HEMPEL
Trust is earned

Annual Report 2021

Front page photo
of wind turbines.

Courtesy
of Vestas Wind
Systems A/S.

Our brand portfolio

Our portfolio of strong brands meets diverse customer and consumer needs spanning the Marine, Decorative, Energy and Infrastructure customer segments. Below is a selection of some of our products and brands.

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CVR no. 59946013
Financial year:
1 January – 31 December

Auditors
PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab
Strandvejen 44
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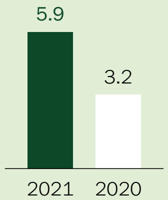
Denmark

Contents

Highlights 2021

FINANCIAL PERFORMANCE

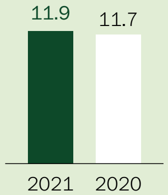
Organic growth (%)



5.9%
vs 2020

- We delivered solid growth in 2021. Reported revenue equalled EUR 1,774 million, representing absolute growth of 15.1 per cent.
- Organic growth increased to 5.9 per cent, completing ten consecutive quarters of organic growth.

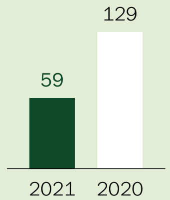
EBITDA margin (%)



11.9%

- EBITDA margin closed at 11.9 per cent, excluding M&A-related costs (11.4 per cent in reported numbers) - a very satisfactory result, despite the sharp increase in raw material costs.
- Productivity improvements, cost savings and price increases enabled us to maintain our margins in spite of the severe situation around raw material prices.

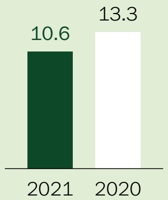
Cash conversion (%)



59%

- Cash conversion ended at 59 per cent as more working capital was tied up in our operations, mainly due to raw material price inflation and the uncertainty in supply.
- Free cash flow generated in 2021 was EUR -529 million compared to EUR 126 million in 2020, driven by investments of EUR 601 million.
- Net interest-bearing debt increased from EUR 120 million in 2020 to EUR 907 million, driven by acquisitions.

ROIC (%)

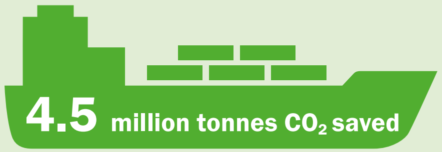


10.6%

- ROIC decreased to 10.6 per cent due to our acquisition strategy and investments in China's factories weighing on our invested capital.
- Increased operating profit positively impacted ROIC, offset, however, by a doubled average fixed asset base from our high investment levels in 2021.

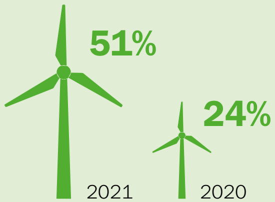
ESG PERFORMANCE

CO_2 emissions saved for our Marine customers



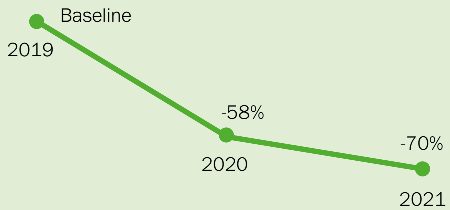
- Our Marine segment helped customers reduce CO_2 emissions by 4.5 million tonnes, up from 3.6 million tonnes reduced in 2020.
- This is a 25 per cent increase in CO_2 savings and was driven by increased demand for our advanced hull solutions, which deliver fuel savings, and thereby CO_2 reductions, by improving a vessel's hull hydrodynamics.

Renewable electricity at production sites



- 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 2021, nine production sites were fully powered by renewable electricity.

Waste to landfill at production sites



- We reduced waste to landfill at our production sites by 29 per cent compared to 2020. This is a total reduction of 70 per cent compared to our baseline year, 2019.
- In the coming years, we will expand our efforts on reducing waste in all our facilities e.g. warehouses, distribution centres, retail stores and offices.

Women in management

- Inclusion and diversity are key to how we evolve as a company. Gender equality remains a significant part of our inclusion and diversity agenda, and ensuring a balanced workforce is an important part of our strategy.
- By the end of 2021, 28 per cent of all our employees were women, and 23 per cent of management positions were held by women.

Key figures

In EUR million (unless otherwise stated)

	2021	2020	2019*	2018*	2017*
Profit and loss					
Revenue	1,774	1,541	1,534	1,346	1,378
EBITDA	203	176	157	145	171
Amortisation, depreciation and impairment	91	77	65	55	56
Operating profit	112	99	92	90	115
Net financials	-17	-28	-13	-5	-23
Profit before tax	95	71	79	72	92
Net profit for the year	66	50	50	48	55
Financial position					
Total assets	2,496	1,542	1,300	1,288	1,144
Investment in tangible assets	113	77	43	32	35
Shareholders' equity	529	456	443	408	442
Net interest-bearing debt	907	120	86	97	21
Cash flow					
Total cash flow from operating activities	72	191	71	86	155
Cash flow from acquisitions / divestments of enterprises	-511	0	-2	-16	14
Cash flow from net investments in property, plant and equipment and intangible assets	-90	-65	-33	-34	-23
Free cash flow	-529	126	51	23	144

	2021	2020	2019*	2018*	2017*
Working capital					
Net working capital (NWC) days	72	70	67	72	77
Employees					
Average number of employees	6,746	6,099	6,219	5,882	5,740
Satisfaction & Motivation**	73	N/A***	74	71	69
Ratios (%)					
Organic growth	5.9	3.2	2.5	-1.4	-0.7
Gross margin	37.9	39.1	39.0	38.2	40.9
EBITDA margin	11.4	11.4	10.2	10.8	12.4
Operating profit margin	6.4	6.4	6.0	6.7	8.3
Return on invested capital	10.6	13.3	13.6	15.1	17.2
Equity ratio	21.2	29.6	34.1	31.7	38.6
Cash conversion	59	129	86	84	116
Leverage ratio	3.7	0.7	N/A	N/A	N/A

* The Group implemented IFRS on 1 January 2020. The comparative figures for 2017-2019 are presented in accordance with the Danish Financial Statements Act.

** Answers are given on a scale from 1 to 10 and are subsequently converted to index figures on a scale from 0 to 100.

*** In 2020, due to COVID-19 and the unusual work environment, the employee engagement survey was only conducted among PC users. The data for 2020 is therefore not directly comparable to the previous years.

Hempel at a glance

Making a difference across industries to shape a brighter future with sustainable coating solutions

Marine

Marine transport is one of the most environmentally friendly ways of transporting goods, but the industry is still a big contributor to greenhouse gas emissions and is working hard to decarbonise. Our coatings help vessel owners and operators reduce maintenance needs, cut fuel consumption and lower emissions. This will lower both their operating costs and carbon footprint.

Decorative

Our products make a difference in homes, offices, schools, hospitals and public buildings. By providing paints and services that improve hygiene, lower maintenance needs, reduce cooling requirements, extend building longevity and increase fire safety, we make our world more colourful, more sustainable and longer lasting.

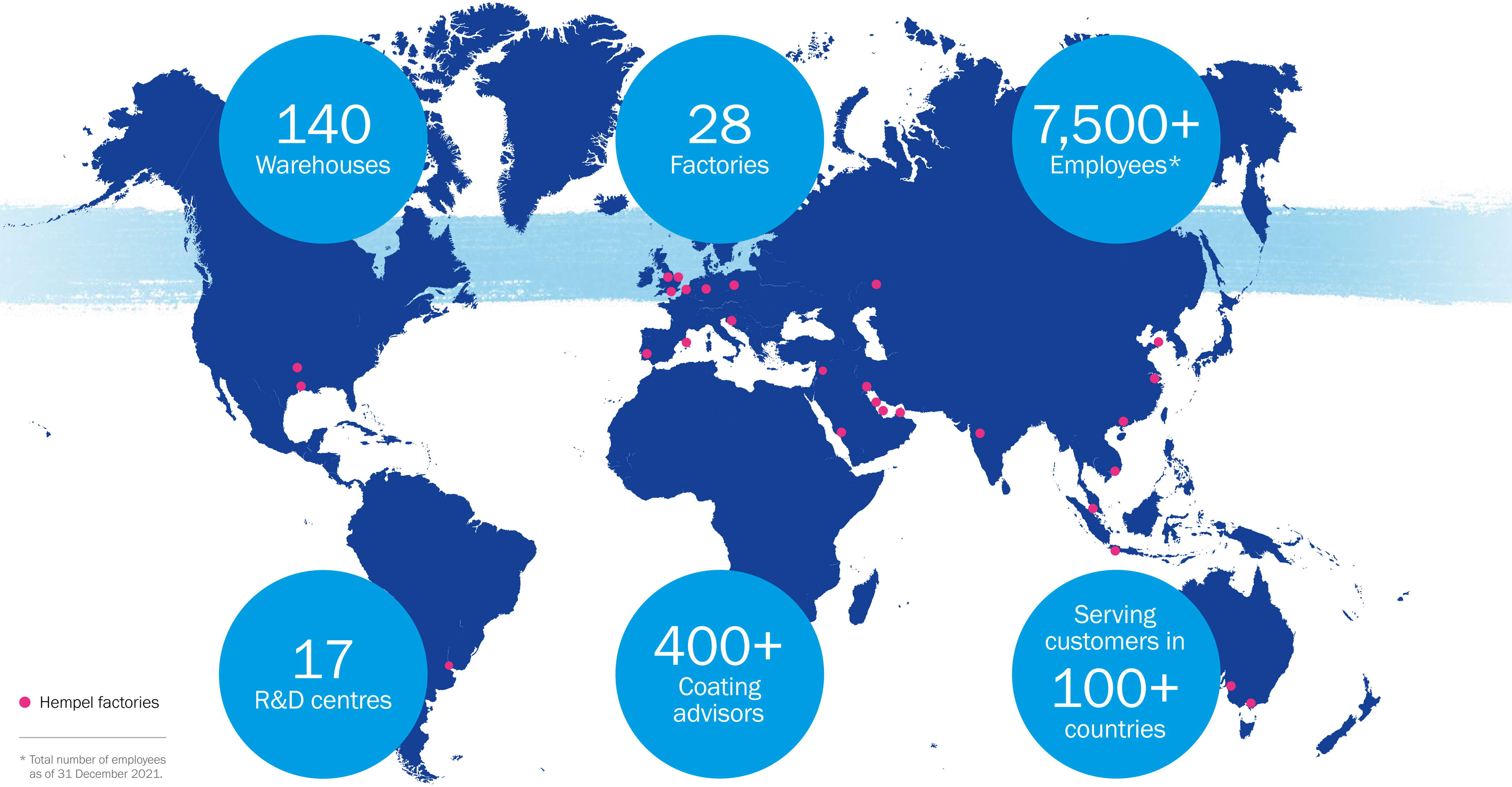
Energy

Onshore and offshore, from storage terminals to wind turbines – energy assets need to last for many years, often in very harsh and extreme conditions. We provide proven coating solutions to help our customers extend asset lifetime, reduce maintenance requirements and lower costs, while leveraging new technology and more sustainable solutions to ensure better environmental performance and competitiveness.

Infrastructure

From office buildings and bridges to large airports, the world's infrastructure assets are exposed to some of the harshest and most corrosive environments on the planet. Our coating solutions help keep structures safe and beautiful for longer while reducing maintenance requirements and emissions – to bring down costs, improve efficiency and increase sustainability.

Hempel around the world



* Total number of employees as of 31 December 2021.

How we operate

Innovate & create

- Listen to customer needs
- Make sustainability a key driver of all product development and innovation
- Partner with customers, suppliers and others to explore and create new solutions & technologies

Develop & improve

- Work with customers to test solutions in the field
- Adjust existing solutions to improve performance
- Tailor solutions to local conditions

Communicate & sell

- Understand customers' business needs
- Communicate benefits of solutions
- Ensure best possible solution for each project

Produce & supply

- Ensure fast and reliable supply & delivery to customers across the globe
- Constantly strive for greater excellence & efficiency
- Work to improve lead times & environmental performance

Advise & support

- Keep customer assets in agreed condition
- Help customers optimise processes
- Ensure efficiency & quality during application

A unique ownership

The Hempel Foundation focuses its philanthropic efforts on three main areas.

The Hempel Foundation was established in 1948 by J.C. Hempel with the primary purpose of providing a solid financial base for the continued existence of the Hempel Group. Its secondary purpose is to give assistance to good causes around the globe within three main areas; biodiversity, science and education.

Today the Hempel Foundation is a commercial foundation and still the sole owner of the Hempel Group. All dividends from our work are ultimately paid to support the good purposes of the Hempel Foundation. This makes our ownership structure unique, not only in the coatings industry, but in most industries around the world. With our unique ownership, we take a long-term view on value creation, sustainability and return on investment when pursuing growth.

In 2021 the Hempel Foundation contributed EUR 20 million to philanthropic causes. Since 2011, the Hempel Foundation has initiated projects supporting quality education for 580,000 children. 470,000 of these children are in projects that are currently either ongoing or being developed.

Sustaining nature's biodiversity.

Promoting independent research within sustainable coatings science and technology through Hempel Foundation Coatings Science and Technology Centre (CoaST) in Denmark.

Empowering children living in poverty to learn.

Letter to stakeholders

Continuous organic growth coupled with strong progress within acquisitions, customer partnerships and sustainability has laid the foundation for doubling our impact by 2025.

In Hempel, our purpose is to create a brighter future with sustainable coating solutions. As the world looks towards greater environmental, social and governance (ESG) performance, we are well placed to assist our customers as they build better business models, based on greater efficiency, lower carbon emissions and process circularity. This work begins with our own business. In 2021, we took great steps within our operations, while building key partnerships that deliver both financial and environmental value for our customers.

Strong organic growth and business performance

This year we have transitioned into presenting the Annual Report in accordance with IFRS. For further details on the transition, please see page 67.

We delivered growth in 2021 of 15.1 per cent, ending the year with ten quarters of consecutive organic growth. This was a tremendous achievement. Our organic growth of 5.9 per cent is the highest in more than ten years, marking a strong start to our *Double Impact* strategy. At the same time, our EBITDA margin was 11.4 per cent, with an EBITDA of EUR 203 million, which was in line with our outlook for 2021[1]. There were external factors at play – the infrastructure industry, for example, rebounded following a COVID-19 impacted 2020 – but ten quarters of organic revenue growth with stable EBITDA demonstrates that our work to reorganise and further professionalise our company has paid off.

The COVID-19 pandemic remains a challenge, bringing uncertainty to all countries and uneven performance to every business segment, although in 2021 the impact was more pronounced in the beginning of the year than towards the end. Since the start of the pandemic, our priorities have been clear. Our number one concern is the safety of all our employees. At the same time, we have worked to ensure our business continues to run smoothly and our customers, partners and others are safe when dealing with us. In addition, we implemented measures to protect our financial robustness and to ensure we have capacity for continued investment. These actions have proven effective and placed us in a strong position.

In 2021, supply chain shortages became an issue for many companies, and raw material prices increased in an unprecedented way. The paints and coatings industry was forced to pass some of these increases onto customers and Hempel was no exception. However, we will not allow price to be our only focus. We believe that quality has long-term business benefits, and we are taking a proactive approach and working transparently with customers.

In September, we were extremely pleased to officially open Hempel Campus, our new global headquarters and research and development centre. More than just a physical space, Hempel Campus is an investment in our people and innovation, and we look forward to collaborating here with stakeholders from different industries, countries and disciplines to create the more sustainable and impactful coating solutions that our world needs. Hempel Campus is a key element in our ambition to be a global leader within innovation and sustainability/ESG in our core business areas, and will help us attract and retain the best talent.

Doubling our impact

2021 was the first full year of our five-year *Double Impact* strategy. Our ambition is to double our business by 2025 and to increase our positive impact in terms of sustainability and ESG – and we are on track. As well as organic growth, we delivered two major acquisitions. The addition of Wattyl and Farrow & Ball have added significant value to our business, expanding our offering and geographical reach, primarily in the Decorative segment. Both acquisitions delivered on our expectations in 2021 and our joint efforts are already materialising, demonstrating the strength of our values, culture and global processes. Our two acquisitions added revenue of EUR 162 million in 2021, with expectations of an annualised full year impact in 2022 of around EUR 275 million, further adding to our growth journey.

To make sure we keep delivering on our strategic ambitions and unleash even more potential and energy to double by 2025, we have launched a new and more customer-focused way of working together in Hempel. Our work is now organised around customers in our key customer segments: Marine, Decorative, Infrastructure and Energy. 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. To reflect the new commercial structure, we have a new Executive Group Management team.

As we grow in size, so does our responsibility. As a company, we must play our part in tackling some of the biggest issues of our time: climate change and the depletion of the world's natural resources. Putting sustainability at the heart of how we do business is the right thing to do. It is also the smart thing to do. To win key customers today, we must deliver solutions that help them achieve their sustainability agendas and ESG ambitions. As we double our business, we have to detach our environmental impact, a journey we have already embarked upon.

A brighter future with Futureproof
We introduced Futureproof in February 2021. Our intention is to embed sustainability and ESG into everything we do, from our core operations and decision-making to our product development and investments. Integrating sustainability into our business is a complex transformation. Futureproof is a holistic framework that directs how we do this.

During 2021, we worked on setting CO_2 reduction targets in line with the Science Based Targets initiative. This means we are committed to reducing emissions throughout our value chain in line with what is needed to limit a global temperature rise to 1.5°C above pre-industrial levels. In November 2021, we submitted our targets to be independently verified by the Science Based Targets initiative and we expect this validation to be completed during Q1 2022. Delivering on our targets will require action from across our business as well as our wider value chain. A number of these initiatives have begun, including our commitment to run our sites on renewable energy and transition to electric and hybrid vehicles within our company fleet. We have also increased our focus on collaborating with customers and suppliers to drive sustainability performance through our supplier engagement programme as well as in other ways. We will build on and expand these efforts during 2022 to ensure Hempel is successful in reaching its ambitious and meaningful CO_2 reduction targets.

The success of our ambitions depends on the commitment, dedication and skills of our people. At its heart, Hempel is a people company – we are a success because of, and for, our employees. Over the past few years, we have put development programmes in place to ensure we all have an opportunity to develop ourselves and our careers. We supplemented these in 2021 with new programmes focused on increasing diversity and inclusion. This remains a key focus for us. We want Hempel to be a beacon for diversity and inclusion, showing how fairness and respect lead to better business outcomes. We set high standards for ourselves, and we know we can raise the bar even further to get where we want to be in 2022 and beyond.

Partnerships for the future
No company can change the world alone. Therefore, partnership sits at the centre of our *Double Impact* strategy. An excellent example is our new strategic partnership with GRI Renewable Industries, a leading manufacturer of towers and flanges for the wind sector and a long-term Hempel customer. The partnership will drive sustainability improvements and cost reductions in wind tower production – to help bring down the levelised cost of wind energy – and we look forward to working with GRI Renewable Industries towards these mutual goals.

We also continued to refine our market-leading product portfolio in 2021. For example, we launched Hempafire Pro 400, a new passive fire protection coating that ensures the structural integrity of a building for up to 120 minutes if a fire breaks out, giving people valuable time to evacuate. Hempafire Pro 400 is also optimised to reduce paint consumption and application time. We launched a new campaign for our award-winning Avantguard primers, which increase the longevity of a painted asset and so reduce the asset's lifetime carbon footprint. In addition, we added Seamflow, a new weld seam service, to our portfolio. Performed on ocean-going vessels, this service improves hull hydrodynamics to reduce fuel consumption and associated emissions, and it complements our existing portfolio of fuel-saving hull coatings. Of these, our Hempaguard range in particular continued its success, with increased sales

Richard Sand
Chair of the Board of Directors of Hempel A/S

Lars Petersson
Group President & Chief Executive Officer of Hempel A/S

strengthening our market-leading position in hull performance. As we develop even closer partnerships with customers, our combination of advanced products, targeted services, digital solutions and leading expertise is helping them meet ever-more stringent environmental standards, while significantly reducing their carbon footprint and costs – demonstrating that business and environmental benefits go hand-in-hand.

Looking ahead
As a company, Hempel has a responsibility, and the ability, to act and make a difference. We will radically advance our environmental and social performance over the next few years, with new products, partnerships and programmes. We will also expand our business and grow our profitability, so we can continue to fund the good work of our owner, the Hempel Foundation. We can only do this if we have a robust company, with financial stability and a diverse and talented group of employees, so we will continue to invest in our company and our people.

In 2022, we expect to see continuing mid to high single-digit organic revenue growth. Further, despite the unpredictable circumstances affecting raw materials, we foresee a slightly increasing EBITDA margin between 11 and 12 per cent, leading to an EBITDA of EUR 220-240 million, thanks to continuous improvements in our supply chain and investments in innovation.

Finally, we would like to thank our colleagues for all their incredible work during the year. In the face of multiple challenges, you demonstrated agility, creativity, outstanding effort and team spirit to deliver a very satisfying performance. We would also like to thank our suppliers, partners and customers for their continued trust and support. We look forward to working with you all in the coming years towards a brighter future.

1) Last year's EBITDA expectation was restated due to the transition to IFRS. Refer to section 5.8 of the financial statements for further information on the impact of the transition.

2021 in review

2021 was a year of resilience, and we proved we could adapt to a rapidly changing business landscape.

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 1,774 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 203 million and an EBITDA margin of 11.4 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 1,774

million in revenues, an increase of EUR 233 million compared to the EUR 1,541 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 446 million compared to EUR 412 million in 2020, entailing revenue organic growth of 10.8 per cent.

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[1], where the combined revenues were EUR 202 million, up from EUR 193 million.

Earnings under pressure from increasing raw material prices
Our 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 our 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.

Operating profit
Our operating profit totalled EUR 112 million, up 13 per cent compared to 2020 given our increased revenues and our newly acquired companies. Sales and distribution costs increased from EUR 396 million in 2020 to EUR 457 million in 2021 and administration costs increased from EUR 109 million to EUR 121 million. The efficiencies gained by our 'Funding the Growth' cost saving programme allowed us to redirect resources to sustainability, innovation and our commercial initiatives.

Financial income and expenses
Our net financial expenses decreased by EUR 11 million compared to 2020 to end at EUR 17 million. 2020 was impacted by net foreign exchange losses of EUR 13 million, whereas 2021 saw a net gain of EUR 3 million. Interest expenses in 2021 were slightly higher compared to 2020 due to increased debt levels, which are related to the acquisitions and factory investments.

Tax and net profit
Tax on profit for the year amounted to EUR 29 million compared to EUR 21 million in 2020. The effective tax rate was 30.5 per cent, compared to 32.5 per cent in 2020. The lower effective tax rate was driven primarily by capitalisation of previously unrecognised tax losses in China. Net profit for the year ended at EUR 66 million compared to EUR 50 million in 2020.

Cash flow and net interest-bearing debt
Our free cash flow ended at negative EUR 529 million, driven by the acquisitions of Wattyl and Farrow & Ball and the investments in our new factories, which also increased our adjusted leverage ratio to 3.7. Free cash flow in 2020 ended at EUR 126 million.

Cash flow from operating activities amounted to EUR 72 million. Despite an increase in cash flow from operations, from EUR 180 million to EUR 194 million, an additional EUR 74 million was tied up as working capital primarily due to raw material price inflation. This led to a cash conversion of 59 per cent, compared to 129 per cent in 2020.

Cash flow from investing activities amounted to a net outflow of EUR 601 million, mostly related to the acquisitions of Wattyl and Farrow & Ball. In 2021, we chose to postpone non-business-critical projects and to invest in our supply chain expansion in China to secure future growth in the region and a competitive cost base; the total outflow amounted to EUR 86 million. Other factory improvements were made around the world, mainly in Saudi Arabia and the UK. As well as improving efficiency and agility in our supply chain, these investments help ensure compliance with the latest safety regulations. Additionally, we continued the digitalisation of our company, with a total investment in digital upgrades of EUR 14 million.

[1] Niche markets include Yacht, Performance OEM, and Others.

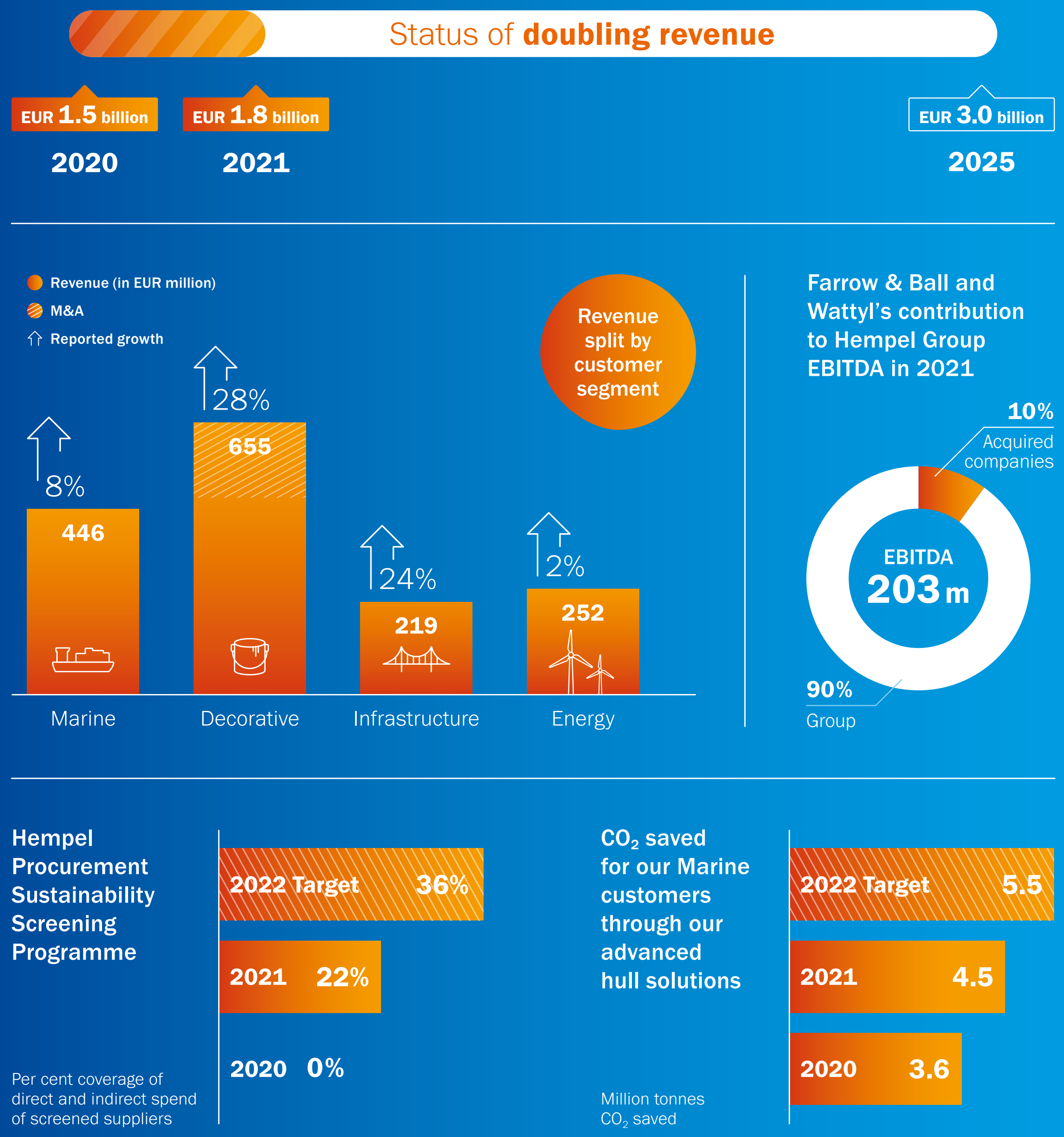
Cash flow from financing activities amounted to EUR 435 million, driven by higher utilisation of our credit facilities in order to finance acquisitions and investments. In total, our net interest-bearing debt increased by EUR 787 million to EUR 907 million.

ROIC (return on invested capital)
ROIC was 2.7 percentage points below 2020, closing at 10.6 per cent. The acquisition strategy was the main driver of the decrease. This measure still demonstrates that we remain financially solid.

Futureproofing our actions
In February 2021, we launched our Futureproof framework to embed sustainability into everything we do. Our actions are guided by the measurable ESG goals and ambitions within Futureproof's four pillars: Performance, Products, People and Partnerships. During our first year with Futureproof, we primarily focused on generating measurable improvements in our Performance and People pillars, as these lay the foundation for future work.

In 2021, we demonstrated our strong commitment to climate change mitigation as we set concrete and measurable science-based targets for our scope 1, 2 & 3[2] CO_2 emission reductions in line with the 1.5 °C pathway[3]. These targets were submitted to the Science Based Targets initiative in November and we expect them to be verified in Q1 2022. To increase transparency on our net environmental impact, we now report on our carbon emissions both in absolute emissions and per production intensity. As we grow our business, we remain committed to detaching this growth from our carbon footprint.

In 2021, our Marine segment alone helped our customers reduce CO_2 emissions by 4.5 million tonnes, up from 3.6 million tonnes reduced in 2020. This 25 per cent improve-



ment was driven by increased demand for our advanced hull solutions, which deliver fuel savings, and thereby CO_2 reductions, by improving a vessel's hydrodynamics. We have an overall target to reduce our customers' emissions by at least 30 million tonnes of CO_2 by 2025. We will do this by making sustainability a key driver in our development of new products and solutions.

Electricity from renewable sources doubled
51 per cent of the total electricity used at our production sites came from renewable sources in 2021, compared to 24 per cent in 2020. This was achieved by expanding use of grid-supplied renewable electricity at our production sites, including one of our largest sites, in Dallas, USA. By the end of the year, around one-third of our production sites ran on electricity 100 per cent from renewable sources, such as wind and hydropower.

Another big step towards zero waste to landfill
At our production sites, we reduced waste sent to landfill by 29 per cent compared to 2020. This was a total reduction of 70 per cent compared to our baseline year, 2019. More than half of our production sites are now landfill waste free, including all our production sites in Asia Pacific and in the Americas.

Phasing out hazardous raw materials
In 2021, we stepped up our programme to eliminate hazardous substances from our products, removing 970 tonnes of hazardous raw materials from our product assortment. In addition, we finalised a five-year strategic plan to reduce and phase out hazardous raw materials and expanded the criteria for hazardous substance classification.

Engaging with our suppliers on sustainability
We rolled out the Hempel Procurement Sustainability Screening Programme, our new supplier screening initiative. The screening process ensures supplier dialogue and development around key sustainability topics such as carbon footprint, energy and waste management and requires a high degree of engagement from both us and our suppliers. In the first full year of the programme, we screened 41 key suppliers covering 22 per cent of our indirect and direct spend.

Diversity
Throughout 2021, we launched a number of initiatives to promote diversity and inclusion among our employees and leaders. This included Inclusive Leadership Training for our top 265 leaders to ensure a more diverse leadership style in Hempel. Gender equality is a key aspect of this work. Currently, 28 per cent of all our employees are women. 23 per cent of management positions are held by women, up from 21 per cent in 2020. This will remain a focus area in the coming years.

An exciting future 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.

"Our resilience and responsiveness allowed us to close 2021 with organic growth of 5.9 per cent and an EBITDA margin of 11.4 per cent."

[2] Scope 1: Direct greenhouse gas emissions that originate from sites where Hempel has operational control. These emissions include natural gas and other fuel used in our production facilities and owned transportation, as well as refrigerants used at our sites.

Scope 2: Direct and indirect emissions from purchased electricity and district heating used at our production facilities.

Scope 3: All other emissions in our value chain (upstream and downstream) that are applicable and can be quantified.

[3] 1.5°C pathway: Reductions needed in order to limit global warming to 1.5 degrees Celsius (compared to pre-industrial levels) in accordance with the Paris Agreement.

We launched our *Double Impact* strategy in 2020 – an ambitious journey to double Hempel by 2025. Now a year into implementation, we remain confident that we have the right strategy to double our turnover by 2025.

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.

- 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. We have a clear direction and are optimistic about shaping a brighter future together that we can all be proud of.

Acquiring excellence

Picture from Farrow & Ball showroom in Cologne, Germany.

Hempel's acquisition this year of iconic paint and wallpaper brand, Farrow & Ball, propelled us on our strategic ambition to double our revenue by 2025 and strengthened our bid for leadership positions in key segments and geographies.

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 colours:
Strong White No.2001,
Peignoir No.286,
Off-Black No.57 in
Modern Emulsion.

"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.

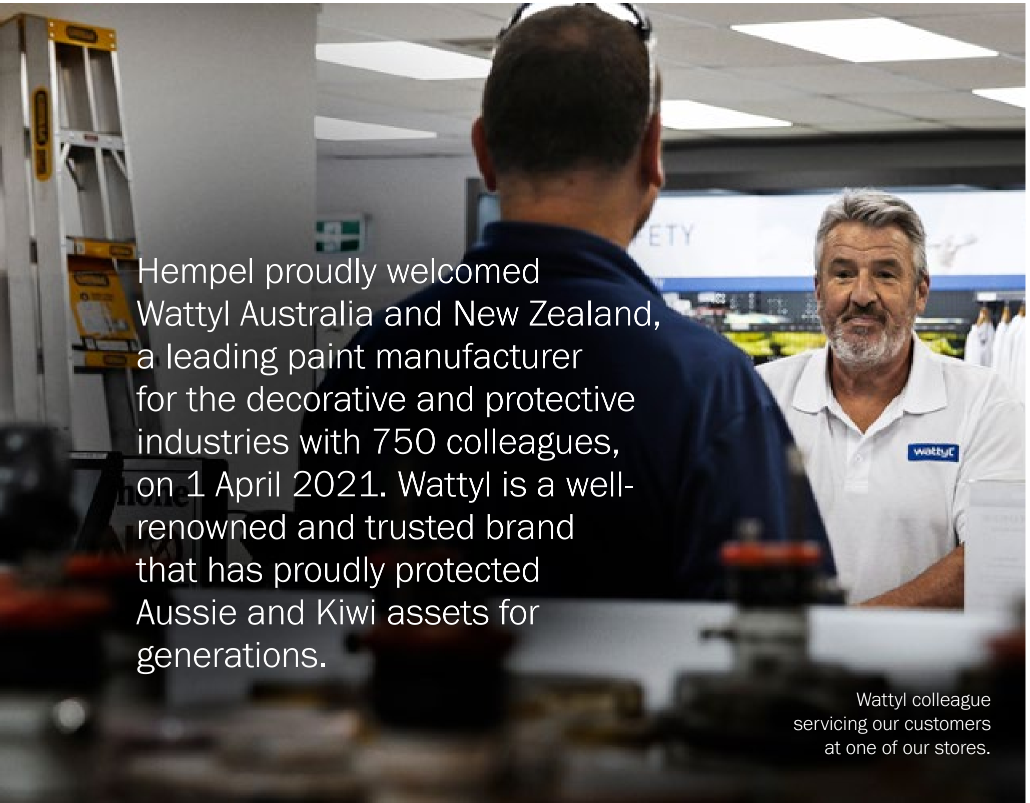
Digital connections
Farrow & Ball has a particularly advanced e-commerce capability and strong social media presence which connects the brand even more closely to its consumers. The appreciation of its colours can be seen by browsing through the brand's industry leading Instagram account which is followed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

Charlotte Cosby, who has created many of these colours as Farrow & Ball's Head of Creative, said "The most popular shades on social media are really reflective of the times we're living in – dark blues, greens and greys that are cocooning and enveloping to provide comfort, and neutrals that are complementary to these shades but also refreshing when used in their own right. People have really become a lot braver in recent years when choosing colours, and through our social media, it's great to share these stories and be able to see them brought to life."

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.

Accelerating growth in Australia and New Zealand



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 well-renowned and trusted brand that has proudly protected Aussie and Kiwi assets for generations.

Wattyl colleague servicing our customers at one of our stores.

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.

“Hempel and Wattyl share many similarities: We were both founded in 1915 by forward-looking entrepreneurs, we are the trusted partner of our customers and we have a strong spirit of innovation. This makes us a perfect fit both business-wise and culturally,” said Lars Petersson, Hempel Group President & CEO.

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.

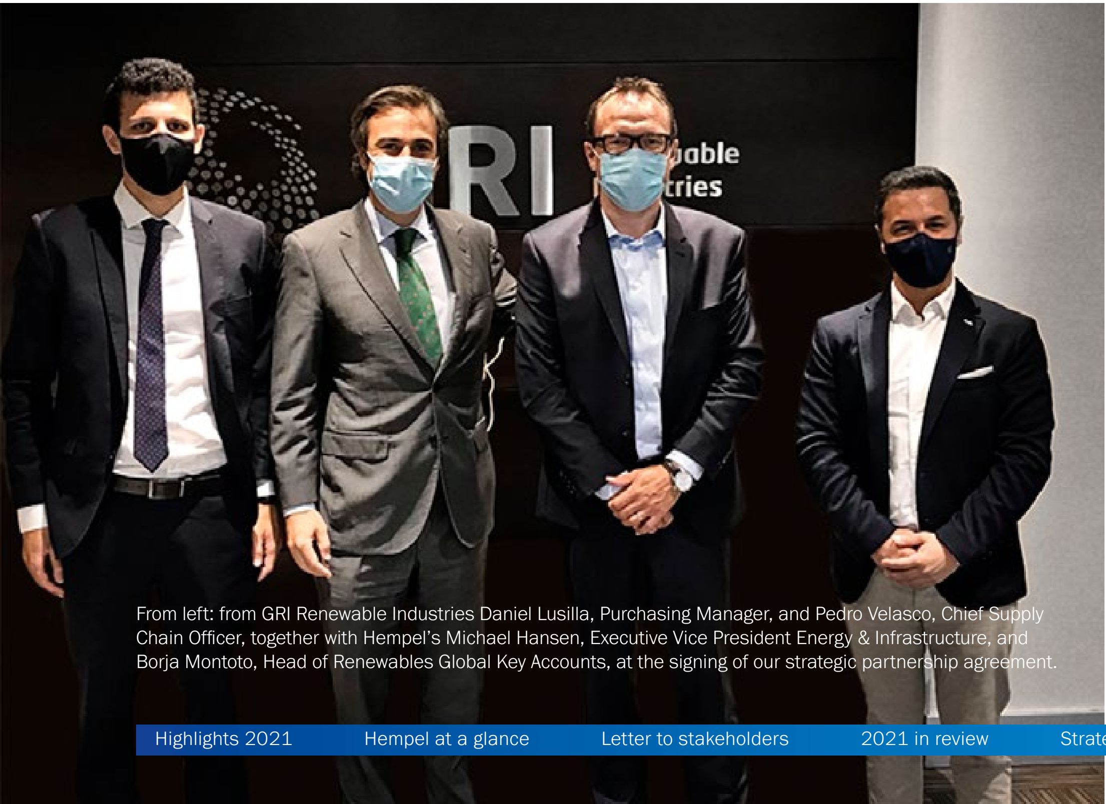
Raising our ambition level
Wattyl is not just a paint brand. It is also a retailer and service company. The Wattyl Paint Centre network of 120 company-owned stores offers leading services, colour matching, products and project advice to the homeowners and businesses across Australia and New Zealand that 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.

“Becoming a member of the Hempel family was a significant marker for our great Wattyl brand and our team. As part of Hempel, we can accelerate the growth and development of our local business. We will leverage our complementary knowledge, expertise and market strengths to set new standards for paint, coating solutions and services in Australia and New Zealand. We are proud to contribute to the global growth of Hempel,” said Matt Crossingham, Managing Director, Wattyl ANZ.

Trusted partnerships

We are partnering with our customers to support the transition to more sustainable solutions.



From left: from GRI Renewable Industries Daniel Lusilla, Purchasing Manager, and Pedro Velasco, Chief Supply Chain Officer, together with Hempel's Michael Hansen, Executive Vice President Energy & Infrastructure, and Borja Montoto, Head of Renewables Global Key Accounts, at the signing of our strategic partnership agreement.

We build meaningful partnerships with customers to create new, innovative and more sustainable solutions that solve their business challenges and help them meet their sustainability targets.

2021 was a pivotal year in the transition to a green economy, as legislative organisations, investors, politicians and consumers increased pressure on industry to take meaningful action on climate change. A clear and target-driven sustainability agenda is now a business-critical requirement. For many businesses, achieving these sustainability targets while maintaining profitability is only possible by forging trusted partnerships with suppliers and other stakeholders.

Across the marine, decorative, infrastructure and energy industries, we are partnering with customers and suppliers to support the green transition. As a trusted partner, we put sustainability at the heart of how we do business, and we focus on innovation and co-creation – developing new solutions with our customers and suppliers that drive efficiency, reduce costs and lower carbon footprint. This has seen us build a robust innovation pipeline targeting specific customer needs. In 2021, we launched new products and solutions, entered into new partnerships and extended existing collaborations, with companies including GRI Renewable Industries, see page 46.

Marine

Reducing operating costs and emissions

We supply coatings for every area of a vessel, as well as complementary services. Our solutions focus on efficiency, to help customers reduce costs and improve environmental performance.

Today, decarbonisation is the marine industry's biggest challenge. In 2021, this focus was sharpened when the International Maritime Organisation announced two new measures: the Energy Efficiency Existing Ship Index (EEXI) and the Carbon Intensity Indicator (CII). The measures come into force in 2023. To meet them, most ship owners will need to invest in greater fuel efficiency.

Aside from the engine, the hull coating is the biggest factor in improving fuel efficiency. Therefore, our premium hull coatings such as Hempaguard are a key part of many company's decarbonisation plans. These coatings improve hull hydrodynamics, which reduces fuel use and associated carbon and sulphur emissions, and they deliver a faster return on investment than other available energy efficiency technologies. We quantify hull coating impact through customised business case simulations. Done on a vessel or fleet basis, these ensure the customer has accurate data on the cost of ownership, return on investment and CII/ EEXI impact of our coatings prior to investment.

For example, the tanker company Euronav has applied Hempaguard to 28 vessels since 2015. Data shows that these coatings, in addition to other efficiency measures taken by Euronav, have reduced fuel use on each vessel by an average of 1,000 tonnes per year*. As well as significant monetary savings, this equates to a reduction in CO_2 emissions of 3,100 tonnes per vessel. 2021 was a record year for Hempaguard in terms of sales, with more than 30 applications a month. We expect further growth in the future.

Hempel remains the leader in documented fuel efficiency and we continue to invest in our hull management solutions. In 2021, we added hull inspection and advisory services to our offering. We now provide a full range of data-driven services that enable vessel operators to maximise fuel savings and minimise emissions on multiple vessels. We also added Seamflow, a new innovative weld seam service. Performed on ocean-going vessels, this improves hull hydrodynamics to reduce fuel consumption and associated emissions, complementing our existing portfolio of fuel-saving hull coatings. As the marine industry is becoming increasingly consolidated, we also reshaped our marine organisation to better support our global customers.

* Calculation based on 3.11 tonnes of CO_2 emissions per tonne of fuel.

+8.3%

Marine revenue

- Growth in the marine customer segment was driven by our products that meet increased market demand for more sustainable solutions.
- 2021 revenue ended at EUR 446 million corresponding to an increase of EUR 34 million.

Our coatings help vessel owners reduce maintenance needs, cut fuel consumption and lower emissions, thereby lowering both operating costs and carbon footprint.

Decorative

To inspire, transform and protect

Our Decorative customer segment has grown rapidly over the last ten years, primarily through strategic acquisitions of established brands and businesses, including Crown Paints, Farrow & Ball, J.W. Ostendorf, Renaulac and Wattyl. Today it is Hempel's largest segment. With a strong footprint in Europe, Australia, New Zealand and the Middle East, Decorative has a unique set-up that we expect will ensure strategic growth to EUR 1 billion by 2025.

Hempel Decorative provides a comprehensive range of coatings products and services that enable our customers to create beautiful spaces that last. From quality on-trend colours for the home and high-performance products for commercial environments, to private-label solutions for do-it-yourself (DIY) chains, we serve both consumers and trade professionals in over 25 countries through a variety of distribution channels, including national retailers, independent merchants, e-commerce sites and over 260 company-operated stores.

We aim to inspire and innovate with all our products and services. These core values are evident in some of our most recent initiatives:

- Crafted by Crown is a new premium consumer paint collection that celebrates the unique heritage of British and Irish craft industries. Launched in July, it features a classic colour palette, three unique quality finishes and offers a smarter, more sustainable way to choose colour with recyclable pure paint swatches instead of paint tester pots.
- Col.r is a new high-quality paint brand developed by J.W. Ostendorf for leading DIY chain Bauhaus. Produced with a water-based formulation, the range boasts an extremely low VOC content as well as packaging made from recycled materials. The indoor range was launched in April 2021, and the outdoor range will follow in early 2022.
- We continue to expand our colour consultancy and specification services with market-leading digital tools to help homeowners, architects and designers choose the right schemes and products for their projects. This year alone new initiatives included the launch of the Crown Paints Professional website, WatSpec™ , Wattyl's online specification tool, and an expanded Farrow & Ball virtual colour consultancy offering .

Our strong sustainability focus underpins everything we do. From biocide-free formulations and recycled packaging to waste reduction and circularity initiatives, we are committed to shaping a brighter future by enabling our businesses and customers to make more responsible choices.

Kitchen space painted in Crown Paint's exclusive Easyclean formulation made to resist moisture and steam. The powerful green colour used, Emerald Vision, makes this kitchen look both vibrant and refreshed.

2021	2020
655	512

+27.9%

Decorative revenue

- Wattyl and Farrow & Ball helped our Decorative customer segment to close with a positive revenue development, despite the COVID-19 normalisation after an extraordinary 2020.
- 2021 revenue ended at EUR 655 million corresponding to an increase of EUR 143 million.

Energy

Improving performance in extreme conditions

From wind turbines to storage terminals, energy assets need to last for many years, often in very harsh conditions. We provide proven coatings and services for the energy industry that target application efficiency and asset longevity, to help our customers increase productivity and reduce maintenance requirements.

In recent years, many energy majors have diversified into alternative energy markets, while the wind industry has expanded rapidly, especially offshore. As an experienced supplier to both the traditional and renewable energy industries, we are playing an important role in the green energy transition. Our products and services help energy producers reduce costs and emissions, during both application and operation. By applying this know-how to new renewable energy installations, we are helping bring down the total cost of energy per kilowatt hour.

At the same time, we continue to work with customers across the energy industry to develop new solutions. In the oil & gas segment, we expanded our portfolio with the addition of unique insulation technology. Combining the new technology with internal expertise, we created a new insulation coating system that significantly reduces heat loss compared to current coating alternatives. This lowers energy use, and so helps customers reduce their operating costs and carbon footprint. The coatings are also less flammable than alternative insulation technologies, such as wool or fibre, reducing the risk of fire.

In the wind industry, we completed development of our new leading edge protection coating system. On a wind turbine, the blade's leading edge presents a unique challenge. Erosion of the leading edge can dramatically reduce blade efficiency and energy production. Therefore, blades need regular repair, leading to increased costs that impact the levelised cost of energy (LCoE) for owners. Our new Hempablade Edge solution, launching in 2022, can extend maintenance intervals and ensure blade efficiency is maximised for longer.

Energy revenue
- Helping our customers to increase productivity and decrease maintenance frequency enabled our Energy customer segment to rebound from COVID-19.
- 2021 revenue ended at EUR 252 million corresponding to an increase of EUR 5 million.

Testing Hempablade Edge, our new Leading Edge Protection solution for wind blades, at our rain erosion test facility in Denmark.

Infrastructure

Protecting our world's buildings, businesses and infrastructure

From bridges and buildings to transportation hubs, infrastructure assets need proven solutions to keep them safe and attractive, while also reducing long-term maintenance requirements. We supply a range of products and services to meet these needs.

We grew our infrastructure business in 2021, especially in Asia. Much of this growth came from the launch of new products that focus on helping customers lower costs and improve sustainability performance. This included our Avantguard primers with Triple Activation. Our industry-changing patented Avantguard technology challenges the standard for asset protection in harsh environments, delivering superior corrosion protection with extended durability and reduced maintenance needs. This increases the longevity of a painted asset and reduces the asset's lifetime carbon footprint. Avantguard primers can also be applied at lower dry film thicknesses while maintaining industry-standard protection and are fast drying and easy to apply. Avantguard 550 has been of particular interest to our infrastructure customers, as they benefit from the same level of protection as a zinc-rich epoxy but with reduced zinc content. All in all this improves the customers' sustainability impact.

We also continued to expand our expertise, customer support and product offering within passive fire protection (PFP). In January, we launched Hempafire Pro 400, a best-in-class coating that provides up to 120 minutes fire protection. Hempafire Pro 400 is optimised for low dry film thicknesses, which reduces paint consumption, VOC emissions and time during application. Our PFP coatings have now been applied to many buildings, including the Indian datacentres of a global e-commerce market leader, several stations for Philippines Railway and Sandwell Aquatic Centre in the UK.

Due to both local legislation and owner demand, many buildings increasingly require 'green building' certification, such as LEED (Leadership in Energy and Environmental Design). To support our customers in this, we performed certified lifecycle analysis on key infrastructure coatings in 2021, including products from our Hempafire, Hempathane and Hempaprime ranges. These products now have environmental declarations, including lifecycle carbon footprint, as required for green building certification.

Our patented Avantguard technology helps our customers' coating systems last longer and protects assets regardless of the environment they are in.

Infrastructure revenue

- Accelerating activity, key customers, and innovative products enabled Infrastructure not only to rebound from COVID-19, but to reach an all time high revenue level.
- 2021 revenue ended at EUR 219 million, corresponding to an increase of EUR 42 million.

Corporate governance

Improving our control systems to ensure the highest levels of compliance across the business.

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.

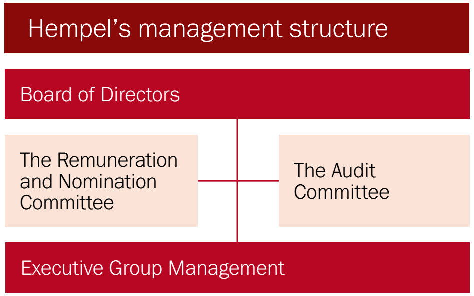
Management structure
The Hempel Group is organised as one global commercial organisation with global technology and operations, and global support functions. Our commercial teams focus on supporting our customers, both locally and globally. They are responsible for operational execution and have full profit/loss responsibility. Our global support functions ensure process excellence, functional leadership and operational synergies across the Group.

The Executive Group Management consists of the CEO, plus the heads of our three commercial segments and four group functions. This new organisational structure, implemented in 2021, ensures that our teams can provide the best possible service to our customers, both globally and locally. The global support functions and the strategy team enable management to drive group-wide initiatives, and help speed up decision-making processes and strategy execution. We have offices in around 50 countries and serve customers in more than 100 countries. We insist that management fully empowers all employees and includes them in our strategy execution, as this is required for success in a global and highly competitive industry. Our new way of working supports this and, to an even greater extent, will help us achieve our goal of doubling by 2025. The Hempel Group operates an Annual Management Cycle, a yearly management wheel that ensures our management teams across the globe understand and share a common vision.

Board of Directors
The Board of Directors consists of six members elected by the shareholder at the Annual General Meeting and three employee members elected by the employees based in Denmark. Board members elected by the shareholder at the Annual General Meeting are elected for an annual term and can be elected up until the Annual General Meeting in the calendar year in which the member reaches 70 years of age. Employee representatives are elected in accordance with the Danish Companies Act, for terms of four years. An election took place in 2019.

Composition and responsibilities of the Board of Directors
The composition of the Board of Directors is a mix of professional Board members and members with executive positions. This composition is deemed appropriate as it provides a good balance between knowledge, competencies and experience.

The Board of Directors is responsible for safeguarding the interests of the shareholder, while also considering all other stakeholders. At least once a year, the Board of Directors assesses its most important tasks, based on the overall strategic direction of the Hempel Group and including the financial and managerial supervision of the Group. As part of its assessment, the Board of Directors evaluates the performance of the Executive Group Management on a continual basis. The Board of Directors and Executive Group Management have a formal agreement with the Hempel Foundation, the



ultimate owner of the Hempel Group, regarding decisions that must be presented to the Hempel Foundation for agreement.

Competencies of the Board of Directors
Hempel is a global leader and, to successfully develop and maintain its position, Hempel is dependent on global expertise and experience at Board level. Hempel's Board of Directors strives to recruit Board members with a diverse range of mutually complementary skills and expertise. When the Board of Directors proposes new Board members, a curriculum vitae and thorough description of the candidate's qualifications are made available to the shareholder.

Today, the Board of Directors is a diverse group of individuals with a mix of global experience, functional competencies and industry backgrounds, which ensures that the Board of Directors can fulfil its obligations. As well as in-depth knowledge of Hempel's business, Board members possess expertise within a wide range of areas, from innovation, product development, online marketing and commercialisation through to finance and human resources. Each year the Board of Directors carries out a self-evaluation of its competencies and skills, including those of the Chair and of individual Board members. The evaluation is carried out systematically, using clearly defined criteria to ensure the Board constantly improves both its own performance and its cooperation with the Executive Group Management.

Tasks managed by the Board of Directors in 2021

2021 was the first year of our *Double Impact* strategy and the Board of Directors oversaw and assessed several important topics. During the year, raw material prices rose rapidly and the Board worked with the Executive Group Management to mitigate the financial impacts. Further, the Board was consulted on, and approved, the two large acquisitions completed in 2021 as well as our new commercial structure.

Diversity

The Board of Directors believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. Accordingly, the Board of Directors has set a target of having at least two female shareholder-elected Board members. This was reached in 2018. However, the board composition changed in 2021 as one of the female Board members left the Board. The current target is maintained and expected to be reached before 2025. We always look for female candidates during recruitments. Including employee-elected representatives, the Board of Directors includes a total of three female members and six male members. The Executive Group Management consists of two female members and six male members. More information on our initiatives to increase diversity and the percentage of women at other management levels in Hempel can be found on page 44.

Remuneration

Hempel offers its Board of Directors and Executive Group Management remuneration that is competitive with industry peers and other global companies, as this enables it to attract and retain competent and professional business leaders and board members. Remuneration of the Executive Group Management includes a fixed salary and common fringe benefits, such as a company car and telephone, as well as bonus payments in the form of an annual cash bonus and a long-term cash-based incentive scheme.

The annual cash bonus payment is contingent upon the fulfilment of individual performance goals and the realisation of specific financial targets for revenue, EBITDA and working capital. The annual cash bonus cannot exceed 70-100 per cent of the individual's fixed salary. The long-term cash-based incentive scheme was launched in 2018 and comprises rolling three-year cash-based bonus programmes. The outcomes of the programmes are calculated annually and accumulated over the three-year period and potential payments are made in the first quarter of the year after the programme expires. The ongoing programmes, launched in 2019 and 2020, are all based on the realisation of financial targets for EBITDA and ROIC in each of the programmes' three years. In 2021, a new programme was launched based on accumulated EBITDA for the three-year plan period (2021-2023). Profit between an EBITDA threshold and a cap is shared between Hempel and the participants. The share of the profit allocated to participants is based on the relative units held by the individual participant; the allocation of units is based on the individual's position.

The annual management cycle 2021

Hempel Summer School	Board Strategy Day	Hempel Leadership Summit
Leaders review and refine the company strategy.	The Executive Group Management meets with the Board to review the strategy plan.	Leaders gather to set the agenda for the year ahead.

Above the cap, 100 per cent of the additional EBITDA is allocated to Hempel.

All programmes are subject to additional vesting criteria based on the realisation of minimum financial targets for the entire three-year period. The long-term cash incentive program payout cannot exceed 110-220 per cent of the individuals fixed annual salary. The total pay-out over a 3-year period cannot exceed 250 per cent of one years fixed salary (for the period 2021-2023). The Board of Directors determines annually whether to instigate new programmes and, if so, the scope and objective of said programmes.

The Executive Group Management has severance agreements in line with market terms. Conditions for notice of termination are determined individually for each member of the Executive Group Management. The company has a general fixed termination notice of 12-18 months if given by the company and six months if given by a member of the Executive Group Management. Members of the Board of Directors receive fixed remuneration and do not participate in any incentive programmes.

Board committees

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

The Remuneration and Nomination Committee

According to its charter, the Remuneration and Nomination Committee assists the Board of Directors with the recruitment of its executives. In addition, it assists with the establishment of remuneration for the Group's executives and helps ensure that the Group's general remuneration policies are balanced appropriately and that the existing long-term incentive programme is aligned with comparable listed companies. Furthermore, the Remuneration and Nomination Committee advises and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Group Management must have to best perform their tasks. Each year, the committee evaluates the Board of Directors and the Executive Group Management, and makes recommendations to the Board of Directors in regard to any changes. The committee helps prepare the

Board of Directors' work by selecting candidates with the assistance of a professional global search firm. The committee convenes as necessary. However, it has two fixed meetings during the year, in February and November.

The Audit Committee

According to its charter, the Audit Committee's work includes assisting the Board of Directors with fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit process, the Group's process for monitoring compliance with laws and regulations and its Code of Conduct, as well as risk management. Further, the Audit Committee reviews the annual reports, accounting policies and accounting estimates. In 2021, the committee reviewed the continued roll-out of the ERP platform and the transition to IFRS, as well as the continued strengthening of cybersecurity and the internal controls framework. The Committee oversaw integration following the two large acquisitions and a tender process for Hempel's external audit. Further, the Committee was consulted on the re-financing of Hempel's loan agreements.

Meeting activity 2021

Board of Directors	
21 February	09 November (Strategy Day)
23 April	24 November
14 June	
28 September	

Audit Committee	
24 February	27 September
08 June	23 November

Remuneration and Nomination Committee	
26 February	24 November

In addition, the committee reviewed the Group's whistleblower reporting system and whistleblower cases, the main accounting principles and judgments, tax compliance and enterprise risk management framework.

Internal Audit function

The Group Internal Audit function reports to the Group Chief Financial Officer with a dotted line to the Audit Committee. The Head of Group Internal Audit meets separately with both the Audit Committee and the Group's external auditor at least once a year. During 2021, the Internal Audit function continued to provide assurance through remote audits due to COVID-19 and other activities. The results and recommendations were reported to local management, Executive Group Management and the Audit Committee.

In accordance with its charter, the Audit Committee annually considers the need for an Internal Audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether an Internal Audit function is required. The Board of Directors' assessment, which is based on the company's size, complexity and risk management, is that the internal audit function and the plans laid out are adequate to provide risk-based and objective assurance to the Hempel Group.

Business ethics and compliance

Hempel's commitment to business ethics and compliance with international regulations and internal policies is anchored in its Code of Conduct, Business Ethics Policy and other internal corporate guidelines. These outline the fundamental requirements for how Hempel operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners. To ensure and document employees' familiarity with the Code of Conduct, Business Ethics Policy and other key policies, relevant employees electronically sign off on their compliance within specific areas. In 2021, all Hempel employees except production, warehouse and store staff completed employee Code of Conduct e-learning with a pass rate of 100 per cent. Hempel's compliance framework was further strengthened in response to increasing complexity in international trade.

The whistleblower reporting system

Hempel has had an internal whistleblower reporting system since 2012. The current whistleblower system, launched in 2017, enables any employee or external stakeholder to anonymously report potentially irregular or unethical conduct through an internet portal, by email or via a local phone number. The system is an important tool to ensure that allegations of irregular or unethical conduct are reported and addressed quickly. All reports are treated confidentially and followed up by an objective and independent investigation.

All reports are reviewed by the Compliance and Corporate Responsibility Director, who recommends appropriate action to the Ethics Committee. The Ethics Committee then approves how to handle reported issues and decides on appropriate action following the investigation, including disciplinary action. The Audit Committee has an oversight role and reviews both the effectiveness of the system for monitoring compliance with laws and regulations and the results of compliance investigations and follow-up, including disciplinary action. The Ethics Committee consists of: The Group Chief Financial Officer, Group Chief People & Culture Officer and Group General Counsel.

You can read more about our work in this area, including reporting statistics from our whistleblower system, on pages 47-48.

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.).

Our approach to tax

Sustainability is integrated into our *Double Impact* strategy and decision-making processes, including how we approach and pay tax.

Taxes are important for societies to help fund development, education, healthcare, infrastructure, etc. We have over 7,500 employees across more than 50 countries, serving customers in more than 100 countries and had global revenue exceeding EUR 1,774 billion in 2021. As such, we are a global company and taxpayer.

Global taxes are a complex area with many technical considerations and different tax systems across the world that do not always align on cross-border activities. The international tax system is slowly evolving to manage these challenges. We believe that we can help ensure that dialogue about an international tax system is based on facts. Being transparent about our tax affairs is part of this.

Tax governance

We are committed to being open and transparent about how we conduct our tax affairs and ensuring the highest level of tax compliance with laws and regulations in every country where we operate. We believe this is a key part of being a responsible corporate citizen.

Our Tax Policy is built upon these two pillars of ensuring a high level of compliance and being transparent, and it contains the principles, guidance and expectations, set by Hempel's Board of Directors, for how all Hempel Group companies should approach tax. It applies to the entire Hempel Group, including all directors, managers and employees who are involved in, or whose actions impact, the management of taxes within the Hempel Group, and to all types of taxes (direct, indirect, collected and borne). Our Tax Policy is reviewed, amended as needed and approved by the Board of Directors annually. It can be found on hempel.com/about/ethics-and-compliance

COMPLIANCE

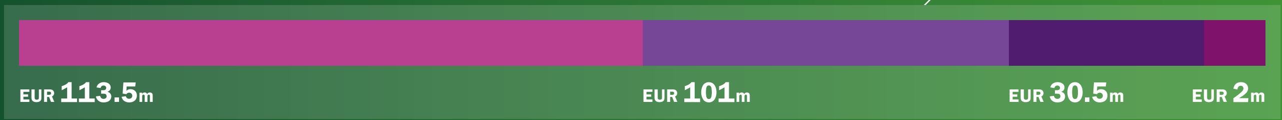
- We have global policies and procedures to ensure that our taxes are correct and paid on time.
- We commit to complying with the letter of the law and the spirit of the law.
- We commit to only undertaking transactions with commercial substance.
- We commit to paying taxes in the jurisdictions where value is created.
- We file tax returns everywhere required by local legislation.

TRANSPARENCY

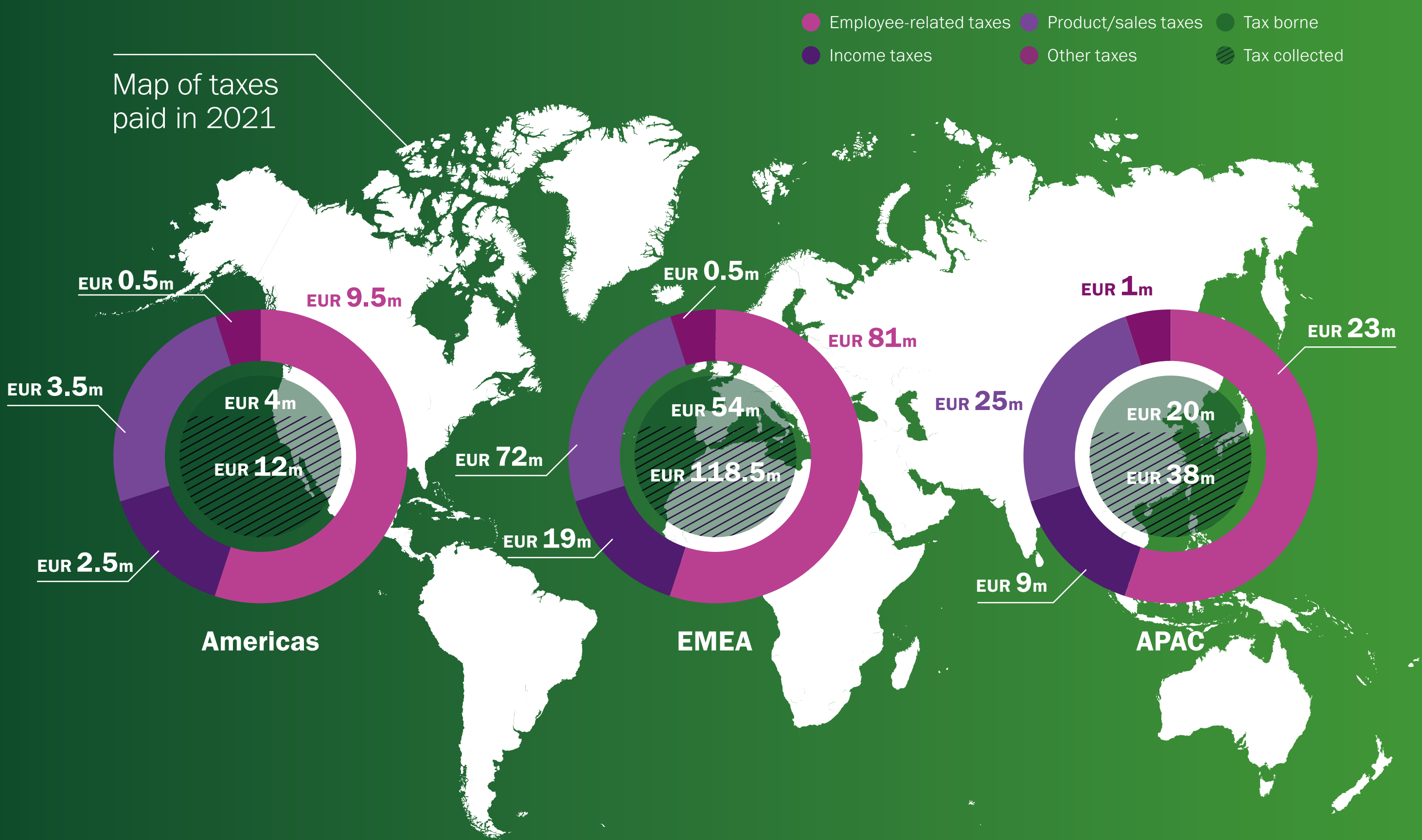
- We provide regular information to our external stakeholders about our approach to tax and taxes paid.
- Where appropriate, we disclose information about our tax position and the choices we make, as long as such disclosures do not damage our business or the business of our partners.
- We take active part in the global and local debate on tax. Through our participation in Dansk Industri's Tax Panel, we provide input to Danish and EU tax legislation if relevant.

Global tax footprint

Total tax footprint



Map of taxes paid in 2021



Hempel Group

In 2021, Hempel's global tax footprint was EUR 247m, including EUR 30.5m of profit taxes.

EUR 1,774m
Gross revenue

EUR 95m
Profit before tax

EUR 29m
Corporate tax accrued

EUR 30.5m
Corporate tax paid

7,500+
Employees

Focus areas within tax in 2021

Tax risk management requires understanding where tax risks arise and having clear guidelines on how to deal with tax risks in order to achieve our objectives and strategy. Risks can occur due to a changing political landscape, business changes, unintended internal errors, factual disagreements, etc.

In 2021, we filed 100 per cent of our tax returns within the deadline set by the relevant tax authority. In addition, the Group Tax team further developed our tax risk management framework to improve how we identify, assess, manage and monitor tax risks arising from internal processes, business transactions and external changes, such as new legislation. As part of this, we implemented updated controls to reduce the risk of mistakes in our tax processes and ensure we achieve the highest level of tax compliance. We will continue to improve our tax risk management framework and controls, through the use of technology in particular.

Transparency
After launching our Futureproof sustainability framework in February 2021, we adjusted our approach to transparency within our tax affairs. We chose to make our Tax Policy publicly available and began working towards greater transparency about our tax contribution. We engage with industry bodies, business forums and civil society about tax matters. Major changes to the international tax system, as well as local tax reforms, were announced in 2021, including the EU Green Deal and the US tax reform. We are committed to engaging openly about these changes.

We maintain a proactive and transparent relationship with tax authorities. In 2021, we laid out how our relationships with tax authorities should be conducted.

- We act in a professional and courteous manner.
- We respond to the tax authorities' inquiries in a timely and transparent manner.
- Where appropriate and possible, we engage in early dialogue with the tax authorities if significant uncertainties related to tax matters apply to our business operations.

We believe behaving in this way will reduce the risk of disputes or damages to Hempel's credibility or reliability if uncertainties exist in tax regulations or if tax matters are inadvertently incorrect.

Transfer pricing
We seek to pay taxes in the countries where value is created. In doing so, we follow Organisation for Economic Co-operation and Development (OECD) guidance and apply the arm's length principle to intercompany transactions. These are benchmarked against comparable transactions to non-related parties (e.g., customers or suppliers) and reviewed to ensure the profits are aligned with value creation.

Because of the development in the strategic direction of the Hempel business over the past years, we are adapting our transfer pricing model on a continuous basis to reflect any changes in the business model and to ensure that taxable profits at all times reflect where value is created. In 2021, we made two acquisitions. Following these, our transfer pricing model was reviewed and updated to ensure that it remains aligned with the business.

"It is our policy to apply best practice and continuously work to reduce tax risks that will inevitably emerge, in particular because of ever-changing global tax legislation."

Risks

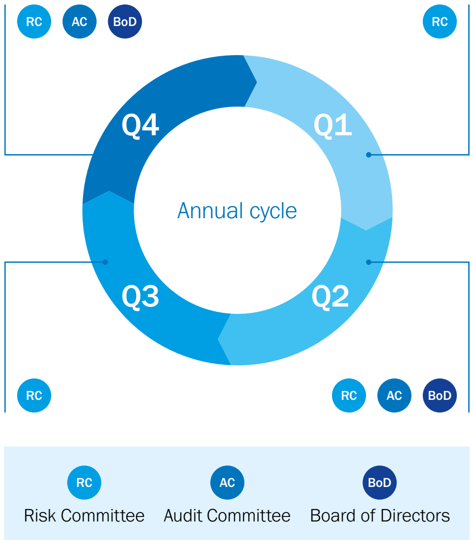
Effective risk management is a key component in our day-to-day operations and the execution of our strategy.

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 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

Enterprise Risk Management wheel



Vice President & CFO. 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.

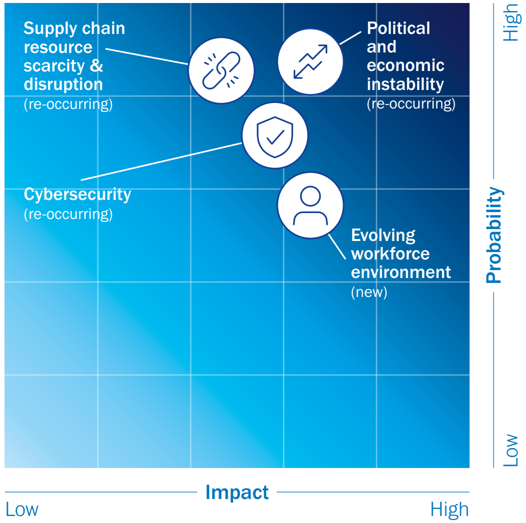
Main risks in 2021

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. As described on pages 34-35 in this report, 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.

The main risks in the risk matrix are described on pages 34-35.

Risk matrix



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 macro-economic 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.

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.

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.

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. As described on page 41 in this report, this is guided by the most recent climate change scenarios as expressed by the Intergovernmental Panel on Climate Change.

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.

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.

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.

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.

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.

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.

Our purpose is to shape a brighter future with sustainable coating solutions. We are embedding sustainability into our business model, for the good of our customers, our business and our planet.

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.

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 CO_2 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. In the Environmental Data section on pages 56-58, we now report on our carbon emissions both in absolute terms and as per production intensity. 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.

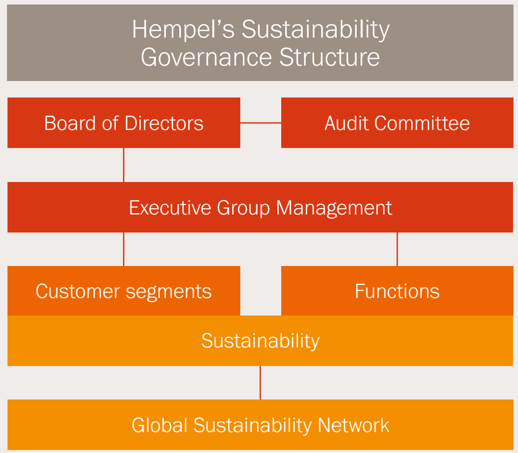
Wiring sustainability into key decision-making

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.

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.



Board of Directors
Sets the strategic direction and approves sustainability targets for Futureproof on an annual basis. The Board further monitors progress on targets and initiatives on a quarterly basis. Ad hoc sustainability regulation and initiatives are also addressed at Board meetings on an ongoing basis throughout the year.

Audit Committee
Oversees the reporting and assurance of sustainability data.

Executive Group Management
Decides on strategic sustainability topics and approves annual Futureproof priorities and funding. Is accountable for the success of Futureproof.

Customer segments
Operates via designated segment business leads from the Group Sustainability team, which, together with the customer segments, are responsible for the successful implementation of Futureproof and accountable for reaching the agreed ESG targets.

Functions
Responsible for the success of Futureproof within their functional areas and accountable for reaching the agreed ESG targets.

Sustainability
Strategic lead on sustainability. Enables the implementation and further development of Futureproof. Leads the Global Sustainability Network.

Global Sustainability Network
The network acts as the engine for executing on Futureproof. It consists of designated sustainability anchors within segments and functions globally with the purpose to share and implement best practices as well as ensuring a joint direction. The network meets on a monthly basis.

One year with Futureproof

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.

You can read more about our actions and ambitions in the following pages, which also constitute our Communication on Progress (CoP) as required by the UN Global Compact and information required by the Danish Financial Statements Act §99a and 99b. Read more about our business model on pages 6-8.

Disclosure requirements, cf. §99a and 99b of the Danish Financial Statements Act

Disclosure requirements	See page
99a	
Policies on	
• Human rights	• 46
• Worker and social conditions	• 44-45, 49
• Environment and climate	• 40-43
• Anti-corruption	• 46-48
Due diligence process	• 36-49
Activities during the year	
• Human rights	• 44-49
• Worker and social conditions	• 44-45, 49
• Environment and climate	• 40-43
• Anti-corruption	• 46-48
KPIs and results	• 4, 14-15, 36-48, 56-59
Sustainability risks	• 32-35
99b	
Diversity in the Board of Directors (including current gender composition and target)	• 27
Diversity in management (including policy, activities during the year and results)	• 44-45

We support the UN Sustainable Development Goals and UN Global Compact. We are also proud members of the Valuable 500 and the EV100 Climate Group.

Valuable 500
CLIMATE GROUP EV100
WE SUPPORT UN GLOBAL COMPACT
SCIENCE BASED TARGETS

For our performance we will

- Be carbon neutral in our own operations by 2025
- Introduce a five-year plan for reducing and phasing out hazardous raw materials
- Accelerate our efforts towards biocide-free products in all segments
- Achieve zero waste to landfill by 2025 at our production sites
- Halve the amount of scrapped finished goods and raw materials by 2025
- Introduce a water programme in 2021

Performance

We are futureproofing our business growth by radically reducing our environmental footprint.

Products

We are futureproofing our solutions to help our customers achieve their sustainability ambitions and to advance both our and our customers' competitive position.

For our products we will

- Make sustainability a key driver of all product development and innovation
- Reduce customer emissions by at least 30 million tonnes CO_2 by 2025
- Ambitiously reduce customer waste
- Introduce a comprehensive circularity roadmap in 2022
- Achieve 50% recycled content in primary plastic packaging by 2025

FUTURE**PROOF**

Turning ambition into action

With our partners we will

- Reduce CO_2 emissions in our value chain based on science-based targets in accordance with the 1.5 °C pathway
- Promote and further good ethical behaviour and environmental practices in Hempel's supply chain
- Engage systematically and proactively with our customers to establish sustainability partnerships

Partners

We are futureproofing our value chain through open and positive partnerships.

People

We are futureproofing our culture by setting ever higher standards on safety, fairness, inclusivity and healthier working practices.

For people we will

- Build an even stronger safety culture and eliminate all Lost Time Accidents and other injuries
- Champion and promote physical and mental health, and well-being
- Achieve the target of 30% women in general workforce and management by 2025
- Promote inclusion and diversity in relation to gender, age, culture, ethnicity, physical and mental abilities, religious beliefs, and sexual orientation
- Create a framework for fair compensation, equal pay for equal work and insurance
- Provide flexible benefits to fit employee lifestyle & preferences
- Introduce an extended family support programme

On performance

Futureproofing our business growth by radically reducing our environmental impact.

Towards a 1.5°C pathway
Our goal is to achieve carbon neutral operations by 2025. We took our first steps towards this target in 2021 by, for example, switching more of our electricity consumption to renewable sources.

Our Performance goals

- Be carbon neutral in our own operations by 2025
- Introduce a 5-year reduction plan for phasing out hazardous raw materials
- Accelerate our efforts towards biocide-free products in all segments
- Achieve zero waste to landfill by 2025 at our production sites
- Halve the amount of scrapped finished goods and raw materials by the end of 2025, even as we double in size
- Introduce a water programme in 2021

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Operational resilience

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.

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 warehouses, 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 CO_2 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.

Our targets for 2022 include:

- Achieve verification from the Science Based Targets initiative of our targets for scope 1 & 2 CO_2 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
- Develop a climate adaptation strategy, guided by the most recent climate change scenarios as expressed by the Intergovernmental Panel on Climate Change

On products

Futureproofing our solutions to help our customers achieve their sustainability ambitions.

Sustainability as a cornerstone of success
Customers increasingly expect their suppliers to help them deliver on their own sustainability commitments. Our products and services help our customers make their ships more fuel efficient, keep buildings cooler, improve fire safety to potentially save lives and extend the lifetime of their assets.

We always challenge ourselves to do more. So, we constantly evolve our offer and build new value propositions for customers; pioneering new ways to combine services, technology and products to deliver transformative solutions that further support customers' sustainability goals.

Our goals within Products

- Make sustainability a key driver of all product development and innovation
- Reduce customers' emissions by at least 30 million tonnes of CO_2 by 2025
- Ambitiously reduce customer waste
- Introduce a comprehensive circularity roadmap in 2022
- Achieve 50% recycled content in primary packaging by the end of 2025

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Towards circular solutions

Sustainability product scorecard
We have embedded sustainability criteria into our new solution process so that more sustainable solutions are prioritised. In 2021, in order to further embed sustainability as a key driver of all product developments, we developed a sustainability product scorecard. The tool enables us to quantitatively assess our development of prototypes and finished products based on sustainability criteria and data material to our sector. We are using this to drive our product assortment towards improved sustainability solutions for our customers and to enable them to make informed choices based on their sustainability targets. Once fully implemented in 2022, this tool will significantly change the way we innovate and sell our products.

In addition, we established a New Solutions Portfolio Board in 2021 and introduced a sustainability score into criteria for prioritising new solution projects.

Decarbonising the marine industry
One of our key goals is to reduce our customers' emissions by 30 million tonnes of CO_2 in 2025. In 2021, our Marine segment alone helped our customers reduce CO_2 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 CO_2 reductions, by improving a vessel's hull hydrodynamics.

In 2021, the International Maritime Organisation (IMO) announced new regulations designed to reduce CO_2 emissions. As vessel fuel consumption is the number one cause of CO_2 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 CO_2 emissions by approximately 39,000 tonnes.

CO_2 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.

On people

Futureproofing our culture by setting ever higher standards on safety, fairness, inclusivity and healthier working practices.

Becoming a beacon
We believe our company should be a lighthouse for employee development, leadership, diversity and inclusion, as well as social responsibility, across the globe. We strive to create a workplace where we can all thrive as individuals, and collectively as one Hempel.

Our work was still affected by the COVID-19 pandemic in 2021, but we remained focused on the safety and mental well-being of our people, whether they work in a factory, lab, office or at home.

Our People goals
- Build an even stronger safety culture and eliminate all Lost Time Accidents and other injuries
- Champion and promote physical and mental health and well-being
- Achieve a target of 30% women in the general workforce and management by 2025
- Promote inclusion and diversity in relation to gender, age, culture, ethnicity, physical and mental abilities, religious beliefs and sexual orientation
- Create a framework for fair compensation, equal pay for equal work and insurance
- Provide flexible benefits to fit employee lifestyle and preferences
- Introduce an extended family support programme

At our core

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.

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.

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.

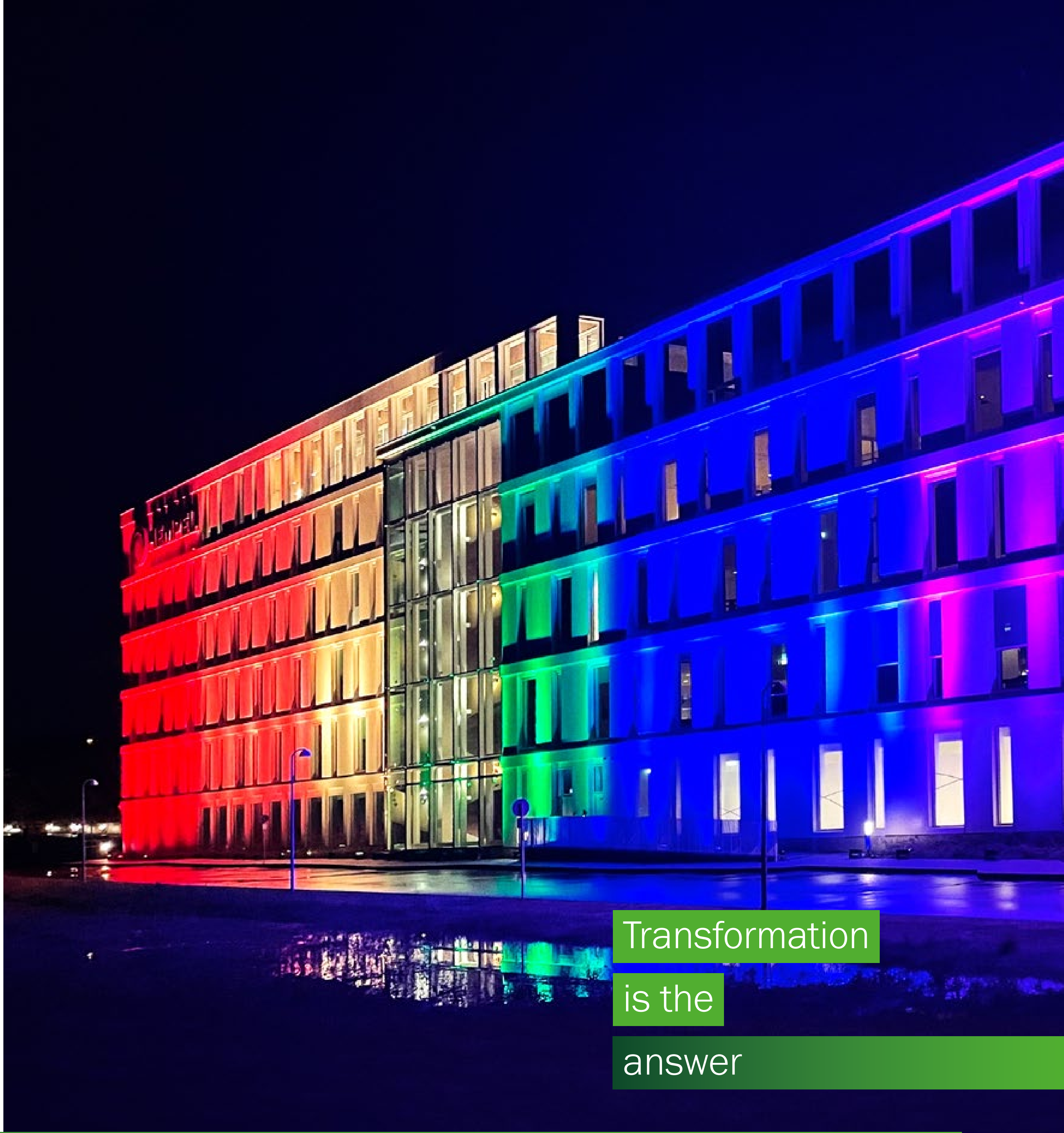
Looking ahead

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.



On partners

Futureproofing our value chain through open and positive partnerships.

Building partnerships for the future
It is not possible to achieve sustainability leadership in a bubble. We need to work in collaboration with our suppliers, customers, academia and other stakeholders to raise standards, inspire breakthrough innovation and challenge traditional practices. We actively seek new opportunities to partner with our customers, suppliers and experts who can support us in meeting our goals and commitments.

With our partners we will:

- Reduce CO_2 emissions in our value chain based on science-based targets in accordance with the 1.5 °C pathway
- Promote and further good ethical behaviour and environmental practices in our supply chain
- Engage systematically with our customers to establish sustainability partnerships

Together for impact

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.

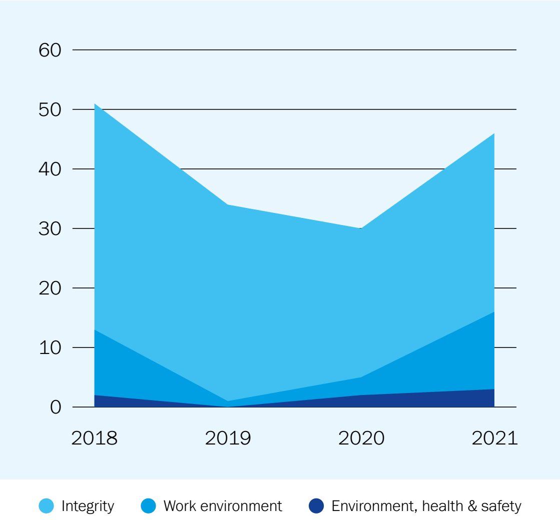
Conflict minerals
We do not use conflict minerals – such as tantalum, tin, gold or tungsten – or their derivatives in our products. We are in compliance with the new EU Conflict Minerals

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

Whistleblower statistics



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

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.

Looking ahead

In 2022, our focus includes:

- Achieve verification from the Science Based Targets initiative of our target for scope 3 CO_2 emissions
- Co-create to develop the solutions that address our customers' most pressing sustainability challenges
- Continue implementing supplier screening, involving 65 new suppliers and increasing the accumulated spend coverage to 36%

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

Wattyl collaborated with Sydney based artist Jay Kay, who used Wattyl products to showcase the beauty of colour and transform studios and workplaces across Sydney with mural artwork.

FUNDING EDUCATION IN CHINA

Hempel China donated a total of RMB 100,000 to support 40 students at the Chemical Engineering colleges of Tianjin and Nanjing University. Also, RMB 100,000 was donated to a primary school in the Sichuan Province, to be used for teacher training and development.

PROVIDING RELIEF TO COMMUNITIES HIT BY THE ICE STORM IN TEXAS

Hempel America raised money for The Family Place, an organisation that empowers and provides a safe space for victims of family violence. With the donation, the shelter was able to aid those in need with food, repair the shelter, provide temporary housing for families and continue services for victims of family violence.

CYKELNERVEN

Hempel is one of the main sponsors of Cykelnerven, an annual charity event of the Danish Sclerosis Society, which raises funds that will ultimately enable a world without sclerosis. An important cause for all of us. Every year, 600 people are diagnosed with sclerosis in Denmark. 250 bike riders join the event every year. This year, 11 Hempel colleagues joined the four-day event in France and we can all be immensely proud of their achievements and contribution to this good cause.

MENTAL HEALTH AWARENESS IN AUSTRALIA

Wattyl provided paint to The Blue Tree Project, an Australian non-profit organisation that raises awareness about mental health, to paint a dead tree blue as part of a campaign focusing on feeling blue, standing strong and reaching out for support.

COVID-19 RELIEF CAMPAIGN IN INDIA

Hempel employees raised EUR 26,000 to help employees and marginalised communities most hit by the second COVID-19 wave in India. Together with our NGO partner Habitat for Humanity, Hempel also donated beds, PPE kits and other items to frontline health workers and hospitals.

BEAUTIFYING COMMUNITIES

Hempel's trusted products have also been used to create murals and beautify communities across the globe. A modern, aesthetic Arabic calligraphy mural was painted in Mecca, Saudi Arabia. Another mural in Morecambe, England was painted to represent The Wakes Week's heritage – a holiday period when people in factory towns would rush to Morecambe.

PARTNERING WITH ARTISTS AND ART SCHOOLS

Crown Paints partnered with the Manchester School of Arts and artist Lothar Götz to create a show-stopping exhibition featuring an immersive site-specific wall installation.

Management's statement

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

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and the Parent Company Financial Statements have been prepared in accordance with the Danish Financial Statements Act. Management's Review has been prepared in accordance with the Danish Financial Statements Act.

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

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

In our opinion, the ESG data have been prepared in accordance with the accounting policies applied. They give a fair presentation of Hempel's environmental, social and governance performance.

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

Kgs. Lyngby, 25 February 2022

Lars Petersson
Group President &
Chief Executive Officer

Lars Jønstrup Dollerup
Executive Vice President
& Chief Financial Officer

Executive Group Management

From left: **Alexander Enström**, Executive Vice President of Marine, **Pernille Fritz Vilhelmsen**, Chief People & Culture Officer and Executive Vice President of People & Culture, **Michael Hansen**, Executive Vice President of Energy & Infrastructure, **Joe Devitt**, Executive Vice President of Decorative, **Katarina Lindström**, Chief Operations Officer and Executive Vice President of Technology & Operations, **René Overgaard Jensen**, Vice President of Strategy & Transformation, **Lars Jønstrup Dollerup**, Executive Vice President of Finance & Digital and Chief Financial Officer, **Lars Petersson**, Group President & Chief Executive Officer.

The Board of Directors

Richard Sand
Chair
Serving on the Board since 2009 and as Chair since 2010.

Eric Alström
Deputy Chair
Serving on the Board since 2017.

Karsten Munk Knudsen
Chair of the Audit Committee
Serving on the Board since 2021.

Susanna Schneeberger
Serving on the Board since 2018.

Søren P. Olesen
Serving on the Board since 2018.

Leif Jensen
Serving on the Board since 2011.

Mark Terrell Sutton
Elected by the employees
Serving on the Board since 2019.

Helle Fiedler
Elected by the employees
Serving on the Board since 2015.

Independent auditor's report

To the Shareholder of Hempel A/S

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2021 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2021 and of the results of the Parent Company's operations for the financial year 1 January to 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 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 statement of comprehensive income and cash flow statement for the Group ("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.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view; and
- 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, 25 February 2022

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

Independent limited assurance report on the ESG data 2021

To the stakeholders of Hempel A/S

Hempel A/S (Hempel) engaged us to provide limited assurance on the ESG Data for the period 1 January - 31 December 2021 on pages 58-59 in the Annual Report for Hempel for 2021.

Our conclusion
Based on the procedures we performed and the evidence we obtained, nothing has come to our attention that causes us to believe that the ESG Data on pages 58-59 in the Hempel Annual Report 2021 have not been prepared, in all material respects, in accordance with the ESG Accounting Policies stated on pages 56-59.

This conclusion is to be read in the context of what we say in the remainder of our report.

What we are assuring
The scope of our work was limited to assurance over the ESG Data on pages 58-59 in Hempel's Annual Report.

Professional standards applied and level of assurance
We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial

Information' and, in respect of the greenhouse gas emissions stated on page 58, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board'. Quantification of greenhouse gas emissions is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements in the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour and ethical requirements applicable in Denmark.

PricewaterhouseCoopers applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements. Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

The ESG Data needs to be read and understood together with the ESG accounting policies (pages 56-59), which management of Hempel is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the ESG Data. In doing so, we:

- Conducted interviews with data owners to understand the key processes and controls for reporting site performance data;
- Obtained an understanding of the key processes and controls for measuring, recording and reporting the ESG Data;
- On a sample test basis agreed and reconciled reported data to underlying documentation;
- Performed analysis of data from reporting sites, selected based on risk and materiality to the Group; and
- Evaluated the evidence obtained.

Management's responsibilities

Hempel's management are responsible for:

- Designing, implementing and maintaining internal controls over information relevant to the preparation of the ESG Data that are free from material misstatement, whether due to fraud or error;
- Establishing objective accounting policies for preparing the ESG Data;
- Measuring and reporting the ESG Data based on the accounting policies and the content of the ESG Data.

Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the ESG Data are free from material misstatement, and are prepared, in all material respects, in accordance with the ESG accounting policies;
- Forming an independent conclusion, based on the procedures we have performed, and the evidence obtained; and
- Reporting our conclusion to the stakeholders of Hempel A/S.

Hellerup, 25 February 2022

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

ESG data & accounting policies

Scope and consolidation

Unless otherwise stated, the ESG Data are reported based on the same principles as the financial statements. Thus, the ESG Data include consolidated data from the parent company Hempel A/S and subsidiaries controlled by Hempel A/S. The environmental indicators cover all activities at locations where we have production. This includes 28 factories and 17 R&D centres in 23 countries, referred to below as 'Hempel sites'.

Data from acquisitions and divestments are included/excluded from the date of acquisition/divestment.

Toll manufacturing

The calculation of CO_2e from toll manufacturing is based on the amount of product that has been manufactured at external partners, which is registered in our ERP system, under the assumption that one tonne of toll-produced goods requires the same energy and waste generation as for Hempel production (i.e. the impact of these third-party emissions is estimated using the Hempel average material, energy and waste impacts per tonne of paint).

Changes made to historically reported data will only be commented on if material.

Environmental data

All of our environmental data is presented in absolute numbers, as well as intensity. The intensity data is given as the absolute data/1,000L paint produced. The volume of paint produced is calculated based on production data in our ERP system.

Energy (kWh)

Energy consumption is defined as the energy used at Hempel's production sites and includes the amount of electricity, fuel, refrigerant top-up, district heating and gas consumption registered in our SharePoint system. Electricity consumption at Hempel sites is based on power monitors. All remaining energy consumption at Hempel sites is consolidated based on invoices.

In 2021, we expanded the reporting boundaries of energy consumption to include warehouses and Wattyl, our newly acquired company. The numbers are therefore not directly comparable year to year. If we compare the energy consumption in 2021 with 2020 and exclude warehouses and Wattyl, we see a reduction of energy consumption of 4 per cent from 2020 to 2021.

Waste generation (tonnes)

Waste generation is based on amounts of waste recorded from all Hempel sites with production, including factories, R&D facilities and warehousing, which is registered in Hempel's SharePoint system. Waste generation is measured based on invoices or supporting documentation, such as weighing documents.

As the 2021 reported data on waste includes an expanded reporting boundary (includes all warehouses and our acquired company, Wattyl), the numbers are not directly comparable year to year. If we compare the reduction of waste to landfill in 2021 with 2020, and exclude warehouses and Wattyl, we see a reduction of waste sent to landfill of 29 per cent from 2020 to 2021.

Carbon footprint scope 1 (tonnes CO_2e)

Scope 1 covers direct emissions originating from Hempel sites. Scope 1 emissions are linked to the energy used in the form of fuel (fuel oils and natural gas) as well as refrigerants (top-up) used by Hempel, which is registered in our SharePoint system. The consumption of fuels is converted to CO_2e emissions by applying relevant Greenhouse Gas Conversion Factors for Company Reporting from the Department for Business, Energy & Industrial Strategy (previously Defra) for the relevant year.

Carbon footprint scope 2 (tonnes CO_2e)

Scope 2 covers indirect emissions from purchased electricity and district heating at Hempel sites, which is registered in our SharePoint system. The consumption of electricity and district heating is converted to CO_2e by applying the relevant emission factors (market or location based).Sites using renewable electricity contribute with zero emissions in the market based approach.

Carbon footprint scope 3 (tonnes CO_2e)

Scope 3 covers all the relevant categories in the Greenhouse Gas Protocol. The emission factors used to convert to CO_2e are from the following datasets:

- Ecoinvent 3.4
- Intergovernmental Panel on Climate Change (IPCC) (2013)
- Department for Business, Energy & Industrial Strategy (BEIS) Greenhouse Gas Conversion Factors for Company Reporting (2020 v.1) (BEIS GHG)
- BEIS input/output emission factors for indirect supply chain emissions (2020 v.1) (BEIS indirect)

- BEIS Recovery Rate from Non-Hazardous Construction and Demolition Waste for the UK and England (2016) [BEIS waste]

Category 1: Purchased goods and services
For purchased goods and services, office supplies and incidentals, a spend-based approach is used. The spent data are extracted from our financial system and converted to CO_2e using (BEIS indirect) emission factors. Subcategory 1.2 (Raw materials and packaging) uses an average data approach. The calculation of CO_2e from ingredients used in Hempel's production is based on the type and amount of raw materials consumed during the year, which is registered in our ERP system. For each type of raw material, a relevant conversion from Ecoinvent 3.4 or IPCC (2013) characterisation factors is applied to the amount used. The calculation of CO_2e from packaging used in Hempel's production is based on volumes purchased by material type during the year, which is registered in our ERP system. For each type of packaging, a relevant conversion factor from BEIS GHG is used.

Category 2: Capital goods
A spend-based calculation method is applied to this category. The spent data are extracted from our financial system, and converted to CO_2e using BEIS indirect conversion factors.

Category 3: Indirect energy
This category includes emissions from three activities: upstream emissions from purchased fuels; upstream emissions from purchased electricity; and transmission and distribution (T&D) losses. The detailed information from Scope 1 and 2 emissions is converted to Scope 3 emissions using BEIS GHG.

Category 4: Upstream transportation and distribution
This category includes emissions from the transportation and distribution of our raw materials, as well as products to our customers, that are not transported by Hempel owned or controlled vehicles. The reporting in this category is distance-based. The distance is converted to CO_2e using BEIS GHG.

Category 5: Waste generated in operations
The calculation of CO_2e from waste generation is based on waste reported (as described in the Waste generation section) and is converted to CO_2e using BEIS GHG.

Category 6: Business travel
A hybrid approach is used for business travel emissions. The distance-based method is applied for business air travel using data provided by Hempel's travel agency. Business Travel by Air with Radiative Forcing emission factors are used from the BEIS GHG.
The spend-based calculation is deployed for terrestrial business travel by taxi, rental car and train. Taken from Hempel financial data and converted to CO_2e using BEIS indirect emission factors.

Category 7: Employee commuting
This category contains emissions from the transportation of employees between their homes and their worksites. The average-data method is applied to estimate the emissions from employee commuting based on the national average commuting patterns.

Category 9: Downstream transportation and distribution
This category contains emissions related to distributing our products from our customers' delivery locations to their retail stores. A distance-based approach is used for this category, and converted to CO_2e using BEIS GHG emission factors.

Category 11: Use of sold products
This category covers direct use phase emissions (VOC emitted from products), as well as indirect use phase emissions (energy used in surface preparation and application of products).

Volatile Organic Compounds (VOCs) in products
The calculation of CO_2e from VOCs in products is based on the amounts of VOCs in products sold (i.e. grams per litre of product sold). Data relating to products sold are registered in our ERP system and the VOC content of the ingredients used in our production is registered and managed in our QHSE system, Chemmate. All VOCs are converted to carbon dioxide equivalent emissions using xylene as a representative profile.

Energy for application of products
The volume of sold paint is calculated based on production data in our ERP system. The data are split per country and recommended application method of the product. The relevant country-specific emission factor (IEA dataset) is utilised for the energy consumption determined for each country. To account for surface preparation, an average coverage of the sold products is calculated based on products supplied. The CO_2e is calculated based on the abrasive blasting emission factor found in literature [$kgCO_2e/m^2$].

Category 12: End of life treatment
The waste-type specific method is applied on total production tonnages at Hempel owned and toll manufacturing sites. A reduction of 15% is made to product volumes for paint lost to the environment during application (see also category 10.1 for the calculation of emissions related to VOCs in products). The average waste recovery rates for 2010 to 2016 are used to determine total waste per treatment method, based on BEIS waste statistics.

The following categories were deemed insignificant or not relevant for Hempel: Category 8: Upstream leased assets; Category 10: Processing of sold products; Category 13: Downstream leased assets; Category 14: Franchises; Category 15: Investments.

In 2021, we expanded the reporting boundaries of scope 3 to include all significant and relevant categories and Wattyl, our newly acquired company. The numbers are therefore not directly comparable year to year. If we compare absolute emissions of total scope 3 and exclude the expanded reporting boundaries in 2021, we see an increase of 8 per cent in absolute emissions and a neutral intensity development from 2020 to 2021.

Environmental data	2021*	2020	2019
Energy and waste			
Energy (kWh)	95,757,274	95,248,110	104,555,353
Energy (kWh/1,000 L paint produced)	263	245	269
Waste generation (tonne)	17,784	20,377	22,189
Waste generation (kg/1,000 L paint produced)	49	52	57
Waste to landfill (tonne)	1,630	1,666	3,934
Waste to landfill (kg/1,000 L paint produced)	4	4	10
Carbon footprint			
Carbon footprint scope 1 (tonnes CO_2e)	8,952	8,193	8,808
Carbon footprint scope 2 (tonnes CO_2e) Location based	25,195	26,644	29,344
Carbon footprint scope 2 (tonnes CO_2e) Market based	20,758	31,679	34,281
Carbon footprint scope 3 (tonnes CO_2e)**	2,803,278	1,902,794	1,922,694
Carbon footprint scope 1 (tonnes CO_2e / 1,000 L paint produced)	0.02	0.02	0.02
Carbon footprint scope 2 (tonnes CO_2e / 1,000 L paint produced) Location based	0.07	0.07	0.08
Carbon footprint scope 2 (tonnes CO_2e / 1,000 L paint produced) Market based	0.06	0.08	0.09
Carbon footprint scope 3 (tonnes CO_2e/1,000 L paint produced)**	5.68	4.30	3.84

* Reporting boundaries are expanded to include warehouses and acquisitions in 2021.
** Scope 3 reporting includes the data for all categories except category 8, 10, 13, 14 and 15.

In preparing the environmental data, management is required to make judgments, estimates and assumption that affect the amounts reported. The estimates and assumptions are based on experience and various other factors that management considers to be reasonable under the given circumstances. In general, carbon footprint Scope 3 emissions have a higher degree of judgment and complexity for which changes in the assumptions and estimates could result in different outcomes than those recorded and presented in the environmental data.

SOCIAL DATA

Scope & consolidation
Data relating to Lost Time Accidents (LTAs) are reported according to operational scope, which means that data are included with 100 per cent consolidation for operations where Hempel A/S is responsible for safety, including the health and safety of external workers.

Lost Time Accident frequency (number/1,000,000 working hours)
We use LTAs as a key measure of workplace safety. LTA frequency is calculated as the number of lost time accidents per one million working hours.

LTAs are defined as occupational accidents recorded in our SharePoint system that have resulted in at least one day's absence following the day of the accident, as recommended by a medical professional. Days such as weekends, holidays and vacation are included. If the employees go to work, even though the licensed health care professional has advised not to, the accident will be reported as an LTA. Similarly, if the employee stays away from work without recommendation from the licensed health care professional, it has to be reported in SharePoint as a non LTA. Only accidents involving employees employed directly or supervised by Hempel are reported. Accidents occurring when commuting to or from work are not included. The number of working hours used to calculate the LTA frequency is based on the number of full-time employees working for Hempel, multiplied by the most recent OECD average for actual working hours of 1,687 hours per employee per year (2020).

Consumption of red raw materials (kg/1,000 L paint produced)
Red raw materials is a subset of raw materials used in Hempel's production, which is monitored and compiled in our ERP system. The consumption of red raw materials is calculated as tonnes of red raw materials registered in our ERP system per 1,000 litres of product produced. The volume of paint produced is calculated based on production data in our ERP system.

A raw material is considered a red raw material if it carries any of the following hazard classifications according to the UN's Globally Harmonised System of Classification and Labelling:
- Carcinogen mutagen reprotoxic (CMR) category 1A or1B
- Acute toxic category 1, 2 or 3
- Respiratory sensitisers category 1, 1A or 1B

Or if the raw material has the following properties:
- Persistent, bioaccumulative and/or toxic chemicals (PBT) or very persistent, very bioaccumulative (vPvB)
- Endocrine (hormonal) disruptors

Social data	2021	2020	2019
Health & Safety			
Lost time accident frequency (number/1,000,000 working hours)	1.72	1.61	2.68
Consumption of red raw materials (kg/1,000 L paint produced)	26.67*	7.90	8.09
Employee engagement			
Employee engagement – Response rate	87%	N/A**	90%
Employee engagement – Satisfaction & Motivation	73	N/A**	74
Employee engagement – Learning & Development	80	N/A**	81

* Scope of Red Raw Materials has been expanded in 2021, and is not directly comparable to previous years

** Employee engagement in 2020 was, due to COVID-19, only conducted among PC users. The data for 2020 is therefore not directly comparable to the previous years.

Or is listed on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Candidate list or Authorisation list (Annex XIV) from 1 January 2018.

Employee engagement – Response rate
Hempel conducts a comprehensive employee engagement survey once a year and all employees are invited to participate. The response rate is calculated as the number of employees who have responded to the full survey out of the total number of employees.

Employee Engagement – Satisfaction & Motivation and Learning & Development
The employee Satisfaction & Motivation and Learning & Development scores are based on a number of questions included in the employee engagement survey. Answers are given on a scale from 1 to 10 and are subsequently converted to index figures on a scale from 0 to 100.

Governance data	2021	2020	2019
Percentage of employees with a Hempel e-mail address who completed and signed off on Code of Conduct 2021 refresher training	100%	100%	100%
Compliance cases reported	46	30	34
Hereof substantiated	13	11	19
Hereof unsubstantiated	13	17	15
Cases under investigation as of year-end 2021	20	2	20

GOVERNANCE DATA

Percentage of employees
The percentage is calculated as the number of employees who completed and signed off on the Code of Conduct Refresher e-learning in Hempel's Learning Management System out of the total target group, consisting of over 4,000 employees. The relevant target group consists of employees who:

- Were active Hempel employees as of the day of the global roll-out on 30 September
- Are Hempel PC users with access to Workday
- Were not on long-term leave, and not expected to depart Hempel before year-end

Compliance cases reported
The number of compliance cases includes all cases that are recorded in our Hempel Ethics Hotline system, operated by NAVEX Global, and handled in accordance with the guidelines for handling of whistleblower reports, as approved by the Audit Committee. Compliance cases can be reported directly through the Hempel Ethics Hotline; by email to whistle-blower@hempel.com; by letter, telephone or email directly to management; or by internal finding.

Financial statements

Consolidated financial statements

Consolidated statement
of profit and loss

In EUR million

Note		2021	2020
2.1	Revenue	1,774	1,541
	Production costs	-1,102	-938
	Gross profit	**672**	**603**
	Sales and distribution costs	-459	-396
	Administrative costs	-121	-109
2.3	Other operating income	20	2
2.3	Other operating expenses	-	-1
	Operating profit	**112**	**99**
4.5	Financial income	4	-
4.5	Financial expenses	-21	-28
	Profit before tax	**95**	**71**
2.4	Income tax	-29	-21
	Net profit for the year	**66**	**50**
	Attributable to:		
	Equity holders of the company	65	48
	Non-controlling interests	1	2
	Net profit for the year	**66**	**50**

Consolidated statement
of comprehensive income

In EUR million

Note		2021	2020
	Net profit for the year	66	50
	Other comprehensive income:		
	Items that may be reclassified to profit and loss:		
4.5	Exchange rate differences on translation of foreign operations	37	-36
2.4	Tax on other comprehensive income	-4	1
	Items that will not be reclassified to profit and loss:		
3.7	Remeasurements of defined benefit obligations	3	-2
	Other comprehensive income for the year, net of tax	**36**	**-37**
	Total comprehensive income for the year	**102**	**13**
	Attributable to:		
	Equity holders of the company	98	16
	Non-controlling interests	4	-3
	Total comprehensive income for the year	**102**	**13**

Consolidated statement
of financial position

In EUR million

Note		31 December 2021	31 December 2020	1 January 2020
3.1	Intangible assets	767	151	168
3.2	Property, plant and equipment	477	342	318
3.3	Right-of-use assets	172	98	89
	Other financial assets	11	4	4
2.4	Deferred tax assets	89	67	66
	Total non-current assets	**1,516**	**662**	**645**
3.5	Inventories	334	220	234
3.6	Trade receivables	397	335	359
	Income tax receivables	4	3	8
	Prepayments	21	15	20
	Other receivables	48	42	45
	Cash	176	265	101
	Total current assets	**980**	**880**	**767**
	Total assets	**2,496**	**1,542**	**1,412**

Consolidated statement
of financial position

In EUR million

Note		31 December 2021	31 December 2020	1 January 2020
4.1	Share capital	15	15	15
	Translation reserve	-1	-31	-
	Retained earnings	482	447	407
	Proposed dividend for the year	33	25	25
	Shareholders in Hempel A/S' share of equity	**529**	**456**	**447**
	Non-controlling interests	41	43	49
	Total equity	**570**	**499**	**496**
4.2	Borrowings	770	190	20
3.3	Lease liabilities	138	74	69
3.8	Provisions	41	44	28
3.7	Pensions and similar obligations	21	23	22
3.9	Other liabilities	-	2	21
2.4	Deferred tax liabilities	131	68	71
	Total non-current liabilities	**1,101**	**401**	**231**
4.2	Borrowings	67	49	40
3.3	Lease liabilities	38	24	20
	Trade payables	344	261	261
	Payables to parent company	70	48	127
	Deferred income	8	6	6
3.8	Provisions	8	6	12
	Income tax payables	7	9	10
3.9	Other liabilities	283	239	209
	Total current liabilities	**825**	**642**	**685**
	Total liabilities	**1,926**	**1,043**	**916**
	Total equity and liabilities	**2,496**	**1,542**	**1,412**

Consolidated statement
of changes in equity

In EUR million

Note		Share capital	Translation reserve	Retained earnings	Proposed dividend	Shareholders in Hempel A/S' share of equity	Non-controlling interest	Total equity
	Equity at 1 January 2020	**15**	**–**	**403**	**25**	**443**	**49**	**492**
5.8	Adjustment opening balance	–	–	4	–	4	–	4
	Equity adjusted 1 January 2020	**15**	**–**	**407**	**25**	**447**	**49**	**496**
	Net profit for the year	–	–	48	–	48	2	50
	Other comprehensive income	–	-31	-1	–	-32	-5	-37
	Total comprehensive income for the year	**–**	**-31**	**47**	**–3**	**16**	**-3**	**13**
	Transactions with owners in their capacity as owners:							
	Paid dividends	–	–	–	-25	-25	-3	-28
	Proposed dividends	–	–	-25	25	–	–	–
	Fair value adjustment, put option	–	–	18	–	18	–	18
	Total transactions with owners	**–**	**–**	**-7**	**–**	**-7**	**-3**	**-10**
4.1	**Equity at 31 December 2020**	**15**	**-31**	**447**	**25**	**456**	**43**	**499**
	Equity at 1 January 2021	**15**	**-31**	**447**	**25**	**456**	**43**	**499**
	Net profit for the year	–	–	65	–	65	1	66
	Other comprehensive income	–	30	3	–	33	3	36
	Total comprehensive income for the year	**–**	**30**	**68**	**–**	**98**	**4**	**102**
	Transactions with owners in their capacity as owners:							
	Paid dividends	–	–	–	-25	-25	-5	-30
	Proposed dividends	–	–	-33	33	–	–	–
	Transactions with non-controlling interests	–	–	–	–	–	-1	-1
	Total transactions with owners	**–**	**–**	**-33**	**8**	**-25**	**-6**	**-31**
4.1	**Equity at 31 December 2021**	**15**	**-1**	**482**	**33**	**529**	**41**	**570**

Consolidated statement
of cash flows

In EUR million

Note		2021	2020
	Cash flows from operating activities		
	Operating profit	112	99
5.2	Adjustment for non-cash items	82	81
	Total cash flows from operating activities before financial items, tax and changes in working capital	**194**	**180**
	Changes in working capital:		
	Change in receivables	-27	12
	Change in inventories	-45	–
	Change in trade payables, other payables etc.	-2	35
	Total change in working capital	**-74**	**47**
	Total net cash flows from operating activities before financial items and tax	**120**	**227**
	Income tax paid	-31	-23
	Interest paid	-17	-13
	Total cash flows from operating activities	**72**	**191**
	Cash flows from investing activities		
	Purchase of property, plant and equipment	-86	-62
	Purchase of intangible assets	-14	-6
	Sale of property, plant and equipment	10	3
4.6	Acquisition of enterprises	-511	–
	Total cash flows from investing activities	**-601**	**-65**
	Free cash flow	**-529**	**126**

In EUR million

Note		2021	2020
	Cash flows from financing activities		
	Repayment of lease liabilities	-37	-24
	Proceeds from borrowings	1,250	297
	Repayment of borrowings	-748	-201
	Transactions with shareholders:		
4.1	Dividend distributed to shareholders	-25	-25
4.1	Dividend distributed to non-controlling interests in subsidiaries	-5	-3
	Total cash flows from financing activities	**435**	**44**
	Net cash flow	**-94**	**170**
	Cash, beginning of year	265	101
	Exchange rate adjustment	5	-6
	Cash, end of year	**176**	**265**

The statement of cash flows cannot be deduced directly from the other components of the consolidated financial statements.

Section 1
Basis of preparation

1.1 General accounting policies

The financial statements of Hempel A/S for the period 1 January – 31 December 2021 comprise the consolidated financial statements of Hempel A/S and its subsidiaries (the Group).

The Board of Directors considered and approved the 2021 Annual Report of Hempel A/S on 25 February 2022. The Annual Report will be submitted to the shareholders of Hempel A/S for approval at the Annual General Meeting on 2 May 2022.

Basis of preparation
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the EU and additional Danish disclosure requirements applying to entities of reporting class C for large companies.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value.

The functional currency of the parent company is DKK, however management believes that presenting the consolidated financial statements in EUR better reflects the Group's consolidated financials, being a global company.

The notes are grouped in sections and include the relevant accounting policies.

First time adoption of IFRS
This is the first annual report by Hempel A/S to be presented in accordance with IFRS. The comparative figures in the statement of profit and loss for 2020 and in the statement of financial position as at 1 January 2020 and 31 December 2020 were restated in accordance with IFRS. The accounting policies applied are based on the standards and interpretations effective for 2021. No standards or interpretations which are not yet effective have been adopted.

The disclosures required by IFRS 1 First-time Adoption of International Financial Reporting Standards, concerning the transition from the Danish Financial Statements Act to IFRS, are provided in section 5.8.

Basis of consolidation
The consolidated financial statements comprise the parent company, Hempel A/S, and entities controlled by Hempel A/S (subsidiaries). Control is achieved when the Group is exposed to or has a right to variable returns from its involvement with the investee and has the power to affect those returns through its power over the investee. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 4.6 Acquisition of enterprises).

Control is usually achieved by directly or indirectly owning or in other ways controlling more than 50% of the votes or other rights through agreements of management control. De facto control and other potential voting rights at the balance sheet date are also considered when determining whether control is achieved. Consolidation is performed by summarising the financial statements of the parent company and its subsidiaries. On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and intra-Group balance accounts as well as of realised and unrealised gains and losses on transactions between the consolidated enterprises.

Non-controlling interests
Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit and loss, statement of comprehensive income, statement of financial position and statement of changes in equity respectively.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in retained earnings within equity. Liabilities concerning non-controlling interests' put options are initially recognised at fair value directly in equity of the consolidated Group. Fair value is measured at the present value of the exercise price of the option. Subsequent fair value adjustments are recognised directly in equity.

Foreign currency translation
Items included in the financial statements of each of Hempel's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). Transactions denominated in other currencies than the functional currency are

considered transactions denominated in foreign currencies.

Translation of transactions and balances
Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the statement of profit and loss. Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates on the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in the statement of profit and loss for the year as financial income or expenses. Non-monetary items acquired in foreign currencies are measured at the transaction date rates and are not retranslated subsequently.

Translation of Group companies
The results and financial position of foreign operations with a functional currency other than EUR (and which is not the currency of a hyperinflationary economy) are translated into the presentation currency (EUR) as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit and loss and statement of comprehensive income are translated at monthly average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- all resulting exchange differences are recognised in other comprehensive income and attributed to a seperate translation reserve in equity

Foreign currency translation adjustments of a loan to or borrowings from subsidiaries which are neither planned nor likely to be settled in the foreseeable future, and which are therefore considered to form part of the net investment in the subsidiary, are recognised directly in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Translation of share capital
Share capital denominated in a currency that differs from the presentation currency of the consolidated financial statements is translated at historical cost.

Hyperinflation
In foreign subsidiaries that operate in hyperinflationary economies, income and expenses are translated at the exchange rate at the balance sheet date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, the income statement and non-monetary balance sheet items are restated taking into account changes in the general purchasing power of the functional currency based on the inflation up to the balance sheet date ('inflation adjustment'). The effect of the inflation adjustment is recognised as a separate item in the Group's equity in the translation reserve. In the income statement, gain/loss on the monetary net position in the foreign entities is recognised as financial income or expense. The assessment as to when an economy is hyperinflationary is based on qualitative as well as quantitative factors, including whether the accumulated inflation over a three-year period exceeds 100%. Currently, Argentina is considered a hyperinflationary economy and the Group's operations in Argentina have been remeasured in accordance with IAS 29 and the principles described above, applying the national Consumer Price Index (CPI) of Argentina.

Classification of operating expenses in the statement of profit and loss
Production costs
Production costs comprise costs incurred to achieve revenue for the year. Costs comprise raw materials, consumables, direct labour costs and indirect production costs, such as maintenance and amortisation and depreciation, etc., as well as costs for operation, administration and management of factories. Production costs also include research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs. Write-downs of inventory are also included.

Sales and distribution costs
Sales and distribution costs comprise costs incurred to distribute sales and for sales campaigns, including costs for sales and distribution staff, advertising costs, depreciation of sales equipment and right-of-use assets.

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, depreciation and write-downs for bad debt losses. Amortisation of customer relationships and brands are recognised in administrative costs.

Cash flow statement
The statement of cash flows is presented using the indirect method based on operating profit/loss. The statement of cash flows for the Group shows the cash flows for the year broken down into operating, investing and financing activities, changes for the year in cash and cash equivalents for the Group at the beginning and end of the year. The statement of cash flows cannot be immediately derived from the published financial records.

Cash flows from operating activities
Cash flows from operating activities are calculated as the operating profit/loss for the year adjusted for changes in working capital, interest and tax paid and non-cash operating items, such as depreciation, amortisation and impairment losses and provisions.

Cash flows from investing activities
Cash flows from investing activities mainly comprise cash flows from purchases and disposals of intangible assets, property, plant and equipment, fixed asset investments and acquistions of enterprises.

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

Cash flows from currencies other than the functional currency
Cash flows in currencies other than the functional currency are translated at the average exchange rates for the month, unless these differ significantly from the rates at the transaction date.

Cash
Cash comprises cash at hand and bank deposits.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods, or on foreseeable future transactions.

In April 2021, the International Financial Reporting Interpretations Committee (IFRIC) issued a final agenda decision: Configuration or customisation costs in a cloud computing arrangement. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The accounting policy has historically been to capitalise costs related to cloud computing arrangements as intangible assets in the statement of financial position. The adoption of this agenda decision could result in a reclassification of these intangible assets to either a prepaid asset in the statement of financial position and/or recognition as an expense in the statement of profit and loss, impacting both the current and/or prior periods presented. There will be no impact on net cash flow.

The process to quantify the impact of the IFRIC agenda decision is not yet concluded, due to the significant efforts required assessing the nature of each software project and the related costs. At the date of this report, the impact of the IFRIC agenda decision is not reasonably estimable, and thus the IFRIC agenda decision has not been adopted. The IFRIC agenda decision will be adopted in the 2022 financial statements. Intangible assets capitalised on the statement of financial position as of 31 December 2021 related to software projects potentially being affected by the IFRIC agenda decisions amounts to EUR 29 million.

1.2 Significant accounting estimates and judgements

In preparation of the consolidated financial statements, management is required to make various accounting judgements and estimates that affect the reported amounts of assets, liabilities, income and expenses, including the related disclosures. A degree of uncertainty is involved in carrying out these judgements and estimates, and could result in outcomes that may deviate from the assessment made at the reporting date.

The judgements, estimates and the related assumptions made are based on historical experience and other factors that management considers to be reasonable under the given circumstances. Estimates and judgements are reviewed on an ongoing basis.

The Group's significant accounting estimates and judgements are described below.

Significant accounting estimates
The significant accounting estimates are those that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the following reporting period.

Warranties
The Group generally offers warranties for its products. Management makes estimates regarding the related provisions, including the probability of pending legal disputes and future litigation outcomes. When determining the most likely outcome, management considers input of internal and external counsel, historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated amounts include whether the claims are deemed valid, to which extent the claims are covered by the product warranty and estimates of the costs of coating and other associated costs of remediating the product failure. Reference is made to note 3.8 Provisions for information about the Group's warranty provision.

The Group has taken out insurance against product failures. The product failure insurance is, to a certain extent, linked to the size and nature of claims. This reduces the overall estimation uncertainty and potential net impact on profit and loss from claims.

Uncertain tax positions
Hempel has activities and subsidiaries in many different countries, and therefore is subject to income taxes around the world. Uncertain tax positions relate principally to the uncertainty of interpretation of tax legislation in the countries Hempel operates in.

Significant estimates and judgements are required in determining the worldwide accrual for income taxes, deferred income tax assets and liabilities, and provision for uncertain tax positions.

In the course of conducting business globally, transfer pricing disputes with tax authorities may occur, and management's judgement is applied to assess the possible outcome of such disputes. Hempel believes that the provision made for uncertain tax positions is adequate. However, due to the uncertainty, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly. Reference is made to note 2.5 Income tax, tax assets and liabilities.

Valuation of deferred tax assets

The deferred tax assets comprise carry-forward tax losses expected to be utilised and temporary differences.

The Group recognises deferred tax assets, including the expected value of carry-forward tax losses, based on an assessment of the recoverability of the deferred tax assets. The assessment of the recoverability of the deferred tax assets involves estimates by management as to the likelihood of the utilisation of the deferred tax assets within a foreseeable future. This depends on a number of factors, including whether there will be sufficient taxable profits available in future periods, against which the carry-forward tax losses can be utilised. The assessment of the recoverability of the deferred tax assets is based on taxable income projections, which contain estimates of and tax strategies for the future taxable income for the next five years, taking into account the general market conditions and the Group's future development outlook. The projections are based on the Group's five-year forecast and are inherently subject to uncertainty, as the realisation of the projections are dependent on the outcome of future events. In the event that actual future taxable profits generated are less than expected, and depending on the tax strategies that the Group may be able to implement, impairment of the deferred tax assets may be required.

Impairment test of goodwill

In performing the annual impairment test, management assesses whether the group of CGUs to which the goodwill relates, will be able to generate sufficient positive net cash flows to support its carrying amount together with other net assets of the respective CGUs. This assessment is based on estimates of expected future cash flows, which are based on a DCF model. The cash flows are derived from the forecast for the next five years and do not include restructuring activities that Hempel is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 3.1. Intangible assets.

Purchase price allocation

For acquisitions of entities, the assets, liabilities and contingent liabilities of the acquiree are recognised using the acquisition method. The most significant assets acquired generally comprise goodwill, brands, customer relationships, property, plant and equipment, receivables and inventories. No active market exists for the majority of the acquired assets and liabilities, in particular in respect of acquired intangible assets. Accordingly, management makes estimates of the fair value of acquired assets, liabilities and contingent liabilities, which inherently are subject to uncertainty as these are based on assumptions, including estimates of expected future cash flows. Depending on the nature of the item, the determined fair value of an item may be associated with uncertainty. The unallocated purchase price (positive amount) is recognised in the statement of financial position as goodwill and allocated to the Group's CGUs.

The main estimation uncertainty relates to the valuation of the acquired brand in Farrow & Ball. The fair value of the brand is estimated applying the relief from royalty method where the value of the trademark is determined based on an estimate of what a typical independent market participant would pay for licensing of the trademark, based on forecasted sales and a royalty rate. The calculation is sensitive in particular to the applied royalty rate, which has been determined based primarily on benchmark studies of licence agreements and royalty rates applied for other high-end brands.

Section 2
Results for the year

2.1 Revenue

Accounting policies
The Group mainly generates revenue from the sale of paints and coatings (goods for resale and finished goods) based on the prices and conditions stated in the contracts with customers. Sale of finished goods also include retail sales. In addition, the Group generates a minor part of its revenue from the provision of services.

Revenue from the sale of paints and coatings is recognised when control of the goods are transferred to the customer. Where Hempel provides technical services, including advice, training, project oversight and surface management services etc., revenue is recognised over time as the services are provided.

Hempel's customer contracts normally include a single performance obligation only. However, in rare situations where delivery of goods and technical services are bundled into one contract, the goods and technical services are identified as separate performance obligations and accounted for separately in accordance with the policies described above. In those situations, the transaction price is allocated to the respective performance obligations based on their stand-alone selling prices.

Revenue from contracts with customers is measured at an amount that reflects the consideration to which Hempel expects to be entitled in exchange for those goods and services, which normally comprises the price specified in the contract, net of discounts and bonuses.

Hempel offers various discounts, including rebates, bonuses, volume discounts and payments to customers depending on the nature of the customer and business. These discounts are considered variable consideration. Bonuses and discounts payable to a customer are accrued for as the related performance obligations are satisfied and revenue is recognised. Accumulated experience is used to estimate and provide for the discounts, using the expected value method. Variable consideration related to discounts are only recognised as revenue to the extent that it is highly probable that a significant reversal will not occur in a later period.

In case of expected returns, a refund liability and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned.

The vast majority of Hempel's performance obligations are satisfied within one year or less. Amounts for remaining performance obligations are therefore not disclosed in accordance with the practical expedient in IFRS 15.121.

Payments from customers are due depending on the type of customer and local business practices, though typically within 30-90 days. Retail payments are normally due immediately after control of the goods has transferred to the customer. Accordingly, no significant element of financing is present.

A provision for warranties is recognised when the underlying products or services are sold, generally based on historical warranty data.

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

In EUR million

	2021	2020
EMEA	1,072	995
Asia-Pacific	537	397
Americas	165	149
Total revenue	**1,774**	**1,541**

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

In EUR million

	2021	2020
Decorative	655	512
Marine	446	412
Infrastructure	219	177
Energy	252	247
Other	202	193
Total revenue	**1,774**	**1,541**

2.2 Employee costs

Accounting policies
Staff costs include wages and salaries, pensions, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits.

Staff costs are recognised in the financial year in which the associated services are rendered. Where Hempel provides long-term employee benefits, the costs are recognised in the period in which they are earned.

For further information about the Group's pension plans, reference is made to note 3.7 Pensions and similar obligations.

Key management compensation
Key management personnel consists of the Executive Board, the Executive Group Management (EGM) and the Board of Directors. The Executive Board is a part of the EGM. For a further description of the Executive Board's remuneration, reference is made to Management's Review.

The compensation paid or payable to the key management personnel for employee services is shown below.

In EUR million

	2021	2020
Staff costs:		
Wages and salaries	326	277
Pensions – defined contribution plans	18	12
Pensions – defined benefit plans	1	1
Other social security contributions	25	24
Other employee costs	20	21
Total employee costs for the year	**390**	**335**
Average number of full-time employees	6,746	6,099
Staff costs have been recognised in the profit and loss as follows:		
Production costs	114	103
Sales and distribution costs	206	173
Administrative costs	70	59
Total employee costs in the profit and loss	**390**	**335**

In EUR million

	2021	2020
Executive Board[1]:		
Wages and salaries	3.8	3.7
Pensions, defined contribution plans	0.2	0.2
Other long-term benefits	1.5	2.1
Total	**5.5**	**6.0**
Other key management personnel[2]:		
Wages and salaries	2.4	1.0
Pensions, defined contribution plans	0.2	0.1
Other long-term benefits	0.3	0.1
Total	**2.9**	**1.2**
Board of Directors:		
Board fee	1.0	1.0
Total	**1.0**	**1.0**
Total compensation to key management personnel	**9.4**	**8.2**

1) The Executive Board registered with the Danish Business Authority (Erhvervsstyrelsen) at year end 2021 consisted of 3 members. At year end 2020 it consisted of 3 members and in the period 1 January to 13 November 2020 it consisted of 4 members.
2) Other key management personnel consisted of 5 members in 2021. In 2020, other key management personnel consisted of 2 members.

2.3 Other operating income and expenses

Accounting policies
Other operating income and expenses comprise items of a secondary nature to the core activities of Hempel, 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.

Refer to note 3.2 Property, plant and equipment for a description of asset related Government grants.

Other operating income
In EUR million

	2021	2020
Gain on sale of property, plant and equipment	3	2
Government grants	17	0
Total other operating income	**20**	**2**

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

Other operating expenses
In EUR million

	2021	2020
Loss on disposal of property, plant and equipment	0	-1
Total other operating expenses	**0**	**-1**

2.4 Income tax, tax assets and liabilities

Income tax
Accounting policies
The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses, changes due to changes in tax rates, adjustments to tax from previous years and changes in provision for uncertain tax positions.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the parent company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Current tax payable and receivable is recognised in the consolidated statements of financial position as tax computed on the taxable income for the year, adjusted for tax on taxable income for prior years and for prepaid tax.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax for the year

In EUR million

	2021	2020
Tax for the year is specified as follows:		
Tax on profit for the year	-29	-21
Tax on other comprehensive income	-4	1
Total tax for the year	**-33**	**-20**
Tax on profit for the year is calculated as follows:		
Current tax for the year	-24	-25
Deferred tax for the year	-6	1
Adjustment in respect of previous years	-3	4
Total tax on total comprehensive income	**-33**	**-20**
Effective tax rate of the Group		
Reconciliation of tax rate:		
Danish tax rate	22.0%	22.0%
Higher/(lower) tax rates of foreign subsidiaries	-7.8%	-7.8%
Weighted tax rate of the Group	**14.2%**	**14.2%**
Tax effect of:		
Permanent differences	0.9%	2.2%
Unrecognised deferred tax assets	11.0%	18.9%
Recognised deferred tax assets related to prior years	-7.4%	-2.8%
Adjustments in respect of previous years	3.6%	-6.0%
Other adjustments	3.1%	0.5%
Withholding taxes etc.	5.1%	5.5%
Effective tax rate of the Group	**30.5%**	**32.5%**

Deferred tax

Accounting policies

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is adjusted for elimination of unrealised intra-group gains and losses.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax recognised in the balance sheet

In EUR million

	2021	2020
Deferred tax, beginning of year	-1	-5
Recognised in profit and loss	-6	1
Recognised in other comprehensive income	-	1
Adjustments arising from business combinations	-35	-
Currency translations exchange rate adjustments at year-end	-	2
Tax assets and liabilities at 31 December, net	**-42**	**-1**

Specification of deferred tax assets

In EUR million

	2021	2020
Intangible assets	11	10
Property, plant and equipment	6	6
Inventories	1	2
Trade receivables	4	8
Provisions and defined benefit obligations	20	9
Lease liabilities	30	20
Tax loss carryforwards	17	12
Deferred tax assets at 31 December	**89**	**67**

Specification of deferred tax liabilities

In EUR million

	2021	2020
Intangible assets	45	6
Property, plant and equipment	7	6
Right-of-use assets	30	20
Inventories	2	-
Trade receivables	-	1
Provisions and defined benefit obligations	47	35
Deferred tax liabilities at 31 December	**131**	**68**
Balance sheet classification:		
Deferred tax assets	89	67
Deferred tax liabilities	-131	-68
Deferred tax assets and liabilities at 31 December	**-42**	**-1**

The Group recognises deferred tax assets, including the expected value of tax loss carryforwards, based on an assessment of the recoverability of the deferred tax assets. At 31 December 2021, Hempel recognised a deferred tax asset related to tax loss carryforwards of EUR 17 million (2020: EUR 12 million).

Management has considered future taxable income and applied judgement in assessing whether deferred income tax assets should be recognised. The assessment of the recoverability of the deferred tax assets depends on a number of factors, including whether there will be sufficient taxable profits available in future periods, against which the tax losses carryforwards can be utilised.

Assessment of the recoverability of the deferred tax assets is based on taxable income projections that contain estimates of and tax strategies for the future taxable income for the next five years, taking into account the general market conditions and the Group's future outlook. The projections are based on the Group's five-year forecast and are inherently subject to uncertainty, as the realisation of the projections are dependent on the outcome of future events. It is management's assessment that the five-year forecast is achievable and supports the recognised deferred tax assets.

Deferred tax not recognised in the balance sheet

In EUR million

	2021	2020
Temporary differences	9	9
Tax loss carryforwards	35	36
Total tax asset not recognised	**44**	**45**

Out of not recognised tax loss carryforwards 0-5% (2020: 0-5%) expire within 1 year, 10-15% (2020: 10-15%) expire within five years from the balance sheet date and the remaining balance has no expiry date.

Section 3
Operating assets and liabilities

3.1 Intangible assets

Accounting policies
Goodwill is initially recognised in the statement of financial position at cost and allocated to CGUs. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

Certain brands are considered to have an indefinitely useful life since there is no foreseeable limit to the period over which the brands are expected to generate net cash inflows. The brands have existed for decades and there are no legal, regulatory, contractual, competitive, economic, or other factors limiting the useful life of the brands.

Development projects concerning products, processes or 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. Development projects are initially measured at cost. The costs comprise expenses, including salaries, amortisation and external costs, directly attributable to these development projects. Upon completion of the development project, costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is 3-10 years.

Acquisition-related customer relationships are recognised at fair value at the acquisition date and subsequently measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the estimated useful life, which is 2-17 years.

Acquired software and 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.

Other intangible assets mainly comprise brands and formulas. The assets are amortised on a straight-line basis over their estimated useful life. The amortisation period is 2-20 years.

Impairment of non-current assets
Goodwill, intangible assets with an indefinite useful life and software under development that is not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In EUR million

	Goodwill	Brands (indefinite life)	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets							
Costs at 1 January 2021	65	-	41	11	127	81	325
Effect of exchange rate adjustment	14	3	1	-	8	3	29
Additions for the year	-	-	-	15	-	-	15
Acquisition of enterprises	449	142	3	-	4	-	598
Transfer and reclassifications	-	-	5	-5	-	-	-
Disposals for the year	-	-	-	-	-	-	-
Costs at 31 December 2021	**528**	**145**	**50**	**21**	**139**	**84**	**967**
Accumulated amortisation at 1 January 2021	-	-	37	-	87	50	174
Effect of exchange rate adjustment	-	-	1	-	6	2	9
Amortisation for the year	-	-	4	-	8	5	17
Transfer and reclassifications	-	-	-	-	-	-	-
Reversal of amortisation of assets disposed	-	-	-	-	-	-	-
Accumulated amortisation at 31 December 2021	**-**	**-**	**42**	**-**	**101**	**57**	**200**
Carrying amount at 31 December 2021	**528**	**145**	**8**	**21**	**38**	**27**	**767**
Intangible assets							
Costs at 1 January 2020	68	-	43	6	135	83	335
Effect of exchange rate adjustment	-3	-	-2	-	-8	-2	-15
Additions for the year	-	-	-	6	-	-	6
Transfer and reclassifications	-	-	1	-1	-	-	-
Disposals for the year	-	-	-1	-	-	-	-1
Costs at 31 December 2020	**65**	**-**	**41**	**11**	**127**	**81**	**325**
Accumulated amortisation at 1 January 2020	-	-	37	-	85	45	167
Effect of exchange rate adjustment	-	-	-2	-	-6	-1	-9
Amortisation for the year	-	-	3	-	8	6	17
Reversal of amortisation of assets disposed	-	-	-1	-	-	-	-1
Accumulated amortisation at 31 December 2020	**-**	**-**	**37**	**-**	**87**	**50**	**174**
Carrying amount at 31 December 2020	**65**	**-**	**4**	**11**	**40**	**31**	**151**

Research and development costs that are not eligible for capitalisation are expensed in the period incurred and are included in the statement of profit and loss within production costs. In 2021, this amounted to EUR 31 million (2020: EUR 29 million).

Amortisation and impairment are included as follows in the statement of profit and loss. No impairment was recognised in 2021 or 2020.

In EUR million

	2021	2020
Production costs	1	1
Sales and distribution costs	1	1
Administrative costs	15	15
Total amortisation and impairment loss	**17**	**17**

Impairment testing

Hempel has tested the carrying amount of software under development, brands with indefinite useful life and goodwill for impairment. The tests did not result in any impairment of carrying amounts (2020: no impairment loss was recognised).

The carrying amount of brands with indefinite useful life is allocated to the CGUs Wattyl (EUR 6 million) and Farrow & Ball (EUR 136 million). A weighted average cost of capital (WACC) of 7.0% and a royalty rate of 6.15% have been applied for the impairment testing of the Farrow & Ball brand acquired during the year.

Goodwill acquired through business combinations is allocated to the CGUs as follows, which reflects how goodwill is monitored by management:

In EUR million

	2021	2020
North America	30	26
Decorative (group of CGUs)	498	39
Total goodwill	**528**	**65**

The recoverable amounts of North America and Decorative are based on value in use calculations, which require the use of assumptions.

The impairment test for each CGU is based on cash flow projections for the years 2022-2026. The forecast represents management's best expectation of the future cash flows and is assumed to be both reasonable and achievable. The assumptions reflect management's expectations considering all relevant factors, including Hempel's strategic initiatives, local initiatives, past experience and external sources of information, where possible and relevant. Cash flows beyond the five-year forecast period are extrapolated using the estimated growth rates stated below.

The key assumptions used in the cash flow projections are revenue growth, EBITDA margin, long-term growth rate and pre-tax discount rate.

Key assumption	Description
Revenue growth	Revenue growth in the forecasting period is estimated based on the CGU's market development, taking into consideration the maturity of the market and the macroeconomic environment in general including the COVID-19 pandemic situation. For Americas, the forecasted revenue growth is based on a successful turnaround following the COVID-19 pandemic and assumes that the same revenue levels realised prior to the start of the COVID-19 pandemic are achieved again by the end of the five-year forecast period. For Decorative, the forecasted revenue growth is based on assumptions of stable, moderate growth in the forecast period, including that revenue levels forecasted and assumed in the business cases for the 2021 acquired business are realised.
EBITDA margin	The EBITDA margin is based on budgeted margins in the forecasting period, taking into consideration the Group's strategic initiatives. For Americas, the EBITDA margin is based on a succesful turnaround following the COVID-19 pandemic, and assumes increasing EBITDA margins, reaching the same levels as realised before the COVID-19 pandemic by the end of the five-year forecast period. The increasing margins are driven by assumptions of higher utilisation of existing production capacity, price increases following raw material price increases, as well as a more favorable product mix. For Decorative, the forecasted EBITDA margin is assumed to remain stable, supported by continious optimisation of the business and realisation of expected synergies from acquired businesses during the year.
Long-term growth rate	The terminal growth rates do not exceed the expected long-term inflation.
Pre-tax discount rate	The pre-tax discount rate reflects the specific risks of the CGUs.

	2021		2020	
	North America	Decorative	North America	Decorative
Long-term growth rate	2.00%	2.00%	2.00%	2.00%
Pre-tax discount rate	13.73%	13.02%	12.48%	12.48%

Sensitivity analysis

Management has reasonably considered and assessed possible changes for the key assumptions and have not identified any instances that could cause the carrying amount of goodwill to exceed its recoverable amount.

3.2 Property, plant and equipment

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

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

Material general and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Subsequent costs, such as partial replacement of property, plant and equipment, are included in the carrying amount of the asset in question when it is probable that such costs will result in future economic benefits. The carrying amount of the replaced parts is derecognised from the balance sheet and recognised in the statement of profit and loss. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is based on the costs of an asset less its residual value. Depreciation is calculated on a straight-line basis over the expected useful lives of the assets, which are:

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

If the individual material components of an asset have different useful lives, each component will be depreciated separately. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other operating income and expenses. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where Hempel is committed to purchasing and constructing property, plant and equipment at a future date, no costs are capitalised. Information about commitments for acquisition of property, plant and equipment is provided in note 5.3 Contingent liabilities and other commitments.

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

If an asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised in the statement of profit and loss.

Government grants
Grants are recognised where there is a reasonable assurance that the grant will be received and Hempel will comply with all attached conditions.

Grants received for the acquisition of property, plant and equipment are recognised as deferred income, which is recognised in the statement of profit and loss under other operating income on a systematic basis over the useful life of the asset.

In EUR million

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Total
Property, plant and equipment					
Costs at 1 January 2021	241	251	98	74	664
Effect of exchange rate adjustment	13	21	6	5	45
Acquisition of enterprises	30	8	10	2	50
Additions for the year	-	4	3	106	113
Transfer and reclassifications	49	21	6	-76	-
Disposals for the year	-12	-28	-10	-	-50
Costs at 31 December 2021	**321**	**277**	**113**	**111**	**822**
Accumulated depreciations at 1 January 2021	83	170	69	-	322
Effect of exchange rate adjustment	6	17	5	-	28
Depreciation for the year	9	18	9	-	36
Reversal of depreciations of assets disposed	-9	-22	-10	-	-41
Accumulated depreciation at 31 December 2021	**89**	**183**	**73**	**-**	**345**
Carrying amount at 31 December 2021	**232**	**94**	**40**	**111**	**477**

Capitalised interest expenses in the year amounted to EUR 1 million.

In EUR million

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Total
Property, plant and equipment					
Costs at 1 January 2020	256	266	98	34	654
Adjustments adopting IFRS	4	–	–	–	4
Costs at 1 January 2020 restated	**260**	**266**	**98**	**34**	**658**
Effect of exchange rate adjustment	-15	-16	-6	-1	-38
Additions for the year	2	6	2	67	77
Transfer and reclassifications	1	9	16	-26	–
Disposals for the year	-7	-14	-12	–	-33
Costs at 31 December 2020	**241**	**251**	**98**	**74**	**664**
Accumulated depreciations at 1 January 2020	87	174	79	–	340
Effect of exchange rate adjustment	-6	-11	-5	–	-22
Depreciation for the year	9	20	7	–	36
Reversal of depreciations of assets disposed	-7	-13	-12	–	-32
Accumulated depreciation at 31 December 2020	**83**	**170**	**69**	**–**	**322**
Carrying amount at 31 December 2020	**158**	**81**	**29**	**74**	**342**

Capitalised interest expenses in 2020 amounted to EUR 0 million.

3.3 Leases

Accounting policies

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments less any incentive payments, variable lease payments that depend on an index or rate, e.g. when a minimum indexation is applied, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The present value is calculated using the Group's incremental borrowing rate if the interest rate implicit in the lease is not readily determinable.

Contracts may contain both lease and non-lease components. The Group has elected to separate lease and non-lease components. For these contracts, the consideration is allocated based on the relative stand-alone prices between the lease and non-lease component.

Several lease contracts include extension and termination options. Management exercises judgement in determining whether these options are reasonably certain to be exercised. Management considers all relevant facts and circumstances that create an economic incentive to exercise the extension option.

After initial recognition, the lease liability is measured at amortised cost using the effective interest method. The lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. The lease liability is remeasured if there is a modification, a change in lease term or a change in the assessment to purchase the underlying asset. In addition, the lease liability is remeasured if there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Group's estimate of the amount expected to be payable under a residual guarantee.

Right-of-use assets

Right-of-use assets mainly comprise office buildings, stores and vehicles, such as cars, trucks and vans. Lease terms of buildings are usually 5-10 years whereas vehicles have a lease term of typically 3-5 years.

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are initially measured at cost comprising the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date and any initial direct costs incurred, as well as an estimate of dismantling and restoration costs to be incurred.

After initial recognition, right-of-use assets are measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is calculated on a straight-line basis over the shorter of the useful life of the asset and the lease term.

COVID-19 rent consessions

The Group has elected to apply the practical expedient for COVID-19 rent concessions. Under the practical expedient, rent concessions arising as a direct consequence of the COVID-19 pandemic are not accounted for as a lease modification. Instead, the amount forgiven is recognised directly within the income statement.

Short-term and low-value leases

Short-term and low-value leases are expensed directly as operating costs in the statement of profit and loss.

The Group has recognised the following amounts relating to leases:

In EUR million

	Land and buildings	Vehicles	Other fixed assets	Total
Leases 2021				
Costs at 1 January 2021	100	19	1	120
Effect of exchange rate adjustment	4	1	–	5
Acquisition of enterprises	58	3	–	61
Additions for the year	37	7	–	44
Remeasurement	5	–	–	5
Disposals	-8	-4	–	-12
Cost at 31 December 2021	**196**	**26**	**1**	**223**
Depreciation at 1 January 2021	16	6	–	22
Effect of exchange rate adjustment	2	–	–	2
Depreciation for the year	30	8	–	38
Disposals	-8	-3	–	-11
Depreciation at 31 December 2021	**40**	**11**	**–**	**51**
Carrying amount at 31 December 2021	**156**	**15**	**1**	**172**
Leases 2020				
Costs at 1 January 2020	78	10	1	89
Effect of exchange rate adjustments	-2	–	–	-2
Additions for the year	21	9	–	30
Remeasurement	4	–	–	4
Disposals	-1	–	–	-1
Cost at 31 December 2020	**100**	**19**	**1**	**120**
Depreciation at 1 January 2020	–	–	–	–
Effect of exchange rate adjustments	-1	–	–	-1
Depreciation for the year	18	6	–	24
Disposals	-1	–	–	-1
Depreciation at 31 December 2020	**16**	**6**	**–**	**22**
Carrying amount at 31 December 2020	**84**	**13**	**1**	**98**

Lease liabilities

In EUR million

	2021	2020
Current	38	24
Non-current	138	74
Total	**176**	**98**

The statement of profit and loss shows the following expenses relating to leases:

In EUR million

	2021	2020
Depreciation expense of right-of-use assets	38	24
Interest expense on lease liabilities	3	2
Expense relating to leases of low-value assets	-	-
Expense relating to short-term leases, excluding short-term leases of low-value assets	2	3
Total amount recognised in profit and loss	**43**	**29**

Total cash outflows from leases amounted to EUR 42 million, including cash outflows from short-term and low-value leases (2020: EUR 29 million).

The maturity analysis of undiscounted cash flows in lease liabilities is disclosed in note 4.3.

3.4 Depreciation and amortisation

Accounting policies
Depreciation and amortisation includes the period's depreciation of property, plant and equipment, right-of-use assets as well as the period's amortisation of intangible assets.

In EUR million

	2021	2020
Amortisation of intangible assets	17	17
Depreciation of property, plant and equipment	36	36
Depreciation of right-of-use assets	38	24
Total	**91**	**77**

3.5 Inventories

Accounting policies
Inventories are measured at the lower of cost and net realisable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of inventories are determined using the FIFO-method.

The costs of finished goods and work in progress also include indirect production costs, which 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 and costs of factory administration and management.

The net realisable value is calculated as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account obsolescence and development in expected selling prices.

In EUR million

	2021	2020
Raw materials and consumables	127	62
Work in progress	6	5
Finished goods	201	153
Total inventories	**334**	**220**
Cost of inventories, included under production costs	1,055	897
Write-downs to net realisable value during the year	8	10
Reversal of write-downs during the year	-	-

3.6 Trade receivables

Accounting policies
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. The Group holds the trade receivables with the objective of collecting the contractual cash flows and then measures them subsequently at amortised cost. The Group applies the IFRS 9 simplified approach in measuring the expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

Expected credit loss 2021
In EUR million

	Carrying amount gross	Expected loss rate (%)	Loss allowance
Current	294	0.7%	2.1
Overdue 1-30 days	46	1.6%	0.7
Overdue 31-60 days	21	3.4%	0.7
Overdue 61-120 days	18	5.6%	1.0
Overdue 121-240 days	11	12.2%	1.3
Overdue 241-360 days	4	32.4%	1.2
Overdue > 360 days	32	69.5%	22.4
Total	**426**		**29.4**

Expected credit loss 2020
In EUR million

	Carrying amount gross	Expected loss rate (%)	Loss allowance
Current	243	0.7%	1.7
Overdue 1-30 days	42	1.2%	0.5
Overdue 31-60 days	17	2.9%	0.5
Overdue 61-120 days	18	6.8%	1.2
Overdue 121-240 days	11	11.2%	1.2
Overdue 241-360 days	5	38.2%	1.9
Overdue > 360 days	28	76.5%	22.0
Total	**364**		**29.0**

Loss allowance provision

In EUR million

	2021	2020
Provision at 1 January	29	34
Additions for the year	-	3
Losses recognised	-2	-9
Reversal of provisions from previous years	-	1
Currency translation	2	-
Total	**29**	**29**

Credit risk

Hempel has exposure to financial and commercial counterparties but has no particular concentration of customers. To minimise the credit risk related to trade receivables, financial vetting is undertaken for all major customers. Equally, credit limits are assigned for major customers based on the Group's credit risk principles.

Hempel applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. In accordance with IFRS 9, not due trade receivables are also impaired.

Hempel's maximum exposure to credit risk at the end of the reporting period related to trade receivables is the carrying amount of trade receivables mentioned above. The Group does not hold collateral as security.

3.7 Pensions and similar obligations

Accounting policies

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

Defined contribution plans

Hempel operates a number of defined contribution plans throughout the world. Hempel's contributions to the defined contribution plans are recognised in the statement of profit and loss in the year to which they relate. Pension obligations relating to defined contribution plans, under which Hempel pays regular pension contributions to independent pension funds, are recognised in the statement of profit and loss for the period in which they are earned. Contribution payables are recognised in the statement of financial position under other current liabilities.

Defined benefit plans

In regards to defined benefit plans, the liability or asset recognised in the balance sheet is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually for all major defined benefit plans by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit and loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit and loss as past service costs.
The net obligation recognised in the statement of financial position is presented within pensions and other similar obligations.

Pension costs

In 2021, net costs of EUR 20 million relating to Hempel's pension plans were recognised in the statement of profit and loss (2020: EUR 13 million) and the figures break down as follows:

In EUR million

	2021	2020
Costs for defined contribution plans:		
Employee costs	18	12
Costs for defined benefit plans:		
Employee costs	1	1
Interest expense	1	-
Total costs recognised in the profit and loss	**20**	**13**

Hempel's defined benefit plans

Hempel operates defined benefit plans in a range of countries with the major plans being related to Ireland and the UK. None of the plans have significance at Group level.

The plans are generally final salary pension plans, which provide benefits to the employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on the employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are funded. However, there are also a number of unfunded plans in which Hempel meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practice in each country, as is the nature of the relationship between Hempel and the trustees and their composition.

Present value of obligation at 31 December

In EUR million

	2021	2020
Present value of defined benefit plans	64	58
Fair value of assets related to the plans	43	35
Pension obligations recognised in the balance sheet, net	**21**	**23**

Of these obligations, EUR 20 million relates to unfunded pension obligations (2020: EUR 20 million) and EUR 44 million relates to partly funded obligations (2020: EUR 38 million). Of the total gross obligation, 58% (2020: 66%) relates collectively to Ireland and the UK.

The development in the present value of defined benefit pension obligations breaks down as follows:

In EUR million

	2021	2020
Present value of obligation at 1 January	**58**	**56**
Current service cost	1	1
Past service cost	-	-
Interest expense	1	3
Actuarial gains/losses arising from changes in financial assumptions	-3	2
Actuarial gains/losses arising from changes in demographic assumptions	-	-
Actuarial gains/losses arising from experience adjustments	1	-
Exchange differences	3	-1
Acquired in business combinations	5	-
Contributions from plan participants	-	-
Payments from the plans	-2	-3
Present value of obligation at 31 December	**64**	**58**

The expected average duration of the obligations is 11 years.

The development in the fair value of pension plan assets breaks down as follows:

In EUR million

	2021	2020
Fair value of pension plan assets at 1 January	**35**	**34**
Calculated interest on plan assets	-	-
Return on plan assets excluding calculated interest	1	2
Exchange differences	2	-1
Acquired in business combinations	6	-
Contributions:		
Employers	1	1
Plan participants	-	-
Payments from the plans	-2	-1
Fair value of pension plan assets at 31 December	**43**	**35**

Expected contributions to post-employment benefit plans for the year ending 31 December 2022 are EUR 2 million. The composition of the plan assets are as follows:

In EUR million

	2021	2020
Defined benefit plans		
Specification of plan assets:		
Shares and properties	23%	14%
Fixed interest current asset investments	75%	86%
Cash at bank and in hand	2%	0%
Total	**100%**	**100%**

The following table summarises the key assumptions of the defined benefit plans:

In EUR million

	2021	2020
Discount rate	2.34%	1.00%
Future wage/salary increase	3.34%	2.40%

Sensitivity analysis

The following table illustrates the change in the gross obligation relating to defined benefit plans from a change in the key actuarial assumptions. The analysis is based on fairly probable changes, provided that the other parameters remain unchanged.

In EUR million

	2021	2020
Recognised defined benefit pension obligation		
Discount rate:		
Increase of 0.5 p.p.	-4	-4
Decrease of 0.5 p.p.	4	4
Future wage/salary increase:		
Increase of 0.5 p.p.	1	1
Decrease of 0.5 p.p.	-1	-1

3.8 Provisions

Accounting policies
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions for environmental, warranty and restructuring obligations, as well as other obligations, are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The costs required to settle the liability are discounted if the effect is material to the measurement of the provision. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Decommission and restoration obligations are measured 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. Interest on provisions is recognised in the statement of profit and loss under financial expenses.

Environmental obligations
Environmental obligations relate to restoration of various sites and to remedying established environmental damages that occurred in connection with the production of coatings and disposal or release of certain wastes. Management anticipates that the resolution of the Group's environmental obligations will occur over an extended period.

Warranties
Provision is made for estimated warranty claims in respect of products sold that are still under warranty at the end of the reporting period.

In line with accounting policies, potential product warranties are recognised as warranty provisions when revenue from the related sale is recognised.

Other provisions
The Group is involved in a number of legal cases, tax and other disputes. Some of these involve significant amounts and are subject to considerable uncertainty. Management continuously assesses the risks associated with the cases and disputes, and their likely outcome. It is the opinion of management that, apart from items recognised in the financial statements, the outcome of these cases and disputes are not probable or cannot be reliably estimated in terms of amount or timing. The Group does not expect these to have a material impact on the consolidated financial statements.

In EUR million

	Environmental obligations	Warranties	Other provisions	Total
Total provisions, beginning of year	16	24	10	50
Effect of exchange rate adjustment	1	-	-	1
Acquisitions	1	-	2	3
Additions for the year	-	5	1	6
Reversed for the year	-	-2	-1	-3
Consumed for the year	-1	-7	-	-8
Total provisions, end of year	**17**	**20**	**12**	**49**
Current liabilities	3	4	1	8
Non-current liabilities	14	16	11	41
Total provisions, end of year	**17**	**20**	**12**	**49**

3.9 Other liabilities

Accounting policies
Other financial liabilities are measured at initial recognition at fair value. Subsequently, other financial liabilities are measured at amortised cost using the effective interest method, which usually corresponds to the nominal value. Other liabilities arising from e.g., taxation or employer benefits, are measured in accordance with the appropriate standards.

Other liabilities mainly comprise accrued employee costs, including bonuses, with-holding tax and VAT, supplier rebates and bonuses, commission payables, accrued interests and rentals.

Section 4
Capital structure and financing items

4.1 Share capital, distribution to shareholder

Accounting policies
Dividends proposed by management for the year are presented separately within equity.

The translation reserve comprises foreign exchange differences arising from the translation to EUR of financial statements of the parent company and its subsidiaries.

Share capital
The share capital has been fully paid and amounts to DKK 115 million (EUR 15 million) comprising 110 A shares of DKK 1 million each, one A share of DKK 900,000, four B shares of DKK 1 million each and four B shares of DKK 25,000 each. The B shares have special dividend rights.

If dividends are declared, an annual dividend of 5% of the nominal capital of shares is first payable to class B shares. Then an annual dividend of 5% of the nominal capital is distributed to class A shares. Additional dividends are distributed evenly among class B and A shares. However, the maximum dividend on class B shares amounts to 12% of the nominal capital annually, DKK 492 thousand (EUR 66 thousand), whereas no maximum limit applies for dividend on class A shares.

The shares are non-negotiable securities, and no special restrictions apply to the transferability of the shares.

Dividends
The Group proposes a dividend of EUR 297 per A share and EUR 8 per B share (2020: EUR 225 thousand per A share and EUR 8 thousand per B share) amounting to EUR 32.9 million in A shares and EUR 0.1 million in B shares (2020: EUR 24.9 million in A shares and EUR 0.1 million in B shares).

	31 December 2021		31 December 2020	
	Number of shares	Nominal value (DKK)	Number of shares	Nominal value (DKK)
The share capital comprises:				
A shares	111	110,900,000	111	110,900,000
B shares	8	4,100,000	8	4,100,000
Share capital (fully paid)	**119**	**115,000,000**	**119**	**115,000,000**

During 2021, dividends of EUR 225 thousand per A share and EUR 8 thousand per B share were paid out (2020: EUR 225 thousand per A share and EUR 8 thousand per B share) equal to a total dividend payment of EUR 25 million (2020: EUR 25 million).

Capital structure
The capital structure of Hempel is intended to ensure sufficient financial flexibility and stability for the company to reach its strategic goals. Hempel aims to maintain an optimal capital structure, and to use the free operating cash flow after financial items and tax for debt servicing and business development. At the end of 2021, the net interest-bearing debt to EBITDA ratio was 4.5 (2020: 0.7) on a reported basis. The increase was primarily a result of the acquisitions of Wattyl and Farrow & Ball.

The Group's dividend policy is to distribute 50% of net profit for the year, with a lower limit of EUR 25 million. The Group may adjust the amounts of dividends paid to accommodate its policies and strategic goals.

The Group strives to ensure adequate credit resources at all times, which includes securing access to committed bank financing and refinancing maturing debt in a timely manner. The Group aims to have minimum EUR 1,500 million of free committed credit resources available for the next 12 months. During 2021 a EUR 500 million three-year term loan was established to support the M&A strategy.

In order to achieve this overall objective, the 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 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 2.5x 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.

4.2 Borrowings

Accounting policies
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 statement of profit and loss over the loan period.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The other loans are secured by a negative pledge that imposes certain covenants on the subsidiary that has received those loans.

The Group's borrowings consist of the following:

In EUR million

2021	Interest rate	Maturity	Carrying amount
Bank loans	1.55%	2024-2026	772
Overdraft facilities	0.94 - 3%	2022	65
Lease liabilities	0.29 - 12%	2022-2045	176
Loan to parent company	1%	2022	70
Total borrowings			**1,083**
Current			175
Non-current			908
Total borrowings			**1,083**

In EUR million

2020	Interest rate	Maturity	Carrying amount
Bank loans	0.60%	2025	199
Overdraft facilities	0.55% - 3%	2021	40
Lease liabilities	0.52% - 12%	2021-2039	98
Loan to parent company	1%	2021	48
Total borrowings			**385**
Current			121
Non-current			264
Total borrowings			**385**

4.3 Financial risks

This note explains the exposure to financial risks and how these risks could affect the Group's future financial performance.

The Group's activities expose Hempel to a variety of risks related to the Group's financial assets and liabilities. The Group's financial liabilities comprise primarily borrowings, trade payables and lease liabilities, whereas the financial assets primarily comprise trade receivables and cash deposits.

Management has assessed the following key financial risks and their significance to the Group:

Financial risk type	Significance
Market risks	
Foreign exchange risk	Low
Interest rate risk	Medium
Credit risk	Low
Liquidity risk	Low

The above financial risks are inherent to the way Hempel operates as a multinational Group with a large number of operating units across the world. Hempel's overall risk management programme seeks to identify, assess, and mitigate these financial risks in order to reduce the effects on the Group's financial performance. The risks are managed in accordance with the policies and guidelines laid out by the Board of Directors. Hempel has centralised handling of these risks, except for commercial credit risk, which is managed locally. There are no changes in the Group's financial risk management policies compared to the previous year.

It is the Group's policy not to speculate actively in financial risks.

To some extent, the Group's income and expenses in foreign currencies net out and create a natural hedge of the Group's profitability margin. Hempel hedges intercompany loans in the major currencies using financial instruments. FX hedges are entered into in order to mitigate FX risks related to internal balances between Group entities. See further description under market risk.

Interest-bearing debt increased in 2021 following the acquisitions of Farrow & Ball and Wattyl. Consequently, the Group is exposed to fluctations in interest rates. All market risks are managed in accordance with the Treasury Policy.

Market risk
Hempel's exposure to market risks is related to foreign exchange risks and interest rate risk.

Foreign exchange risk
Foreign exchange risk is the risk that the fair value or future cash flows of a balance sheet exposure will fluctuate because of changes in foreign exchange rates.

Hempel's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expense is denominated in a foreign currency and intercompany loans and deposits. Foreign exchange risk arises from accounts receivable and accounts payable, including intercompany loans and deposits between the parent company and the subsidiaries. The currency exposure in these transactions may affect Hempel's result and the value of financial instruments.

The overall objective of foreign exchange risk management is to reduce the short-term negative impact of exchange rate fluctuations on earnings and cash flow, thereby contributing to the predictability of the financial results.

To manage exposure to foreign exchange risk, it is Hempel's policy to pool funding activities centrally through intercompany loans and deposits. In each subsidiary, foreign exchange risk derived from accounts receivable or payable is mitigated by Hempel A/S establishing an intercompany loan/receivable towards the local entity in the same foreign currency, thereby creating a natural hedge.

Currency risk is, as a main policy, hedged against DKK or EUR when exposure exceeds EUR 0.5 million (for USD, when exposure exceeds EUR 3.5 million). Some currencies cannot be hedged within a reasonable price range, in which case correlation to a proxy currency is considered and, if deemed appropriate, proxy hedging is applied.

FX forward contracts are used to hedge the exposure to currency risk. As the vast majority of intercompany accounts are hedged, and because changes in the fair value of both the hedged item and the FX forward is recognised in profit and loss under financial items, the net exposure to foreign currency risk is deemed minimal.

Interest rate risk
The Group's exposure to changes in interest rates primarily relates to long-term loans and borrowings with floating interest rates. The Group's policy is to hedge its interest rate risk depending on the Group's interest coverage level (EBITDA/interest). No hedging of interest rates was undertaken in 2021 or 2020.

The table demonstrates sensitivity to reasonable possible changes in interest rates. With all other variables held constant, the Group's profit and loss before tax is affected through the impact of floating interest rates as follows:

In EUR million

	Increase/ decrease in bps	Effect on profit before tax
2021		
Euro	+100 bps	-4
Euro	-100 bps	1
2020		
Euro	+100 bps	0
Euro	-100 bps	-2

As the loans contain a minimum interest rate floor, a lower interest rate would not impact the Group's profit and loss.

Credit risk on cash
Hempel is exposed to credit risk on cash. Hempel's main banks are all financial institutions with a high credit rating.

The carrying amount of EUR 224 million (2020: EUR 307 million) represents the maximum credit exposure related to cash and other receivables.

Please refer to note 3.6 for a description of Hempel's credit risk in relation to trade receivables.

Other financial assets at amortised cost comprise other receivables. These financial assets are considered to have a low credit risk, and thus the impairment provision calculated based on 12 months of expected losses is considered immaterial. The financial assets are considered to be low risk when they have a low risk of default, and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The Group has no material risks relating to a single customer or business partner. It is the Group's credit policy to rate major customers and other business partners on a current basis. Bank Acceptance Bills are used as a financial instrument to further limit the risk of credit losses.

Hempel considers a financial asset in default when the Group is unlikely to recover the outstanding contractual amount in full before taking any credit enhancements held by the Group into consideration. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Liquidity risk

The liquidity risk is considered to be low. Hempel ensures the availability of the required liquidity through a combination of cash management and both uncommitted and committed credit facilities. Hempel uses cash pools for optimisation and centralisation of cash management.

Hempel has an undrawn credit facility of EUR 709 million (2020: EUR 796 million).

Maturities of financial liabilities

The tables below provides an analysis of Hempel's financial liabilities divided into relevant maturity groupings based on their contractual maturities for:

1) all non-derivative financial liabilities, and
2) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

In EUR million

Contractual undiscounted cash flows	Less than 1 year	Between 1 and 5 years	More than 5 years
2021			
Non-derivatives:			
Borrowings, current and non-current	75	808	-
Loans from parent company	71	-	-
Trade payables	344	-	-
Lease liabilities	39	93	51
Total contractual undiscounted cash flows end of year	**529**	**901**	**51**
Non-current liabilities	952		
Current liabilities	529		
2020			
Non-derivatives:			
Borrowings, current and non-current	50	195	-
Loans from parent company	48	-	-
Trade payables	261	-	-
Lease liabilities	25	50	29
Total contractual undiscounted cash flows end of year	**384**	**245**	**29**
Non-current liabilities	274		
Current liabilities	384		

4.4 Financial instruments

Accounting policies
Derivative financial instruments, FX forwards and currency swaps are initially recognised in the balance sheet at fair value and subsequently remeasured at their fair value. Positive and negative fair values of derivative financial instruments are recognised as Other receivables and Other payables, respectively. Fair values of derivate financial instruments are computed on the basis of market data and generally accepted valuation methods.

Changes in the fair values of derivative financial instruments are recognised in the statement of profit and loss under financial items.

Financial instruments by category	Carrying amount		Fair value	
	2021	2020	2021	2020
Carried at amortised cost:				
Other interest-bearing receivables and deposits	11	4	11	4
Trade receivables	397	335	397	335
Other receivables (non-interest-bearing)	48	42	48	42
Cash and bank balances	176	265	176	265
Financial assets at amortised cost	**632**	**646**	**632**	**646**
Carried at fair value through profit/loss:				
Derivatives	1	5	1	5
Financial assets at fair value through profit or loss	**1**	**5**	**1**	**5**
Total financial assets	**633**	**651**	**633**	**651**
Carried at amortised cost:				
Bank and other credit institutions	837	239	842	241
Loan from parent company	70	48	70	48
Lease liabilities	176	98	176	98
Trade payables	344	261	344	261
Other payables	283	239	283	239
Financial liabilities at amortised cost	**1,710**	**885**	**1,715**	**887**
Carried at fair value through profit/loss:				
Derivatives	1	6	1	6
Financial liabilities at fair value through profit or loss	**1**	**6**	**1**	**6**
Total financial liabilities	**1,711**	**891**	**1,716**	**893**

Financial instruments measured at fair value
Financial instruments measured at fair value can be divided into three levels:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3 – Inputs for the asset or liability that are not based on observable market data

Derivatives are within level 2 of the fair value hierarchy and are calculated based on observable market data as of the end of the reporting period.

Financial instruments carried at amortised cost
Fair value of the short-term financial assets and other financial liabilities carried at amortised cost is not materially different from the carrying amount. In general, fair value is determined primarily based on the present value of expected future cash flows. Where a market price was available, however, this was deemed to be the fair value.

Fair value of the borrowing items is within level 2 of the fair value hierarchy and is calculated based on discounted future cash flows.

Reconciliation of liabilities arising from financing activities

In EUR million

	Beginning of year	Cash flows	Non-cash movements: Additions	Disposals	Acquisitions	Exchange rates	End of year
2021							
Lease liabilities	98	-37	49	-1	63	4	176
Borrowings, current and non-current	287	502	-	-	117	1	907
Liabilities arising from financing activities	**385**	**465**	**49**	**-1**	**180**	**5**	**1,083**
2020							
Lease liabilities	89	-24	34	-1	-	-	98
Borrowings, current and non-current	187	96	-	-	-	4	287
Liabilities arising from financing activities	**276**	**72**	**34**	**-1**	**-**	**4**	**385**

4.5 Financial income and expenses

Accounting policies

Financial income and expenses comprise interest income and expenses, gains and losses on receivables, payables, realised and unrealised exchange gains and losses and transactions denominated in foreign currencies.

Financial income

In EUR million

	2021	2020
Interest income	1	–
Foreign exchange gain (net)	3	–
Total financial income	**4**	**–**

Financial expenses

In EUR million

	2021	2020
Interest expense on borrowings	6	3
Interest expense on lease liabilities	3	2
Interest expenses to parent company	1	1
Interest expenses on financial liabilities measured at amortised cost	**10**	**6**
Foreign exchange loss (net)	–	13
Net monetary loss	1	1
Other financial expenses	10	8
Total financial expenses	**21**	**28**

4.6 Acquisition of enterprises

Accounting policies
When accounting for business combinations, the acquisition method is applied in accordance with IFRS 3. Acquirees are recognised in the consolidated financial statements from the date of acquisition. The date of acquisition is the date on which Hempel obtains control of the company.

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, liabilities incurred to the former owners of the acquired business, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The fair value of acquired technical plants is estimated based on the depreciated replacement cost.

The fair value of acquired finished goods is determined based on expected selling prices to be obtained during normal business operations less expected completion costs and costs incurred to execute the sale, and less a reasonable profit on the sales effort and a reasonable profit on the completion.

The fair value of acquired raw materials and goods for sale is determined at replacement cost. Receivables are measured at fair value of the amounts that are expected to be received less expected costs for collection. Liabilities are measured at the present value of the amounts that are required for settling the liabilities. The Group's loan interest rate before tax is used for discounting purposes.

In connection with the acquisitions, separate intangible assets are identified in the form of customer relations and trademarks. The fair value of customer relations is determined by means of the multi-period excess earnings method (MEEM). Customer relationships are calculated as the present value of the net cash flow generated by sales to customers after deduction of a reasonable return on all other assets that contribute to generating the cash flows in question.

An estimate is made of the value of acquired trademarks as well as the expected useful lives of these. The fair value of acquired trademarks is calculated by discounting the royalty payments that will be saved through owning the right of use of the trademark (the relief-from-royalty method).

Acquisition-related costs are expensed as incurred as administration costs.

The excess of the total consideration transferred, value of non-controlling interests and the fair value of any equity investments previously held in the acquiree over the total identifiable net assets measured at fair value are recognised as goodwill.

Goodwill is not amortised but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. Upon acquisition, goodwill is allocated to the CGUs that form the basis for subsequent impairment tests.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit and loss.

Acquisitions made during the year
In 2021, Hempel acquired the Australian-based Wattyl as well as Farrow & Ball, which is based in the UK for a total consideration of EUR 511 million paid entirely in cash. Information about these acquisitions is provided below. The assets and liabilities as a result of the acquisitions are as follows:

In EUR million

	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[1]	-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**

1) The fair value of recognised provisions including the environmental obligations is provisional pending further investigations, expected to be completed during the financial year 2022.

Pro-forma revenue and profit contribution
If the acquisitions had occurred on 1 January 2021, consolidated pro-forma revenue and profit for the year ending 31 December 2021 would have been EUR 1,906 million and EUR 87 million respectively. These amounts have been calculated using the subsidiary's results, adjusted for: differences in the accounting policies between the Group and the subsidiary, additional COGS charged assuming the fair value adjustment of inventories, adjustments for transaction costs expensed in Farrow & Ball before the acquisition date; and the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2021, together with the consequential tax effects.

Acquisition of Wattyl
On 31 March 2021, Hempel acquired the entire share capital of the Wattyl Group consisting of Wattyl Australia Pty. Ltd and Wattyl New Zealand Ltd., one of Australia and New Zealand's leading and highly distinguished manufacturers of paint for the decorative and protective business areas. The acquisition of Wattyl is in line with the growth ambitions for Hempel's decorative and protective business areas and supports key points of the Hempel strategy to double revenue within five years. Wattyl has a portfolio of branded products, two production facilities and nearly 100 own operated stores across Australia and New Zealand and employs approximately 750 people.

The goodwill is attributable to the workforce, synergies and access to new markets. It will not be deductible for tax purposes.

Acquired receivables
The fair value of acquired trade receivables is EUR 25 million. The gross contractual amount for trade receivables due is EUR 25 million with a loss allowance of EUR 0 million recognised on acquisition.

Revenue and profit contribution
The acquired businesses contributed revenues of EUR 120 million and net loss of EUR 1 million to the Hempel Group for the period from 31 March to 31 December 2021.

Acquisition-related costs
Acquisition-related costs of EUR 0.2 million (2020: EUR 2 million) are included in administration cost in the statement of profit and loss and in operating cash flows in the statement of cash flows.

Acquisition of Farrow & Ball
On 3 September 2021, Hempel acquired the entire share capital of Farrow & Ball Limited Group, a luxury decorative paint and wallpaper company based in the UK, which consists of eight companies. The acquisition is a good strategic match, supporting Hempel's growth ambitions within the decorative business areas. Farrow & Ball has an annual turnover of more than EUR 100 million.

The goodwill is attributable to the workforce, synergies and the high profitability of the acquired business. It will not be deductible for tax purposes.

Acquired receivables
The fair value of acquired trade receivables is EUR 10 million. The gross contractual amount for trade receivables due is EUR 10 million with a loss allowance of EUR 0 million recognised on acquisition.

Revenue and profit contribution
The acquired business contributed revenues of EUR 42 million and net profit of EUR 7 million to the Hempel Group for the period from 3 September to 31 December 2021.

Acquisition-related costs
Acquisition-related costs of EUR 5 million are included in administration cost in the statement of profit and loss and in operating cash flows in the statement of cash flows.

Section 5
Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

Fees for other services than statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab to Hempel mainly consist of audit of non-statutory financial statements, financial due diligence and transaction advice, accounting advisory services, and other advisory accounting and tax services.

In EUR million

	2021	2020
Audit fee	2	1
Other assurance services	-	-
Tax advice	1	1
Other fees	1	1
Total auditor's fee	**4**	**3**

5.2 Adjustments for non-cash items

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

In EUR million

	2021	2020
Amortisation, depreciation and impairment	91	77
Provisions	-6	10
Other non-cash adjustments	-	-5
Gains and losses on the sale of fixed assets	-3	-1
Total adjustments	**82**	**81**

5.3 Contingent liabilities and other commitments

Other guarantees primarily relate to bid and performance bonds. Performance bonds are issued to guarantee specific customers satisfactory completion of work according to contracts. Bid and performance bonds guarantees amounted to EUR 8 million (2020: EUR 5 million).

Other contingent liabilities

Hempel is, through its ongoing business, involved in product liability claims and disputes in connection with the Group's operational activities. While provisions that management deem to be reasonable and appropriate have been made for probable losses, there are uncertainties connected with these estimates. Hempel does not expect the pending litigations, claims and investigations, individually and in the aggregate, to have a material impact on Hempel's financial position, operating profit or cash flow in addition to the amounts accrued as provision for legal disputes.

Hempel is jointly taxed with several Danish companies in the Hempel Foundation Group. The Group's Danish enterprises are jointly and severally liable for Danish taxes at source and income taxes. Refer to the tax administration company Hempel Invest A/S for the total amount of corporate tax payable for the Group of jointly taxed companies.

Commitments

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 liabilities, amounted to EUR 19 million.

5.4 Events after the reporting period

No events occurred after the balance sheet date that could have a material impact on the company's financial results or equity.

5.5 Related parties and ownership

Parent company

Dividend
Dividend of EUR 25 million was paid to Hempel Invest A/S (2020: EUR 25 million).

Loan to Hempel Invest A/S
As of 31 December 2021, loan payables to Hempel Invest A/S amounted to EUR 70 million (2020: EUR 48 million). Interest expenses during the year amounted to EUR 1 million (2020: EUR 1 million).

Other related parties
Hempel A/S paid for rent expenses to Hempel Invest A/S of EUR 2 million (2020: EUR 0 million). In addition, rent was paid to Hempel Foundation of EUR 3 million (2020: EUR 2 million). At 31 December 2021, Hempel A/S had EUR 1 million deposit receivables related to office leases (2020: EUR 0 million).

In addition, Hempel A/S has paid on behalf of Brænderupvænge ApS, Keldskov ApS, Innovation S E ApS and Frontier Innovation ApS minor amounts related to administrative service, in total EUR 1 million, which on an ongoing basis are being reimbursed to Hempel A/S (2020: less than EUR 1 million). No material outstanding balances existed at the end of the year.

Key management personnel of the entity or its parent
For information on remuneration of key management personnel of Hempel, please refer to note 2.2 Employee costs. There were no loans to the Board of Directors or Executive Management in 2021 or 2020.

Related parties and ownership	Basis
Controlling influence:	
Hempel Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Ultimate parent company
Hempel Invest A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Majority shareholder (100%)
Other related parties:	
Members of the Executive Board and Board of Directors of Hempel A/S as well as the Board of Directors of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. The members of the Boards of Directors of the Hempel Foundation and Hempel Holding coincide.	
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel Employee Foundation from 2017, 2800 Kongens Lyngby, Denmark	Related party
Frontier Innovation ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Innovation S E ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party

5.6 The Hempel Group

Location	Name	Currency	Ownership
Denmark	Hempel A/S	DKK	100%
Argentina	Hempel Argentina S.R.L.	ARS	100%
Australia	Hempel (Australia) Pty. Ltd.	AUD	100%
Australia	Hempel NewCo Pty. Ltd.	AUD	100%
Australia	Hempel (Wattyl) Australia Pty. Ltd.	AUD	100%
Australia	Hempel (Wattyl) New Zealand Ltd.	AUD	100%
Austria	Ostendorf GmbH	EUR	65%
Bahrain	Dahna Paint Middle East Holding B.S.C.	BHD	51%
Bahrain	Hempel Paints (Bahrain) S.P.C.	BHD	51%
Brazil	Hempel Tintas do Brasil Ltda	BRL	100%
Canada	Farrow & Ball Canada Ltd	CAD	100%
Canada	Hempel (Canada) Inc.	CAD	100%
Chile	Pinturas Hempel Chile SpA	CLP	100%
China	Hempel North Asia Holding Co., Ltd	CNY	100%
China	Hempel (Hong Kong) Limited	HKD	100%
China	Hempel (China) Limited	HKD	100%
China	Hempel (Kunshan) Coatings Ltd.	CNY	100%
China	Hempel (Yantai) Coatings Ltd.	CNY	100%
China	Hempel (Guangzhou) Coatings Ltd.	CNY	100%
China	Hempel Coatings (Zhangjiagang) Ltd.	USD	100%
Croatia	Hempel Coatings (Croatia) Ltd.	HRK	100%
Cyprus	Hempel Coatings (Cyprus) Limited	EUR	100%
Czech Republic	Hempel (Czech Republic) s.r.o.	CZK	100%
Denmark	HSA (Danmark) A/S	DKK	100%
Denmark	Hempel Decorative Paints A/S	DKK	100%
Denmark	Brifa Maling A/S	DKK	65%
Denmark	HF (Denmark) A/S	DKK	100%
Ecuador	Hempel (Ecuador) S.A.	USD	100%
Egypt	Hempel Coatings Egypt LLC	EGP	100%
Egypt	Hempel Egypt L.L.C.	EGP	100%
Egypt	Hempel Paints Egypt LLC	EGP	99%
Finland	OY Hempel (Finland) AB	EUR	100%
France	Hempel (France) S.A.	EUR	100%
France	BB Participations SAS	EUR	65%
France	BB Fabrications SAS	EUR	65%
France	Bontemps-Bonnarme SAS	EUR	65%
Germany	Farrow & Ball GmbH	EUR	100%
Germany	Hempel (Germany) GmbH	EUR	100%
Germany	Hempel Beteiligungsgesellschaft GmbH	EUR	100%
Germany	J.W. Ostendorf GmbH & Co. KG*	EUR	65%
Germany	Ostendorf-Beteiligungs-GmbH	EUR	65%
Germany	FLT Handel & Service GmbH	EUR	65%
Germany	Brand.IQ GmbH	EUR	65%
Germany	Rottkamp Immoblilien GmbH & Co. KG	EUR	65%
Germany	Rottkamp Immobilien Verwaltung GmbH	EUR	65%
Greece	Hempel Coatings (Hellas) S.A.	EUR	100%
India	Hempel Paints (India) Private Limited	INR	100%
Indonesia	P.T. Hempel Indonesia	IDR	100%
Iraq	Hempel (Iraq) Ltd	USD	31%
Ireland	Crown Paints Ireland Limited	EUR	100%
Italy	Hempel (Italy) S.r.l.	EUR	100%
Kenya	Hempel Paints Kenya Company Limited	KES	100%
Korea	Hempel Korea Co. Ltd.	KRW	100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.	KWD	51%
Malaysia	Hempel (Malaysia) Sdn. Bhd	MYR	100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.	MYR	100%

Location	Name	Currency	Ownership
Mexico	Pinturas Hempel de Mexico S.A. de C.V.	MXN	100%
Morocco	Hempel Maroc SARL	MAD	100%
Norway	Hempel (Norway) AS	NOK	100%
Oman	Hempel (Oman) L.L.C	OMR	25%
Peru	Hempel Pinturas Del Perú S.A.C.	PEN	100%
Poland	Hempel Paints (Poland) S.p. z o.o.	PLN	100%
Portugal	Hempel (Portugal) S.A.	EUR	100%
Qatar	Hempel Paints (Qatar) W.L.L.	QAR	28%
Russia	Joint Stock Company Hempel	RUB	100%
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.	SAR	51%
Saudi Arabia	Painting Materials and Equipment Centre Co. LTD	SAR	26%
Singapore	Hempel (Singapore) Pte. Ltd.	SGD	100%
South Africa	Hempel Paints South Africa (Pty) Ltd.	ZAR	100%
Spain	Pinturas Hempel SAU	EUR	100%
Sweden	Hempel (Sweden) AB	SEK	100%
Switzerland	Hempel Schweiz AG	CHF	100%
Switzerland	J.W. Ostendorf (Schweiz) AG	CHF	65%
Syria	Hempel Paints (Syria) W.L.L.	SYP	43%
Taiwan	Hempel (Taiwan) Co., Ltd.	TWD	100%
Thailand	Hempel (Thailand) Ltd.	THB	100%
The Netherlands	Hempel (The Netherlands) B.V.	EUR	100%
The Netherlands	Hempel Industrial B.V.	EUR	100%
Turkey	Hempel Coatings San. ve Tic. Ltd. Sti.	TRY	100%
UK	Crown Brands Limited	GBP	100%
UK	Crown Paints Limited	GBP	100%
UK	Crown Paints Group Limited	GBP	100%
UK	Crown Paints Holdings Limited	GBP	100%
UK	FB Ammonite Limited	GBP	100%

Location	Name	Currency	Ownership
UK	FB Brassica Limited	GBP	100%
UK	FB Brinjal Limited	GBP	100%
UK	FB Calluna Limited	GBP	100%
UK	Farrow & Ball Holding Ltd	GBP	100%
UK	Farrow & Ball Limited	GBP	100%
UK	Hempel Decorative Paints Limited	GBP	100%
UK	Hempel UK Ltd.	GBP	100%
UK	Reebor Limited	GBP	1%
UK	Ostendorf U.K. Ltd.	GBP	65%
Ukraine	Hempel Ukraine LLC	UAH	100%
United Arab Emirates	Hempel Paints (Abu Dhabi) L.L.C.	AED	24%
United Arab Emirates	Hempel Paints (Emirates) L.L.C.	AED	49%
USA	Farrow & Ball Inc.	USD	100%
USA	Hempel (USA), Inc.	USD	100%
USA	Jones-Blair Company, LLC	USD	100%
Vietnam	Hempel Vietnam Company Limited	VND	100%

J.W. Ostendorf GmbH & Co. KG and Rottkamp Immobilien GmbH & Co. KG are exempt from their obligation to prepare, have audited and disclose annual financial statements and a management report in accordance with the regulations applicable to partnerships pursuant to Section 264b of the German Commercial Code (HGB).

5.7 Financial definitions

Financial ratios have been calculated as follows:		
Organic growth	=	Absolute organic revenue growth / Revenue in comparative period Organic growth is defined as growth from one year to the next, based on values in fixed currencies for both years excluding mergers, acquisitions and divestments, etc.
Gross margin	=	Gross profit / Revenue
EBITDA margin	=	EBITDA / Revenue
EBITDA	=	Operating profit (and loss) before amortisations and depreciations
Operating profit margin	=	Operating profit (loss) / Revenue
Return on invested capital	=	Operating profit (loss) / Average invested capital
Invested capital	=	Intangibles + property, plant and equipment + inventories + receivables - other provisions - trade payables - other payables
Equity ratio	=	Shareholder's equity / Total assets
Leverage ratio		Net interest-bearing debt / Pro-forma EBITDA (incl. full-year figures from Wattyl and Farrow & Ball, excluding M&A-related costs)
Net interest-bearing debt	=	Overdraft facilities + bank loans, etc. + interest-bearing payables to Group enterprises + lease liabilities - cash at bank and in hand
Free cash flow	=	Net cash generated from operating activities less net cash used in investing activities
Cash conversion	=	Total net cash flows from operating activities before financial items and tax / EBITDA
Accounts receivable days	=	Accounts receivable x 90 / Revenue (last 3 months)
Accounts payable days	=	Accounts payable x 90 / Cost of goods sold + change in inventory (last 3 months)
Inventory days	=	Inventory x 90 / Cost of goods sold (last 3 months)
Average net working capital days	=	Accounts receivable days + inventory days - accounts payable days (12 months average)

5.8 Transition to IFRS

These financial statements of the Group for the year ending 31 December 2021 are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ending 31 December 2020, the Group prepared its financial statements in accordance with the Danish Financial Statements Act (Danish GAAP).

The Group has prepared consolidated financial statements that comply with IFRS applicable on 31 December 2021, together with the comparative period data for the year ending 31 December 2020.

In preparing the consolidated financial statements of the Group, the opening statement of financial position was prepared on 1 January 2020.

The disclosures required by IFRS 1 First-time Adoption of IFRS explaining the principal adjustments made by the Group in restating Danish GAAP financial statements are provided below:

Notes to the reconciliation from Danish GAAP to IFRS

Expected credit loss

In accordance with IFRS 9, the Group has adopted the simplified expected credit loss model, which uses a lifetime expected loss allowance for all trade receivables. Under Danish GAAP, an incurred credit loss model was used, which assumes that all receivables will be paid until evidence to the contrary. Only at that point in time is an impairment loss recognised on the trade receivable.

In EUR million

Group reconciliation	1 January 2020 (date of transition to IFRS)			For the year ending 31 December 2020	31 December 2020		
	Assets	Liabilities	Equity	Profit for the year	Assets	Liabilities	Equity
According to the Danish Financial Statements Act	**1,300**	**808**	**492**	**43**	**1,410**	**925**	**486**
IFRS adjustments:							
Hyperinflation	4	–	4	-2	4	–	4
Goodwill amortisation	–	–	–	10	10	–	10
Leases	89	89	–	-1	98	98	-1
Deferred tax	19	19	–	–	20	20	–
Total adjustments	**112**	**108**	**4**	**7**	**132**	**118**	**13**
According to IFRS	**1,412**	**916**	**496**	**50**	**1,542**	**1,043**	**499**
Exchange differences on translation of foreign operations				-36			
Actuarial gains/losses net of tax				-1			
Total comprehensive income for the period				**13**			

The new impairment model for financial assets does not significantly affect the Group's ongoing impairment process and therefore has not had any financial effect on the Group. On the date of transition, no additional loss allowance was recognised. Similarly, no additional loss allowance was recognised as of 31 December 2020.

Hyperinflation
In accordance with IAS 29, prior to translating the financial statements of foreign operations in hyperinflationary economies, the income statement and non-monetary balance sheet items are restated based on inflation adjustments. Income and expenses are translated at the exchange rate at the balance sheet date. Under Danish GAAP, no adjustments or restatements are made for foreign operations in hyperinflationary economies.

On the date of transition 1 January 2020, the accumulated impact on the balance sheet was EUR 4 million. As of 31 December 2020, the balance sheet was adjusted with EUR 4 million, which comprises an increase in retained earnings and PPE. The income statement and non-monetary balance sheet items are restated based on inflation adjustments. Income and expenses are translated at the exchange rate at the balance sheet date.

Goodwill amortisation
Under Danish GAAP, Hempel amortised goodwill over its useful life being 2-20 years. According to IFRS, goodwill is not subject to amortisation but is to be tested for impairment on an annual basis. On the date of transition, goodwill of EUR 68 million was recognised in the balance sheet. The amortisations for 2020 recognised under Danish GAAP of EUR 10 million, which were presented under administrative expenses, have been reversed under IFRS.

Leases
In accordance with the provisions in IFRS 1, the Group has adopted IFRS 16 from the date of transition. With the adoption of IFRS 16, the Group recognised lease liabilities in relation to leases that under Danish GAAP were classified as operating leases. These liabilities were measured at the present value of the remaining lease liabilities as at the transition date using the incremental borrowing rates of 1 January 2020. The weighted average incremental borrowing rate applied was 1.67% at the date of transition. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Under Danish GAAP, the costs for operating leases were recognised in the statement of profit and loss as production costs, sales and distribution costs and administrative costs, which under IFRS is replaced with depreciations on the right-of-use assets and interest expense on the lease liability.

On the date of transition, lease liabilities and right-of-use assets of EUR 89 million were recognised in the balance sheet. For 2020, the net impact on the statement of profit and loss was EUR 0 million. In the statement of cash flows, lease payments were, under Danish GAAP, presented in cash flows from operating activities. Under IFRS, the principal element of lease payments is presented in cash flows from financing activities, whereas the interest element is presented as cash flows from operating activities. For 2020, the principle element of lease payments amounted to EUR 24 million which thus has increased the cash flows from operating activities under IFRS compared to the cash flows previously presented under Danish GAAP.

Cash and cash equivalents
Previously, overdraft facilities were presented within cash and cash equivalents in the cash flow statement. IAS 7 only allows credit facilities to be classified as cash and cash equivalents if the 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. From 1 January 2021 cash and cash equivalents do not comprise overdraft facilities.

The change in classification impacted the consolidated cash flow statement as below (including adjustment of comparatives):

Exemptions applied
IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

In EUR million

	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**

Cumulative currency translation differences for the parent company and for foreign operations with a functional currency different from EUR are deemed to be zero as at 1 January 2020.

IFRS 16 has been implemented in accordance with the transition guidance below and the following exemptions:

- The assessment date for classification of contracts as leases is the implementation date. When determining the lease term if the contract contains an option to extend or terminate, hindsight was used.
- The incremental borrowing rate at the implementation date was used in the measurement of the lease liability. A single discount rate was applied to portfolios of leases with similar characteristics.
- At the date of transition, lease liabilites were calculated based on the present value of the remaining lease payments using the company's incremental borrowing rate.

- At the date of transition, right-of-use assets were measured at an amount equal to the lease liability, adjusted for the amount of any prepaid or accrued lease payments. Initial direct costs were excluded in the measurement of the right-of-use asset.
- Low-value and short-term leases were not capitalised at the date of transition as allowed by IFRS 1.

IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS that occurred before 1 January 2020. Use of this exemption means that the Danish GAAP carrying amounts of assets and liabilities, which are required to be recognised under IFRS, are their deemed cost at the date of the acquisition. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the Danish GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2020.

Parent company financial statements

Statement of profit and loss

In EUR million

Note		2021	2020
2.1	Revenue	170	136
	Production costs	-107	-60
	Gross profit	**63**	**76**
	Sales and distribution costs	-22	-27
	Administrative costs	-51	-38
2.2	**Operating profit**	**-10**	**11**
	Income from investments in subsidiaries	49	33
	Profit before financial income and expenses	**39**	**44**
4.3	Net financials	5	1
	Profit before tax	**44**	**45**
2.3	Income tax	-3	-4
	Net profit for the year	**41**	**41**

Statement of financial position

In EUR million

Note		2021	2020
	Software	4	1
	Software under development	18	11
	Other intangible assets	7	10
3.1	**Intangible assets**	**29**	**22**
	Land and buildings	8	1
	Plant and machinery	7	2
	Other fixed assets	13	12
	Assets under construction	7	11
3.2	**Property, plant and equipment**	**35**	**26**
5.5	Investments in subsidiaries	427	301
	Loans to Group enterprises	176	141
2.3	Deferred tax assets	6	10
	Deposits etc.	1	1
	Other non-current assets	**610**	**453**
	Total non-current assets	**674**	**501**
3.3	**Inventories**	**9**	**3**
	Trade receivables	4	6
	Receivables from Group enterprises	859	213
	Tax receivables	3	1
	Other receivables	17	22
	Prepayments	6	4
	Receivables	**889**	**246**
	Cash at bank and in hand	**11**	**113**
	Current assets	**909**	**362**
	Total assets	**1,583**	**863**

In EUR million

Note		2021	2020
4.1	Share capital	15	15
	Reserve for development costs	16	8
	Retained earnings	434	404
	Proposed dividend for the year	33	25
4.1	**Total equity**	**498**	**452**
	Other provisions	9	9
	Provisions	**9**	**9**
4.2	Borrowings	760	179
	Long-term debt	**760**	**179**
4.2	Overdraft facilities	7	4
	Trade payables	12	9
4.2	Payables to Group enterprises	266	173
	Other liabilities	31	37
	Total current liabilities	**316**	**223**
	Total liabilities	**1,085**	**411**
	Total equity and liabilities	**1,583**	**863**

Statement of changes in equity

In EUR million

Note		Share capital	Reserve for development costs	Retained earnings	Proposed dividend	Total equity
	Equity at 1 January 2020	**15**	**6**	**424**	**25**	**470**
	Net profit for the year	-	-	41	-	41
	Exchange adjustment	-	-	-33	-	-33
	Remeasurement of defined plans	-	-	-2	-	-2
	Tax on equity transactions	-	-	1	-	1
	Dividend distributed	-	-	-	-25	-25
	Proposed dividend	-	-	-25	25	-
	Development projects reserve, additions	-	3	-3	-	-
	Development projects reserve, amortisation	-	-1	1	-	-
4.1	**Equity at 31 December 2020**	**15**	**8**	**404**	**25**	**452**
	Net profit for the year	-	-	41	-	41
	Exchange adjustment	-	-	31	-	31
	Remeasurement of defined plans	-	-	3	-	3
	Tax on equity transactions	-	-	-4	-	-4
	Dividend distributed	-	-	-	-25	-25
	Proposed dividend	-	-	-33	33	-
	Development projects reserve, addition	-	9	-9	-	-
	Development projects reserve, disposals	-	-1	1	-	-
4.1	**Equity at 31 December 2021**	**15**	**16**	**434**	**33**	**498**

Section 1
Basis of preparation

1.1 General accounting policies

The financial statements of Hempel A/S have been prepared in accordance with the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C.

The financial statements for 2021 are presented in EUR million.

Because a statement of cash flows is prepared for the Group in the consolidated financial statements, no separate statement of cash flows has been prepared for the parent company (as permitted under the Danish Financial Statements Act). Please refer to the consolidated statement of cash flows for the Group.

The accounting policies for the parent company are the same as for the consolidated financial statements with the adjustments described in the following sections. For a description of the accounting policies of the Group, please refer to the consolidated financial statements.

Receivables

Receivables are measured in the balance sheet at the lower of amortised costs and the net realisable value, which corresponds to the nominal value.

Leases

A finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. The parent company does not have any finance lease agreements.

An operating lease is a lease other than a finance lease. Operating lease commitments mainly relate to office buildings, leased cars and to some extent office equipment.

Payments made under operating leases are recognised in the income statement over the lease term.

Section 2
Results for the year

2.1 Revenue

Accounting policies
Revenue is generated mainly from sale of goods for resale and finished goods. Revenue is recognised in the income statement when all significant risk and rewards have been transferred to the customer and when the income can be reliably measured and is expected to be received. Revenue is measured at the fair value of the consideration expected to be received. Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Disaggregation of revenue
All revenue is derived from activities within the EMEA region. The following table displays revenue disaggregated into the sale of goods per customer category.

In EUR million

	2021	2020
Decorative	-	-
Marine	19	26
Infrastructure	3	2
Energy	6	6
Other	142	102
	170	**136**

Disaggregation of revenue is based on internal management reporting. The other category primarily consists of intercompany sales.

2.2 Employee costs

For remuneration of the Board of Directors and the Executive Board, please refer to note 2.2 in the consolidated financial statements.

In EUR million

	2021	2020
Staff costs:		
Wages and salaries	51	47
Pension costs	3	3
Remuneration to the Board of Directors	1	1
	55	**51**
Average number of employees	366	346

2.3 Income tax, tax assets and liabilities

Income tax
Tax for the year
In EUR million

	2021	2020
Tax for the year is specified as follows:		
Tax on profit for the year	-29	-21
Tax in respect of subsidiaries	26	17
Total tax for the year	**-3**	**-4**
Tax on profit for the year is calculated as follows:		
Current tax for the year	1	-6
Deferred tax for the year	-4	1
Adjustment in respect of previous years	0	1
Total tax on profit for the year	**-3**	**-4**

Deferred tax
Deferred tax recognised in the balance sheet
In EUR million

	2021	2020
Deferred tax (net):		
Deferred tax, beginning of year	10	7
Recognised in profit and loss	-3	–
Exchange adjustment at year-end rate	–	1
Acquisition of enterprises	–	–
Deferred tax for the year	–	–
Adjustment in respect of previous years	-1	2
Deferred tax (net), end of year	**6**	**10**

The Danish corporate tax rate was 22% in 2021 (22% in 2020).

At 31 December 2021, the company had recognised a deferred tax asset of EUR 6 million (2020: EUR 10 million) which relates to temporary differences.

Section 3
Operating assets and liabilities

3.1 Intangible assets

In EUR million

	Software	Software under development	Other intangible assets	Total
Intangible assets				
Costs at 1 January 2021	8	11	31	50
Additions for the year	0	12	-	12
Transfer between categories	5	-5	-	-
Disposals for the year	-	-	-	-
Costs at 1 December 2021	**13**	**18**	**31**	**62**
Accumulated amortisation and impairment at 1 January 2021	7	-	21	28
Amortisation for the year	2	-	3	5
Transfer between categories	-	-	-	-
Reversal of amortisation of assets disposed	-	-	-	-
Accumulated amortisation and impairment at 31 December 2021	**9**	**-**	**24**	**33**
Carrying amount at 31 December 2021	**4**	**18**	**7**	**29**

Other intangible assets comprise mainly brands and formulas.

3.2 Property, plant and equipment

In EUR million

	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs at 1 January 2021	1	4	15	11	31
Additions for the year	-	-	-	11	11
Transfer between categories	7	6	2	-15	-
Costs at 31 December 2021	**8**	**10**	**17**	**7**	**42**
Accumulated depreciation and impairment at 1 January 2021	**-**	**2**	**3**	**-**	**5**
Depreciation for the year	-	1	1	-	2
Accumulated depreciation and impairment at 31 December 2021	**-**	**3**	**4**	**-**	**7**
Carrying amount at 31 December 2021	**8**	**7**	**13**	**7**	**35**

3.3 Inventories

In EUR million

	2021	2020
Raw materials and consumables	8	3
Finished goods	1	-
Inventories	**9**	**3**

Section 4
Capital structure and financing items

4.1 Share capital, distribution to shareholder

Refer to note 4.1 in the consolidated financial statements for an overview of the changes in share capital.

In EUR million

	2021	2020
Distribution of profit:		
Proposed dividends	33	25
Retained earnings	8	16
	41	**41**

4.2 Borrowings

As of 31 December, loans payable to Hempel Invest A/S amounted to EUR 70 million (2020: EUR 48 million). Overdraft facilities amounted to EUR 7 million (2020: EUR 4 million).

In EUR million

	2021	2020
Long-term borrowings etc. including short-term part:		
Due within 1 year	77	52
Due within 1 to 5 years	760	179
Due after 5 years	-	-
	837	**231**

4.3 Net financials

In EUR million

	2021	2020
Interest income from subsidiaries	15	8
External interest expenses	-1	-2
Other financial expenses	**-5**	-3
Interest paid to Group enterprises	-1	-
Realised and unrealised exchange gains/losses, net	-3	-2
	5	**1**

Section 5
Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

The audit fee is disclosed in the consolidated financial statements note 5.1.

5.2 Contingent liabilities and other commitments

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

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term. The parent company guarantees for unutilised local loans and bank credits to subsidiaries. The Other guarantees primarily relate to bid and performance bonds.

In EUR million

	2021	2020
Rental and lease obligations:		
Due within 1 year from the balance sheet date	5	3
Due within 1 to 5 years from the balance sheet date	20	8
Due more than 5 years from the balance sheet date	21	4
	46	**15**
Guarantees:		
For local loans and bank credits to subsidiaries [1]	52	47
Other guarantees	-	-
	52	**47**

[1] Parent company guarantees for unutilised local loans and bank credits to subsidiaries. The guarantees amounted to EUR 33 million (2020: EUR 24 million).

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

Refer to note 5.3 in the consolidated financial statements for more information.

5.3 Events after the reporting period

Refer to note 5.4 in the consolidated financial statements for more information.

5.4 Related parties

The parent company has chosen only to disclose transactions that have not been made on an arm's length basis in accordance with section 98c (7) of the Danish Financial Statements Act.

5.5 Investments in subsidiaries

Accounting policies
Investments in subsidiaries are recognised and measured under the equity method. This implies that the proportionate share of the net result, less amortisation of goodwill and other fair value adjustments from business acquisitions is recognised income from investments in subsidiaries in the statement of profit and loss. Goodwill and brands are amortised over 10 years.

The investments are measured in the balance sheet at the proportionate ownership share of the net asset value of the enterprises with deduction or addition of shares of unrealised intercompany profits and losses.

The equity method is applied as a method of measurement.

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

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 receivables from subsidiaries or as a provision.

In EUR million

	2021	2020
Investments in subsidiaries		
Costs, beginning of year	384	380
Additions for the year	137	4
Costs, end of year	**521**	**384**
Net revaluations, beginning of year	-105	-3
Exchange rate adjustments	16	-27
Remeasurements of defined benefit plans	3	-2
Profit before tax	101	60
Amortisation of goodwill	-28	-10
Tax for the year	-24	-17
Dividend received	-77	-106
Net revaluations, end of year	**-114**	**-105**
Carrying amount, end of year	**407**	**279**
Recognised in the balance sheet as follows:		
Subsidiaries with negative equity	-20	-22
Investments in subsidiaries	427	301
	407	**279**
Subsidiaries with negative equity are recognised in the balance sheet as follows:		
Recognised in provisions to subsidiaries	-9	-9
Recognised in receivables from subsidiaries	-11	-13
Net value, end of year	**-20**	**-22**

Please refer to note 5.6 in the consolidated financial statements for an overview of the Hempel Group.

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