable for both parties for a period of 10 years and the rental income for Hempel Invest amounted to EUR 2 million in 2021 compared to EUR 0 million in 2020.

Income from investments in subsidiaries amounted to EUR 40 million in 2021 compared to EUR 41 million in 2020.

Net financial income amounted to EUR 15 million in 2021 compared to EUR 1 million in 2020. The development can be explained by an increased return from financial investments.

The parent company's net profit was EUR 55 million in 2021 compared to EUR 45 million in 2020. Excluding income from the Hempel A/S Group, the net profit was EUR 14 million in 2021 compared to EUR 4 million in 2020.

Balance sheet - Assets

Hempel A/S' new headquarter was finalised and taken into usage in April 2021. The cost of the office building including land amounted to EUR 54 million. The carrying amount of property, plant and equipment was EUR 54 million as of 31 December 2021 compared to EUR 46 million as of 31 December 2020.

Investments in subsidiaries amounted to EUR 506 million as of 31 December 2021 compared to EUR 461 million as of 31 December 2020. Other investments, which comprise investments in listed shares and alternative investments, amounted to EUR 84 million as of 31 December 2021 compared to EUR 63 million as of 31 December 2020. The development can be explained by additional investments and value increase in the existing portfolio.

Hempel Invest A/S has a receivable towards Hempel A/S of EUR 70 million as of 31 December 2021 compared to EUR 48 million as of 31 December 2020.

Total assets for the parent company amounted to EUR 715 million as of 31 December 2021 compared to EUR 620 million as of 31 December 2020.

Management's Review

Balance sheet - Equity and liabilities

Equity amounted to EUR 675 million as of 31 December 2021 compared to EUR 590 million as of 31 December 2020.

Total liabilities for the parent company amounted to EUR 40 million as of 31 December 2021 compared to EUR 30 million as of 31 December 2020.

Financial Development - Group

The fourth quarter was the tenth consecutive quarter with positive organic growth, driving full-year organic revenue growth of 5.9 per cent and revenue excluding acquisitions to EUR 1,612 million. This result is a sound first step on our journey to double Hempel by 2025.

We extended our family with two new members. In April, we welcomed Wattyl, one of Australia and New Zealand's leading manufacturers of paint and coatings for the decorative and infrastructure customer segments. In September, Farrow & Ball, a UK-based decorative coatings company with a strong legacy and an iconic brand, became the newest member of the Hempel team. These acquisitions introduced 1,412 new Hempel colleagues and contributed EUR 162 million in revenues under our ownership period, bringing our total 2021 revenue to EUR 1,773 million and total revenue growth to 15.1 per cent.

The year also brought new challenges. As companies and economies learnt to function with the COVID-19 pandemic, raw material prices started to spike. An unprecedented general price increase of around 40 per cent compared to Q4 2020 called for a prompt and decisive response. We took actions to maintain our margins, primarily adopting a cost-conscious approach, further accelerating our productivity programme, our cost saving programme 'Funding the Growth' and increasing commercial efforts to bring even more value to our customers and increase sales prices. Under these challenging conditions, we are proud to end the year with an EBITDA of EUR 165 million and an EBITDA margin of 9.2 per cent, which is in line with our 2021 outlook.

Organic revenue growth beyond our expectations

2021 was the first full year with our Double Impact strategy, and we saw EUR 1,773 million in revenues, an increase of EUR 231 million compared to the EUR 1,542 million of 2020. All our customer segments, including acquisitions, reported positive revenue growth and promising trends for the future.

In the Marine customer segment, our positive performance was partly due to successfully shifting our operating model and creating a globally interconnected Marine organisation. At the same time, market demand increased for more sustainable products. For example, our Hempaguard hull coating drove revenue growth in the dry docking business. This enabled us to outperform the market overall. Marine revenue ended the year at EUR 445 million compared to EUR 413 million in 2020, entailing revenue organic growth of 10.8 per cent.

Management's Review

Our Decorative customer segment including the acquisitions ended with a total revenue of EUR 655 million in 2021, up from EUR 512 million in 2020, and revenue growth of 27.9 per cent. Organic revenue growth was -2.8 per cent, which was in line with our expectations given that 2020 was an extraordinarily positive year in the decorative industry: as people had more time to decorate their homes during COVID-19 lockdowns, there was higher demand especially for do-it-yourself products. The market normalised in 2021. This is evident when comparing customer segment performance in 2021 to 2019, which shows positive organic revenue growth of 8.4 per cent.

Our Infrastructure customer segment performed extremely well, delivering organic growth of 36.9 per cent and revenue of EUR 219 million compared to EUR 177 million in 2020. Revenue growth was driven by two factors: the market in general started to rebound after COVID-19 and demand increased for our industry-changing patented solution, Avantguard. We entered many new projects and saw high activity with key customers. Demand increased for our passive fire protection (PFP) products in particular; notably, our PFP cellulosic solutions hit 74 per cent growth.

We saw large regional differences in our Energy customer segment, with satisfactory overall organic revenue growth of 3.2 per cent, and revenue of EUR 252 million versus EUR 247 million in 2020. Some sub-segments were challenged by an increasingly commoditised market. With raw material prices rising dramatically, some customers were unwilling to accept higher prices and, thus, we chose not to pursue projects due to unsustainable profit levels. We did deliver satisfactory performance, mainly due to the market's general rebound from COVID-19 and customers' increased focus on sustainable solutions.

In addition to our four main customer segments, our business is active in a number of niche markets, where the combined revenues were EUR 202 million, up from EUR 193 million.

Earnings under pressure from increasing raw material prices

EBITDA excluding Wattyl and Farrow & Ball for 2021 ended at EUR 183 million, up from EUR 176 million, entailing a margin of 11.4 per cent, which is in line with last year. Wattyl and Farrow & Ball generated EUR 20 million of EBITDA, keeping total EBITDA margin to 11.4 per cent. Excluding M&A-related costs, we are proud to report an EBITDA margin of 11.9 per cent.

As world markets gradually started to recover from COVID-19, we saw greater demand for our products – as well as greater demand for raw materials. Combined with availability issues, higher oil prices, and the uncertainty around freight, which affected our whole supply chain and the coating industry in general, raw material prices increased with unprecedented pace. As a consequence, we started to increase our selling prices. However, by the end of the year, we had not fully mitigated the impact. It will be necessary to increase our selling prices further in 2022. To support our EBITDA, we postponed non-business-critical projects and further accelerated our cost saving programme, increasing efficiency and optimisation. Additionally, we completed one of two new factories in China, which will reduce our production costs in the future.

Management's Review

Looking Ahead

In 2021, we embarked on an ambitious journey to double Hempel's revenue by 2025. The groundwork laid during the year leaves us confident that we will continue to grow in 2022. We were flexible and responsive in the face of structural market changes in 2021 and navigated tough challenges. Learning from the past year, we will continue to focus on driving productivity and efficiency in our supply chain to achieve our strategic goals and increase our competitiveness. Even though raw material prices have been a significant challenge, we delivered on the 2021 outlook. We achieved organic revenue growth of 5.9 per cent and an EBITDA excluding acquisitions of EUR 183 million, delivering our full year expectations.

Moreover, we will continue to work towards the ESG goals in our Futureproof pillars and we have clear targets set for 2022. These include ensuring that 70 per cent of the electricity used at our production sites comes from renewable sources. For waste reduction, our target is to reduce waste sent to landfill at our production sites by 80 per cent compared to 2019. We aim to reduce our Marine customers' CO_2 emissions by 5.5 million tonnes, while exploring CO_2 reduction options in other industries. Regarding our Procurement Sustainability Screening Programme, we aim to screen 65 new suppliers and increase the accumulated coverage to 36 per cent of indirect and direct spend. On gender diversity in general workforce and management, our targets for 2022 are >28 per cent and 25 per cent , respectively.

In addition, we will roll out a water programme and a circularity roadmap focusing on paint and packaging. This will allow us to set ambitious yet realistic goals on water and circularity. We will also develop a climate adaptation strategy guided by the science on the most recent climate change scenarios as expressed by the Intergovernmental Panel on Climate Change.

Strategy

At the foundation of our strategy is the Hempel purpose: To shape a brighter future with sustainable coating solutions. This drives everything we do, and we still see enormous opportunity in helping our customers put the world on a more sustainable path.

We saw consolidation in the coatings industry at an accelerated pace this year. We participated in that consolidation with the -acquisitions of Wattyl and Farrow & Ball. This underlines our strategic assumption that, to remain a trusted and stable partner to our customers, we need to grow in size. Only by doing this can we continue to solve the coating challenges they face.

Growing our business will increase our positive impact – first and foremost on sustainability through our Futureproof framework. Importantly, doubling Hempel will also double our philanthropic impact on the world through the work of the Hempel Foundation.

The principles of our strategy

Our strategy is based on three principles: Sustainability Leader, Segment Leadership and Trusted Partner. We firmly believe that our focus on these pillars, and our great efforts to progress our agenda around them, will see us achieve our long-term objectives.

Management's Review

- We strive to become sustainability leaders in our industry and core customer segments. Not only because our customers need partners to help them solve their sustainability challenges; not only because sustainability is increasingly a 'license to operate'; not only because the legislative landscape is pointing towards increased focus and scrutiny in this area: It is simply the right thing to do.

- We will continue to build segment leadership positions in selected geographies within Marine, Decorative, Infrastructure and Energy. We believe our technology and expertise in these areas brings real value to our customers and our focus will ensure we have a robust product development pipeline to continuously reinforce our position.

- As a trusted partner, we enjoy very good and long-running relationships with our customers. We work to continuously earn their trust by being reliable, transparent and trustworthy, and by providing products and services that protect their assets. We will continue to invest in long-term relationships with our customers.

Adapting to the future

We continue to learn and adapt, and we are seeing our investments from our previous strategy period paying off. These include our investments in passive fire protection, improved sales coverage for global key customers and our improved talent and leadership pipeline. But we never stand still, so we will focus on new developments in the coming period.

To ensure we keep delivering on our strategic ambitions and unleash even more potential and energy to double our revenue in the period from 2020 to 2025, we have launched a new and even more -customer-focused way of working together in Hempel.

In our new setup, we are organising globally around our key customer segments; Marine, Decorative, Energy and Infrastructure.

We have an integrated supply chain driving global synergies across our business, and we have globalised key support functions to better use shared strengths and capabilities. The functions will mirror our customer segment setup to ensure best-in-class support for the business.

The four years ahead hold enormous promise – a brighter future that we begin creating now. We are confident that we can achieve our ambition. The answers are emerging, but we still have much to learn. However, we have a clear direction and are optimistic about shaping a brighter future together that we can all be proud of.

Management's Review

Business Acquistions

FARROW & BALL

One of the highlights of our 2021 activities came in September when we saw the completion of our acquisition of Farrow & Ball, the leading luxury decorative paint and wallpaper company globally with an annual turnover of more than EUR 100 million. Adding the Farrow & Ball brand and its 600+ employees to the Hempel family not only delivered on our strategic intent, but also gave us enhanced pride in our portfolio.

Based in Dorset, England since 1946, Farrow & Ball defines the direction for colour in the home with its directional palette of paint colours and artisanal wallpapers with a tactile finish, uniquely achieved by printing paint on paper. Together, they transform homes of all kinds, all over the world.

On track to doubling our impact

With this acquisition, we have taken the next, large step to double our revenue to EUR 3 billion by 2025. The acquisition is a perfect strategic match, supporting our growth ambitions within the decorative customer segment.

"Marking a milestone on the strategic journey to double our business, the addition of Farrow & Ball to our branded portfolio is another proof point that we are going for leadership positions in key segments and geographies," said Lars Petersson, Group President & Chief Executive Officer at Hempel.

"Farrow & Ball is a good strategic match to Hempel, with similarities in terms of strong heritage and sustainability principles, but also because the two companies complement each other. Farrow & Ball has a unique legacy and branding that we will continue to nurture and respect while enabling the brand to grow through our strong distribution network and long-term trade credentials."

75 years of leadership in luxury colour

Farrow & Ball manufactures paint with enduring principles of craftsmanship. The brand's signature depth of colour and quality of finish are created by an exceptionally rich blend of pigments which create an inimitable vibrancy in every room of the home.

Known for its rigorously curated palette of directional colours, the brand is loved by consumers, designers and cultural institutions around the world. In 2021 the brand introduced two new collections in partnership with titans of the design world: American celebrity designer, Kelly Wearstler and British design house, Liberty.

Even Farrow & Ball's distribution is designed to best meet its customers' needs, be that in one of its exclusive showrooms or approved stockists. The customer journey is also supported by Farrow & Ball's Colour Consultancy. Farrow & Ball's in-house colour consultants are on hand either in person or over video call to help customers bring their visions to life, giving customers all the tools needed to create spaces they will truly love.

Management's Review

Digital connections

Farrow & Ball has a particularly advanced e-commerce capability and strong social media presence which connects the brand even more closely to its consumers. The appreciation of its colours can be seen by browsing through the brand's industry leading Instagram account which is followed by over 1.3 million interior design fans.

Matching green ambitions

Farrow & Ball takes pride in its sustainability principles, crafting its entire paint range in water bases, and focusing on responsible practices and recyclable materials. This will complement our ambitions to become sustainability leader within our focused segments and geographies. For us to achieve our growth ambitions and sustainability targets, we must break the link between growth and environmental footprint. This is why sustainability is a key criteria when assessing merger and acquisition prospects - and another reason why Farrow & Ball is such a good fit.

Securing a bright future

Hempel acquired Farrow & Ball from a fund managed by the Private Equity Group Ares Management Corporation. Anthony Davey, CEO of Farrow & Ball said "Joining the Hempel Group offers new opportunities to further support Farrow & Ball's growth and development. The fit is a good strategic match and we complement each other in our ambitions."

The paint industry is growing rapidly, and at Hempel we want to remain ahead of the curve. Farrow & Ball's unique position and exceptional legacy will help with our ambition to achieve segment leadership positions in decorative paints. With our strong global presence and long-term trade credentials, the intention is to accelerate and expand Farrow & Ball globally to bring its iconic colours to more homes around the world.

WATTYL

Hempel proudly welcomed Wattyl Australia and New Zealand, a leading paint manufacturer for the decorative and protective industries with 750 colleagues, on 1 April 2021. Wattyl is a wellrenowned and trusted brand that has proudly protected Aussie and Kiwi assets for generations.

For more than 100 years, Wattyl has built a strong portfolio of paint and coating brands that are today household names in Australia and New Zealand. The acquisition of Wattyl, closed in March 2021, was a highlight of the year and the first large, visible step towards our ambition of doubling Hempel by 2025. With Wattyl, Hempel has gained a strong platform for continuous growth in Australia and New Zealand, putting us in a great position to achieve our strategic ambitions in our Decorative, Infrastructure and Energy customer segments.

Management's Review

Innovation and sustainability as key drivers

Wattyl's industry-leading coating expertise and technology ensure asset owners, trade professionals and do-it-yourself homeowners benefit from high performance, long-term protection and a best-in-class finish – whether they are painting a single room, entire commercial building, bridge, power station or industrial asset.

With a proud heritage of innovation and a dedication to sustainability, Wattyl's solutions are especially made for the tough Australian and New Zealand climate, with its extreme sun, heat and humidity.

Wattyl is committed to environmental performance and bringing sustainability into product innovation and development. Wattyl was the first paint manufacturer to market products with ultra-low VOC and achieve the highest environmental accreditations in Australia and New Zealand. Its consumer brand, the I.D Advanced interior paint system, is approved by the most stringent independent accreditation bodies, making it an excellent choice for environmentally-conscious consumers and 'green building' projects. As a founding member of the Paintback initiative, Wattyl actively works to drive awareness among painters and private consumers across Australia of how to recycle paint sustainably to limit waste paint and packaging going to landfill. Since 2016, the Paintback initiative has collected more than 28 tonnes of old or unused paint drums or paint residues and established 164 permanent collection sites across Australia.

Raising our ambition level

Wattyl is not just a paint brand. It is also a retailer and service company. The Wattyl Paint Centre network of 120 company-owned stores offers leading services, colour matching, products and project advice to the homeowners and businesses across Australia and New Zealand that are at the heart of everything Wattyl does. Wattyl also works with strategic retail partners and independent paint specialists to ensure it is always close to customers.

In addition to its stores, Wattyl has world-class production, distribution and logistics. This unique footprint in Australia and New Zealand is vital for reaching customers in key regions within the Energy and Infrastructure customer segments. By leveraging this set-up, Hempel can serve customers faster and more efficiently. By merging portfolios, Hempel and Wattyl will continue to challenge the standards for coatings through a true best-in-class range of products.

Management's Review

Corporate governance

Hempel has a dedicated focus on corporate governance, ensuring that the Hempel Group is led, managed and operated as a modern global company. Our aim is to always build on best practices from within and learn from other companies and organisations. Our strong corporate governance supports value creation for our customers, suppliers, employees and the communities in which we operate. It also ensures a clear distribution of management responsibilities, which contributes to the long-term success of the company.

In 2021, integration of Farrow & Ball and Wattyl were key initiatives. We also continued to focus on internal control procedures and policies, as well as our investments in cybersecurity. Further, the upgrade of our two global ERP platforms continued.

Data Ethics Policy

Hempel adheres to the GDPR (General Data Protection Regulation) as well as local applicable privacy regulation in the countries where Hempel is present. In addition, all Hempel Group companies must adhere to our Data Ethics Policy, which was first published in 2021. Our Data Ethics Policy ensures that data processing, regardless of whether or not it includes personal data, follows our key principles.

Data ethics key principles:

- Autonomy: The data subject shall be in control of his/her own data.
- Equality and fairness: The technology may not discriminate between equal partners and data shall be processed in a fair manner.
- Dignity: The inherent dignity of the data subject shall not be compromised.
- Progressiveness: The development of new technology shall be progressed with implementation of data ethics in the solutions.
- Accountability: Any link of the supply chain using technical solutions shall be -responsible for the consequences of choices.
- Transparency: The processing of data shall be transparent and traceable for the data subject.

Hempel is committed to not buying data concerning customers, except in merger and acquisition situations where the customer data is an asset and part of the agreement. Likewise, Hempel will not sell customer data to third parties unless in relation to the selling of a business or subsidiary. Machine learning and other new technological developments shall primarily be used to optimise the overall customer service experience (e.g. to reduce latency, sort and distribute notifications from customers, call-back solutions, etc.) and support a better service for the customer (e.g. through self-service solutions and customised offers, etc.).

Management's Review

Risks

Hempel is focused on achieving its business objectives in the medium term and ensuring the longevity of the company in the long term. We have operations on many continents and serve multiple industries, including both - business-to-business and business-to-consumer segments. As a result, risk diversification is a natural part of our risk management strategy. Through our risk management programme, we actively work to mitigate and reduce risk in order to establish an acceptable risk level.

Risk management framework

The Board of Directors reviews Hempel's risk profile biannually and the Audit Committee in Hempel A/S oversees the effectiveness of risk management in Hempel. Our Risk Committee signs off on key risks and agrees on the overall enterprise risk profile. This creates a consistent and shared understanding of the key risks that may disrupt the implementation of our strategy. The Risk Committee conducts quarterly reviews, making necessary adjustments while also holistically addressing emerging risk trends and changes in the risk landscape. Our Risk Committee consists of all members of our Executive Group Management and is chaired by the Executive Vice President & CFO of Hempel A/S. The ultimate responsibility for a risk, including but not limited to preparation and execution of mitigation action plans, rests with a designated member of the Risk Committee.

At Hempel, we monitor persistent short-term risks that could impact our daily operations, as well as more long-term strategic risks that may impact the Group's ability to meet its strategic objectives.

Main risks in 2021

We defined our strategic risk picture and identified a set of significant risks, believed to have the potential to adversely impact our future performance. The global paints and coating industry is experiencing a period of significant consolidation and the demand for more sustainable coatings is a rapidly emerging trend and a key pillar of our Futureproof strategy. We are introducing increasingly innovative and more sustainable solutions. However, there is always a long-term risk of disruptive technologies from other industries making our products obsolete. This is mitigated through market intelligence and by continuously monitoring the competitor and intellectual property landscape.

The COVID-19 pandemic demonstrated how vulnerable the world is to unpredictable and extreme events with cascading impacts. It also confirmed the importance of Hempel maintaining a balanced risk portfolio across multiple geographies. This year, our capabilities were strengthened through the acquisitions of Wattyl and Farrow & Ball, and we are actively mitigating risks associated with the newly acquired businesses. Despite maintaining agility during lockdowns, we saw adverse impacts from the pandemic. These include financial impacts triggered by lockdowns, as well as unprecedented rises in raw material prices and logistic costs caused by changes in demand and supply. Hempel has employed measures to mitigate against these risks. Risk management and strategic foresight remain more important than ever as risk trends shift. We stay focused on our strategic objectives and the high level of flexibility throughout our global organisation has enabled solutions that keep our production level high and minimise delays, while mitigating other risks.

Management's Review

Key risks

Political and economic instability Hempel has existing business activities and promising business opportunities in complex global markets with varying competitive price pressure. Political and other macroeconomic factors play an important role in our risk landscape, where the global pandemic has reinforced volatility, nationalism and protectionism. Economic conflicts between countries through trade barriers may impact Hempel's ability to conduct business.	
Potential impact Political tension leading to increased tariffs and duties would inevitably cause further raw material price increases across geographies. This combined with inflation is impacting our production costs and causing rising input costs. Despite our customer-centric approach, product price increases may cause a broad reduction in customer spending, which in turn could cause a reduction in Hempel's revenue. Changes in Health, Safety and Environmental regulation in certain markets (e.g., requiring Hempel to adjust to the reclassification of raw materials) may lead to potential loss of customers or penalties if we are unable to redefine system specifications. The global sanctions and export control landscape is increasingly complex. Complying with regulations in current and future markets is a condition of conducting business. Violation may result in, for example, authority investigations, fines and loss of customers.	Mitigating actions We endeavour to minimise external risks via diversification and by continuously monitoring our key markets and regions, while pursuing opportunities in multiple sub-segments. In Hempel, we effectively communicate with customers about our assessment of input costs and customer performance making necessary adjustments to maintain service levels. Some regions are more prone to political unrest and instability. We focus on maintaining a balanced risk portfolio, effectively spreading our risks across core markets, service areas and segments, as well as the public and private sectors, to mitigate against high impact. We have a global supply chain, in which we focus on resilience and seek to ensure dual sourcing. While continually keeping a close eye on our segments, we carefully review all cross-border relations and adapt to the changing business environment. We remain focused on sanctions, export control screening and legal compliance.

Management's Review

<table>
<tr><th colspan="2">Supply chain resource scarcity & disruption
Hempel is exposed to several risks within our daily business activities and a significant number of these risks are linked to our global footprint and supply chain. In Hempel, we work with external consultants to understand our current risk exposures as well as potential future risks associated with climate change.</th></tr>
<tr><td>Potential impact
Short and long-term disruptions can be caused by a number of external factors, such as energy and raw material shortages, fire, governmental shutdowns, lockdowns, logistical constraints, loss of production capacity or sudden changes in demand.

The likelihood of property damage leading to business interruption and significantly disrupting delivery to our customers is considered to be low. However, following the pandemic, the challenges and risks related to raw material scarcity and container shortages have increased significantly, impacting profitability.

Extreme weather conditions may occasionally disrupt our supply chain (e.g., when cold weather interrupts the supply of electricity, water, etc.). Similarly, cyclones, tornados, hurricanes and floods can cause production to be stopped (for safety reasons or due to damage to physical assets), impacting our productivity, financial performance and ability to serve customers.</td><td>Mitigating actions
Through our loss prevention risk engineering programme, we are constantly reducing the risk of property damage and business interruption.

A robust global supply chain set-up strengthens our flexibility via dual sourcing by securing back-up sourcing when disruption arises. We have close working relationships with identified key suppliers to reduce risk and help maintain inventory control – and we constantly investigate and qualify alternative sourcing opportunities. Current raw material shortages require ongoing focus, and initiatives vary across geographies.

Climate-related risks and opportunities are addressed as an integrated part of our daily business. As part of our Futureproof framework, we will launch a water programme in 2022. The programme will address our production units' abilities to adapt to water scarcity, as well as water-related impacts (i.e. flooding, droughts and access to water supply) caused by different global warming scenarios. In 2022, we will also create a climate adaptation strategy. This is guided by the most recent climate change scenarios as expressed by the Intergovernmental Panel on Climate Change.</td></tr>
</table>

<table>
<tr><th colspan="2">Cybersecurity
Hempel's global operation relies on the integrity and availability of computers and networks, and the sharing of data. The accelerated pace of human interaction, the boom in e-commerce and the rise of remote working expose Hempel to cybersecurity threats caused by malicious hacking activities, unintentional human error or system failure.</th></tr>
<tr><td>Potential impact
Digital connectivity continues to transform Hempel and, like other organisations, we are heavily dependent on digital infrastructure and technology to conduct our day-to-day business activities and serve our customers. Minor digital risk events, such as viruses and attempted break-ins, are everyday risks without significant impact. However, a major breakdown or a malicious attempt to cause damage to Hempel, our customers, our suppliers or partners through unauthorised access, destruction, corruption or manipulation of data or systems, could cause our systems to be inaccessible for an extended period. This could have a major impact on our business. Also, the potential loss of proprietary information could cause significant financial impact and limit future business opportunities.</td><td>Mitigating actions
Hempel has an ambitious digitalisation strategy and we seek to adjust to a dynamic environment at all times. Our Information Security Board ensures we have protection mechanisms within our IT systems and business processes, and ensures we perform company-wide internal audits of our IT security controls.

As the global threat of cyberattack and theft increases, we work continually to enhance protection of our critical and sensitive data, assets and reputation. We have a Digital Disaster Recovery organisation in place and our Crisis Management team carries out structured annual exercises. We also perform information security awareness activities to educate employees (e.g., mandatory and frequent e-learning programmes).

We seek to learn from other companies and organisations. To harvest ideas and contribute with information and experience, we participate in relevant knowledge sharing forums.</td></tr>
</table>

<table>
<tr><th colspan="2">Evolving working environment
Our founder J.C. Hempel believed that 'our employees are our most valuable asset'.
The competition for core competencies is real and, throughout our global organisation, we must continuously attract, develop and retain the right people – so we have the right competencies in place to innovate, stay relevant and meet our customers' future needs.</th></tr>
<tr><td>Potential impact
The pandemic has transformed employees' work patterns and proven that engagement is rooted equally within the company's culture, ethos and corporate social responsibility, as much as the physical workspace.

Due to the pandemic, employer attractiveness has become more important than ever, as a skilled and motivated workforce has become invaluable in an ever-changing industry environment. As remote and flexible work increases, so do the options for the individual employee.

Failure to attract and develop talent, retain quick learners and prioritise employee career/skill development directly impacts a company's road to growth.</td><td>Mitigating actions
As a responsible company, we are committed to following the principles laid out in the UN Global Compact and have officially signed the compact.

Our Diversity and Equal Opportunity Policy applies to all Hempel offices and ensures we base employee opportunities on merit and succession planning.

Each year, we measure employer attractiveness via engagement surveys of all employees in all countries.

We constantly work to strengthen our talent sourcing strategy. We actively map skills, focusing on strategic competency development, and implement and evolve flexible working policies and leadership training.</td></tr>
</table>

Management's Review

Sustainability

The global impacts of climate change continued to be evident in 2021, with extreme weather events, including droughts, floods, storms, heat waves and forest fires, affecting millions of people worldwide. This resulted in increased political and market pressure on companies to act decisively and quickly to reduce greenhouse gas emissions. We want to be a part of the solution. Our purpose is to shape a brighter future with sustainable coating solutions, and we are committed to making a difference, with both our ambitions and actions. Refer to our main activities which is described on page 7 for further information on our business model.

Setting science-based targets

In 2021, we demonstrated our strong commitment to climate change mitigation when we set concrete and measurable science-based targets for our scope 1, 2 & 3 CO2 emissions reductions in line with the 1.5 C pathway. These targets were submitted to the Science Based Targets initiative in November 2021 and we expect them to be verified in Q1, 2022. Our science-based targets give us a clear set of goals to work towards and measure our progress against.

We are continuously working on improving carbon emissions data and reporting. We want to increase transparency on our net environmental impact and, as we double in size, we remain committed to detaching this growth from our carbon footprint. In 2021, we made progress on switching our production sites to renewable electricity, reducing waste to landfill and rolling out our Hempel Procurement Sustainability Screening of suppliers.

Wiring sustainability into key decision-making

Embedding sustainability into everything we do is a long-term action and commitment. In 2021, we took significant steps towards integrating sustainability into our key decision--making processes. Sustainability is now a key consideration in major business decisions, from merger and acquisition evaluations to risk management. Additionally, ESG key -performance indicators will be included in the Executive Group Management's remuneration programmes for 2022. Sustainability criteria are also implemented in our new solution process, so more sustainable solutions are prioritised in our pipeline. Our efforts will continue in the coming years to fully embed sustainability into our long-term product strategies, our operations and our work with employee retention and attraction.

Sustainability governance

Our business-wide sustainability governance structure clearly outlines roles and responsibilities, from the Board of Directors to local operations within our customer segments and functions. Sustainability acts as the strategic lead on the strategic development and execution of Futureproof, with strong support from Executive Group Management. A Global Sustainability Network was established in 2021 consisting of 18 sustainability anchors representing all segments and functions across Hempel. The sustainability anchors are responsible for the execution of Futureproof within their areas.

Management's Review

For a description of risks related to sustainability matters, refer to the key risk sections of the Management Review and the sections below.

Sustainability is governed at the highest level of Hempel by the Board of Directors and Executive Group Management. Sustainability activities and targets are anchored and executed across Hempel's customer segments and functions, worldwide.

Our sustainability framework

We launched Futureproof, our sustainability framework, in early 2021. Futureproof steers our actions and communicates our commitment. The launch of Futureproof has been well-received by our employees, customers, suppliers and other stakeholders. Futureproof includes a holistic set of goals that cut across our value chain and encompass both our environmental and social ambitions, outlining how we will turn these ambitions into actions. It covers the following pillars: Performance, Products, People and Partners.

In 2021, our focus was primarily on generating measurable improvements in our Performance and People pillars, as these lay the foundation for future work.

Environmental, Social and Governance (ESG) refers to the three key factors used increasingly by financial institutions and other capital providers in their investment decisions when measuring the sustainability of a company. In order to prepare for the rapidly growing requirements from legislators, customers, financial institutions and other stakeholders, we plan to assess and improve our ESG performance and reporting in the coming years.

Our performance

Half of our production electricity from renewable sources

We are transitioning to renewable electricity at all applicable sites, starting with our production sites. To ensure the integrity of our renewable electricity, we conduct detailed compliance assurance evaluations, guided by independent auditors. In 2021, 51 per cent of our production electricity came from renewable sources, primarily wind and hydropower, up from 24 per cent in 2020. By the end of the year, nine production sites were fully powered by renewable electricity. More will follow in 2022 and we will also install solar panels at a number of locations to generate electricity onsite.

Transitioning to electric vehicles

We are committed to cutting emissions from our global fleet of company vehicles, including Hempel-operated delivery vehicles used on our premises. These efforts directly support our goal to be carbon neutral in our own operations in 2025. All regions created plans to transition to electric vehicles or hybrids as far as local infrastructure will allow. These were reviewed in 2021 to ensure alignment with our 2025 ambitions. In addition, we created a set of key performance indicators and a governance model to strengthen our approach.

Management's Review

Eliminating landfill waste at our production sites

In 2021, we reduced waste to landfill by 29 per cent at our production sites compared to 2020. Compared to our base year of 2019, this is a total reduction of 70 per cent. By the end of the year, 15 production units were zero waste to landfill. This was achieved by minimising waste at source and increasing recycling and reuse. In the UK, for example, we installed solvent distillation equipment that enables us to recycle used solvent in our products. This both reduces waste and supports our longer-term ambition of embedding circularity into our daily processes.

We remain on course to achieve zero waste to landfill by 2025. In 2022, we will continue to reduce waste at our production sites, while introducing more sustainable waste treatment and disposal practices at our ware-houses, offices, shops and laboratories. Additionally, we will complete the roll-out of our automated waste measurement system, which enables us to track waste generation in real-time.

Reducing hazardous substances in our products

Safety is our number one priority and we are constantly challenging ourselves to reduce any health or environmental hazards related to our products. Based on the success we have had with our programme for reducing the consumption of hazardous raw materials the previous years, we decided to broaden our scope, and include more of the hazardous raw materials in our programme. We introduced a new five-year-plan in 2021 to minimise the consumption of hazardous raw materials in our products. In the first year of the plan, we mainly focused on substitution for other materials, removing 970 tonnes of hazardous raw materials from our product assortment.

Due to the expanded scope of our programme, the amount of hazardous raw materials that we focus on reducing has increased from 7.9 kg per 1,000 litres of paint produced in 2020 to 26.67 kg per 1,000 litres of paint produced in 2021. When we compare absolute consumption of hazardous raw materials based on the 2020 criteria classification, we achieved a five per cent reduction in 2021 compared to 2020.

Introducing a water programme

In 2021, we worked with external specialists to develop a water programme for Hempel. The programme addresses our production sites in water-scarce locations, as well as sites that may be affected by extreme weather events. It was introduced internally at the end of 2021, ready for group-wide launch and implementation in 2022.

Looking ahead

We will continue to work towards carbon neutral operations, including delivering on our science based targets for CO2 emissions.

In 2021, we worked towards obtaining globally recognised environmental certifications and will continue this journey in the coming years. Hempel will be certified according to ISO 50001 during 2022 in order to be compliant with the EU Energy Efficiency Directive. The scope will cover all factories in Europe. In the coming year, we will evaluate the benefits of the standard and agree on the potential roll-out to other regions.

Management's Review

Our targets for 2022 include:

- Achieve verification from the Science Based Targets initiative of our targets for scope 1 & 2 CO2 emissions

- Ensure that 70% of electricity used in our production units comes from renewable sources, while also expanding the use of renewable electricity at other applicable Hempel premises

- Reduce waste sent to landfill from our production sites by 80% compared to 2019 while expanding our efforts on waste reduction in all our facilities e.g. warehouses, distribution centres, retail stores and offices

- Implement our water programme including target-setting and a mitigation action plan

- Implement our water programme including target-setting and a mitigation action plan

Our Products

Sustainability product scorecard

We hired a circularity expert in 2021 and began work to develop a comprehensive circulatory roadmap. One of our key goals is to achieve 50 per cent recycled content in our primary packaging by the end of 2025. Despite the challenge of procuring recycled materials in 2021, our primary packaging was made of 40 per cent recycled materials, up from 33 per cent in 2020, and we remain on track to hit our 2025 target.

Decarbonising the marine industry

One of our key goals is to reduce our customers' emissions by 30 million tonnes of CO2 in 2025. In 2021, our Marine segment alone helped our customers reduce CO2 emissions by 4.5 million tonnes, up from 3.6 million tonnes in 2020. This 25 per cent improvement was driven by increased demand for our advanced hull solutions, which deliver fuel savings, and thereby CO2 reductions, by improving a vessel's hull hydrodynamics.

In 2021, the International Maritime Organisation (IMO) announced new regulations designed to reduce CO2 emissions. As vessel fuel consumption is the number one cause of CO2 emissions in the shipping industry, we saw demand increase for our fuel-saving hull coatings and we expect demand to increase further in future. By using our advanced hull coatings instead of conventional products, we estimate that a fleet of 12 vessels* will be able to save annual fuel costs of approximately EUR 4.8 million and reduce yearly CO2 emissions by approximately 39,000 tonnes.

Management's Review

CO2 saved by customers using our advanced hull coatings

The increase in CO_2 savings for Marine customers more than doubled in 2021 compared to 2020.

Year	2021	2020	2019
Total CO_2 savings (in million tonnes)	4.5	3.6	3.3
% increase in savings (from previous year)	25%	11%	-

Recycling our customers' paint cans

Through our Can Back Scheme, our customers in the Decorative segment in the UK can return empty paint cans to our local stores and warehouses. Unlike similar schemes run by our peers, our Can Back Scheme accepts cans from any manufacturer, which means consumers can return cans from any label or brand. The returned cans are sent to NIMTECH, our recycling partner, and both the plastic and metal is recycled for future use. Our goal was to take back and recycle more than 650,000 empty paint cans in 2021. However, due to lockdowns in the first half of the year, we took back and recycled 550,000 cans. Although short of our target, this was a significant increase on the 19,000 cans in 2020. The large increase was due to the expansion of the programme to more stores and warehouses, as well as better promotion.

Circularity roadmap

We hired a circularity expert in 2021 and began work to develop a comprehensive circulatory roadmap. One of our key goals is to achieve 50 per cent recycled content in our primary packaging by the end of 2025. Despite the challenge of procuring recycled materials in 2021, our primary packaging was made of 40 per cent recycled materials, up from 33 per cent in 2020, and we remain on track to hit our 2025 target.

Looking ahead

In 2022, we will focus our efforts on making sustainability an even bigger driver for product innovation through the company-wide roll-out of our sustainability product scorecard and the integration of sustainability into product strategies and technology roadmaps. We will also continue our work to increase recycling and reduce our customers' waste.

Our targets for 2022 include:

- Reduce our Marine customers' CO_2 emissions by 5.5 million tonnes, while exploring CO_2 reduction options in other industries

- Recycle 725,000 empty paint cans through the Can Back Scheme, putting us on track to reach our 2025 target of 1 million cans collected and recycled

- Introduce a circularity roadmap, including setting goals on paint and packaging

** Example taken from a customer with a container fleet consisting of two panamax, seven intermediate and three feeder vessels.*

Our people

Celebrating diversity and inclusion

Inclusion and diversity are key to how we evolve as a company. An inclusive, non-biased culture benefits all of us and serves for better decision-making, more innovation and better collaboration. We want colleagues to feel respected and be treated fairly, regardless of their background, preferences or where they are located. In 2021, we launched a number of initiatives to promote diversity, including Inclusive Leadership Training for our top 265 leaders to ensure a more diverse leadership style in Hempel. We also joined the Valuable 500, a business-to-business initiative that puts disability on the corporate agenda. In June, we celebrated WorldPride as part of our people sustainability initiatives.

Gender equality remains a significant part of our inclusion and diversity agenda, and ensuring a balanced workforce is an important part of our strategy. Currently, 28 per cent of our employees are women, but only 23 per cent of management positions are held by women. This is an improvement from 2020, and will remain a focus area in the coming years.

The Board of Directors has set a target for gender representation for members elected at the annual general meeting. Since April 2018 the declared target has been achieved in that minimum two of the Board members appointed by the Hempel Foundation now are female members. Equal distribution has been achieved in accordance with the Danish Business Authority's guidance.

Giving everyone a chance to develop

To ensure everyone has the chance to develop, we provide talent development opportunities for employees at all levels. This includes Pioneer, an 18-month global training programme for new graduates. In 2021, we welcomed 24 new Pioneers, 15 women and nine men representing 17 different nationalities.

To ensure all our leaders can develop their leadership abilities and better help their teams to thrive and perform, we launched the High Five global leadership training programme in 2021, a six-month online programme with six sessions. A total of 328 leaders participated in the first year.

We want all our employees and managers to have access to important training and career development systems. Therefore, we launched the global digital platform Workday in August. Workday will be expanded over the coming years to become a one-stop self-service system where all employees can manage their career and learning activities, from onboarding and training to development and performance management.

In an unusual twist on mentoring, we launched YES, Hempel's Young Enablers of Sustainability. Led by Hempel's One Young World Ambassadors, YES encourages everyone at Hempel to drive sustainability initiatives and projects – and it includes 'reverse mentoring', with young people mentoring senior management.

Management's Review

Hempel Heartbeat – measuring engagement and motivation

87 per cent of Hempel colleagues participated in Hempel Heartbeat, our engagement survey. The result showed that Satisfaction & Motivation dropped from 74 to 73 when compared to 2019*. There is no doubt that the uncertainty caused by COVID-19, as well as the challenge of dealing with rapidly escalating raw material prices and supply chain disruptions, impacted most of us. Despite this, our score was still on par or above comparable global companies. Hempel Heartbeat also showed that, across our global organisation, teams have embraced our Double Impact strategy and are working to reach our goals.

Diversity & Inclusion had special focus last year. A high survey score confirmed that colleagues generally feel included and respected with no indication of gender bias or other biases. However, the number of incidences of harassment remained at the same level as December 2020, when we conducted a dedicated Diversity & Inclusion/Harassment survey among all office workers. This year, we expanded the survey to include our colleagues in our stores and production facilities to ensure we have data across our employee groups and, while we see no increase in the percentage of our colleagues who have experienced harassment, we want to continue to work on improving. We have zero tolerance for harassment and bullying and take actions accordingly.

Increased safety awareness

Promoting a strong safety culture continues to be a top priority and as such our Safety Excellence programme has also been extended to our Decorative stores across Europe. This increased safety awareness among our colleagues; however it also led to increased reporting of Lost Time Accidents (LTAs) from 1.61 per 1,000,000 working hours in 2020 to 1.72 per 1,000,000 working hours in 2021. Our Safety Excellence programme will continue to develop during 2022 focusing on initiatives such as incident sharing and learning, safety walks and eliminating unsafe conditions and acts while continuously working on enhancing our safety culture. We believe that any accident is one too many and we continue to move towards our target of zero accidents.

We are committed to complying with health and safety regulation and our operations have been certified according to ISO 45001 since 2020.

Looking ahead

We have a strong roadmap in place for building a more inclusive, diverse and successful workplace, with comprehensive employee and leadership development programmes.

In 2022, our focus includes:

- Extended family support: Begin an analytical -assessment of approach to flexible benefits and extended family support

- Employee safety: Roll out Safety Excellence 2.0

- Employee mental and physical health: Develop local roadmaps for improving support
- On gender diversity in general workforce and management, our targets are >28 per cent and 25 per cent, respectively

** We compare to 2019 because, in 2020, we only conducted a short pulse survey for employees with a Hempel email address due to COVID-19 and the unusual work environment.*

Our partners

Partnerships built on mutual value creation

At the core of our new strategy are close relationships, partnerships built on trust that drive innovation and mutual value creation. Increasingly, we are working with our suppliers and others to share knowledge and experiences, increase sustainability performance and introduce greater circularity into our supply chain.

We also see customer partnerships as key to our future success. The strategic partnership entered into with GRI Renewable Industries in 2021 is an excellent example. GRI Renewable Industries is a leading manufacturer of towers and flanges for the wind sector. Our partnership will strengthen our long-term cooperation, with focus on improving sustainability, reducing costs and prolonging the lifetime of wind towers. Our joint ambition is to reduce surface treatment costs by 10 per cent and lower VOC emissions during application by up to 50 per cent. Both sides bring unique knowledge and experience to the partnership – not just in technical terms, but also business knowledge.

Our Responsible Procurement Programme

We have a Responsible Procurement Programme in place to ensure that our suppliers meet our high standards. The Responsible Procurement Programme is based on three pillars.

Business Partner Code of Conduct

All our suppliers must adhere to our Business Partner Code of Conduct, which clearly describes what we expect from them. Approval of new suppliers is based on their ability to meet the requirements laid out in the code.

Sustainability evaluation

Each year, selected suppliers are evaluated by EcoVadis, a global provider of business sustainability ratings. Suppliers are selected based on a risk assessment of environmental, social, human rights and anti-corruption issues. In 2021, 75 per cent of our direct spend was with suppliers screened by EcoVadis, which is our target for 2022 as well.

Hempel Procurement Sustainability Screening

In 2021, we rolled out a new screening process that drives supplier dialogue and development in key sustainability areas such as carbon footprint, energy and waste management. The screening is implemented per category, and a supplier's screening score has a commercial impact in tendering processes. In 2021, we screened 41 suppliers, representing 22 per cent of our total spend. This included key suppliers in significant raw material categories, including epoxy, titanium dioxide, copper and zinc, covering over 90 per cent of our spend in each of these raw material categories. We also started the screening of 9 strategic transportation partners.

Focus on due diligence of forced labour

Our Human Rights Policy clearly states that we do not employ child labour or forced labour. This commitment is extended to our business partners, as clearly stated in our Business Partner Code of Conduct.

Conflict minerals

We do not use conflict minerals – such as tantalum, tin, gold or tungsten – or their derivatives in our products. We are in compliance with the new EU Conflict Minerals Regulation, as well as the Dodd-Frank Act Section 1502 on due diligence of conflict minerals.

Committed to comply

As a responsible partner, Hempel is committed to conducting business ethically, respectfully and honestly at all times. This commitment covers our entire organisation, as well as our relationships with customers, suppliers and other stakeholders. Hempel's zero tolerance for bribery and corruption is clearly described in our Business Ethics Policy, which outlines procedures to counter corruption, bribery and other unethical behaviour.

In 2021, we took a number of actions to strengthen our culture of compliance and business ethics. This included ensuring that acquisition targets were duly vetted to make sure that they have the right ethical fit. We also accelerated the roll-out of our strong compliance programmes for acquired companies.

We continued to increase our digital and automation capabilities. For example, the launch of Workday, our new HR platform, better allows us to assign relevant and tailormade compliance e-learning courses to specific groups of employees. In September, we rolled out Hempel's annual Code of Conduct training globally to all employees with PC and Workday access, and we reached 100 per cent completion during the year. In addition, in 2021 we analysed gaps in our data privacy programme and took effective steps towards further compliance.

Our 'speak up' culture remains sound. In 2021, there was a high number of enquiries to our compliance helpline and 46 registered whistleblower reports. This is a notable increase compared to 2020 (30 reports). The significant spike in reports was primarily related to the work environment. We believe this to be a natural consequence of Hempel's increased focus on anti-harassment and bullying, which included town hall discussions, training, release of a new anti-harassment policy, and employee surveys. The number of reports confirms that our frequent communication about raising concerns is understood by colleagues, partners and suppliers.

Management's Review

Partnerships built on mutual value creation

In 2022, our focus includes:

- Achieve verification from the Science Based Targets initiative of our target for scope 3 CO2 emissions
- Co-create to develop the solutions that address our customers' most pressing sustainability challenges
- Co-create to develop the solutions that address our customers' most pressing sustainability challenges

Community engagement

At Hempel, we see the responsibility to make a difference to local communities as part of our company's core values. We give back to the community through the Hempel Foundation and by organising trips in which employees can contribute to and experience the Foundation's work. We re-launched these trips in 2021 with a new concept: the iWitness Tour. The first iWitness tour is scheduled for autumn 2022.

Across the organisation in 2021, our people stepped up to make a difference to the local communities that we work in.

Here are some examples:

- Collaborating with local artists in Australia
- Funding education in China
- Providing relief to communities hit by the ice storm in Texas
- Cykelnerven
- Mental health awareness in Australia
- COVID-19 relief campaign in India
- Beautifying communities
- Collaborating with local artists in Australia

Income Statement 1 January - 31 December

	Note	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Revenue	1	**1.773**	**1.542**	**2**	**0**
Cost of sales	2	-1.141	-937	0	0
Gross profit		**632**	**605**	**2**	**0**
Distribution costs	2	-462	-397	0	0
Administrative costs	2	-107	-120	-2	0
Operating profit		**63**	**88**	**0**	**0**
Other operating income	3	20	2	0	0
Other operating expenses		0	-1	0	0
Profit before financial income and expenses		**83**	**89**	**0**	**0**
Income from investments in subsidiaries	4	0	0	40	41
Financial income	5	19	1	16	1
Financial expenses	6	-18	-25	-1	0
Profit before tax		**84**	**65**	**55**	**42**
Tax on profit/loss for the year	7	-28	-18	0	3
Net profit for the year		**56**	**47**	**55**	**45**

Balance Sheet 31 December

Assets

		Group		Parent	
	Note	2021	2020	2021	2020
		mEUR	mEUR	mEUR	mEUR
Development projects		0	1	0	0
Other intangible assets		27	31	0	0
Software		8	4	0	0
Brands		141	0	0	0
Customer relationships		38	41	0	0
Goodwill		494	56	0	0
Software under development		21	11	0	0
Intangible assets	8	**729**	**144**	**0**	**0**
Land and buildings		286	173	53	13
Plant and machinery		94	81	0	0
Other fixtures and fittings, tools and equipment		41	29	1	0
Assets under construction		111	107	0	33
Property, plant and equipment	9	**532**	**390**	**54**	**46**
Investments in subsidiaries	10	0	0	506	461
Other investments	11	84	63	84	63
Deposits	11	11	4	0	0
Fixed asset investments		**95**	**67**	**590**	**524**
Fixed assets		**1.356**	**601**	**644**	**570**

Balance Sheet 31 December

Assets

	Note	Group		Parent	
		2021	2020	2021	2020
		mEUR	mEUR	mEUR	mEUR
Inventories	12	**334**	**220**	**0**	**0**
Trade receivables	13	397	335	0	0
Receivables from group enterprises		0	0	70	48
Other receivables		48	43	0	1
Deferred tax asset	16	61	47	0	0
Income tax receivables		4	3	0	0
Prepayments	14	20	15	0	0
Receivables		**530**	**443**	**70**	**49**
Cash at bank and in hand		**178**	**267**	**1**	**1**
Currents assets		**1.042**	**930**	**71**	**50**
Assets		**2.398**	**1.531**	**715**	**620**

Balance Sheet 31 December

Liabilities and equity

	Note	Group 2021	Group 2020	Parent 2021	Parent 2020
		mEUR	mEUR	mEUR	mEUR
Share capital		15	15	15	15
Reserve for net revaluation under the equity method		0	0	288	243
Translation reserve		0	-33	0	0
Retained earnings		638	599	359	332
Proposed dividend for the year		13	0	13	0
Equity attributable to shareholders of the Parent Company		**666**	**581**	**675**	**590**
Minority interests		41	43	0	0
Equity		**707**	**624**	**675**	**590**
Provision for deferred tax	16	102	48	0	0
Provisions for pensions and similar obligations		21	23	0	0
Other provisions	17	49	50	0	0
Provisions		**172**	**121**	**0**	**0**
Borrowings		802	190	32	0
Convertible loans		6	30	6	30
Other payables		0	2	0	0
Long-term debt	18	**808**	**222**	**38**	**30**

Balance Sheet 31 December

Liabilities and equity

		Group		Parent	
	Note	2021	2020	2021	2020
		mEUR	mEUR	mEUR	mEUR
Borrowings	18	68	49	1	0
Trade payables		344	262	0	0
Income tax payable		7	9	0	0
Other payables	18	284	238	1	0
Deferred income	19	8	6	0	0
Short-term debt		**711**	**564**	**2**	**0**
Debt		**1.519**	**786**	**40**	**30**
Liabilities and equity		**2.398**	**1.531**	**715**	**620**

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Statement of Changes in Equity

Group

	Share capital	Reserve for net revaluation under the equity method	Translation reserve	Retained earnings	Proposed dividend for the year	Equity excl. minority interests	Minority interests	Total
	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR
2021								
Equity at 1 January	15	0	-33	599	0	581	43	624
Exchange adjustments	0	0	33	0	0	33	3	36
Remeasurements of defined benefit plans	0	0	0	-3	0	-3	0	-3
Dividend distributed	0	0	0	0	0	0	-5	-5
Transactions with non-controlling interests	0	0	0	0	0	0	-1	-1
Net profit/loss for the year	0	0	0	42	13	55	1	56
Equity at 31 December	**15**	**0**	**0**	**638**	**13**	**666**	**41**	**707**

Group

	Share capital	Reserve for net revaluation under the equity method	Translation reserve	Retained earnings	Proposed dividend for the year	Equity excl. minority interests	Minority interests	Total
2020								
Equity 1 January	15	0	0	551	0	566	49	615
Exchange adjustments	0	0	-33	0	0	-33	-5	-38
Remeasurements of defined benefit plans	0	0	0	-2	0	-2	0	-2
Dividend distributed	0	0	0	-13	0	-13	-3	-16
Fair value adjustment of put option	0	0	0	17	0	17	0	17
Tax on equity	0	0	0	1	0	1	0	1
Net profit/loss for the year	0	0	0	45	0	45	2	47
Equity at 31 December	**15**	**0**	**-33**	**599**	**0**	**581**	**43**	**624**

Statement of Changes in Equity

Parent

	Share capital	Reserve for net revaluation under the equity method	Translation reserve	Retained earnings	Proposed dividend for the year	Equity excl. minority interests	Minority interests	Total
	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR
2021								
Equity at 1 January	15	243	0	332	0	590	0	590
Exchange adjustments	0	33	0	0	0	33	0	33
Remeasurements of defined benefit plans	0	-3	0	0	0	-3	0	-3
Dividend received from group enterprises	0	-25	0	25	0	0	0	0
Net profit/loss for the year	0	40	0	2	13	55	0	55
Equity at 31 December	**15**	**288**	**0**	**359**	**13**	**675**	**0**	**675**

Parent

	Share capital	Reserve for net revaluation under the equity method	Translation reserve	Retained earnings	Proposed dividend for the year	Equity excl. minority interests	Minority interests	Total
2020								
Equity 1 January	15	261	0	317	0	593	0	593
Exchange adjustments	0	-33	0	-1	0	-34	0	-34
Dividend distributed	0	0	0	-13	0	-13	0	-13
Remeasurements of defined benefit plans	0	-2	0	0	0	-2	0	-2
Dividend received from group enterprises	0	-25	0	25	0	0	0	0
Tax on equity	0	1	0	0	0	1	0	1
Net profit/loss for the year	0	41	0	4	0	45	0	45
Equity at 31 December	**15**	**243**	**0**	**332**	**0**	**590**	**0**	**590**

Cash Flow Statement 1 January - 31 December

	Note	Group 2021 mEUR	Group 2020 mEUR
Net profit/loss for the year		56	47
Adjustments	20	112	101
Change in working capital	21	-103	46
Cash flows from operating activities before financial income and expenses		**65**	**194**
Net interest paid		-16	-11
Cash flows from ordinary activities		**49**	**183**
Corporation tax paid		-31	-20
Cash flows from operating activities		**18**	**163**
Purchase of intangible assets		-14	-6
Purchase of property, plant and equipment		-95	-86
Fixed asset investments made etc		-6	-6
Sale of property, plant and equipment		10	3
Business acquisition		-511	0
Cash flows from investing activities		**-616**	**-95**
Repayment of borrowings		-772	-201
Proceeds from loans from credit institutions		1.282	323
Minority interests		-5	-3
Other equity entries (should be broken down)		0	13
Dividend paid		0	-26
Cash flows from financing activities		**505**	**106**
Change in cash and cash equivalents		**-93**	**174**
Cash and cash equivalents at 1 January		267	102
Exchange rate adjustment		4	-9
Cash and cash equivalents at 31 December		**178**	**267**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		178	267
Cash and cash equivalents at 31 December		**178**	**267**

Notes to the Financial Statements

	Group		Parent	
	2021	2020	2021	2020
	mEUR	mEUR	mEUR	mEUR

1 Revenue

Geographical disaggregation

The following table displays revenue disaggregated into sale of goods per geographical region:

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
EMEA	1.072	995	2	0
Asia-Pacific	537	397	0	0
Americas	164	150	0	0
	1.773	**1.542**	**2**	**0**

Customer disaggregation

The following table displays revenue disaggregated into sale of goods per customer category:

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Decorative	655	512	0	0
Marine	445	413	0	0
Infrastructure	219	177	0	0
Energy	252	247	0	0
Other	202	193	2	0
	1.773	**1.542**	**2**	**0**

Notes to the Financial Statements

2 Staff

	Group 2021	Group 2020	Parent 2021	Parent 2020
	mEUR	mEUR	mEUR	mEUR
Wages and Salaries	326	277	0	0
Pensions	19	13	0	0
Other social security expenses	25	24	0	0
Other staff expenses	20	21	0	0
	390	**335**	**0**	**0**
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:				
Cost of sales	117	103	0	0
Distribution costs	200	173	0	0
Administrative costs	73	59	0	0
	390	**335**	**0**	**0**
Average number of employees	**6.748**	**6.099**	**1**	**1**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act. The combined remuneration to the Board of Directors and the Executive Board amounted to EUR 202 thousand (2020: EUR 201 thousand).

3 Other operating income

	Group 2021	Group 2020	Parent 2021	Parent 2020
Gain on sale of property, plant and equipment	3	2	0	0
Government grants	17	0	0	0
	20	**2**	**0**	**0**

Government grants in 2021 primarily relate to closure of a factory in Kunshan, China.

Notes to the Financial Statements

4 Income from investments in subsidiaries

	Parent 2021 mEUR	Parent 2020 mEUR
Share of profits of subsidiaries	68	62
Tax for the year	-28	-21
	40	**41**

5 Financial income

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Interest income from subsidiaries	0	0	1	1
Other financial income	1	0	1	0
Value adjustments	14	0	14	0
Realised and unrealised capital/exchange gains	4	1	0	0
	19	**1**	**16**	**1**

6 Financial expenses

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Interest paid to parent company	1	0	1	0
Other financial expenses	17	12	0	0
Exchange adjustments, expenses	0	13	0	0
	18	**25**	**1**	**0**

7 Tax on profit/loss for the year

	Group		Parent	
	2021	2020	2021	2020
	mEUR	mEUR	mEUR	mEUR
Current tax for the year	23	25	0	-3
Deferred tax for the year	6	-1	0	0
Adjustment of tax concerning previous years	0	-6	0	0
Tax on Equity	3	-1	0	0
	32	**17**	**0**	**-3**
which breaks down as follows:				
Tax on profit/loss for the year	28	18	0	-3
Tax on changes in equity	4	-1	0	0
	32	**17**	**0**	**-3**

Notes to the Financial Statements

8 Intangible assets

Group

	Development projects	Other intangible assets	Software	Brands	Customer relationships	Goodwill	Software under development	Total
	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR	mEUR
Cost at 1 January	1	81	41	0	129	152	11	415
Exchange adjustment	0	2	1	3	6	21	0	33
Acquisition of enterprises	0	0	3	142	5	448	0	598
Additions for the year	0	0	0	0	0	0	15	15
Transfers for the year	-1	1	5	0	0	0	-5	0
Cost at 31 December	0	84	50	145	140	621	21	1.061
Impairment losses and amortisation at 1 January	0	50	37	0	88	96	0	271
Exchange adjustment	0	2	1	0	6	7	0	16
Amortisation for the year	0	5	4	4	8	24	0	45
Impairment losses and amortisation at 31 December	0	57	42	4	102	127	0	332
Carrying amount at 31 December	**0**	**27**	**8**	**141**	**38**	**494**	**21**	**729**

Notes to the Financial Statements

9 Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Total
	mEUR	mEUR	mEUR	mEUR	mEUR
Cost at 1 January	257	251	98	108	714
Exchange adjustment	12	21	6	5	44
Acquisition of enterprises	30	8	10	2	50
Additions for the year	0	4	3	114	121
Disposals for the year	-12	-28	-10	0	-50
Transfers for the year	90	21	7	-118	0
Cost at 31 December	377	277	114	111	879
Impairment losses and depreciation at 1 January	84	170	69	0	323
Exchange adjustment	6	17	0	0	23
Acquisition of enterprises	0	0	5	0	5
Depreciation for the year	10	18	9	0	37
Reversal of impairment and depreciation of sold assets	-9	-22	-10	0	-41
Impairment losses and depreciation at 31 December	91	183	73	0	347
Carrying amount at 31 December	**286**	**94**	**41**	**111**	**532**

Notes to the Financial Statements

9 Property, plant and equipment (continued)

Parent

	Land and buildings	Other fixtures and fittings, tools and equipment	Assets under construction	Total
	mEUR	mEUR	mEUR	mEUR
Cost at 1 January	13	0	33	46
Additions for the year	0	0	9	9
Transfers for the year	41	1	-42	0
Cost at 31 December	54	1	0	55
Depreciation for the year	1	0	0	1
Impairment losses and depreciation at 31 December	1	0	0	1
Carrying amount at 31 December	**53**	**1**	**0**	**54**

Notes to the Financial Statements

10 Investments in subsidiaries

	Parent 2021 mEUR	Parent 2020 mEUR
Cost at 1 January	218	217
Additions for the year	0	1
Cost at 31 December	218	218
Value adjustments at 1 January	243	261
Exchange adjustment	33	-33
Net profit/loss for the year	40	41
Dividend received from group enterprises	-25	-25
Other equity movements, net	-3	-1
Value adjustments at 31 December	288	243
Carrying amount at 31 December	**506**	**461**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
Hempel Argentina S.R.L.	Argentina	100%
Hempel (Australia) Pty. Ltd.	Australia	100%
Hempel NewCo Pty. Ltd.	Australia	100%
Hempel (Wattyl) Australia Pty. Ltd.	Australia	100%
Hempel (Wattyl) New Zealand Ltd.	Australia	100%
Ostendorf GmbH	Austria	65%
Dahna Paint Middle East Holding B.S.C. (closed)	Bahrain	51%
Hempel Paints (Bahrain) S.P.C.	Bahrain	51%
Hempel Tintas do Brasil Ltda	Brazil	100%
Farrow & Ball Canada Ltd	Canada	100%
Hempel (Canada) Inc.	Canada	100%
Pinturas Hempel Chile SpA	Chile	100%
Hempel (Hong Kong) Limited	China	100%
Hempel (China) Limited	China	100%
Hempel (China) Management Co., Ltd.	China	100%
Hempel (Kunshan) Coatings Ltd.	China	100%
Hempel (Yantai) Coatings Ltd.	China	100%
Hempel (Guangzhou) Coatings Ltd.	China	100%
Hempel Coatings (Zhangjiagang) Ltd.	China	100%
Hempel Coatings (Croatia) Ltd.	Croatia	100%

Notes to the Financial Statements

10 Investments in subsidiaries (continued)

Name	Place of registered office	Votes and ownership
Hempel Coatings (Cyprus) Limited	Cyprus	100%
Hempel (Czech Republic) s.r.o.	Czech Republic	100%
Hempel A/S	Denmark	100%
Hempel Decorative Paints A/S	Denmark	100%
HSA (Danmark) A/S	Denmark	100%
Brifa Maling A/S	Denmark	65%
HF (Denmark) A/S	Denmark	100%
Brænderupvænge ApS	Denmark	100%
Keldskov ApS	Denmark	100%
Frontier Innovation ApS	Denmark	100%
S E Innovation ApS	Denmark	100%
Hempel Administration ApS	Denmark	100%
Hempel (Ecuador) S.A.	Ecuador	100%
Hempel Coatings Egypt LLC	Egypt	100%
Hempel Egypt L.L.C.	Egypt	100%
Hempel Paints Egypt LLC	Egypt	99%
OY Hempel (Finland) AB	Finland	100%
Hempel (France) S.A.	France	100%
BB Fabrications SAS	France	65%
BB Participations SAS	France	65%
Bontemps-Bonnarme SAS	France	65%
Farrow & Ball GmbH	Germany	100%
Hempel (Germany) GmbH	Germany	100%
J.W. Ostendorf GmbH & Co. KG	Germany	100%
Hempel Beteiligungsgesellschaft mbH	Germany	65%
Ostendorf-Beteiligungs-GmbH	Germany	65%
FLT Handel & Service GmbH	Germany	65%
Brand.IQ GmbH	Germany	65%
Rottkamp Immoblilien GmbH & Co. KG	Germany	65%
Rottkamp Immobilien Verwaltung GmbH	Germany	65%
Hempel Coatings (Hellas) S.A.	Greece	100%
Hempel Paints (India) Private Limited	India	100%
P.T. Hempel Indonesia	Indonesia	100%
Hempel (Iraq) Ltd	Iraq	31%
Crown Paints Ireland Limited	Ireland	100%
Hempel (Italy) S.r.l.	Italy	100%
Hempel Paints Kenya Company Limited	Kenya	100%
Hempel Korea Co. Ltd.	Korea	100%
Hempel Paints (Kuwait) K.S.C.C.	Kuwait	51%
Hempel (Malaysia) Sdn. Bhd	Malaysia	100%

Notes to the Financial Statements

10 Investments in subsidiaries (continued)

Name	Place of registered office	Votes and ownership
Hempel Manufacturing (Malaysia) Sdn. Bhd.	Malaysia	100%
Pinturas Hempel de Mexico S.A. de C.V.	Mexico	100%
Hempel Maroc SARL	Morocco	100%
Hempel (New Zealand) Ltd.	New Zealand	100%
Hempel (Norway) AS	Norway	100%
Hempel (Oman) L.L.C	Oman	25%
Hempel Pinturas Del Perú S.A.C.	Peru	100%
Hempel Paints (Poland) S.p. z o.o.	Poland	100%
Hempel (Portugal) S.A.	Portugal	100%
Hempel Paints (Qatar) W.L.L.	Qatar	28%
JSC Hempel	Russia	100%
Hempel Paints (Saudi Arabia) W.L.L.	Saudi Arabia	51%
Painting Materials and Equipment Centre Co. LTD	Saudi Arabia	26%
Hempel (Singapore) Pte. Ltd.	Singapore	100%
Hempel Paints South Africa (Pty) Ltd.	South Africa	100%
Hempel (Sweden) AB	Sweden	100%
Hempel Schweiz AG	Switzerland	100%
J.W. Ostendorf (Schweiz) AG	Switzerland	65%
Hempel Paints (Syria) W.L.L.	Syria	43%
Hempel (Taiwan) Co., Ltd.	Taiwan	100%
Hempel (Thailand) Ltd.	Thailand	100%
Hempel (The Netherlands) B.V.	The Netherlands	100%
Hempel Industrial B.V.	The Netherlands	100%
Hempel Coatings San. ve Tic. Ltd. Sti.	Turkey	100%
Crown Brands Limited	UK	100%
Crown Paints Limited	UK	100%
Crown Paints Group Limited	UK	100%
Crown Paints Holdings Limited	UK	100%
FB Ammonite Limited	UK	100%
FB Brassica Limited	UK	100%
FB Brinjal Limited	UK	100%
FB Calluna Limited	UK	100%
Farrow & Ball Holding Ltd	UK	100%
Farrow & Ball Limited	UK	100%
Hempel UK Ltd.	UK	100%
Hempel Decorative Paints Limited	UK	100%
Reebor Limited	UK	1%
Ostendorf U.K. Ltd.	UK	65%
Hempel Ukraine LLC	Ukraine	100%
Hempel Paints (Abu Dhabi) L.L.C.	UAE	24%

Notes to the Financial Statements

10 Investments in subsidiaries (continued)

Name	Place of registered office	Votes and ownership
Hempel Paints (Emirates) L.L.C.	UAE	49%
Hempel (USA), Inc.	USA	100%
Farrow & Ball Inc	USA	100%
Jones-Blair Company, LLC	USA	100%
Hempel Vietnam Company Limited	Vietnam	100%
Pinturas Hempel SAU	Spain	100%

11 Other fixed asset investments

	Group		Parent
	Other investments	Deposits	Other investments
	mEUR	mEUR	mEUR
Cost at 1 January	42	4	42
Additions for the year	6	7	6
Cost at 31 December	48	11	48
Revaluations at 1 January	21	0	21
Revaluations for the year	15	0	15
Revaluations at 31 December	36	0	36
Carrying amount at 31 December	**84**	**11**	**84**

Other investments are classified in accordance with the fair value hierarchy:

Level 1 - Fair Value can be measured using quoted market prices in an active market for identical assets and liabilities.

Level 2 - Fair Value can be measured using observable inputs other than quoted market prices.

Level 3 - Fair Value is measured using unobservable inputs.

mEUR	Fair value hierarchy level	Fair value as of 31 December 2021
Shares (Listed)	1	61
Shares (Non-listed)	2	3
Other investments (Non-Listed)	3	20

Notes to the Financial Statements

12 Inventories

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Raw materials and consumables	127	62	0	0
Work in progress	6	5	0	0
Finished goods and goods for resale	201	153	0	0
	334	**220**	**0**	**0**

13 Trade receivables

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
The following receivables fall due for payment more than 1 year after year end	0	1	0	0

14 Prepayments

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

15 Distribution of profit

	Parent 2021 mEUR	Parent 2020 mEUR
Dividend distributed	0	13
Proposed dividend for the year	13	0
Reserve for net revaluation under the equity method	40	41
Retained earnings	2	-9
	55	**45**

16 Provision for deferred tax

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Provision for deferred tax at 1 January	1	5	0	0
Amounts recognised in the income statement for the year	6	-1	0	0
Adjustments arising from business combinations	34	-3	0	0
Provision for deferred tax at 31 December	**41**	**1**	**0**	**0**
Intangible assets	34	4	0	0
Property, plant and equipment	1	0	0	0
Inventories	1	2	0	0
Trade receivables	-4	7	0	0
Provisions and other payables	26	-26	0	0
Tax loss carry-forward	-17	14	0	0
Transferred to deferred tax asset	61	47	0	0
	102	**48**	**0**	**0**
Deferred tax asset				
Calculated tax asset	61	47	0	0
Carrying amount	**61**	**47**	**0**	**0**

17 Other provisions

	Group 2021 mEUR	Group 2020 mEUR	Parent 2021 mEUR	Parent 2020 mEUR
Environmental obligations	17	16	0	0
Warranty commitments	20	24	0	0
Other provisions	12	10	0	0
	49	**50**	**0**	**0**
The provisions are expected to mature as follows:				
Within 1 year	8	6	0	0
Between 1 and 5 years	33	36	0	0
After 5 years	8	8	0	0
	49	**50**	**0**	**0**

Notes to the Financial Statements

18 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	Group		Parent	
	2021 mEUR	2020 mEUR	2021 mEUR	2020 mEUR
Borrowings				
After 5 years	29	1	3	0
Between 1 and 5 years	773	189	29	0
Long-term part	802	190	32	0
Other short-term debt to credit institutions	68	49	1	0
	870	**239**	**33**	**0**
Convertible loans				
Between 1 and 5 years	6	30	6	30
Long-term part	6	30	6	30
Within 1 year	0	0	0	0
	6	**30**	**6**	**30**
Other payables				
Between 1 and 5 years	0	2	0	0
Long-term part	0	2	0	0
Other short-term payables	284	238	1	0
	284	**240**	**1**	**0**

Notes to the Financial Statements

18 Long-term debt (continued)

Hempel Invest A/S has during 2020 raised a loan against the issuance of a convertible bond with an outstanding payable as of 31 December 2020 of EUR 30 million. During 2021, EUR 24 million was paid back resulting in an outstanding payable as of 31 December 2021 of EUR 6 million. The loan, which is exempt from repayment in installments, falls due and payable on 9 December 2030. The lender is at any time in the period up to the due date entitled to convert the loan (partly or in full) into shares in Hempel Invest A/S at a conversion rate of 5.000 per share at nominal value of DKK 25,000 corresponding to DKK 1,250,000 per share.

In order to achieve this overall objective, the Hempel Group’s capital management aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. The covenants terms relate to the Hempel Group’s leverage, the ratio between an adjusted EBITDA and net interest-bearing debt. At the end of 2021 the leverage ratio was 3.7 (2020: 0.7). The Group aims to maintain a leverage ratio below 2 in the long term while a higher leverage ratio is accepted when acquiring strategic businesses. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches, nor otherwise close to default, of the financial covenants of any interest-bearing loans or borrowings in the current period or in the previous period. No changes were made in the objectives, policies or processes for managing capital during 2021 and 2020.

19 Deferred income

Deferred income consists of payments received in respect of income in subsequent years.

Notes to the Financial Statements

20 Cash flow statement - adjustments

	Group 2021 mEUR	Group 2020 mEUR
Financial income	-19	-1
Financial expenses	18	25
Depreciation, amortisation and impairment losses, including losses and gains on sales	82	61
Tax on profit/loss for the year	28	18
Other adjustments	3	-2
	112	**101**

21 Cash flow statement - change in working capital

	Group 2021 mEUR	Group 2020 mEUR
Change in inventories	-27	0
Change in receivables	-45	0
Change in other provisions	1	10
Change in trade payables, etc	-32	36
	-103	**46**

22 Contingent assets, liabilities and other financial obligations

	Group		Parent	
	2021	2020	2021	2020
	mEUR	mEUR	mEUR	mEUR
Rental and lease obligations				
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	39	20	0	0
Between 1 and 5 years	93	48	0	0
After 5 years	51	18	0	0
	183	**86**	**0**	**0**
Other guarantees	8	5	0	0

Other contingent liabilities

Hempel is, through its ongoing business, involved in product liability claims and disputes in connection with the Group's operational activities. Provisions have been made to cover the expected outcome of disputes in cases where negative outcomes are likely and reliable estimates can be made. In assessing the size of the provisions, expected insurance coverage is considered separately. Hempel acknowledges the uncertainty of the disputes, but believes the cases will be resolved without significant impact on the Group's financial position.

Hempel Invest A/S has committed a total investment in other securities of EUR 45 million (2020: EUR 27 million). As of December 31, 2021 the remaining commitment is EUR 28 million (2020: EUR 20 million).

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Contruction of a factory in Zhangjiagang, China is ongoing. The construction of the factory in Zhangjiagang is expected to be completed during 2022. The total capital expenditure contracted for at the end of the reporting period related to the construction of the factory, but not recognised as In EUR million liabilities, amounted to EUR 19 million.

23 Related parties

	Basis
Controlling interest	
Hempel Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Ultimate parent company
Other related parties	
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation of 2017, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby	Related party

Transactions

All related-party transactions were carried out at arm's length.

24 Fee to auditors appointed at the general meeting

	Group	
	2021	2020
	mEUR	mEUR
PricewaterhouseCoopers		
Audit fee	2	1
Tax advisory services	1	1
Other fees	1	1
	4	**3**

Notes to the Financial Statements

25 Acquisition of enterprises

	2021 mEUR Fair value
Brand	142
Customer relationships	4
Other intangibles	4
Property, plant and equipment	111
Inventories	50
Receivables	57
Cash and cash equivalents	59
Provisions	-3
Deferred tax liability	-50
Bank loans	-158
Trade payables	-20
Other payables	-75
Net identifiable assets acquired	**121**
Goodwill	449
Net assets acquired	**570**
Outflow of cash to acquire subsidiary, net of cash acquired	**570**
Less: Cash acquired	-59
Net outflow of cash - investing activities	**511**

Notes to the Financial Statements

26 Accounting Policies

The Annual Report of Hempel Invest A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year except for the changes described under cash flow statements.

The Consolidated and Parent Company Financial Statements for 2021 are presented in mEUR.

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 cost 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.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, Hempel Invest A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

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

Notes to the Financial Statements

26 Accounting Policies (continued)

Business combinations

Acquisitions of enterprises

Enterprises acquired during the year are recognised in the consolidated financial statements from the date of acquisition. The acquisition date is the date on which the parent company effectively obtains control of the acquired enterprise.

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

The difference between the costs of the enterprise and the net asset value is recognised in the balance sheet as goodwill, which is amortised in the income statement on a straight-line basis over its estimated useful life. Goodwill and brands are amortised over 10 years.

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

Transaction costs are recognised in the income statement when incurred.

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

In respect of step acquisitions, any previously held investments in the entity acquired are remeasured at fair value at the time of acquisition. The difference between the carrying amount of the investment previously held and the fair value is recognised in the income statement.

Minority interests

Minority interests form part of the Group's total equity. Upon distribution of net profit, net profit is broken down on the share attributable to minority interests and the share attributable to the shareholders of the Parent Company. 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.

Notes to the Financial Statements

26 Accounting Policies (continued)

Minority interests are initially measured at fair value. In this way, goodwill related to the minority interests' share of the entity acquired is recognised.

On subsequent changes to minority interests where the Group retains control of the subsidiary, the consideration is recognised directly in equity.

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 alternative borrowing rate 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 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.

Translation policies

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.

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; however, see the section on hedge accounting.

Income statements of foreign subsidiaries that are separate legal entities are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity.

Notes to the Financial Statements

26 Accounting Policies (continued)

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Disaggregation reporting

Information on business disaggregation and geographical disaggregation based on the Group´s risks and returns and its internal financial reporting system. Business disaggregation are regarded as the primary disaggregations.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Group.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Production costs

Production costs comprises 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 includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs, inventory write-downs are also inclued.

Sales and distribution costs

Distribution costs costs incurred to distribute sales and for sales campaigns, including costs for sales and distribution staff, advertising costs, rent costs and depreciation of sales equipment.

Administrative costs

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

Notes to the Financial Statements

26 Accounting Policies (continued)

Other operating income and expenses

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

Government grants are recognised in other operating income at their fair value where there is a reasonable assurance that the grant will be received and Hempel will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the statement of profit and loss and presented in the same line item as the relating costs, over the period necessary to match them with the costs that they are intended to compensate.

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. The gains and loses from fair value of the derviates are inclued in the financial income and expenses.

Tax on profit for the year

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

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation with the subsidiaries is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses).

Hempel is subject to income taxes around the world. Significant judgement is required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities, and provision for uncertain tax positions.

Hempel recognises deferred income tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management's has considered future taxable income when assessing whether deferred income tax assets should be recognised.

In the course of conducting business globally, transfer pricing disputes with tax authorities may occur, and Management judgement is applied to assess the possible outcome of such disputes. Hempel believes that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

Balance Sheet

Intangible assets

Goodwill and brands acquired is measured at cost less accumulated amortisation. Goodwill and brands is amortised on a straight-line basis over its useful life, which is assessed at 10 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 direct wages, salaries, materials and other costs directly attributable to the development project.

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

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

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

Other intangible assets are measured at cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives. The amortisation period is 2-20 years.

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.

Notes to the Financial Statements

26 Accounting Policies (continued)

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction.

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	30-50 years
Laboratory equipment	10 years
Plant and machinery	10 years
Other fixtures and fittings, tools and equipment	3-10 years

Depreciation period and residual value are reassessed annually.

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

Impairment of fixed assets

The carrying amounts of 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

Investments in subsidiaries are recognised and measured under the equity method.

The item"Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

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

Subsidiaries with a negative net asset value are recognised at EUR 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Notes to the Financial Statements

26 Accounting Policies (continued)

Fixed asset investments

Fixed asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Other fixed asset investments

Other fixed asset investments consist of deposits.

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 of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

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.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums and licenses.

Notes to the Financial Statements

26 Accounting Policies (continued)

Equity

Dividend

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 there may be an outflow of economic benefits which will be required to settle the obligation.

Provisions for environmental, warranty and restructuring obligations as well as other obligations are recognised and measured based on management's best estimate of the expenses necessary to fulfil the obligations at the balance sheet date. The costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

Decommission and restoration obligations are measures at the present value of the future liability in respect of decommissioning as expected at the balance sheet date. The present value of the provision and changes in estimate are recognised as part of the cost of property, plant and equipment and depreciated together with the associated asset. Interests on provisions are recognised in the income statement under financial expenses.

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

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

26 Accounting Policies (continued)

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.

Borrowing

Long term loans, such as 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.

Other debts such as trade payables and other payables are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Pension and similar assets and obligations

Hempel operates a number of defined contribution plans throughout the world. Hempel's contributions to the defined contribution plans are recognised in the income statement in the year to which they relate. In a few countries, Hempel also operates defined benefit plans. The Group's net obligation is calculated using the projected unit credit method. Pension costs for the year are calculated based on financial expectations at the beginning of the year and actuarial assumptions primarily regarding discount rates used in determining the present value of benefits and projected rates of remuneration growth.

Discount rates are based on the market yields of high-rated corporate bonds in the country concerned. Service costs are recognised in the income statement and net interest is recognised in financial expenses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in equity in the period in which they arise. Past service costs are recognised immediately in the income statement. Pension assets are only recognised to the extent that Hempel is able to derive future economic benefits such as refunds from the plan or reductions of future contributions.

Notes to the Financial Statements

26 Accounting Policies (continued)

Cash Flow Statement

The cash flow statement shows the Group´s 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 the Group´s cash and cash equivalents at the beginning and end of the year.

Accounting policies are consistent with those applies last year, apart from the change in presentation as described below.

Previously, overdraft facilities were presented within cash and cash equivalents in the cash flow statement. Management has during the year made an assessment and concluded that overdraft facilities should not be included in cash and cash equivalents, unless in cases where credit arrangements are repayable on demand and form an integral part of Hempel's cash management. Consequently, the Group has changed classification of cash and cash equivalents to not comprise overdraft facilities.

Notes to the Financial Statements

26 Accounting Policies (continued)

The change in classification impacted the 2020 consolidated cash flow statement as illustrated below:

mEUR	2020
Proceeds from borrowings (higher)	14
Total cash flows from financing activities	**14**
Net cash flows	**14**
Cash, net, beginning of year (higher)	26
Cash, net, end of year	**40**

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 acquisition of enterprises and purchase 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

Cash and cash equivalents comprise ”Cash at bank and in hand”.

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

Notes to the Financial Statements

26 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$
EBITDA margin	$\frac{\text{EBITDA}}{\text{Revenue}}$
EBITDA	Operating profit + amortisation and depreciation