Trust is earned

Annual Report 2020

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

Auditors
PricewaterhouseCoopers
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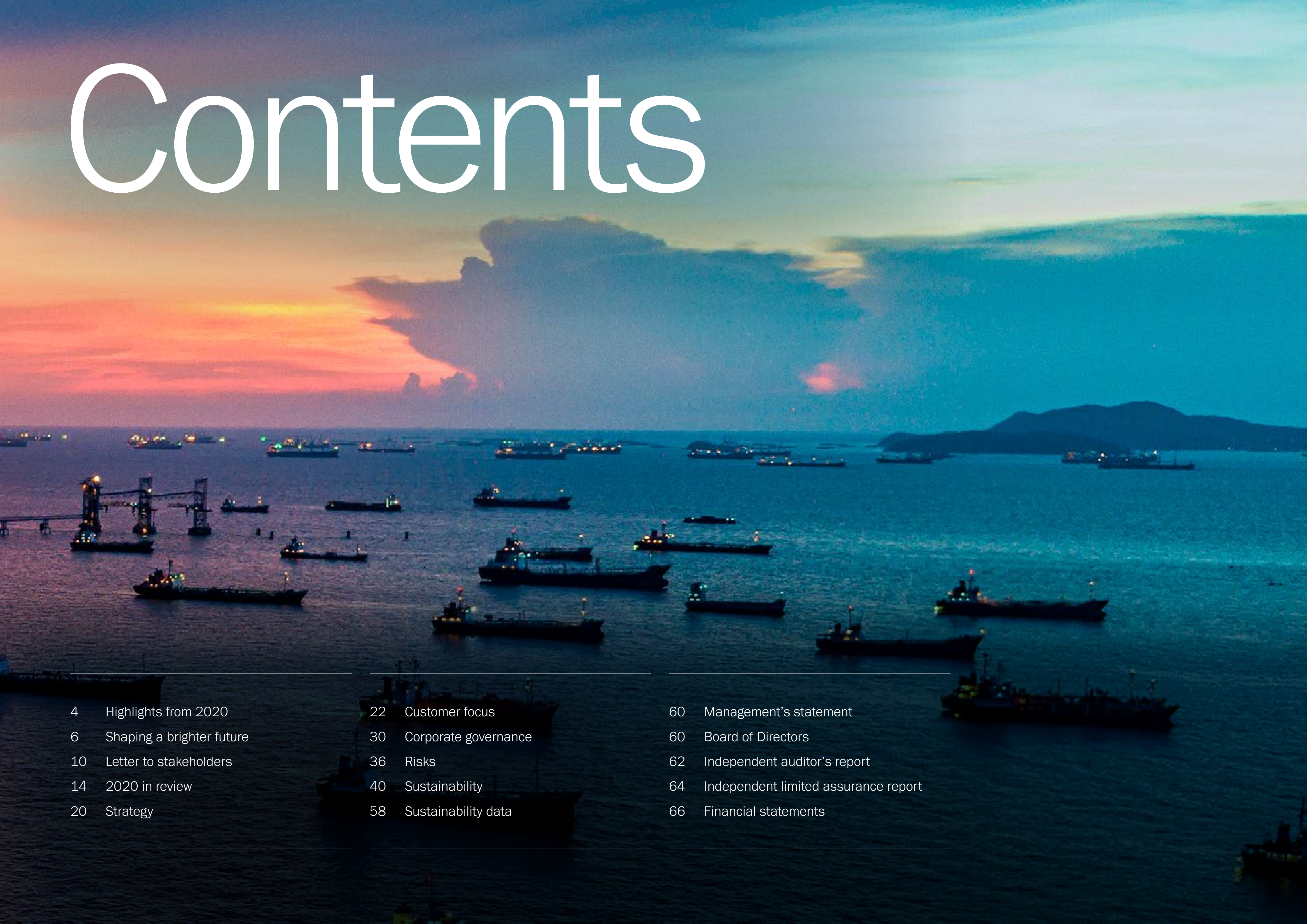

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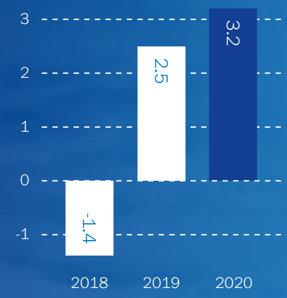
Highlights from 2020

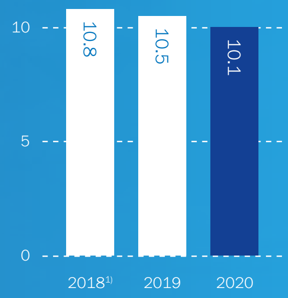
Organic growth (%)



3.2%
vs 2019

- Reported revenue of EUR 1,542 million represents organic growth of 3.2 per cent, continuing the strong performance from 2019
- Growth was driven by high demand in our Decorative and Marine segments
- Despite satisfactory growth, 2020 revenue was adversely impacted by COVID-19

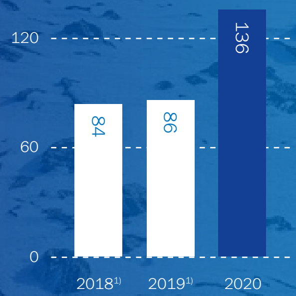
EBITDA margin (%)



10.1%

- EBITDA margin of 10.1 per cent excluding one-offs related to exiting certain markets (9.8 per cent in reported numbers) – a strong and satisfactory result in light of COVID-19
- The impact of COVID-19 and an extraordinary high supply chain cost level in China were balanced out by our cash protection plan and favourable raw material prices
- Operational excellence activities contributed further to underlying margin improvement

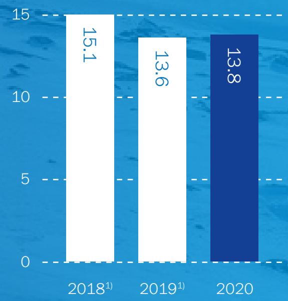
Cash conversion (%)



136%

- Cash conversion of 136 per cent, significantly higher than last year, driven by working capital improvements
- EUR 106 million of free cash flow generated in 2020
- Net interest-bearing debt decreased to EUR 22 million, the lowest level since 2017, ensuring a solid foundation for future growth

ROIC (%)



13.8%

- ROIC increased slightly to 13.8 per cent, driven by a decrease in average invested capital, which outweighed a slight decrease in operating profit compared to 2019
- The average fixed assets base dropped slightly and working capital balances decreased compared to 2019 – both contributing to the improvement in ROIC
- Net working capital days increased slightly compared to 2019, mainly due to COVID-19, while our cash tied up in working capital decreased

Key figures

In EUR million (unless otherwise stated)

	2020	2019	2018	2017	2016
Income statement					
Revenue	1,542	1,534	1,346	1,378	1,424
EBITDA	151	157	145[1)]	171	188[1)]
Amortisation, depreciation and impairment	62	65	55	56	58
Operating profit	89	92	90[1)]	115	130[1)]
Share of net profits of associates	–	–	–	–	2
Net financials	-25	-13	-5	-23	-18
Profit before tax	64	79	72	92	78
Net profit for the year	43	50	48	55	47
Financial position					
Total assets	1,410	1,300	1,288	1,144	1,265
Investment in tangible assets	77	43	32	35	40
Shareholders' equity	443	443	408	442	458
Net interest-bearing debt	22	86	97	21	119
Cash flows					
Total cash flow from operating activities	171	71	86	155	250
Total cash flow from net investments in property, plant and equipment and intangible assets	-65	-33	-34	-23	-36
Free cash flow	106	51	23	144	216

	2020	2019	2018	2017	2016
Working capital					
Average net working capital (NWC) days	70	67	72	77	125
Employees					
Average number of full-time employees	6,099	6,219	5,882	5,740	5,787
Employee Net Promoter Score (Scale: -100 to +100)	38	35	21	20	25
Ratios (%)					
Organic growth	3.2	2.5	-1.4	-0.7	-4.5
Gross margin	39.2	39.0	38.2	40.9	43.7
EBITDA margin	9.8	10.2	10.8[1)]	12.4	13.2[1)]
Operating profit margin	5.8	6.0	6.7[1)]	8.3	9.1[1)]
Return on invested capital	13.8	13.6[1)]	15.1[1)]	17.2[1)]	16.4[1)]
Equity ratio	31.4	34.1	31.7	38.6	36.2
Cash conversion	136	86[1)]	84[1)]	116	162[1)]
Leverage ratio	0.1	0.5	0.7[1)]	0.1	0.6[1)]

For definitions of key figures and financial ratios, see note 5.8

1) Excluding special items.

Shaping a brighter future with sustainable coating solutions

From bridges and boats to wind turbines and homes, our paints and coatings can be found in almost every country of the world. They protect and beautify buildings, infrastructure and other assets, and play an essential role in our customers' businesses. They help minimise maintenance costs, improve aesthetics and increase energy efficiency.

Our products are also essential to sustainability as they extend the useful lifetime of the assets they protect. But they do much more. Our hull coatings for marine vessels, for example, improve vessel hydrodynamics and so cut fuel consumption and associated CO_2 emissions, while we also produce fast-drying coatings that lower energy consumption in drying halls, helping reduce our customers' carbon footprint. And, as a company, we are always striving to do more. We partner with our customers and research institutions to find new ways to solve existing challenges, constantly pushing ourselves to create even more efficient solutions that help our customers hit their business and environmental targets.

Our ambition is to become a sustainability leader, championing the use of innovative coating solutions to help our customers put the world on a more sustainable path. In our own operations, we will become carbon neutral by 2025, for example, by switching to renewable energy sources and introducing electric vehicles. And, we will make Hempel an even better place to work, where inclusivity and diversity create better business performance.

We are trusted to ensure that our customers' assets last longer and perform better across their entire service lives. At Hempel, we believe that trust is earned. We earn this trust every day through the superior performance of our products and technical service – and by helping shape a brighter future for our customers and the world around us.

6,000+
Employees

Serving customers in
100+
countries

14
Research & Development centres

28
Factories

Where we add value to customers

Bringing lasting colour to our homes

From homes and offices to hospitals, schools and public buildings, our solutions improve hygiene, lower maintenance requirements and make our world more colourful and longer lasting.

Increasing efficiency and fuel performance

From large container vessels to small pleasure yachts, our solutions help vessel owners and operators reduce maintenance costs, extend maintenance intervals and cut fuel consumption and emissions.

Protection in the harshest environments

Across industries, we protect structures, buildings and equipment from corrosion and fire, while helping customers improve efficiency, reduce costs and increase safety.

Lowering production and maintenance costs

We partner with customers to bring down operational costs around energy production by extending asset lifetime, improving coating application efficiency and reducing maintenance requirements.


SEILSPORTS
LIGAEN

The Hempel Foundation

Our unique ownership structure ensures we take a long-term perspective on growth, sustainability and corporate responsibility.

EUR 15 million

Given by the Hempel Foundation to philanthropic causes in 2020

Hempel is proudly owned by the Hempel Foundation, a commercial foundation dedicated to making a positive difference around the globe. The Foundation is the sole owner of the Hempel Group – an ownership structure that is unique in the coatings industry, and in most industries around the world.

A long-term perspective

Our founder J.C. Hempel believed that a company has a responsibility to its employees and society in general. Long before it was customary, he introduced employee benefits such as free milk at work, holiday homes for employees and subsidised training. This strong, supportive culture still exists within the Hempel Group today.

In 1948, J.C. Hempel established the Hempel Foundation to provide a solid financial base for the continued existence of the Hempel Group and to give assistance to good causes around the globe. He transferred all his company shares to the Foundation and it remains the sole shareholder of the Hempel Group today. Dividends from our work are ultimately paid to support the good purposes of the Hempel Foundation.

No person or entity owns any part of the Hempel Foundation and no individual shareholder receives any dividends or profit from it. This ensures we can take a long-term view on value creation, sustainability and return on investment when pursuing growth.

For the greater good

The Hempel Foundation has a secondary purpose to support good causes around the globe. In its philanthropic work, the Foundation focuses its efforts on three main areas: empowering children living in poverty to learn; promoting independent research within sustainable coatings science and technology through CoaST (Hempel Foundation Coatings Science and Technology Centre) in Denmark; and sustaining nature's biodiversity. Since 2011, the Hempel Foundation has initiated projects supporting quality education for 280,000 children. 213,000 of these children are in projects that are currently either ongoing or being developed.

In 2020, Hempel A/S introduced its own purpose: to shape a brighter future with sustainable coating solutions. This complements the philanthropic purpose of the Hempel Foundation and will ensure that in the future we make a positive impact both in terms of how we operate our business and how we use our profits.

Letter to stakeholders

Organic growth above market average, successful execution of our *Journey to Excellence* strategy plus the launch of our new *Double Impact* strategy leave Hempel well prepared for the future.

2020 became an extraordinary year. The global COVID-19 pandemic affected nearly every industry, and the coatings industry was no exception. The business landscape was uneven and unpredictable, and customers, colleagues and partners in every country had to adjust to a new way of working. We are proud of the response of our company and colleagues – of our agility and decisiveness in the face of these challenges. We delivered positive organic growth above market average during the year, maintaining the momentum built in the second half of 2019. We also continued our transformation into becoming a much stronger global company from a financial and organisational standpoint, ready to accelerate growth towards 2025. No one can predict the future, but we are well positioned to be a leader in our core business areas.

Navigating the global pandemic
The global COVID-19 pandemic introduced rapid change and a high level of uncertainty. From the beginning, our priorities were clear and based firmly on our values. Our employees' safety is always our first concern. Secondly, we must ensure our customers, partners and others remain safe when dealing with us and that we maintain a timely supply of high-quality products to customers. Finally, we must ensure financial robustness to protect our future investment capacity.

At the start of the pandemic, we quickly established a COVID-19 Taskforce, which met daily to assess the situation. The taskforce took the global lead, issuing company-wide guidelines that our regional teams implemented, adjusting as necessary to suit the local situation. To ensure we could keep customers supplied with coatings, our supply chain team made use of our global network of factories, producing coatings in different locations and altering suppliers and delivery routes as necessary. At the same time, our customers benefitted from our existing digital solutions. Use of My Hempel, our online customer portal, accelerated across the globe, as did use of our Click and Collect online ordering system in the UK and Ireland. Both these solutions show the value of developing future-proof digital services for customers.

Many colleagues worked from home throughout the majority of the year. Despite the upheaval, we remained focused, stayed connected with each other and our customers, and continued to drive our business. It was a tremendous response and demonstrates that our people truly are our most important asset.

Overall, our decisiveness and preparedness in the face of the COVID-19 pandemic shows that the transformation and work we have done over the last five years to create a much stronger, more modern and agile company, with global leadership and local execution, is paying off. It also demonstrates the value of our unique ownership structure. Ownership by the Hempel Foundation enables us to prioritise our business, innovation, employees and customers over short-term gain. It allowed us to go the extra mile to serve customers, while continuing to make heavy investments in our future. It also meant we could continue to operate in uncertain times, keeping our people safe not only in terms of health but also in terms of job security.

Performance in 2020
For our customers, it is essential that their businesses keep running - and our products play a key role in this. Throughout the year, we worked hard to ensure our customers had the coatings and services they required, and they rewarded us with 3.2 per cent organic growth in 2020. Growth was negatively impacted in the early part of the year, but came back very strongly. In terms of earnings, Group EBITDA ended slightly below last year, which was in line with our expectations, due to material supply chain investments. EBITDA ended at EUR 151 million, leading to an EBITDA margin of 9.8 per cent. With our stable results, combined with our supply chain investments and cash protection plan during COVID-19, we are financially sound. Overall, this was a very satisfying result, given the circumstances.

Every industry segment was affected by the COVID-19 pandemic in some way – some positively, some negatively. Our Decorative segment outperformed our expectations, for example, driven by high demand in the Do-It-Yourself market, while many protective projects were postponed, cancelled or delayed, impacting our Protective segment negatively in nearly every region.

2020 was an important year in the marine cycle, with many vessels coming into dry dock for scheduled maintenance. We increased our already high market share in the dry dock business and saw an uplift in our newbuilding market share, mainly due to a number of new orders from major European vessel owners. We also celebrated a significant milestone when our Hempaguard X7 hull coating passed 2,000 applications. Hempaguard X7 is a world-class product that improves hull hydrodynamics to reduce fuel consumption and associated CO_2 emissions, and we have continuously documented its effect. Since it was launched in 2013, it has reduced the combined fuel consumption of the vessels it has been applied to by 7.6 million tonnes, lowering CO_2 emissions by 23.5 million tonnes.

Hempaguard X7 and our other high performance hull coatings were developed to address a very specific customer need and have been proven to perform over a number of years. Combined with our fuel efficiency monitoring service, which documents propulsion efficiency and gives vessel operators data they can use to adjust performance, this is an extremely attractive second-to-none package – one that uses partnership and innovation to reduce the customer's operating costs and improve their environmental performance. As a result, our Marine segment delivered above expectations.

In 2020, we continued to work towards our existing sustainability goals and key performance indicators, making satisfactory progress despite disruptions caused by the COVID-19 pandemic.

Leading the industry
The final year of our *Journey to Excellence* strategy progressed differently compared to our expectations, but it was satisfying nonetheless. Despite the challenges presented in 2020, we satisfactorily executed on our strategic initiatives and are now ready to deliver on our goal of doubling Hempel by 2025, through organic growth and acquisitions.

During 2020, we completed the development of *Double Impact*, our new five-year strategy that will drive us towards our goals. At the core of *Double Impact* are three principles: to build segment leadership positions in selected geographies within Decorative, Marine, Infrastructure and Energy; to become the sustainability leader within our core business areas by developing coating solutions that help our customers deliver on their sustainability agendas and by leading by example within our own operations and value chain; and to be the trusted partner of our customers.

Based on these principles, we will be able to shape a brighter future for our colleagues, our company, our customers and the world in general through innovation, digitalisation and more sustainable coating solutions that help solve our customers' biggest challenges. It is an ambitious plan, but with the foundations laid over the past five years, we are confident we will be able to deliver.

Partnerships that drive sustainability

Increasingly, our customers across the globe see sustainability as essential to their business success. At the core of our new strategy are close relationships with key customers – partnerships built on trust that drive innovation forward, not just in terms of coating technology and customer value, but also in terms of sustainability. The joint partnership we entered into with Vestas in 2020 is testament to this.

This partnership will enable our two global-leading companies to elevate each other's strengths and unlock future value together, while exploring new solutions to lower the carbon footprint of wind turbine production. In extension to this, we were proud to receive the Vestas Sustainability Award in 2020, based on elevated sustainability ambitions and our ability to showcase data-driven sustainability improvements within both energy and waste reduction.

As part of our work to drive innovation and create more sustainable solutions, we continued development of digital coating solutions, what we call 'outside the can' innovations. At the start of 2020, we launched Hempasense Track, a new digital quality management solution developed in collaboration with applicators in Europe, which monitors the precise conditions under which a coating is applied and produces real-time data that the applicator can use to improve quality and reduce emissions. Hempasense Track is the first in a line of new Hempel products that put digital data into the hands of applicators and asset owners. We expect the digital trend to grow significantly across the industry in the coming years and we are well placed to lead this development.

Investing in the future

We are a company with a long-term vision and, at the start of the COVID-19 pandemic, we acted quickly to protect our financial base by stopping all non-business-critical investments. This tight control of expenses ensured we still have the finances required to invest materially in the future and we maintained business-critical investments in innovation and our supply chain. During 2020, we held groundbreaking ceremonies for two large new factories in China, showing our commitment to the region, and finalised our new factory in Saudi Arabia – a combined investment of EUR 49 million during the year and EUR 169 million in total. We will continue to invest in and expand our global footprint to ensure we have a robust and extensive production network, capable of meeting our customers' increasing needs for new world-class coatings.

We also continued work on Hempel Campus, a site just outside Copenhagen covering over 10,000 m^2. Hempel Campus is an investment in Denmark and in innovation. During 2020, we finalised and moved into our brand-new state-of-the-art R&D centre where leading scientists and researchers from industry and academia can gather, discuss and share ideas. Hempel Campus is a key element in our drive to be a global leader within innovation and more sustainable solutions in the coatings industry – and it will help us attract and retain the best people and ensure we can be an even better partner to our customers. We expect to move into our new expanded headquarters in the middle of 2021.

Nurturing talent

No future investment is complete without people. Attracting, nurturing and developing talent remains key to our culture, outlook and ambitions. Over the last few years, we have worked hard to create a culture where everyone has the opportunity to develop and succeed, where we dare each other to go further and give each other the support we need to excel. Our goal is always to encourage our people to stretch themselves.

We are a global company, creating global opportunities. Over the past few years, we have created a full development path for high potential talents, running from graduate through to executive level. Thanks to this investment in our talent pipeline, a number of senior leadership and country manager positions were filled by internal candidates in 2020. For example, Pernille Fritz Vilhelmsen, who has been with Hempel for the past three years, became our Chief People & Culture Officer in 2020 and is now a member of our Executive Management Board. This kind of internal promotion enables us to keep our knowledge in-house and brings greater continuity to our company, which will stand us in good stead in the future.

Looking ahead

The years ahead hold tremendous promise and potential. As we push forward with our new strategy, we will launch a number of initiatives that will see us make a meaningful difference for our customers and provide strong development opportunities for our employees. We will make sustainability the new way we do business, by taking active measures to decouple our growth from our environmental footprint, promoting diversity and inclusion to boost innovation, and unlocking sustainability value for our customers through our products and services.

Looking at 2021, the COVID-19 pandemic still lowers our visibility into the future. We expect the pandemic to continue to adversely affect the coatings business in many markets throughout 2021. However, we have proven we can work successfully in difficult conditions and we anticipate continued organic growth during the year, and a stable EBITDA margin leading to an EBITDA of EUR 150-160 million, while we continue to invest materially in innovation, sustainability and our supply chain.

A word of thanks

As we all know, 2020 was an unusual and challenging year. Despite the obstacles, we delivered positive organic growth and laid the groundwork for our ambitious and exciting new *Double Impact* strategy. It is a tremendous achievement and we would like to thank every colleague for their dedication, hard work and optimism during a challenging year. On behalf of the Executive Management Board and the Board of Directors, we would also like to extend our thanks to you, our customers, shareholder and other stakeholders, for your continuing trust and support.

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

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

2020 in review

Despite the adverse impact from COVID-19, we delivered strong organic growth in 2020, continuing our momentum from 2019.

2020 turned out to be nothing like expected. In late January, the COVID-19 pandemic broke out impacting our Asia Pacific region in terms of both supply chain and demand. From there, the pandemic spread to the rest of the world, causing challenging conditions for our whole organisation. In these difficult market conditions, we are proud to end 2020 with organic growth of 3.2 per cent, on top of a strong 2019, an EBITDA margin of 9.8 per cent and a positive free cash flow of EUR 106 million.

These positive results were driven by high demand in our Decorative segment, especially for our Do-It-Yourself products. Likewise, 2020 was a good year for our Marine segment, which contributed to an excellent result, especially in our Asia Pacific region. At the other end of the scale, our EMEA (Europe, the Middle East and Africa) and Americas regions were severely hit by the restrictions and lockdowns imposed by various authorities in response to the COVID-19 pandemic, which negatively affected sales and earnings in these regions. Despite the many challenges, our colleagues around the world managed to take us through the rough seas, resulting in a satisfactory 2020.

An agile and adaptive response to the pandemic

The positive results were the outcome of a great team effort and we showed our agility by altering our business and way of working to account for changes in the business environment and world around us.

At the start of the COVID-19 pandemic, we quickly acted to minimise our expenses, saving or delaying expenses and investments that were not business critical in order to protect our cash and earnings. This helped preserve our sound financial position, which is the foundation for our further growth. In 2020, we decided to exit from certain non-core markets in the Americas and EMEA, which are not part of our future core strategic priorities. This resulted in one-off costs of EUR 5 million. We will still be present in these countries via distributors.

2020 was also the year in which our *Journey to Excellence* strategy concluded. It has given us a solid foundation for our new *Double Impact* strategy, in which we aim to double our top line by 2025 – an ambitious strategy, which we are now ready to embark upon. We spent time in 2020 forming our new strategy and making it tangible and actionable, and we are now ready to execute on the strategic initiatives it contains.

Strong performance in Decorative and Marine leads to organic growth

Our revenue in 2020 ended at EUR 1,542 million, which corresponds to organic growth of 3.2 per cent for the year. In addition, we were pleased to see that the revenue generated from our global key accounts grew again in 2020. On a daily basis, we work closely with our biggest customers to continuously improve our services and products, partnering with them to reach common goals.

As anticipated, and despite of the COVID-19 pandemic, 2020 was a good year for our Marine segment, with solid year-on-year organic growth of 12.0 per cent positively impacting nearly all our regions. Our dry dock business remained strong and we saw an uplift in our newbuilding market share, with large orders from major European vessel owners. We experienced especially high demand for our high-end hull coatings Hempaguard X7, Hempaguard MaX and Globic.

Conversely, our Infrastructure segment was negatively impacted by COVID-19, as restrictions and lockdowns slowed down many industry sectors. As a result, many projects were postponed or cancelled, which affected demand for coating solutions. Organic growth in our Infrastructure segment was negative 8.4 per cent in 2020. Despite a challenging year, our project pipeline in the Infrastructure segment is strong, which we should benefit from in 2021.

Our Decorative segment grew organically by 11.4 per cent in 2020. This increased revenue was driven by our Do-It-Yourself product line, where demand was positively impacted by COVID-19, as restrictions related to the pandemic gave private households the necessary time to decorate their homes, boosting demand for our products.

Organic growth in our Energy segment ended at negative 7.7 per cent. Revenue was adversely impacted by COVID-19 related restrictions which, together with low oil & gas prices in 2020, affected demand for our oil & gas products negatively as many projects in this industry were postponed or cancelled. Conversely, demand for our wind products increased in 2020, positively impacting revenue from our Energy segment.

Two of our three regions saw positive organic growth in 2020. Asia Pacific and EMEA grew organically by 18.5 per cent and 2.5 per cent respectively, while the Americas saw negative organic growth of 19.2 per cent. All in all, this was a satisfying result in challenging times. The geographical impact of COVID-19 was felt unevenly across our regions, with the most significant adverse effects in the Middle East in our EMEA region and in our Americas region.

Our Asia Pacific region was also negatively affected by the COVID-19 pandemic. Despite this, the region had a strong year, delivering organic growth of 18.5 per cent. The Marine segment in the region delivered 34.7 per cent organic growth, led by high demand within dry docking and newbuilding. Likewise, the Infrastructure and Energy segments delivered positive organic growth in the region. This was driven by demand for our wind products, which outweighed a contraction in demand for our oil & gas products.

“ We are strongly positioned to continue investing in our future to ensure we consolidate our position as a leader in innovation and sustainability, with a long-term view on value creation and return on investment”

Executive Management Board:
Lars Joenstrup Dollerup (CFO), Pernille Fritz Vilhelmsen (CPCO),
Michael Hansen (CCO), Lars Petersson (CEO), Katarina Lindström (COO)

In EMEA, our Decorative segment led organic growth, delivering 11.4 per cent, driven by our Do-It-Yourself product line. Our Marine segment also contributed positively, delivering 0.7 per cent organic growth. As in our Asia Pacific region, this was led by high demand for our dry docking products. The Infrastructure and Energy segments in EMEA were more challenged and ended 2020 with a decrease in revenue compared to last year.

The Americas was the only region to see negative organic growth in 2020, mainly due to the weak performance of our Infrastructure and Energy segments in the region. Combined, these segments account for more than two thirds of sales in the Americas. The challenges were mainly a result of the slowdown in the economy caused by COVID-19 related restrictions and lockdowns. This particularly affected demand in our Oil & Gas and Rail sub-segments as well as for our Neogard products. On top of this, our Marine segment declined 20.4 per cent organically in the region during 2020, mainly due to a contraction in the cruise industry. As performance in the region had not been satisfactory for some time, corrective measures were taken early in the year, including restructuring the organisation and implementing a cost turnaround. We also took the strategic decision to end our physical presence in Peru, Chile and Ecuador and will be there via distributors going forward. These measures should begin to have an effect in 2021.

Satisfactory EBITDA driven by careful operational spending

EBITDA for 2020 ended at EUR 151 million compared to EUR 157 million in 2019, resulting in a margin of 9.8 per cent compared to 10.2 per cent in 2019. Excluding one-off costs related to exiting certain countries in EMEA and the Americas, our EBITDA margin ended at 10.1 per cent, in line with expectations and despite COVID-19, which is considered satisfactory.

Various elements contributed to this result. Despite our sales being negatively impacted by the COVID-19 pandemic in the beginning of the year and thereby diluting our EBITDA margin, our top line rebounded, which positively affected our earnings. In order to mitigate the effects of COVID-19 on our earnings, we implemented cost-saving initiatives immediately following the lockdowns to keep our EBITDA margin intact and to protect our cash, including holding back on all non-business-critical activities. Another factor that contributed to the good EBITDA margin was favourable raw material prices. These factors made sure we could maintain the sound financial position required for future growth. On top of this, we continued our operational efficiency programme, in which we harness efficiency gains in our operations.

During the year, we worked to optimise our supply chain in our Asia Pacific region, specifically in China. In mid-2019, the Chinese authorities temporarily closed more than 1,000 factories in Kunshan, our factory among them. We were allowed to start up production again, but only at reduced capacity – and capacity remained reduced throughout 2020. Our regional supply chain organisation collaborated closely to meet increased demand in the region while keeping costs as low as possible. Despite these efforts, our expenses were still above the normal level. China is pivotal for our future growth. Therefore, we are investing in our supply chain in the region, including building two new factories that will be ready for operation in 2021 and 2022.

In total, our operating expenses amounted to EUR 1,454 million in 2020, slightly higher than the EUR 1,443 million in 2019. 2020 was impacted negatively by both a significant increase in our supply chain costs in North Asia as well as one-off costs related to exiting certain countries. These increases were almost fully absorbed by cost efficiency in our entire organisation.

A decline in average invested capital during 2020 more than offset the slight decline in earnings, leading ROIC to 13.8 per cent for 2020, compared to 13.6 per cent in 2019. In general, our financial position is robust, which gives us the foundation needed to grow our business in the coming years, both through acquisitions in our priority markets and organically by investing in our people, innovation, digital solutions and sustainability.

Financial income and expenses

Net financial expenses in 2020 amounted to EUR 25 million compared to EUR 13 million in 2019. The increase was mainly driven by foreign exchange losses with a total net loss of EUR 13 million.

Tax and net profit

Tax on profit for the year amounted to EUR 21 million compared to EUR 29 million in 2019. The effective tax rate was 32.5 per cent, compared to 36.7 per cent in 2019. The effective tax rate in 2019 was impacted by unutilised tax losses in China driving the difference to the 2020 result. The decrease was offset by taxes related to exiting certain countries where tax losses cannot be utilised. Net profit for the year ended at EUR 43 million compared to EUR 50 million in 2019.

Capital expenditure – investing in our future

We continue to invest in our future. Due to the COVID-19 pandemic, we decided to delay non-business-critical investments; however, we invested significantly in projects deemed business critical. Our total capital expenditure in 2020 amounted to EUR 77 million, significantly higher compared to prior years.

In particular, we are investing in our supply chain in China, where we held groundbreaking ceremonies for two factories in 2020. The factory in Yantai will be finalised in 2021, and the factory in Zhangjiagang in 2022, securing our production capabilities in the Asia Pacific region. In total in 2020, we spent EUR 49 million on factory construction, including the finalisation of a new factory in Jeddah in Saudi Arabia, which will enable us to supply local customers with marine and protective coatings more quickly and less expensively.

We also continued to strengthen our digital platform by maintaining our investments in the global upgrade of our Microsoft Dynamics 365 and SAP Enterprise Resource Planning systems. In total, we invested EUR 6 million in our digital platform in 2020.

Sound cash flow and decreasing net interest-bearing debt

Our free cash flow in 2020 amounted to EUR 106 million, which was EUR 55 million higher than 2019, resulting in a cash-conversion[1)] of 136 per cent compared to 86 per cent in 2019. Despite larger investments in our supply chain in China and Saudi Arabia, the free cash flow more than funded the dividends paid to our owner, and decreased our net interest-bearing debt from EUR 86 million at the end of 2019 to EUR 22 million at the end of 2020, the lowest level since December 2017. The decreased net interest-bearing debt combined with our strong earnings also reduced our leverage ratio by 0.4 to 0.1.

Cash flow from operating activities was a net inflow of EUR 171 million compared to EUR 71 million in 2019. The higher cash flow compared to 2019 was driven by solid earnings, as well as positive effects from improvements in net working capital. The development also reflects that, in 2019, cash flow from operating activities was negatively impacted by special items. Improvements in net working capital were the result of a dedicated effort to keep net working capital down despite the economic turmoil caused by the COVID-19 pandemic. Net working capital remains a key focus area for us, and the continued pressure from the COVID-19 pandemic only increases this focus.

Cash flow from investing activities amounted to a net outflow of EUR 65 million, which is EUR 45 million higher than last year, driven by our supply chain investments.

Cash flow from financing activities amounted to EUR 53 million, driven mainly by utilisation of existing credit facilities in 2020 as a precautionary measure during the COVID-19 pandemic, where a larger proportion of cash is preferred.

Preparing for the future

We restructured our organisation in 2020 to support our strategy implementation and growth. In Europe & Africa and in South America, we adjusted our organisations to sharpen focus on key geographies, and we introduced a new global Marine organisation to reflect the global set-up and requirements of our marine customers. These changes will enable us to better serve customers with speed and focus, and ensure we are well placed to build leadership positions in our target segments and geographies. Finally, we strengthened our strategic approach to sustainability. We committed to setting science-based targets and 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. As a first step, we initiated a group-wide transition to renewable electricity in our production units across the globe.

Looking ahead

2021 is the year in which we embark on our new *Double Impact* strategy. During 2020, we invested time and energy in developing, refining and formalising our new strategy, constantly challenging ourselves and each other to raise the bar. The resulting strategy is bold and ambitious, but also realistic, with initiatives that will propel our company forward in the next years and see us double our revenue by 2025. We are excited and ready for this new chapter in our journey.

In 2021, we expect growth above the market. We still expect COVID-19 to adversely impact our business in multiple markets. The pandemic and resulting spill-over effects into the general economy significantly lower our visibility into the future and make forecasting a challenge. In addition, we aim to welcome new family members to the Hempel Group, which will further support our ambition of doubling Hempel by 2025.

We are financially sound and are ready to invest in our new strategy and in our supply chain in China, which will impact our earnings in the short-term. We still expect to see continued organic growth, a stable EBITDA margin, and EBITDA in the range of EUR 150-160 million, excluding potential acquisitions.

As a key principle in our new strategy, we are also proud to be presenting our new sustainability goals in 2021. The framework we have developed considers the areas where we can have the biggest impact and where we can add the most value to our customers. It encompasses our value chain and includes both environmental and social aspects, such as CO_2 neutrality in our own operations, reducing our customers' collective CO_2 emissions by at least 7.5 million tonnes per year by 2025, sustainable product development, reducing red raw materials, and increasing diversity and inclusion regarding gender, age, culture, ethnicity, physical abilities, religious beliefs and sexual orientation. We want to lead the sustainability agenda in the coatings industry.

As a company, we are well positioned to continue investing in our future to ensure we consolidate our position as a leader in innovation and sustainability, with a long-term view on value creation and return on investment.

"In these challenging market conditions, we are proud to end 2020 with organic growth of 3.2 per cent and an EBITDA margin of 9.8 per cent"

1) 2019 cash-conversion excluding special items.


380
LAB
VOS
Si-OH
CH3
+ NH3

Strategy

2020 saw the launch of *Double Impact*, an ambitious new strategy that will see us double Hempel by 2025.

Hempel's purpose is to shape a brighter future with sustainable coating solutions. This drives everything that we do and we see enormous opportunity in helping our customers put the world on a more sustainable path.

Across the globe and in every segment, our customers need to protect their homes, ships, wind turbines, bridges and other assets, while taking action on climate targets and contributing to a circular economy – all while doing so safely. To navigate this, they need a trusted partner who can keep up with rapidly changing regulations and disruptions to supply chains, as well as co-creating solutions to problems for which there are no single or simple answers.

To best be this partner, we will pursue growth with determination and with the aspiration to double Hempel's revenue by 2025. Doubling our size will enable us to make an even more meaningful difference for our customers, have an ever greater positive impact on the world's sustainability path, and build a fast-growing company with strong development opportunities for our employees. Importantly, doubling Hempel will also double the positive impact that the Hempel Foundation can make on the world. We see ample opportunity to gain operational leverage, and hence it is our ambition to grow while lifting our EBIDTA margin.

In 2020, we defined and launched *Double Impact*, an ambitious new strategy that lays out our growth path and includes our new Futureproof sustainability framework. *Double Impact* will be guided by three principles:

- Build segment leadership positions in selected geographies within Decorative, Marine, Infrastructure and Energy
- Become a sustainability leader by developing sustainable coating solutions that help our customers deliver on their sustainability agendas, including cutting their collective CO_2 emissions by at least 7.5 million tonnes annually by 2025, while also becoming carbon neutral in our own operations
- Be the trusted partner of our customers by prioritising and investing in long-term customer relationships

Getting ready for growth

Our work with our *Journey to Excellence* strategy over the past five years has prepared the foundation for this future growth. During 2020, we concluded *Journey to Excellence*, executing the final initiatives in our Customer, Excellence, Innovation & Product and Culture & Leadership journeys.

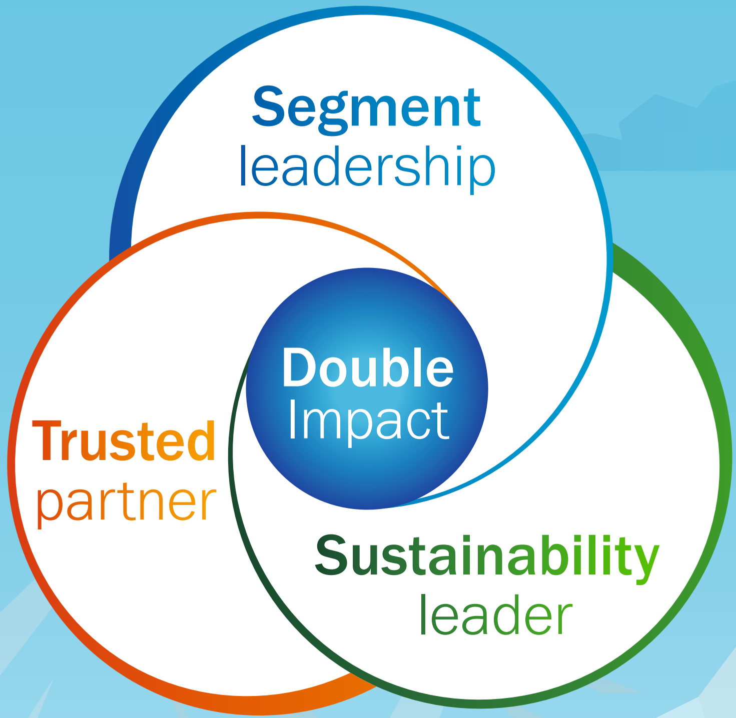
Some of the many key accomplishments from our *Journey to Excellence* strategy include:

- The launch of a global key account management structure and customer classification to ensure that we continuously provide the best support possible, across all functions, to our global customers
- Significant investments in passive fire protection (PFP) innovation, which has resulted in several performance leading PFP products in Europe and the Middle East, and a strong pipeline and expansion plan
- A new talent and leadership development model that has strengthened Hempel's ability to attract and retain talent, and will help our leaders develop at all levels and locations

Doubling our impact

Thanks to our work on *Journey to Excellence*, we are now ready to accelerate growth and significantly increase investment in sustainability. The five years ahead hold enormous promise – a brighter future that we can begin creating now. We are confident that we can achieve our ambition. We don't yet know all the answers. But we have a clear direction and are optimistic about shaping a brighter future together that we can all be proud of.

Shaping a **brighter future** with **sustainable coating solutions**



Doubling Hempel by 2025

Customer focus

Partnering with customers to create positive change.

Our coatings have never been more in demand than they are today. Across the globe, they bring colour to our lives and protect our customers' assets from corrosion. They improve aesthetics, increase asset longevity and reduce maintenance costs. But our customers demand more than just protection and beautification. They want coating solutions that raise their business and environmental performance. That's why we partner with customers to develop new, innovative and more sustainable solutions that solve their business challenges and help them meet their sustainability targets.

Following the launch of our new *Double Impact* strategy, Hempel has the goal to build market leadership positions in four chosen segments: Decorative, Marine, Infrastructure and Energy. By 2025, our ambition is that more than 50 per cent of our revenue will come from segments or geographies where we have a market leading position.

GrowHub, where transformative ideas are born

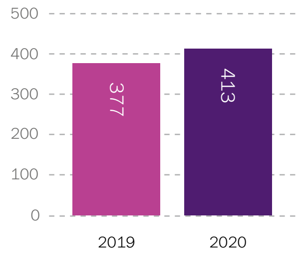
A cross-functional innovation and incubation lab, GrowHub is responsible for driving transformational innovation across the group – ideas that combine existing or new capabilities and technologies to create an industry-changing product or service, such as our Hempaguard hull coatings and Hempasense Track digital products.

Established at the end of 2020, the GrowHub team includes innovation managers, digital technologists and scientists. Together, they investigate and develop new ideas, working across functions and alongside our other innovation teams within Digital, Services and Product Development. This broad and coordinated approach to innovation ensures we maintain a culture of innovation across the entire Hempel Group and that all innovation is driven by customer needs.

Segment performance 2020

Marine revenue

In EUR million

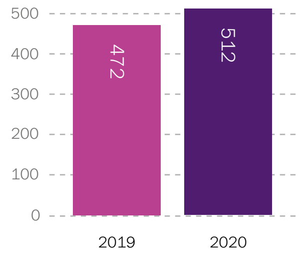


Organic growth
+12.0%

- As anticipated, 2020 was a strong year for our Marine segment with increased market share in dry docking and newbuilding
- 2020 revenue ended at EUR 413 million, driven by high demand for our dry docking products

Decorative revenue

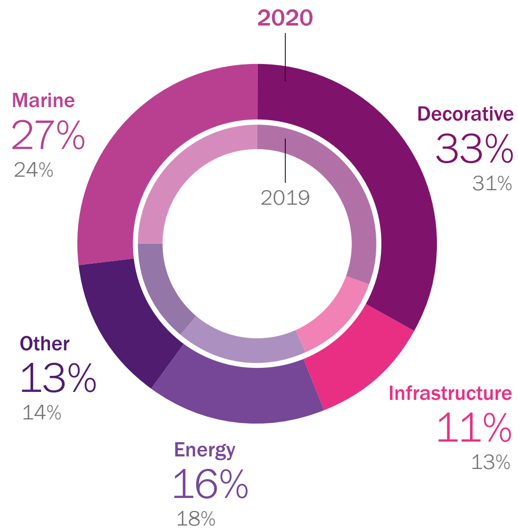
In EUR million



Organic growth
+11.4%

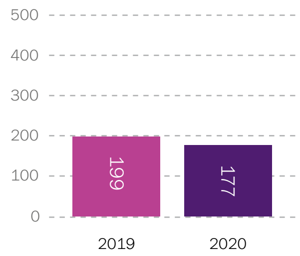
- COVID-19 related lockdowns gave many customers time to decorate their homes, boosting sales in our Decorative segment
- 2020 revenue ended at EUR 512 million, driven by high demand for our Do-It-Yourself products

Revenue split per segment



Infrastructure revenue

In EUR million

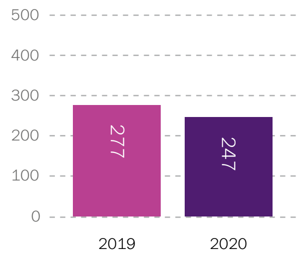


Organic growth
-8.4%

- COVID-19 related lockdowns negatively impacted sales in our Infrastructure segment, as customers postponed or cancelled a number of planned projects
- 2020 revenue ended at EUR 177 million, EUR 22 million lower than 2019

Energy revenue

In EUR million



Organic growth
-7.7%

- 2020 ended as a mixed year for our Energy segment – increasing demand for our wind-related products was contrasted by contracting demand for our oil & gas products, due to COVID-19 related lockdowns
- Revenue in our Energy segment ended at EUR 247 million, EUR 30 million below 2019

Marine

Reducing fuel costs and emissions in the marine industry.

Due to the impact of the global COVID-19 pandemic, the entire marine industry ground to a halt at the end of the first quarter of 2020. Many marine sectors, such as container freight, restarted during the year. Others, such as cruise shipping, remained idle. Despite this, 2020 was an important year in the marine dry dock cycle, with many vessels coming in for scheduled maintenance. As a result, our dry dock business performed well. We also increased our share of the newbuilding market, winning a number of newbuild contracts for Very Large Crude Carriers, Suezmax tankers and other vessels.

Fuel consumption remains the main coatings concern for vessel operators. Fuel is the number one expense for most ocean-going vessels and a significant cause of CO_2 and sulphur emissions. Aside from the engine, the hull coating is the single biggest contributing factor to reducing – or increasing – fuel consumption.

We remain the global leader in documented fuel efficiency and provide a range of hull performance management solutions that are proven to lower fuel costs and emissions. These include advanced hull coatings that improve vessel hydrodynamics; technical services that maximise coating performance; and SHAPE, a fuel efficiency monitoring service that documents propulsion efficiency so vessel operators can make continuous improvements. To obtain the highest fuel savings, we work in close partnership with vessel operators, combining products, knowledge and hull performance expertise to help the customer maximise fuel savings and minimise CO_2 emissions over the long-term and on multiple vessels. In 2020, we added hull inspections to our hull performance management portfolio. Our hull inspections are performed by an expert coating advisor using a remote operated vehicle and include a comprehensive report with advice and recommendations to help operators reduce fuel costs and emissions.

We are a member of the Getting to Zero Coalition, an alliance of more than 90 companies focused on achieving a zero emissions marine industry. In addition, we took part in a collaborative study by Green Ship of the Future, which was released in 2020. The study found that, if our underwater hull coatings were used on two of the reference vessels, a RO-PAX ferry and a medium range tanker, the two ships combined would potentially have saved 4,182 tonnes in fuel and reduced CO_2 emissions by 13,000 tonnes over a three-year period.

Supporting DFDS' journey towards zero emissions

How can a transport company achieve zero emissions? This was the challenge passenger and freight carrier DFDS took on when it defined its climate action plan in 2020 – and Hempel will play an important role.

The challenge

DFDS is a major transport company that moves freight and passengers across Europe and Turkey, and provides logistics solutions to a wide range of businesses. In 2020, DFDS defined a climate action plan with the objective of achieving zero emissions by 2050. DFDS's short-term goal is to reduce CO_2 emissions by 45 per cent by 2030 compared to 2008 levels. The company is focusing on operational improvements, as well as retrofitting existing vessels to achieve immediate fuel savings. This includes hull coatings that reduce fuel consumption and associated emissions.

The solution

Our advanced hull coatings improve vessel hydro-dynamics to ensure maximum fuel savings during vessel operation. The resulting drop in fuel consumption can have a significant positive impact on a vessel's CO_2 emissions. DFDS therefore decided to upgrade four of its vessels to our Hempaguard X7 hull coating in 2020. With Hempaguard X7 on the hulls, DFDS expects to reduce emissions on these four ships by about 4-6 per cent, or 10,000 tonnes of CO_2 per year. Hempel and DFDS are committed to working together on different projects to develop solutions that will play a role in DFDS' climate action plan. As part of this collaboration, we are sharing hull performance data to define the best hull coating system for each sailing route type, and identifying opportunities to demonstrate the performance of our new innovations under real-life conditions.

We're looking forward to supporting DFDS in their efforts to reduce CO_2 emissions and to working together to help create a more sustainable future for the shipping industry.

"This paint will reduce water resistance and enable us to use less fuel. It gives the vessels a smooth surface below the waterline. This simple but effective improvement is expected to reduce emissions on these four ships by about 4-6 per cent or 10,000 tonnes of CO_2 per year"

Thomas Mørk,
Technical Organisation VP, DFDS

Hempaguard X7 hits 2,000 applications on TORM vessel

Our Hempaguard X7 hull coating reached a huge milestone in 2020 with its 2,000th full-ship application – fittingly on a vessel owned by Danish shipping giant TORM.

The challenge

With operating costs and sustainability high on the agenda in the marine industry, vessel owners and operators are looking for ways to reduce fuel consumption and associated emissions. In this regard, biofouling remains a significant challenge. If fouling, such as barnacles and biological slime, builds up on a vessel's hull, it reduces the vessel's hydrodynamics. With a standard hull coating, this will drive up fuel consumption by 18 per cent over five years – significantly pushing up operating costs and emissions, such as sulphur and CO_2.

The solution

We provide a full range of fuel efficiency solutions focused on retaining and improving vessel hydrodynamics. One of the most successful is our industry-leading Hempaguard X7 hull coating, which uses patented Actiguard® low-friction technology to reduce hull resistance and prevent fouling for up to 90 months, with no limitation on vessel sailing speed or trading patterns.

Since it was first launched in 2013, Hempaguard X7 has been applied to a wide range of vessels, from fishing boats to large container carriers. Collectively, this has saved the vessel operators EUR 1.76 billion by reducing fuel consumption by 7.6 million tonnes, while cutting CO_2 emissions by 23.5 million tonnes.

In August 2020, the 2,000th application of Hempaguard X7 was completed on the tanker vessel TORM Titan. As one of the world's leading tanker companies, TORM operates a large and modern fleet. It was one of the first companies to start using Hempaguard X7 when it was first released.

Decorative

On-trend and timeless colours to please and inspire.

We provide a full range of decorative coatings, from high-end colours for the home to specialist floor coatings for carparks and anti-bacterial products for school canteens and hospitals. Our Decorative business performed strongly in 2020, driven by high demand for our Do-It-Yourself product line as restrictions introduced to curb COVID-19 gave many homeowners more time to redecorate their homes.

Our Elle Decoration by Crown range was launched in paint stores and Do-It-Yourself chains in the UK, Ireland, Germany and Italy in 2020. We used the collaboration with Elle Decoration to target trend-inspired millennial consumers. We launched the range with a dedicated, multi-language website and a multi-channel media strategy incorporating digital, social and PR, alongside advertising in market editions of Elle Decoration magazine.

Elle Decoration by Crown offers a unique combination of durable, multi-surface performance with a trend-led palette that is grouped into colour families such as 'botanical', 'powder' and 'feather'. This presented consumers with a new way of shopping for paint and was supported with visually engaging, high-end directional displays that excited both our retail partners and their shoppers in the stores. Following the initial success of the launch, Elle Decoration by Crown is now available in over 750 stores across Europe.

Co-creation with Maxeda

We proudly launched our Renaulac brand exclusively in over 370 Maxeda stores in the Benelux region.

The challenge
Maxeda DIY Group is the largest Do-It-Yourself retailer in the Netherlands, Belgium and Luxembourg. Most stores have a floor area in excess of 3,000 m² and offer a wide selection of products, from showers and bathroom tiles to paints, power tools and solar panels. Maxeda's strategy is to make life easier for the customer by simplifying the in-store and online shopping experience.

The Renaulac product range complements Maxeda's existing own brand ranges of Baseline, DecoMode, Sencys and Perfection, brands produced by the Hempel Group company J.W Ostendorf for Maxeda for the last nine years. When launching the Renaulac brand, the teams at J.W. Ostendorf, Renaulac and Maxeda worked together to 'reduce complexity – by killing complexity' in order to create a much easier customer journey. The result is an exclusive offer for Maxeda, based on the latest innovations from Hempel.

The solution
To land the project in the stores, the team adopted an innovative onboarding process for all relevant stakeholders. The first part of the launch included an intense event in Coesfeld, Germany. Over two weeks, more than 700 store employees got a 'behind the scenes' look at J.W. Ostendorf's production facilities, while learning about the new brand and concepts.

The result was a highly successful launch of Renaulac within a new market and another important milestone to strengthen our partnership with Maxeda.

Infrastructure

Improving asset protection to reduce costs and emissions.

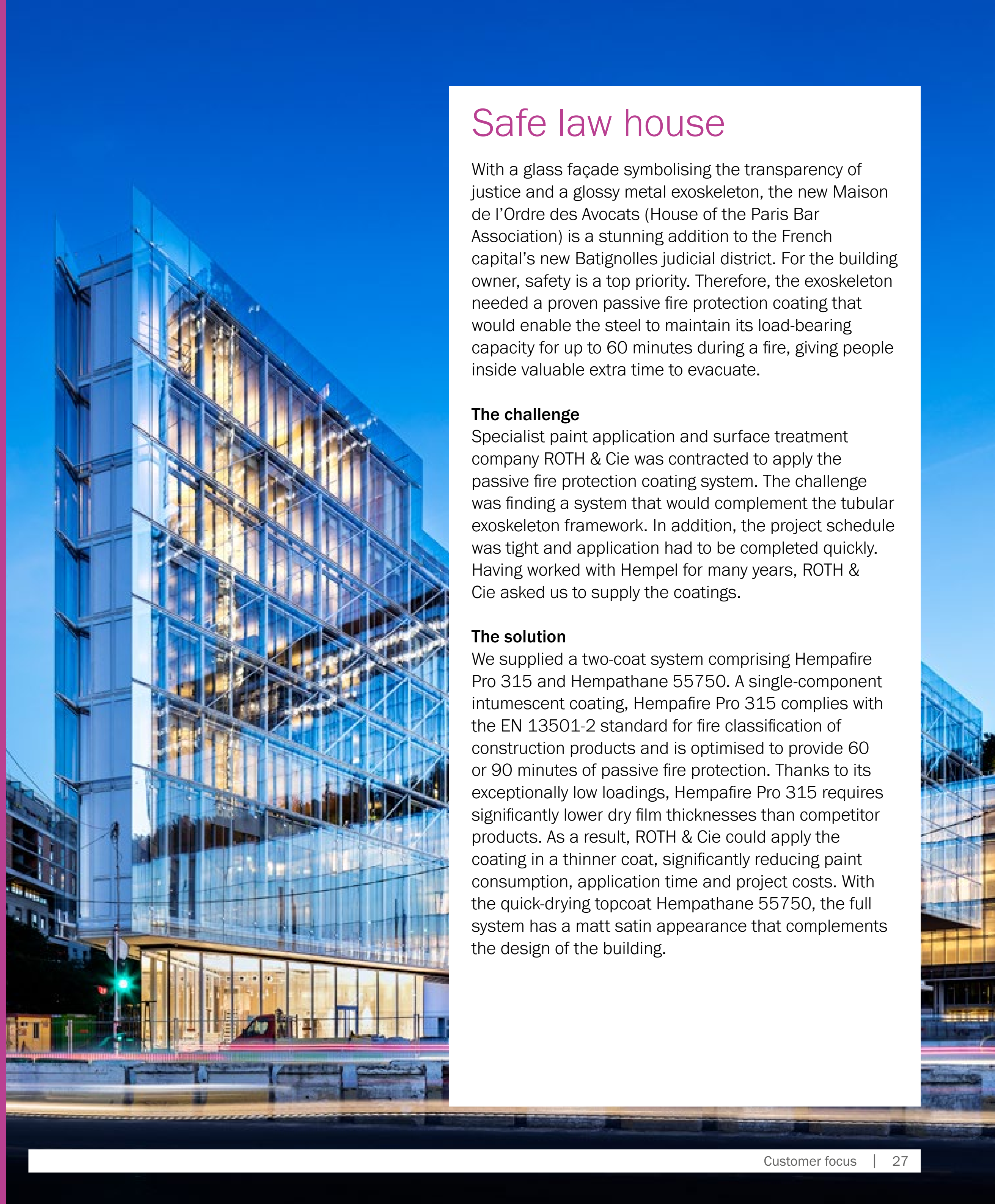
From office buildings and bridges to large airports, the world's infrastructure assets are exposed to some of the harshest and most corrosive environments on the planet. Our customers in these industries need proven anti-corrosion solutions that keep structures safe and beautiful while reducing long-term maintenance requirements to bring down costs.

We supply a wide range of solutions to meet these needs. Avantguard, for example, is an innovative and award-winning activated zinc primer that delivers better protection than equivalent zinc-rich primers. This high performance allows customers to reduce paint consumption, VOC emissions and material and application costs during application. Avantguard's extra durability also translates into significantly lower maintenance over the entire lifetime of an asset, reducing the costs and emissions associated with maintenance work. Since the range was first launched in 2015, our Avantguard coatings have been applied to over 175 million m^2 of steel – equal to more than 26,000 football fields. In 2020, we increased focus on the range and will continue to focus on it in 2021.

We continued our investments in passive fire protection in 2020. We successfully introduced the Hempafire range in selected countries in South & East Asia, and we continued to build the range's strong market position in the Middle East and Europe.

Our combination of high-performance solutions and onsite technical service saw us win a number of projects during the year, including the Shenzhen–Zhongshan Bridge in China, a 24-kilometre sea-link that is expected to be completed in 2024.

During 2020, we continued to meet different customer requirements to support their sustainability goals. This included introducing more waterborne and high solids solutions to reduce VOC emissions at customer sites, supplying products in larger containers to reduce waste and developing products that require less paint per layer to reduce VOC emissions and increase productivity. Overall, the performance of our Infrastructure segment was negatively affected by the COVID-19 pandemic in 2020, as restrictions and lockdowns slowed down many industry sectors. However, things improved in the last quarter of the year and we have high expectations going into 2021.



Safe law house

With a glass façade symbolising the transparency of justice and a glossy metal exoskeleton, the new Maison de l'Ordre des Avocats (House of the Paris Bar Association) is a stunning addition to the French capital's new Batignolles judicial district. For the building owner, safety is a top priority. Therefore, the exoskeleton needed a proven passive fire protection coating that would enable the steel to maintain its load-bearing capacity for up to 60 minutes during a fire, giving people inside valuable extra time to evacuate.

The challenge
Specialist paint application and surface treatment company ROTH & Cie was contracted to apply the passive fire protection coating system. The challenge was finding a system that would complement the tubular exoskeleton framework. In addition, the project schedule was tight and application had to be completed quickly. Having worked with Hempel for many years, ROTH & Cie asked us to supply the coatings.

The solution
We supplied a two-coat system comprising Hempafire Pro 315 and Hempathane 55750. A single-component intumescent coating, Hempafire Pro 315 complies with the EN 13501-2 standard for fire classification of construction products and is optimised to provide 60 or 90 minutes of passive fire protection. Thanks to its exceptionally low loadings, Hempafire Pro 315 requires significantly lower dry film thicknesses than competitor products. As a result, ROTH & Cie could apply the coating in a thinner coat, significantly reducing paint consumption, application time and project costs. With the quick-drying topcoat Hempathane 55750, the full system has a matt satin appearance that complements the design of the building.

“"Our partnership with Hempel is a great example of how Vestas and our partners can make sustainability part of everything we do. Creating a sustainable planet for future generations requires us to focus on the near- as well as long-term, and we’re very happy that Hempel wants to lead by example together with us and move fast within sustainability already today. In the long-term, the steps we take today will enable us to better overcome the challenges ahead and create a world powered by sustainable energy.”

Tommy Rahbek Nielsen
Executive Vice President & COO, Vestas

Courtesy of Vestas Wind Systems A/S

Energy

High performance in extreme conditions.

Upstream or downstream, offshore or onshore, drilling platforms or wind turbines – energy assets need to last for many years, often in very harsh and extreme conditions. Therefore, our customers are looking for proven solutions to help them reduce long-term maintenance requirements and services that bring down maintenance costs.

In the Energy segment, we are strengthening our leading position within wind towers and moving towards more major structures, both onshore and offshore. This has seen success, particularly in South & East Asia, where we have strong relationships with offshore developers and yards. We also provide excellent product solutions. Avantguard 860, for example, is an 85 per cent zinc-rich primer that not only provides outstanding protection in very harsh environments, but is also easy to apply and fast drying in very humid conditions, which reduces production time in the yard.

In 2020, we added Hempasense Track to our portfolio – the first in a line of new 'out of the can' products that put digital data into the hands of applicators and asset owners. Hempasense Track monitors the precise conditions under which a coating is applied and produces real-time data that the applicator can use to improve quality and reduce emissions. We can see from initial interest in the Hempasense product line that customers understand the value of digital solutions, and we aim to take a leading role in this trend in the coming years.

Overall, the performance of our Energy segment was negatively affected by the COVID-19 pandemic in 2020, mainly due to stagnation in oil & gas investments, as restrictions and lockdowns slowed down many industry sectors. However, our partnerships with customers, advanced products, proven performance and expert technical service saw us through the year with acceptable results.

Creating positive change in partnership with Vestas

Hempel teams up with the global leader in sustainable energy to develop new innovative coating solutions that will drive down production costs and reduce emissions.

The challenge
Vestas designs, manufactures, installs and services wind turbines across the globe. With over 117 GW of wind turbines in 81 countries, the company has installed more wind power than anyone else. Vestas is constantly looking to increase efficiency to drive down the total cost of wind energy production (also known as the levelized cost of energy). At the same time, it has a goal to become CO_2 neutral by 2030 and it needs a coatings partner who is able to support this process. As the leader in coating solutions for the wind segment and a long-term supplier and partner to Vestas, Hempel was the obvious choice.

The solution
Vestas has long been one of our global key accounts. We entered a strategic partnership with the company in 2020 to develop innovative solutions that will reduce surface treatment costs and increase the use of more sustainable coating solutions. Together, we will explore new technologies to reduce costs, improve quality control and cut the carbon footprint of wind turbine production. In Pueblo, Colorado, USA, Vestas operates one of the world's largest wind tower manufacturing facilities. Here, we will take the first steps in the partnership and collaborate with Vestas to bring down costs and explore new digital solutions to improve quality control and reduce the CO_2 footprint of wind turbine production. Initial calculations demonstrate the potential to reduce surface treatment costs at the factory, while also cutting CO_2 emissions related to surface treatment by around 60 per cent (equal to 1,100 tonnes of CO2e per year).

For both companies, the partnership is an important step towards an even more sustainable business.

Improving our control systems and ensuring high compliance levels in all aspects of the business.

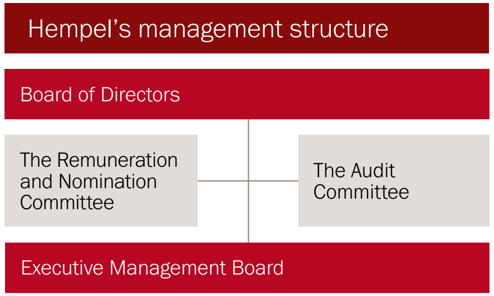
Corporate governance

Within Hempel, corporate governance ensures that the Hempel Group is led, managed and operated as a modern global company and as a leader in the coatings industry. 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 2020, we continued to improve our overall internal control framework by strengthening our internal control procedures and policies, increasing investments in cyber security, and continuing the upgrade of our Enterprise Resource Planning system to ensure that systems are established around our policies and guidelines.

Management structure
The Hempel Group is organised in two dimensions: Regions and Group functions. Our regions focus on supporting our customers, both locally and globally. They are responsible for operational execution and have full profit/loss responsibility. Our four Group functions ensure process excellence, functional leadership and operational synergies across the Group.

The Executive Management Board consists of the heads of the four Group functions and the CEO. The Operational Management Board consists of the Executive Management Board,



the Head of Marine and the heads of the regions. This organisational structure ensures management is close to customers (globally, regionally and locally) and the daily business; enables management to drive group-wide initiatives; and helps 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 organisational model supports this.

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 Management Board on a continual basis. The Board of Directors and Executive Management Board 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'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. Hempel is a global leader and, to successfully develop and maintain its position, Hempel is dependent on global expertise and experience at Board level.

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 Management Board.

Tasks managed by the Board of Directors in 2020

During 2020, the Board of Directors oversaw and assessed several important topics. This included overseeing the initiatives taken during the COVID-19 pandemic to ensure that our supply chain was kept operational, our employees were safe and our cash and other critical functions were impacted as little as possible. In addition, the Board worked with Executive Management on development of the new Double Impact strategy. The Board also assessed the company's organisational structure and was consulted on the creation of our new Marine organisation and the appointment of our new Chief People & Culture Officer.

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. The current composition of two female and four male shareholder-elected Board members is considered an equal gender distribution by the Danish Business Authorities and the current target is maintained. Including employee-elected representatives, the Board of Directors includes a total of four female Board members and five male members. The Executive Management Board consists of two female and three 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 50.

Remuneration

Hempel offers its Board of Directors and Executive Management Board remuneration that is competitive with industry peers and other global companies, as this enables it to attract and retain competent and professional business

The annual management cycle 2020

Hempel Summer School	Board Strategy Day	Hempel Leadership Summit
Hempel's top 25 leaders review and refine the company strategy	The Executive Management Board meets with the Hempel Board of Directors to review the strategy plan	Hempel's top 150 leaders gather to set the agenda for the year ahead

leaders and Board members. Remuneration of the Executive Management Board 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 50-67 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 2018, 2019 and 2020 are all based on the realisation of financial targets for EBITDA and ROIC in each of the programmes' three years.

The programmes are subject to additional vesting criteria based on the realisation of minimum financial targets for the entire three-year period. In addition, employment must not have been terminated before the payout. The annual bonus can range from 0-150 per cent of the base salary and the total bonus over the entire three-year period cannot exceed 75-100 per cent of the individual's three-year fixed salary. The Board of Directors determines annually whether to instigate new programmes and, if so, the scope and objective of said programmes.

The Executive Management Board has severance agreements in line with market terms. Conditions for notice of termination are determined individually for each member of the Executive Management Board. 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 Management Board. 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 Management Board must have to best perform their tasks. Each year, the committee evaluates the Board of Directors and the Executive Management Board, 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 monitors the financial reporting process, including reviewing the annual reports, accounting policies, accounting estimates and risks.

In 2020, the committee reviewed initiatives to further strengthen compliance as well as the internal control framework, including updating internal policies and procedures. Initiatives to further strengthen cyber security were also implemented. In addition, the committee reviewed the Group's whistleblower reporting system and whistleblower cases, the main accounting principles and judgments, tax compliance and key risks.

Internal Audit function
The Group Internal Audit function is part of the Group's Finance function. 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 2020, the Internal Audit function continued to strengthen internal procedures and compliance awareness through site visits, most of which were conducted online due to COVID-19. The results and recommendations were reported to both local and Executive Management.

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 and whether internal control systems are adequate. The Board of Directors' assessment, which is based on the company's size and the organisation of the Finance function, is that the organisation in place and the plans laid out are adequate to ensure the necessary focus on compliance for the entire Group.

Meeting activity 2020

Board of Directors	
26 February	29 September
25 March	29 October (strategy day)
22 June	13 November
9 September	1 December

Audit Committee	
24 February	25 September
2 June	30 November

Remuneration and Nomination Committee	
26 February	1 December

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 2020, Hempel's compliance framework was further strengthened to ensure that the procedures are adequate, sufficient and applicable to the business and surrounding environment. All Hempel employees except production, warehouse and store staff completed employee Code of Conduct eLearning with a pass rate of 100 per cent.

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 page 55.

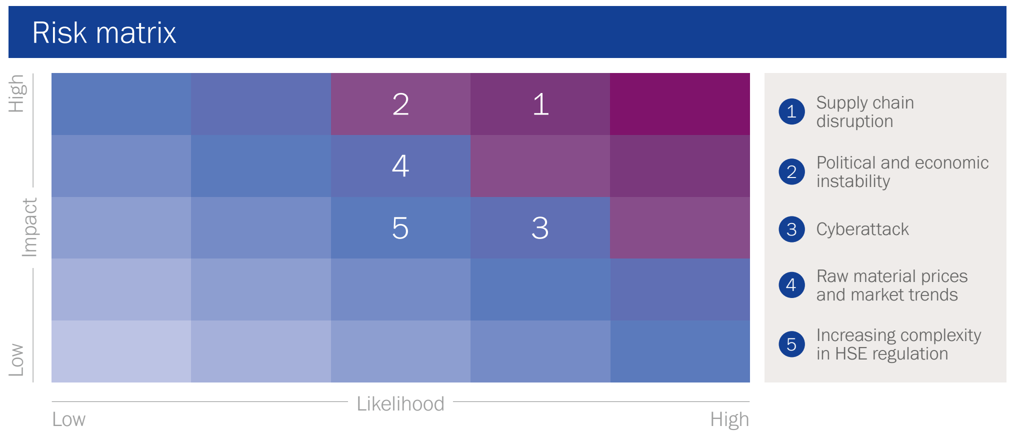
Hempel Ethics Hotline
A link to the Hempel Ethics Hotline can be found on the Corporate responsibility section of **hempel.com**

Risks

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

With operations on all continents and in multiple industries, the Hempel Group is exposed to a wide variety of risks. Across our organisation, we work continuously to identify and evaluate the risks we face and to assess the acceptable level of risk. This enables us to create value for our customers and owner without jeopardising the safety of our employees, damaging our brand or financial strength, or eroding the trust of our customers.

During 2020, several events influenced the risk that Hempel is exposed to. First and foremost among these events was the COVID-19 pandemic. However, continued uncertainty around Brexit, as well as political and financial instability in certain countries and regions, also impacted our operations and associated risks. At the same time, Hempel updated its strategy. Combined, these events led us to review and update our processes on risk management with the aim of further strengthening our ability to identify and assess risks, and follow up on mitigating actions. The update of processes resulted in a stronger focus



on risk management in our regional and group management teams and stronger governance around the Enterprise Risk Management process.

Governance and process

The Board of Directors has overall responsibility for risk management, risk tolerance levels and key mitigating activities. The Audit Committee, on behalf of the Board of Directors, monitors the effectiveness of the risk management process and governance.

The ongoing mitigation of operational and event risks is driven by regional and local management teams, often in collaboration with Group functions. A significant part of the risk faced by Hempel is connected to our global footprint and supply chain. We are continuously working to mitigate risks by ensuring flexibility in our global supply chain. This enables us to act and mitigate both short and long-term disruptions, whether due to raw material shortages, loss of production capacity or sudden changes in demand.

A comprehensive risk assessment is carried out each year, in which all regions and Group functions identify, quantify and report risks, and outline the actions taken to mitigate these risks. The reported risks are consolidated and subsequently reviewed and approved by the Risk Committee and Executive Management Board. When mitigating actions are considered insufficient to bring risk exposure to an acceptable level, additional actions are defined. Approximately six months after the comprehensive risk assessment is completed, the reported risks and status on mitigating actions are revisited.

The consolidated risk picture contains event risks that can impact daily operations, as well as more long-term strategic risks that may impact Hempel's ability to meet its strategic objectives.

COVID-19

Having operations in China, we recognised early that COVID-19 represented a major risk to the health and safety of our employees worldwide, as well as our global operations. The Crisis Committee was activated early and a COVID-19 Taskforce was established, which met daily at the beginning of the crisis. This approach was instrumental in coordinating the initiatives taken and ensuring that many good practices learned by our Chinese colleagues were shared with the rest of the organisation. This was especially useful in the early stages of the pandemic, when local authorities were yet to define their response plans.

As well as following national guidelines, Hempel took wider initiatives to keep our employees and customers unharmed. These initiatives included establishing separate production teams, identifying key staff, temporarily closing offices/factories/stores and securing critical raw materials and IT infrastructure. Our continued operations confirmed the robustness and flexibility of our global supply chain, which minimised the disruptions caused by COVID-19. In order to remain financially sound and robust, we immediately implemented a cash protection plan, cancelling or postponing investments and avoidable costs. Due to these actions, Hempel is still in good financial health to invest in our new ambitious strategy. COVID-19 remains a risk on the short-term horizon, and this is integrated when assessing our specific risks.

Key risks and changes

The key risks presented here are considered to be the most critical to Hempel. However, the overview does not in any way represent an exhaustive list of risks and the actions presented are only a select sample of a much wider catalogue.

While many risks are similar to 2019, the increased risk implication of political and economic instability pushed this risk into our top five risks. In addition, the fast pace at which health, safety and environmental (HSE) regulation is changing saw this risk move into our top five risks.

Key risks

Risk	Description	Potential impact	Actions
Supply chain disruption	Fire, natural disaster, political unrest, delays in ongoing construction of new facilities or other events similar to and including COVID-19 may lead to full or partial loss of production facilities.	• Inability to supply markets and customers	**Ongoing** • To mitigate short-term risks, we produce products at some of our other factories or use toll manufacturers when necessary • Investing in new and modern factories in China and Saudi Arabia **2020** • Upgraded fire protection in key facilities
Political and economic instability	Uncertainties in the geopolitical landscape (e.g. Brexit, conflicts in the Middle East, the US-China trade war and impact from COVID-19) can lead to changes in regulatory requirements, difficulties in sourcing raw materials, political sanctions, etc.	• Increased price volatility impacting sales and production costs • Reduced employee safety • Potential fines and disruption in the supply chain	**Ongoing** • Monitoring of markets and regions • Dual sourcing • Training and awareness campaigns targeting key employees **2020** • Increased sanctions and export control screening
Cyberattack	Hempel may be subject to large-scale ransomware attack or similar.	• Limited access to our critical business information assets • Loss of our ability to run the business as usual during the time it will take us to recover	**Ongoing** • Use of IT security control programmes and processes • Mandatory and frequent eLearning and tests • Crisis management team and exercises **2020** • Detailed information security road map • Used road map to launch various initiatives to further increase security

Risk	Description	Potential impact	Actions
Raw material prices and market trends	Fluctuating raw material prices can materially increase costs. Increasing demand for more sustainable solutions and potentially disruptive technologies may accelerate costs further.	• Reduced profitability • Loss of market share • Failure to meet customer demand	**Ongoing** • Mitigation of raw material price exposure through process excellence improvements • Monitoring of technology trends in our end markets and strengthening our innovation process • Product innovation through partnerships with customers and universities **2020** • Revamp of portfolio to address regional assortment gaps
Increasing complexity in HSE regulation	There is a risk that Hempel will not be able to adapt to these changes with the necessary speed and agility.	• Loss of market share • Loss of customers • Potential fines or other penalties	**Ongoing** • Monitoring development of HSE standards and regulations **2020** • Strengthening of processes around evaluation and communication of changes in laws and regulations

Sustainability

In 2020, we embedded sustainability into our company purpose: To shape a brighter future with sustainable coating solutions. We placed sustainability at the heart of our new business strategy and strengthened our commitment to help our customers reach their sustainability targets.

A scientist assesses the performance of one of our coatings on a model wind turbine blade at our R&D lab in Denmark

Our coatings are essential to sustainability as they extend the useful lifetime of structures, buildings, equipment and other assets and so reduce their overall carbon footprint. But we believe we can and should do more. In 2020, we developed a new company strategy that identifies leadership within sustainability as a key driver within the industry for business success. This requires embedding sustainability not only in our products and services, but across our value chain.

We want to champion the use of innovative coatings to help our customers put the world on a more sustainable path. At the same time, we are taking responsibility for our own environmental footprint while strengthening our social sustainability commitments to attract and retain the best people and fuel growth and innovation.

The path to a sustainable future

In 2020, our efforts were focused on embedding sustainability in our new business strategy. With the Future Fit assessment conducted in 2019 as a baseline, we worked systematically with our global organisation to identify the right areas to focus on in order to create a holistic sustainability framework and a solid foundation for our pursuit of sustainability leadership.

We set goals to take us forward and analysed the potential of each one to impact our own operations and our customers' environmental performance. As partnership is key to achieving our sustainability goals, we also worked closely with a number of key customers and suppliers to assess how we can collaborate on sustainability more effectively in the future.

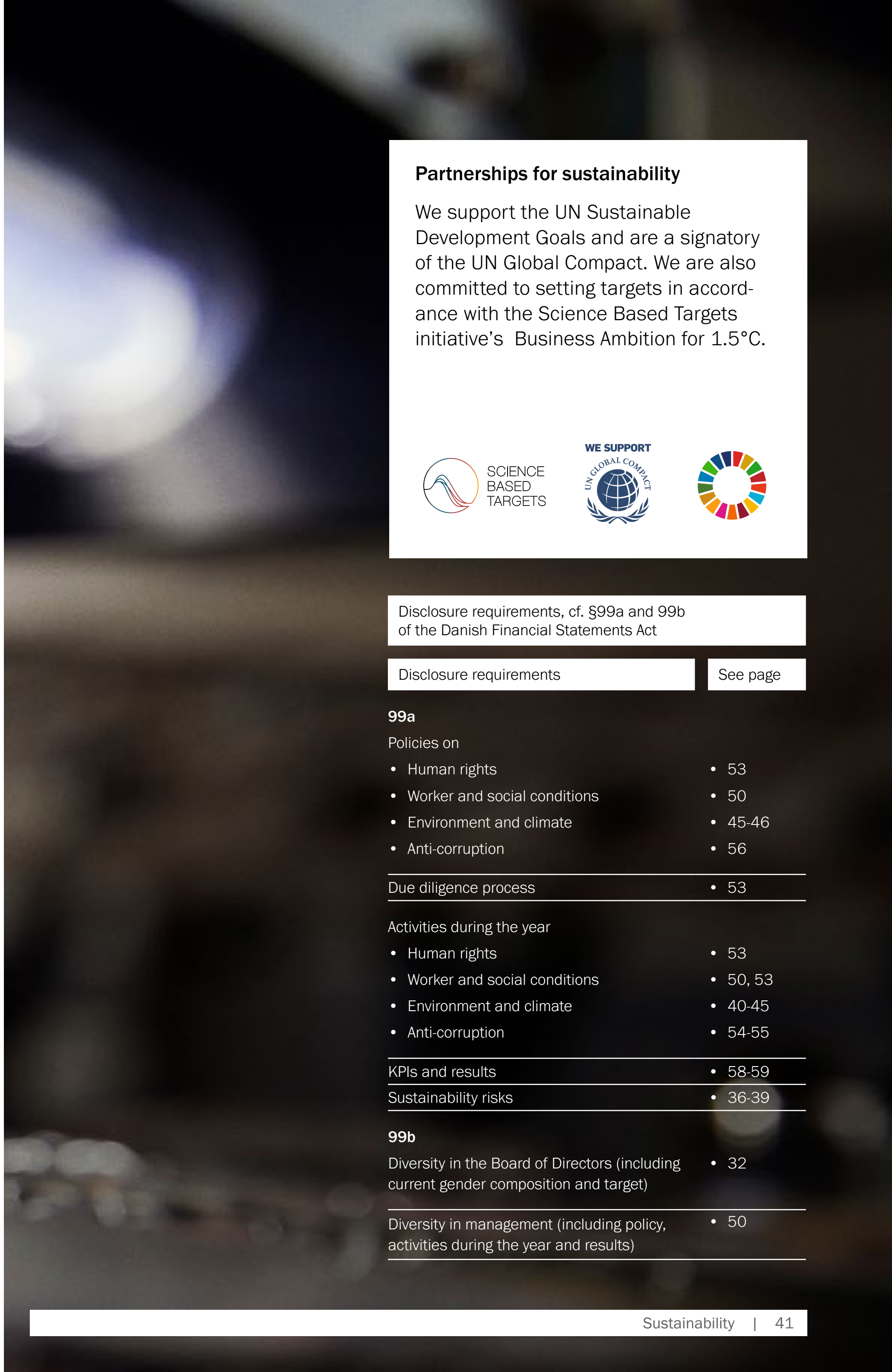
This work resulted in a range of new initiatives and strategic partnerships that we believe will drive us towards more sustainability and circularity. These include beginning the development of an environmental sustainability screening model for suppliers that will enable us to better assess the sustainability impact of the goods we procure, as well as a sustainability product scorecard that will show customers how our products and services can impact their sustainability performance.

In 2020, we also committed to science-based targets to limit global warming to a 1.5°C increase above pre-industrial levels. We chose to commit to the more ambitious path of the Science Based Targets initiative, the '1.5-degree target', which only 300 other companies have joined so far.

In 2020, we also established a new Sustainability and Government Affairs Group function to drive our sustainability ambitions forward and work across the organisation to fully embed sustainability in how we do business.

Progress on our current KPIs

We continued to work towards our existing goals and key performance indicators, making satisfactory progress despite disruptions caused by the COVID-19 pandemic. You can read about our progress with these goals in this report. The following pages 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.



Partnerships for sustainability

We support the UN Sustainable Development Goals and are a signatory of the UN Global Compact. We are also committed to setting targets in accordance with the Science Based Targets initiative's Business Ambition for 1.5°C.

SCIENCE BASED TARGETS

WE SUPPORT UN GLOBAL COMPACT

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

Disclosure requirements	See page
99a	
Policies on	
• Human rights	• 53
• Worker and social conditions	• 50
• Environment and climate	• 45-46
• Anti-corruption	• 56
Due diligence process	• 53
Activities during the year	
• Human rights	• 53
• Worker and social conditions	• 50, 53
• Environment and climate	• 40-45
• Anti-corruption	• 54-55
KPIs and results	• 58-59
Sustainability risks	• 36-39
99b	
Diversity in the Board of Directors (including current gender composition and target)	• 32
Diversity in management (including policy, activities during the year and results)	• 50

Futureproof:
Turning ambition into action

In 2020, we set a new strategic course for our work with sustainability. We embedded sustainability into our corporate strategy and developed a holistic set of goals that encompass both our environmental and social ambitions.

This resulted in the launch of our new Futureproof sustainability framework in February 2021.

Futureproof is the framework through which we will deliver on our strategic goal of sustainability leadership, turning our ambitions into actions.

Futureproof is about being a step ahead, so we can better serve our customers, find new solutions to environmental challenges, ensure equal opportunities for employees and grow our business.

It's about developing the products and services that will proof and protect our customers' assets for the demands of the future.

It's about delivering the proof to back up our performance and progress, and the reassurance that must underpin our innovations.

Always ensuring we earn the trust of our customers and partners.

To achieve our ambition we must integrate sustainability into every aspect of our business. We won't rest until sustainability is at the heart of how we do business.

We will focus our efforts and commitments where we can have the biggest impact, constantly pushing for leadership across four areas: our Performance, Products, People and Partners.

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
- Halve the amount of scrapped finished goods and raw materials even as we double in size
- 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 with at least 30 million tonnes CO2e by 2025
- Ambitiously reduce customer waste
- Introduce 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

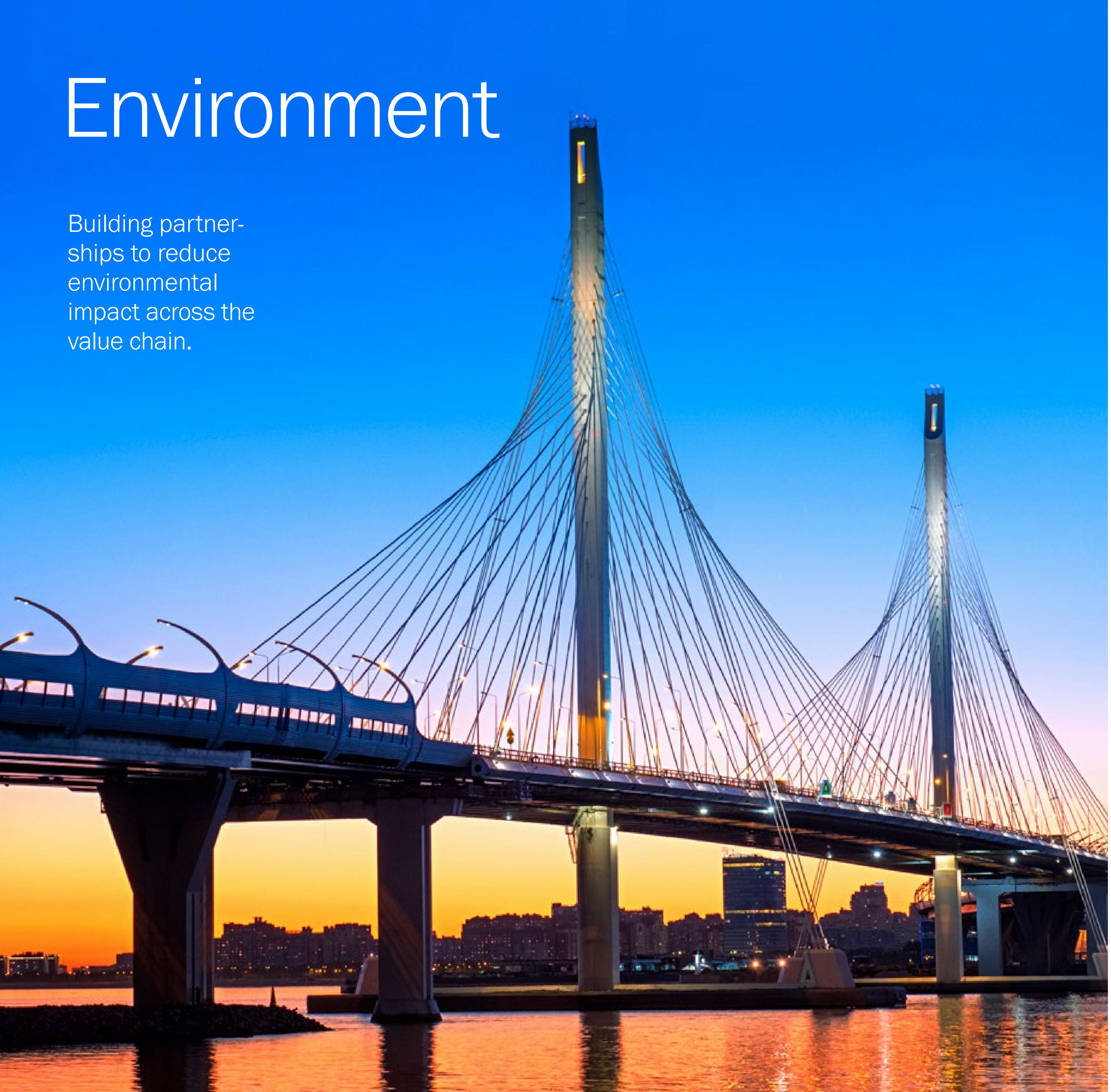
We are futureproofing our culture by setting ever higher standards on safety, fairness, inclusivity and healthier working practices.

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 wellbeing
- 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, 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

Environment

Building partnerships to reduce environmental impact across the value chain.



In addition to establishing new strategic ambitions for our climate and environment work, we continued our work to reduce our environmental impact in 2020. We saw meaningful reductions in our energy use and waste throughout the year, despite disruptions caused by the COVID-19 pandemic. We also created the foundation for future improvements across our value chain and continued to play an important role in helping our customers reduce their environmental impact.

Creating a solid base for partnerships

Our products and services bring tangible environmental benefits to our customers. These include hull coatings that increase vessel hydrodynamics to help marine customers reduce fuel consumption and CO_2 emissions; waterborne solutions that lower VOC emissions during application; and products that cure in low heat to reduce energy use in drying halls. Developing these products requires close customer partnerships that enable us to fully understand our customers' environmental and business challenges.

An essential part of creating a new business strategy was to identify where we see the biggest environmental risks and opportunities moving forward. Reducing our impact on the

We reduced waste to landfill by 58 per cent in 2020

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Key Performance Indicator	2018	2019	2020
Environment			
Energy (kWh/1,000 L paint produced)	276	259	227
Waste generation (kg/1,000 L paint produced)	49	56	53
Waste to landfill (kg/1,000 L paint produced)	12	10	4
Carbon footprint scope 1 (tonnes CO_2/1,000 L paint produced)	0.02	0.02	0.02
Carbon footprint scope 2 (tonnes CO_2/1,000 L paint produced)	0.09	0.08	0.07
Carbon footprint scope 3* (tonnes CO_2/1,000 L paint produced)	4.05	3.22	4.08

*Scope 3 includes: indirect energy use, consumption of raw materials, purchase of packaging material, CO_2 from toll manufacturing, CO_2 from waste treatment, CO_2 from refrigerants, Volatile Organic Compounds in products sold.

environment and climate throughout our value chain and forming effective partnerships with both customers and suppliers is central to our strengthened sustainability approach. To establish a firm foundation, we worked with a consultancy firm in 2020 to comprehensively map the carbon footprint of the goods and services we choose, and how we in turn impact our customers' carbon footprint. This groundwork will allow us to direct our efforts most effectively when driving improvements across our value chain. In addition, we piloted a supplier environmental sustainability screening model during the year. The model is based on a number of criteria, and helps us evaluate our suppliers' environmental sustainability efforts, as well as engage in dialogue with them to address areas that could be improved. We worked closely with selected suppliers to develop the model during the initial pilot stage, and integrated their feedback and recommendations. The model will be expanded to more suppliers in the next few years.

Shifting towards renewable energy use

In 2020, we initiated the transition to renewable electricity supply for all of our production units. As part of this initiative, we asked independent auditors to validate these supplies and ensure they live up to industry best practice, as well as our own standards for electricity sourcing. In addition to assessing how we source power, mitigating power consumption remains a top priority. During the year, we reduced our relative energy consumption by 13 per cent, which was above our 2020 target.

Reducing waste at source

Our 2020 waste target was to reduce landfill by 5 per cent. This was surpassed, thanks to an increased strategic focus on the area, which resulted in a significant collective reduction in landfill waste of 58 per cent. Minimising waste at source is still our primary focus and so we expanded our 'smart scales' automated waste tracking system in 2020. Using radio frequency identification technology, smart scales allow us to centrally monitor and track the different waste types generated at a factory in real-time.

We introduced smart scales in the UK in 2019 and the system was scheduled for global roll-out during 2020. However, the schedule was adjusted due to the global COVID-19 pandemic. In 2020, smart scales installation began at four more Hempel sites around the world, covering North Asia, the Middle East, Europe and Africa, and South & East Asia. We expect these systems to be fully up and running during 2021. The consequent improvement in data collection will strengthen our waste management approach and allow for data-driven decision-making in the future.

Vestas Sustainability Award 2020

Our partnership with Vestas, the global leader in wind energy, is a shining example of how we will work together with key customers towards a brighter and more sustainable future. The joint partnership began in January 2020 and will see us collaborate to reduce energy use and emissions during wind turbine production. Together we will explore a range of options within innovative and more sustainable coating systems, including new digital technologies that monitor VOC emissions during coating application. Based on our initial calculations, we can already see opportunities to reduce CO_2 emissions at Vestas' Pueblo factory in Colorado in the US by changing the surface treatment process. We expect to realise many more environmental improvements with Vestas in the future.

Thanks to our partnership and commitment, we were the proud recipient of the Vestas Sustainability Award 2020.

Health & safety

We continued to improve our health and safety processes across the board.

Our commitment to health and safety is embedded in our company values and employee Code of Conduct. Our Group Health, Safety and Environmental Policy defines our promise to comply with all applicable legal and non-regulatory requirements, to continually improve and to work to prevent illness or injuries to our employees and the end-users of our products.

The transition to ISO 45001

By March 2021, companies with OHSAS 18001 accreditation must transition to ISO 45001, which focuses on identifying and controlling risks rather than hazards, and requires the incorporation of health and safety aspects into the overall management system in order to drive top management to take a stronger leadership role in respect to occupational health and safety. Hempel made this transition in 2020, which will enable us to put even more focus on identifying risks and designing the right actions within health and safety.

In addition, we implemented a new global document management system that covers all governance documents, policies and standard operating procedures. Combined with our global management system, this structured approach ensures we can better implement, manage and

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

monitor policies and standard operating procedures on a global scale.

Limiting the spread of COVID-19

At Hempel, the health and safety of our employees, customers, partners and others we come into contact with is our top priority. The biggest risk in 2020 for health and safety was COVID-19. Therefore, we worked diligently from the beginning of the COVID-19 pandemic to keep people safe and limit the spread of the virus as much as possible. In February, we set up a global COVID-19 Taskforce, made up of senior leaders and specialists from various areas. The Taskforce met daily to assess the situation and make global recommendations that our regional teams implemented locally, adjusting as necessary to suit local requirements. These included home working, social distancing, increased cleaning and working in split shifts, as well as awareness and reminder campaigns.

Thanks to these actions, we only experienced a very limited number of serious outbreaks of COVID-19 within Hempel during 2020. Many sites introduced additional safety measures, such as employee temperature scans, to prevent the virus from spreading, and only a few confirmed cases of COVID-19 were due to infection at a Hempel workplace. If an outbreak was identified, we were quick to perform a root cause analysis to identify any possible cross-contaminations at the site. The employees at the site were tested and asked to self-isolate if necessary, the cross-contaminated areas were thoroughly disinfected and cleaned, and learnings were used to improve our processes at other sites.

Focus on reducing accidents

We continued to focus on improving our safety culture and procedures during the year. In order to better learn from accidents and near misses, we launched two new initiatives:

- Global Incident Learning/Sharing Sessions involve gathering relevant staff to review any incidents that occurred in the past month. After each session, the participants are required to analyse each incident and recommend mitigating actions, with the intention of avoiding similar incidents happening again.
- Incident alerts now require the immediate involvement of a line manager. We have created a simple-to-use template with a series of questions to elicit clear information on what happened during the incident. Within 24 hours of reporting, this information is distributed on a cross-functional global scale to ensure that all relevant employees are informed, from managers to shop floor workers.

We use ‘lost time accidents’ as a key measure of workplace safety. A lost time accident is defined as an occupational accident that results in at least one day’s absence following the day of the accident. In 2020, we saw a decrease in lost time accidents, falling from 2.68 per 1,000,000 working hours in 2019 to 1.61 per 1,000,000 in 2020. We believe that any accident is one too many. Our goal is to operate with zero lost time accidents and we will continue to focus on this in the future.

Phasing out red raw materials

Some of our products contain substances that are potentially harmful to the environment and people’s health. Our Group Health, Safety and Environmental Policy sets out our commitment to seek out safer materials where possible.

We prioritise raw materials based on their potential hazard and are committed to reducing or phasing out hazardous substances – known as red raw materials. Our priority list centres on carcinogenic, mutagenic and reprotoxic (CMR) substances and substances that potentially have a long-term detrimental effect on the environment. In 2020, we phased out 13 red raw materials, and reduced the overall use of red raw materials per litre of coating produced by 1.7 per cent, from 8.04 kg per 1,000 litres of paint produced to 7.9 kg per 1,000 litres of paint produced.

Hempel’s ISO certifications

- ISO 9001: 58 locations
- ISO 14001: 35 locations
- ISO 45001: 11 locations

Our people

At Hempel, our social commitment is deeply ingrained in our behaviours and the way we do business. It is by living these behaviours every day that we continue to thrive as individuals, and collectively as one Hempel.

As with all other activities, our people projects were disrupted by COVID-19 in 2020. Despite the challenges, the situation enabled us to develop and test new ways of engaging with each other, developing employees, and recruiting and onboarding in a virtual work environment.

Caring for our people
Our people are our greatest assets and our number one priority is to keep them safe. In many cases and areas of the world, this required that our people worked from home for much of 2020. As a result, we saw a need to engage our people in different ways to ensure that they stayed both physically and mentally well while working from home. Therefore, we launched a number of activities, including online physical exercise sessions, and gave our leaders advice and tools that they could use to keep their teams engaged and connected.

We also maintained focus on personal development for all. Many of our learning activities were converted to online learning solutions, including both trainer-led learning, such as our sales training, and self-paced learning. This gave colleagues a chance to continue to develop their skills and knowledge, and also provided a forum for them to maintain contact and connect with each other.

Employee engagement
Each year, we conduct a global employee engagement survey for all employees. However, due to the unusual work environment, we decided instead to conduct a short pulse survey for employees with a Hempel email address in 2020. We saw an outstanding participation rate, with 95 per cent of those invited to participate giving feedback. Despite the difficult working conditions, the pulse survey showed that our employees are still highly satisfied and motivated. In fact, Satisfaction & Motivation increased from 75 points in 2019 for our colleagues with a Hempel email address to 77 in 2020. This places us comfortably among the top quartile of global companies.

5 GENDER EQUALITY

Our global employee Net Promoter Score (eNPS) came in at 38, maintaining last year's high score among this employee group. While we of course strive to improve even further, working with our leaders and employees on concrete actions to improve, we are pleased to see that so many of our colleagues would recommend Hempel as a great place to work.

Equal opportunities for development

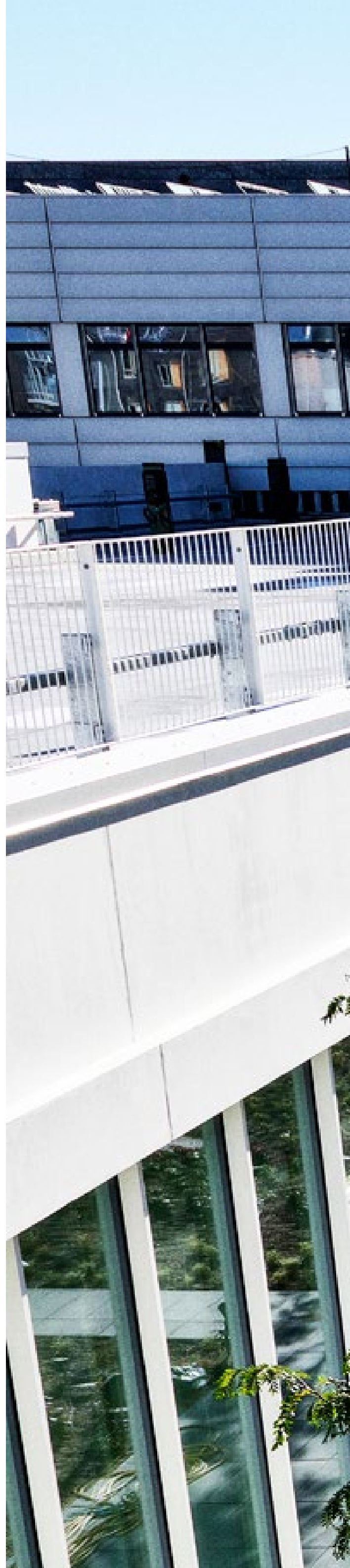
We want to make sure everyone has the chance to develop and perform to the best of their potential. Our Diversity and Equal Opportunity Policy applies to all Hempel offices and ensures that all employment and career development decisions are based on merit and made to support business goals. In addition, we have comprehensive personal development programmes in place. Central to this work are Let's Talk, our people development conversation method, and our annual talent review process. These processes were completed by 2,955 and 2,120 employees respectively in 2020.

We provide development programmes for high potential talents, running from graduate through to executive level. Our Challenger and Pioneer programmes, for leaders and graduates respectively, were challenged in 2020 as participants were not able to travel or meet in person for training and idea sharing, which is a key component of the programmes. However, we introduced online modules to ensure momentum and we will prolong the Pioneer programme to allow time for participants to complete their work placement abroad.

To ensure our commercial leaders can develop their leadership abilities and better help their sales teams improve, we launched a Sales Leadership Initiative in 2020, a 12-month programme with 11 individual coaching sessions. Anonymised data collected during the programme indicates that the initiative was a success, with significant progress made on all critical subjects. We will prepare a final report on the impact of the initiative on our commercial organisation in early 2021.

Hempel Employee Foundations

The Hempel Employee Foundations provide financial support to current and retired employees of the Hempel Group and their immediate family in the event of unfortunate situations or to enable better education opportunities.



An inclusive culture

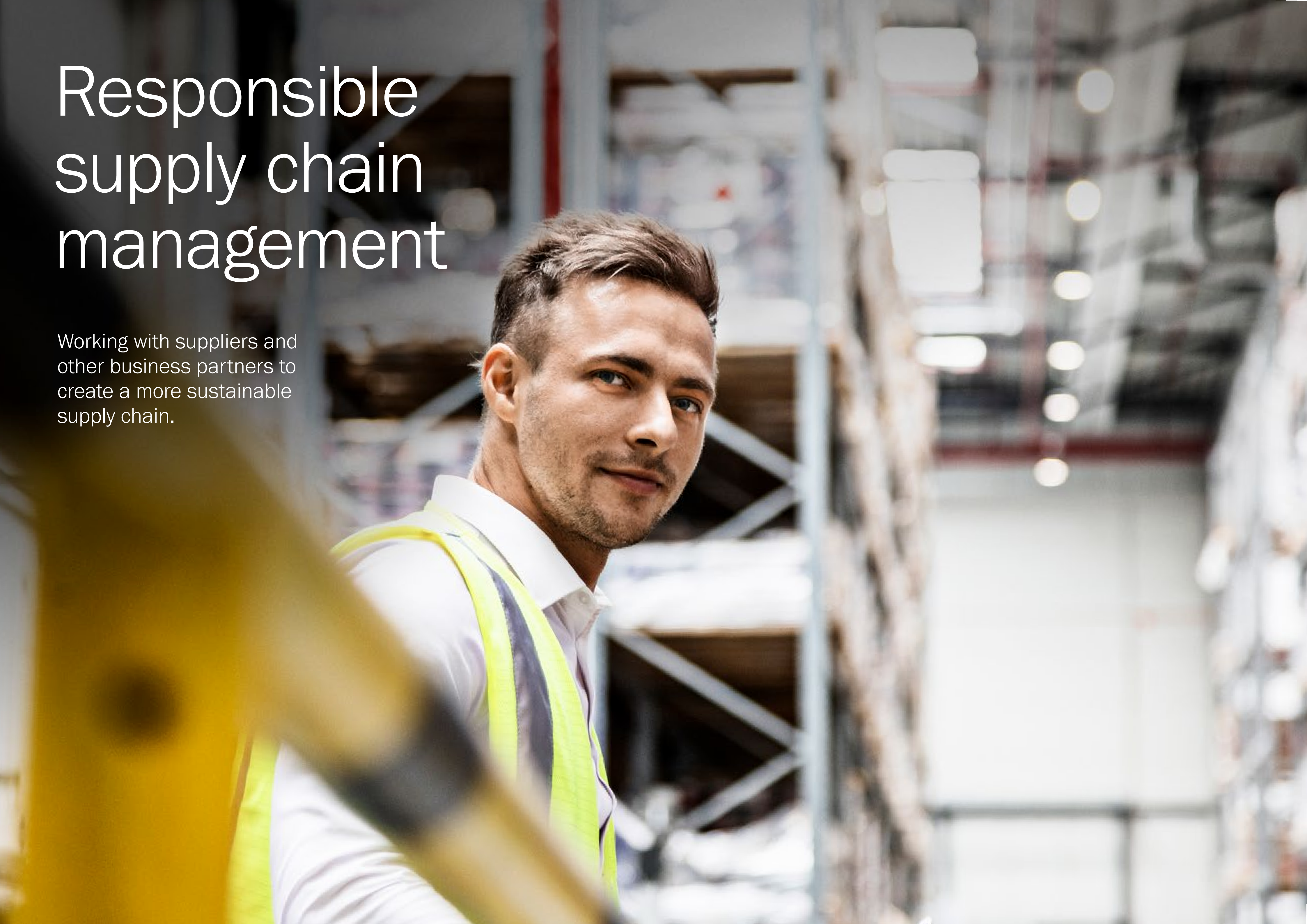
At Hempel, we nurture an inclusive culture in which we treat all our colleagues with dignity and respect. We do not tolerate discrimination, harassment or bullying of any kind, in any circumstances. We all have a responsibility for creating and nurturing this culture. In 2020, we increased our efforts to stand against any form of discrimination or harassment. This involved a number of initiatives, including a global survey launched in December for employees with a Hempel email address. The outcome of the survey will inform relevant actions in 2021. To ensure we capture feedback from all our employees, we will survey employees without a Hempel email address during 2021.

Ensuring a more balanced workforce is an important part of our strategy. Currently, 25 per cent of our employees are women. However, only 21 per cent of management positions are held by women. This is a slight improvement from 2019, but we acknowledge that we need to be better at ensuring we have a diverse pool of candidates for all leadership positions. As part of our people sustainability approach, which addresses our most significant risks from a social and human rights perspective, our ambition is for 25 per cent of leadership positions to be held by women by the end of 2022, increasing to 30 per cent by 2025. At the same time, we want to understand what is required to develop a culture where everyone feels listened to and acknowledged for their contribution. Therefore, we asked a group of diverse senior leaders across geographies and functions to investigate and provide recommendations for increasing diversity and inclusion globally within Hempel. As a part of this work, we launched a global diversity and inclusion study to understand how and where we can improve. The study, as well as learnings from other companies, will form the basis of actions in 2021.

We launched our People Promise in 2019 in order to attract future employees and we have increased our focus on employer branding in general. In 2020, we introduced a new global onboarding programme that will ensure we have an aligned approach to welcoming new colleagues. The onboarding programme includes multiple engagement points over the first nine months of employment and is available in several languages; as many as 10 languages will be available by the beginning of 2021.

Hempel Leadership Summit

The Hempel Leadership Summit is our annual leadership conference and part of our annual management cycle. This year the summit was held online on 18-20 November, with over 150 of our top leaders and selected talents joining virtually from across the Hempel globe. The summit saw the launch of our new strategy and, over three intensive afternoons, the participants learned how to implement it on a regional, functional and segment level.



Responsible supply chain management

Working with suppliers and other business partners to create a more sustainable supply chain.

8 DECENT WORK AND ECONOMIC GROWTH

We are committed to the UN Global Compact and the UN Guiding Principles on Business and Human Rights and we extend this commitment to our suppliers and other business partners. Our high standards are reflected in our Supplier Policy and Business Partner Code of Conduct, where we state what we expect of our suppliers and business partners in terms of quality, the environment, health and safety, human rights and business ethics.

Our Responsible Procurement Committee focuses on progress in this important area. It is also responsible for legal compliance and overseeing our Responsible Procurement Programme, which consists of:

- An independent annual evaluation of selected suppliers, based on a risk assessment addressing environmental, social, human rights and anti-corruption issues, conducted by EcoVadis
- Thorough screening of all new raw material suppliers worldwide
- Selected focus projects based on a risk analysis
- Training of internal staff

Our 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. The Business Partner Code of Conduct is an integrated part of our global e-sourcing system and both our direct and indirect procurement staff are trained in how to use it when in dialogue with suppliers to ensure commitment and progress.

Supplier evaluations

We evaluate a number of suppliers each year. If a supplier does not meet our standards, we request an improvement plan. If our recommendations are not followed, we will ultimately terminate the relationship. In 2020, 26 suppliers were evaluated. Of these, none received a low evaluation and no suppliers were therefore identified for an onsite visit.

Sustainability screening

In 2020, we developed and tested a new internal Sustainability Screening Questionnaire. The questionnaire will form the basis of our sustainability evaluation of suppliers and a supplier’s sustainability score will be a key consideration in the tendering process in future.

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. This means we already comply with the requirements in future legislation in the EU Conflict Minerals Regulation, as well as the existing Dodd-Frank Act Section 1502 on due diligence of conflict minerals.

Ethical behaviour

Our goal is to be the most trusted global coatings supplier in the world. We work to earn this trust every day.

Whistleblower statistics

	2017	2018	2019	2020
Cases reported	51	51	34	**30**
Hereof substantiated*	23	13	18	**4**
Hereof unsubstantiated*	28	35	15	**8**
Cases under investigation*	0	3	1	**18**

*Case status and substantiation rates updated as of 31.12.2020

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

From how we deal with each other through to the products and services we provide, we are committed to conducting business ethically, respectfully and honestly at all times. Conducting business ethically is not always the easiest option, especially when operating in a variety of countries and regions, with different rules, standards and norms. It requires constant focus, strong commitment from our management teams and buy-in from every colleague. It also requires continual investment in our teams and digital capabilities.

Committed to comply

In 2020, we further strengthened our compliance work through a number of initiatives and actions. Our compliance initiatives are prioritised. First, we assess where our risks lie and how they compare to each other. We then plan our mitigating actions to address our compliance risks on a 'first things first' basis. Our bribery, sanctions and antitrust risk assessments are updated annually.

Each year, all Hempel PC users must complete mandatory annual employee Code of Conduct eLearning. The eLearning is tailormade and inspired by real-life situations faced by some of our employees. All employees in the target group – approximately 4,000 in total – took the eLearning, with a pass rate of 100 per cent.

Our compliance eLearning programmes are now delivered on an adaptive learning platform, which adjusts to suit the trainee's understanding. Should a colleague answer a question incorrectly, for example, the theme will return again during the training until the employee understands the concept. The platform also provides valuable feedback on our employees' understanding of key ethical principles, and we use this information to further target training and communication activities.

Our Hempel Ethics Hotline is available globally and open to employees and any other stakeholders. Hosted by an independent third party, the Hempel Ethics Hotline allows for anonymous reporting. Anyone can use it to report potential breaches or concerns relating to our Business Ethics Policy or Code of Conduct. Such reports are quickly followed-up with an objective and independent Hempel internal investigation.

In 2020, we received 30 whistleblower reports from 17 countries. The number of cases received was 13 per cent lower than in 2019. This confirms that we continue to move towards a higher level of maturity regarding compliance and that we maintain a sound 'speak up' culture.

The pace at which trade barriers are raised, economic sanctions introduced and counter-sanctions published continues to increase. Therefore, we introduced a number of automated digital solutions that help Hempel to stay on top of trade sanctions and restrictions. We also welcomed additional team members so we can provide precise and timely advice to our business units.

Our commitment beyond Hempel

We continue to ensure our high ethical standards reach beyond Hempel to our suppliers, joint venture partners, toll manufacturers, distributors, agents, consultants and other business partners. The Hempel Business Partner Code of Conduct sets out our expectations for these stakeholders.

In 2020, many of our standard processes were disrupted by the COVID-19 pandemic. In some situations, we had to rely more on business partners to produce and deliver the products and services that our customers needed. As we have previously established what we expect from our business partners and how we monitor compliance, we could engage them in this way with confidence. This enabled us to remain agile and flexible in unpredictable business circumstances, while maintaining the high standards that we have set for ourselves and our business partners.

As a global company, we have an opportunity to make a difference to many local communities around the world.

Community engagement

"In addition to the lifetime experience with the Guatemalan kids, I also found the answer to why I work for Hempel. I feel proud about what Hempel and the Hempel Foundation have been doing to change the world by giving back to society"

Hakan Delibalta, Team Leader, Protective, Turkey

Every company has a responsibility to the society in which it operates. At Hempel, this responsibility is part of our company's core values and we see it as an opportunity to make a difference to people around the world. We give back in a number of ways – both through our owner, the Hempel Foundation, and through initiatives organised by our employees on a local or corporate level.

Volunteering at a Hempel Foundation project in Guatemala

The Hempel Foundation supports numerous projects around the world that empower children living in poverty to learn. We want our employees to contribute to and experience this work, so we arrange volunteering trips to different Foundation projects around the world. Hempel pays the employees' travel costs and expenses; the employees donate their time.

In February 2020, eight Hempel employees volunteered at a Hempel Foundation project in Rabinal, Guatemala. In Rabinal, many local children grow up speaking Achi, but schooling is delivered in the country's official language of Spanish. This makes learning difficult for Achi-speaking children. In partnership with Oxfam IBIS, the Hempel Foundation is empowering around 4,000 children to learn by introducing a new bilingual educational model that encompasses both languages. The project also includes teacher training and working with the local community and Ministry of Education to spread the method to other schools.

During the eight-day trip, the Hempel volunteers helped out at the schools, leading activities with the children and introducing them to the world outside their local communities.

The local response to COVID-19

In 2020, many local communities around the world were badly affected by the health, social and economic consequences of the COVID-19 pandemic. Across the Hempel organisation, our people stepped up to help in various ways, assisting at projects and organising donations of money, food, medical supplies and other items for people and communities that needed them. Here are some examples.

Laptops for learning in Portugal and the Netherlands

Many school children had to study at home due to school closures during lockdowns. To make this easier, Hempel is donating used laptops to school children. The initiative began with the children of Hempel employees in Portugal and the Netherlands. However, following a positive response, we may consider expanding the initiative to other countries.

Providing medical supplies in China

Hempel China donated medical supplies to the Hubei Charity Federation in China. The supplies went to four different hospitals and include ventilators and patient monitors.

Food bank donations in North America

Our colleagues in the US organised a food bank donation in April and May. The goal was to raise USD 7,000 for several food banks near our facilities. The goal was exceeded, with over USD 8,000 raised in a four-week period.

Hand sanitiser for schools in Vietnam

Colleagues in Hempel Vietnam donated hand sanitiser dispensers to five local schools. The dispensers carried the bright and optimistic message 'Bye, bye corona' and were extremely well received.

Raising money by working out in South & East Asia

Our colleagues in South & East Asia came up with a novel way to keep fit and help out. The idea was very simple: For every kilometre a colleague in South & East Asia ran, walked or cycled, Hempel donated EUR 5-10. Colleagues who couldn't get out to run, walk or cycle could attend virtual workout sessions arranged by Hempel. The initiative raised over EUR 10,000 for charity organisations working with communities affected by COVID-19 – and helped keep our colleagues in good shape.

From rough white wall to colourful rainbow

Showing support to medical staff in the UK

To show support to National Health Service (NHS) staff in the UK, Crown Paints dedicated an entire mural to those fighting the COVID-19 pandemic.

The mural was painted by local Darwen street artist Keiron Whitehead and features a 'thank you NHS and key workers' message, which was created using our paint products. The rainbow mural was revealed on 4 May and symbolises optimism amid challenging times. It is visible at the entranceway to our production site in Darwen.

Sustainability data

Accounting principles

Scope and consolidation

Unless otherwise stated, the Sustainability Data are reported based on the same principles as the financial statements. Thus, the Sustainability 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 Hempel has production. This includes 28 factories and 12 R&D facilities in 23 countries, referred to below as 'Hempel sites'.

Data relating to lost time accidents 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.

Data from acquisitions and divestments are included/excluded from the date of acquisition/divestment. Changes made to historically reported data will only be commented on if material.

Percentage of employees who completed and signed off on Code of Conduct 2020 refresher training

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

- joined the company before September 2020 (newer employees are assigned a longer course on Code of Conduct fundamentals, as part of their onboarding process)
- were Hempel PC users as of the day of the rollout in October
- were not on long-term leave, and not expected to depart Hempel by January 2021

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.

Lost time accident frequency (number/1,000,000 working hours)

Lost time accident frequency is calculated as the number of lost time accidents per one million working hours.

Lost time accidents are defined as occupational accidents recorded in our SharePoint system that resulted in at least one day's absence following the day of the accident. The lost time accident frequency is calculated as the number of lost time accidents per one million working hours. 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 lost time accident 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 1,726 hours per employee per year (2019).

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 Globally Harmonised System of Classification and Labelling of Chemicals:

- Carcinogen mutagen reprotoxic (CMR) category 1A or 1B
- Acute toxic category 1, 2 or 3

Or if the raw material has the following properties:

- Persistent, bioaccumulative and/or toxic chemicals (PBT) or very persistent, very bioaccumulative (vPvB)

Or is listed on the REACH Authorisation list (Annex XIV) from 1 January 2018.

Energy (kWh/1,000 L paint produced)

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. Energy consumption (kWh/1,000 L paint produced) is calculated as kWh per 1,000 L paint produced. The volume of paint produced is calculated based on production data in our ERP system.

Waste generation (kg/1,000 L paint produced)

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. Waste generation (kg/1,000 L paint produced) is calculated as kg waste per 1,000 L paint produced. The volume of paint produced is calculated based on production data in our ERP system.

Carbon footprint scope 1 (tonnes CO_2/1,000 L paint produced)
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 and invoiced to Hempel, which is registered in our SharePoint system. The consumption of fuels and refrigerants is converted to CO_2 emissions by applying relevant Greenhouse Gas Conversion Factors for Company Reporting from the Department for Environment, Food & Rural Affairs (Defra) in the UK for the relevant year.

Carbon footprint scope 2 (tonnes CO_2/1,000 L paint produced)
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_2 emissions by applying the location-based conversion factors from the International Energy Agency (2016 & 2017) and Defra (2020 v1.0) database.

Carbon footprint scope 3 (tonnes CO_2/1,000 L paint produced)
Scope 3 covers the following: indirect energy, waste, consumed raw materials used as ingredients and purchased packaging, and volatile organic compounds (VOCs) in products and toll manufacturing. These are outlined in more detail as follows.

Indirect energy
Indirect energy is calculated based on the direct energy consumption from Hempel's own sites, and is converted to indirect energy using Defra (2020 v1.0) database.

Waste
The calculation of CO_2 from 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. Waste includes hazardous and non-hazardous streams, both solid and liquid waste, which is converted to CO_2 equivalents using Defra (2020 v1.0) conversion factors.

Ingredients
The calculation of CO_2 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.

Packaging
The calculation of CO_2 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 Defra (2020 v1.0) is applied to the amount used.

Volatile Organic Compounds (VOCs) in products
The calculation of CO_2 from VOCs in products is based on the amount of VOCs in products sold (i.e. grams per litre of product sold). Data relating to products sold is registered in our ERP system and the VOC content of the ingredients used in our production is registered and managed in our Environment, Health & Safety system, Chemmate. The VOC values used for sold products are equivalent to the ones presented on the product safety data sheet. All VOCs are converted to carbon dioxide equivalent emissions using xylene as a representative profile.

Toll manufacturing
The calculation of CO_2 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 ton of toll-produced goods requires the same energy, refrigerants 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 ton of paint).

Employee Engagement – Response rate
Hempel conducted a pulse survey for all employees with a Hempel email address in 2020. The response rate was calculated as the number of employees who responded to the full survey out of the total number of employees invited to participate.

Employee Engagement - eNPS
The employee Net Promoter Score (eNPS) is calculated by using the answer distribution from the statement: 'I would recommend others to seek employment at the Hempel Group'. To calculate the eNPS, we take the percentage of employees who answered 9-10 and subtract the percentage who answered 1-6 on the 10-point scale.

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.

Key Performance Indicator	2018	2019	2020
Ethical behaviour			
% of employees with a Hempel e-mail adress who completed and signed off on Code of Conduct training	100%	100%	100%
Compliance cases reported	51	34	30
Health & safety			
Lost time accident frequency (number/1,000,000 working hours)	1.72	2.68	1.61
Consumption of red raw materials (kg/1,000 L paint produced)	8.80	8.04	7.90
Environment			
Energy (kWh/1,000 L paint produced)	276	259	227
Waste generation (kg/1,000 L paint produced)	49	56	53
Waste to landfill (kg/1,000 L paint produced)	12	10	4
Carbon footprint scope 1 (tonnes CO_2/1,000 L paint produced)	0.02	0.02	0.02
Carbon footprint scope 2 (tonnes CO_2/1,000 L paint produced)	0.09	0.08	0.07
Carbon footprint scope 3* (tonnes CO_2/1,000 L paint produced)	4.05	3.22	4.08
Our people**			
Employee Engagement – Response rate	93%	90%	95%
Employee Engagement – Net promotor score	21	35	38
Employee Engagement – Satisfaction & Motivation	71	74	77
Employee Engagement – Learning & Development	80	81	N/A

* Scope 3 includes: indirect energy use, consumption of raw materials, purchase of packaging material, CO_2 from toll manufacturing, CO_2 from waste treatment, CO_2 from refrigerants, Volatile Organic Compounds in products sold.

** 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.

Management's statement

The Board of Directors and the Executive Management Board have today considered and adopted the Annual Report of Hempel A/S for the financial year 1 January – 31 December 2020.

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

In our opinion, the financial statements and the consolidated financial statements give a true and fair view of the financial position at 31 December 2020 of the company and the Group and of the results of the company's and Group's operations and cash flows for 2020.

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

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

Kgs. Lyngby, 26 February 2021

Executive Management Board

Lars Petersson
Group President &
Chief Executive Office

Lars Jønstrup Dollerup
Executive Vice President
& Chief Financial Officer

Michael Hansen
Executive Vice President
& Chief Commercial Officer

The Board of Directors

Richard Sand
Chair

Eric Alström
Deputy Chair

Marianne Wiinholt
Chair of the Audit Committee

Leif Jensen

Susanna Schneeberger

Søren P. Olesen

Helle Fiedler
Elected by the employees

Mark Terrell Sutton
Elected by the employees

Maria Gomis
Elected by the employees

Independent auditor's report

To the shareholder of Hempel A/S

Opinion
In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the parent company at 31 December 2020, and of the results of the Group's and the parent company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2020 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 2020, 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 the consolidated statement of cash flows ("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' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review
Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the 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 and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the 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
- 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, 26 February 2021

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 Sustainability Data 2020

To the stakeholders of Hempel A/S
Hempel A/S (Hempel) engaged us to provide limited assurance on the Sustainability Data on page 58-59 in the Annual Report of Hempel for the period 1 January - 31 December 2020 (the "Selected Information") as included on pages 58-59 in the Annual Report of Hempel A/S for 2020.

Our conclusion
Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information in Hempel's Annual Report for the period 1 January - 31 December 2020 has not been prepared, in all material respects, in accordance with the Accounting Principles stated on pages 58-59.

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 Sustainability Data on pages 58-59 in Hempel's Annual Report (the Selected Information).

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 reported greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements'. 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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other ethical requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm 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 Selected Information needs to be read and understood together with the Accounting Principles (pages 58-59) in Hempel's Annual Report 2020, 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.

The quantification of greenhouse gas emissions is subject to inherent uncertainty because of incomplete scientific knowledge used to determine the emissions factors and the values needed to combine emissions of different gasses.

Work performed
We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. 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 Selected Information
- on a selective basis performed a review of the Selected Information at corporate head office to check that data had been appropriately recorded, consolidated and reported;
- performed analysis of data from reporting sites, selected on the basis of risk and materiality to the group; and
- considered the disclosure and presentation of the Selected Information.

Management's responsibilities
Hempel's management are responsible for:
- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information on pages 58-59 that is free from material misstatement, whether due to fraud or error;
- establishing objective Accounting Principles for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Accounting Principles; and
- the content of the Sustainability Data in Hempel's Annual Report 2020.

Our responsibility
We are responsible for:
- planning and performing the engagement to obtain limited assurance about whether the Selected Information has been prepared, in all material respects, in accordance with the Accounting Principles on pages 58-59 and in this context is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Stakeholders of Hempel.

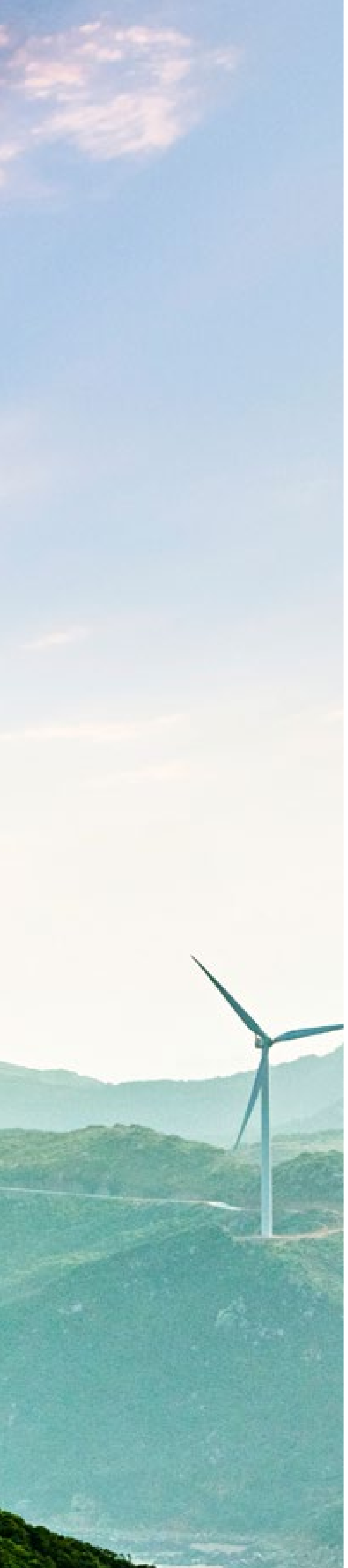
Hellerup, 26 February 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

Financial statements



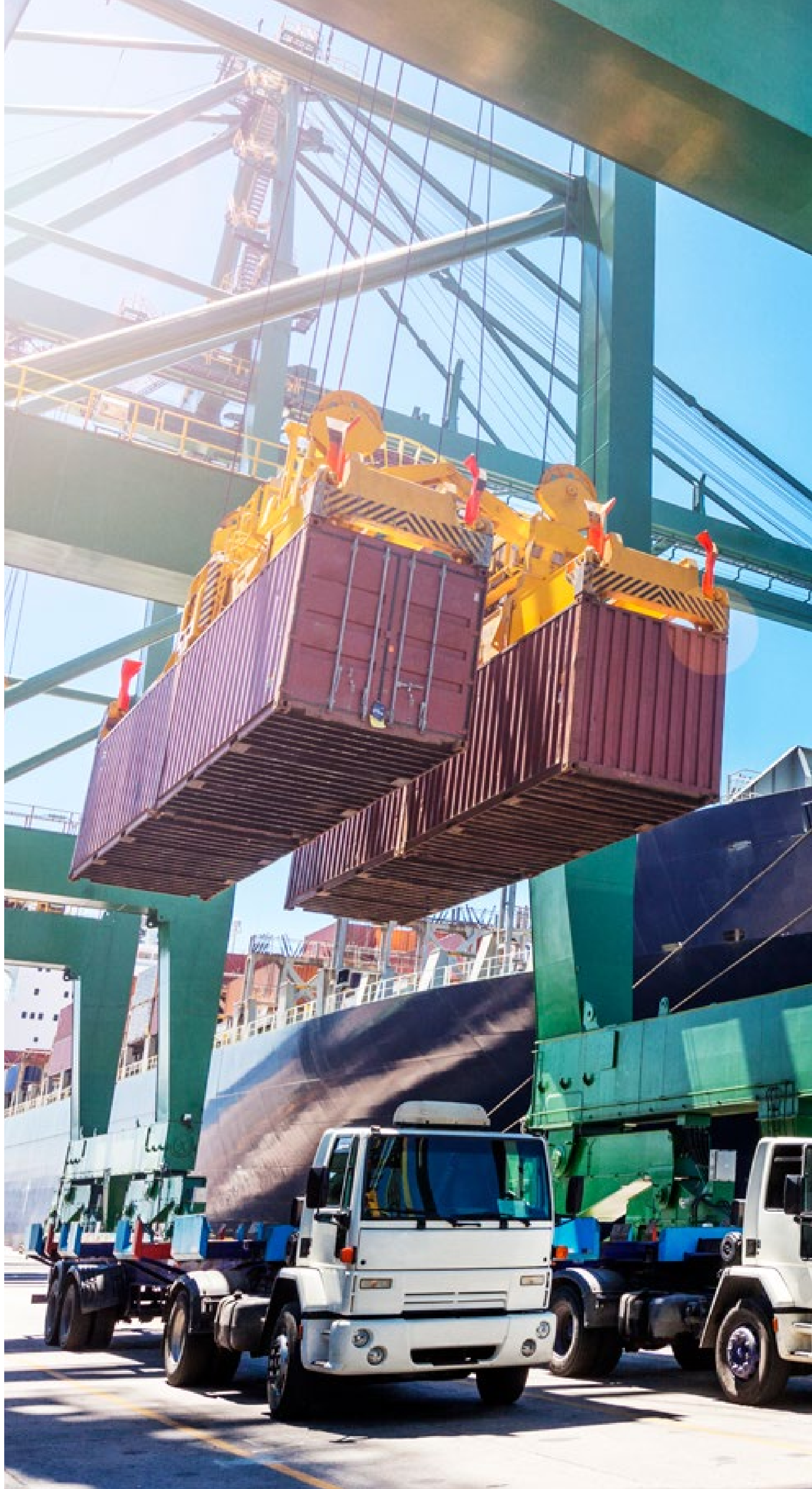
Income statement

In EUR million		Group		Parent company	
Note		**2020**	**2019**	**2020**	**2019**
2.1	Revenue	1,542	1,534	136	131
	Production costs	-937	-936	-60	-60
	Gross profit	**605**	**598**	**76**	**71**
	Sales and distribution costs	-397	-394	-27	-26
	Administrative costs	-120	-113	-38	-39
2.3	Other operating income and expenses, net	1	1	–	1
	Operating profit	**89**	**92**	**11**	**7**
2.4	Income from investments in subsidiaries	–	–	33	46
	Profit before financial income and expenses	**89**	**92**	**44**	**53**
4.5	Net financials	-25	-13	1	3
	Profit before tax	**64**	**79**	**45**	**56**
2.5	Income tax	-21	-29	-4	-7
	Net profit for the year	**43**	**50**	**41**	**49**

Balance sheet
as at 31 December – assets

In EUR million

Note		Group 2020	Group 2019	Parent company 2020	Parent company 2019
	Goodwill	56	68	–	–
	Software	4	6	1	1
	Software under development	11	6	11	6
	Customer relationships	40	50	–	–
	Other intangible assets	31	38	10	12
3.1	**Intangible assets**	**142**	**168**	**22**	**19**
	Land and buildings	154	169	1	1
	Plant and machinery	81	92	2	1
	Other fixed assets	29	19	12	1
	Assets under construction	74	34	11	9
3.2	**Property, plant and equipment**	**338**	**314**	**26**	**12**
5.6	Investments in subsidiaries	–	–	301	399
	Loans to Group enterprises	–	–	141	166
2.5	Deferred tax assets	47	47	10	7
	Deposits etc.	4	4	1	1
	Other non-current assets	**51**	**51**	**453**	**573**
	Total non-current assets	**531**	**533**	**501**	**604**
3.3	**Inventories**	**220**	**234**	**3**	**5**
3.5	Trade receivables	335	359	6	9
	Receivables from Group enterprises	–	–	213	202
2.5	Tax receivables	3	8	1	–
	Other receivables	41	45	22	24
3.4	Prepayments	15	20	4	5
3.5	**Receivables**	**394**	**432**	**246**	**240**
4.6	**Cash at bank and in hand**	**265**	**101**	**113**	**5**
	Current assets	**879**	**767**	**362**	**250**
	Total assets	**1,410**	**1,300**	**863**	**854**



Balance sheet

as at 31 December – equity and liabilities

In EUR million

Note		Group 2020	Group 2019	Parent company 2020	Parent company 2019
4.1	Share capital	15	15	15	15
	Reserve for development costs	–	–	8	6
	Translation reserve	-33	–	–	–
	Retained earnings	436	403	404	424
	Proposed dividend for the year	25	25	25	25
	Shareholders in Hempel A/S' share of equity	**443**	**443**	**452**	**470**
	Minority interests	**43**	**49**	**–**	**–**
	Total equity	**486**	**492**	**452**	**470**
2.5	Deferred tax liabilities	48	52	–	–
3.6	Pension obligations	23	22	–	–
3.7, 5.6	Other provisions	50	40	9	8
	Provisions	**121**	**114**	**9**	**8**
4.2	Bank loans etc.	190	20	179	–
4.4	Other long-term liabilities	2	21	–	–
	Long-term debt	**192**	**41**	**179**	**–**
	Overdraft facilities	40	26	4	23
4.2	Short-term part of bank loans etc.	9	14	–	–
3.8	Deferred income	6	6	–	–
	Trade payables	261	261	9	12
	Payables to Group enterprises	48	127	173	303
2.5	Tax liabilities	9	10	–	–
3.9	Other liabilities	238	209	37	38
	Total current liabilities	**611**	**653**	**223**	**376**
	Total liabilities	**924**	**808**	**411**	**384**
	Total equity and liabilities	**1,410**	**1,300**	**863**	**854**

Statement of changes
in equity as at 31 December

In EUR million

Group

Note		Share capital	Translation reserve	Retained earnings	Proposed dividend	Shareholders in Hempel A/S' share of equity	Minority interest	Total equity
	Equity							
	Equity at 1 January 2019	15	–	363	30	408	61	469
	Net profit for the year	–	–	49	–	49	1	50
	Exchange adjustment, foreign subsidiaries	–	–	6	–	6	–	6
	Remeasurements of defined benefit plans	–	–	-3	–	-3	–	-3
	Dividend distributed	–	–	–	-30	-30	-8	-38
	Proposed dividend	–	–	-25	25	–	–	–
	Transactions with minorities	–	–	-6	–	-6	-3	-9
	Acquisition of enterprises	–	–	–	–	–	-2	-2
	Fair value adjustment, put option	–	–	19	–	19	–	19
4.1	**Equity at 31 December 2019**	**15**	**–**	**403**	**25**	**443**	**49**	**492**
	Net profit for the year	–	–	41	–	41	2	43
	Exchange adjustment, foreign subsidiaries	–	-33	–	–	-33	-5	-38
	Remeasurements of defined benefit plans	–	–	-2	–	-2	–	-2
	Tax on equity transactions	–	–	1	–	1	–	1
	Dividend distributed	–	–	–	-25	-25	-3	-28
	Proposed dividend	–	–	-25	25	–	–	–
	Fair value adjustment, put option	–	–	18	–	18	–	18
4.1	**Equity at 31 December 2020**	**15**	**-33**	**436**	**25**	**443**	**43**	**486**

In EUR million

Parent company

Note		Share capital	Reserve for development costs	Retained earnings	Proposed dividend	Total
	Equity					
	Equity at 1 January 2019	15	6	397	30	448
	Net profit for the year	–	–	49	–	49
	Exchange adjustment	–	–	6	–	6
	Remeasurements of defined benefit plans	–	–	-3	–	-3
	Dividend distributed	–	–	–	-30	-30
	Proposed dividend	–	–	-25	25	–
4.1	**Equity at 31 December 2019**	**15**	**6**	**424**	**25**	**470**
	Net profit for the year	–	–	41	–	41
	Exchange adjustment	–	–	-33	–	-33
	Remeasurements of defined benefit 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, amortisations	–	-1	1	–	–
4.1	**Equity at 31 December 2020**	**15**	**8**	**404**	**25**	**452**

Cash flow statement

In EUR million

Note	Group	2020	2019
	Cash flows from operating activities		
	Operating profit	89	92
5.2	Adjustment for non-cash items	69	10
	Total cash flows from operating activities before financial items, tax and changes in working capital	**158**	**102**
	Change in receivables	11	-26
	Change in inventories	–	-16
	Change in payables	36	46
	Total change in working capital	**47**	**4**
	Total cash flows from operating activities before financial items and tax	**205**	**106**
	Income tax paid	-23	-23
	Interest income and expenses paid, net	-11	-12
	Total cash flows from operating activities	**171**	**71**
	Cash flows from investing activities		
	Acquisition of enterprises	–	-2
3.2	Purchase of property, plant and equipment	-62	-43
3.1	Purchase of intangible assets	-6	-7
	Sale of property, plant and equipment	3	3
	Sale of intangible assets	–	14
	Change in deposits, net	–	15
	Total cash flows from investing activities	**-65**	**-20**
	Free cash flow	**106**	**51**

In EUR million

Note	Group	2020	2019
	Cash flows from financing activities		
	Change in bank loans and other borrowings etc.	87	37
	Change in minority shares (dividend distributed)	-3	-8
	Dividend distributed to shareholders	-25	-30
	Capital losses and gains, net	-6	-2
	Total cash flows from financing activities	**53**	**-3**
	Net cash flow	**159**	**48**
4.6	Cash and equivalents, net, beginning of year	75	28
	Exchange adjustment	-9	-1
4.6	**Cash and equivalents, net, end of year**	**225**	**75**

Section 1
Basis of preparation

1.1 General accounting policies

The financial statements of Hempel A/S 1 January – 31 December 2020 comprise the consolidated financial statements of Hempel A/S and its subsidiaries (the Group) as well as the financial statements of the parent company Hempel A/S.

Basis of preparation
The consolidated financial statements and parent financial statements have been prepared in accordance with the Danish Financial Statements Act (Årsregnskabsloven) applying to large enterprises of reporting class C. The accounting policies for the parent financial statements are consistent with the accounting policies for the Group unless explicitly stated. The accounting policies applied remain unchanged from previous years.

The financial statements for 2020 are presented in EUR millions.

In the Annual Report, the notes are grouped in sections and include the relevant accounting policies.

Recognition and measurement
The consolidated financial statements have been prepared on the historical cost basis except derivatives, which are measured at fair value.

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

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

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Group and the value of the asset can be measured reliably.

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

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

Basis of consolidation
The consolidated financial statements comprise the parent company, Hempel A/S, and entities controlled by Hempel A/S. Control is achieved when the Group is exposed 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.

Control is usually achieved by directly or indirectly owning or in other ways controlling more than 50 per cent of the votes or by other rights through agreements of management control. See more in note 5.7 'The Hempel Group including foreign branches'.

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.

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

Minority interests
Minority interests' shares of net profit for the year and equity of subsidiaries attributable to minority interests are included as part of Hempel A/S' profit and equity. The amounts are presented separately within equity and distribution of profits.

A change of ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction as of the date of change.

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 income statement.

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 income statement for the year as financial income or expenses.

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

Translation of Group companies
For foreign subsidiaries with a functional currency other than EUR, the income statements are translated into EUR at the exchange rates prevailing at the end of the reporting period for

balance sheet items, and at average monthly exchange rates for income statement items in so far these do not deviate materially from the actual exchange rates at the transaction date. All exchange differences are recognised in the income statement for the year, except for exchange rate adjustment of investments in subsidiaries arising from:

- foreign exchange adjustments arising from translation of the opening balance of equity of foreign subsidiaries at the exchange rates on the balance sheet date
- the translation of foreign subsidiaries' income statement from monthly average exchange rates to exchange rates at the end of the reporting period
- the translation of intra-Group receivables which are considered part of the total net investments in subsidiaries

These specific exchange rate adjustments are recognised directly in equity under the translation reserve. If the foreign entity is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to the minority interest.

Classification of operating expenses in the income statement

Production costs

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

Production costs also include research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs. 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 and depreciation of sales equipment.

Administrative costs

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

Cash flow statement

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

Cash flows from operating activities

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

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions 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 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 and cash equivalents

Cash and cash equivalents comprise cash and bank overdraft facilities that are payable on demand and form an integral part of Hempel A/S' cash management.

Separate presentation of special items

In the financial statements for 2018 and 2016, with reference to §11(3) of the Danish Financial Statements Act, the Hempel Group departed from the presentation requirements in the Act, and presented costs related to identified irregularities within Hempel's subsidiaries in certain countries as 'Special items' in a separate line in the income statement. Management found it necessary to present these costs separately as they were material to the Group, non-recurring and extraordinary in terms of Hempel's continuing global business. There were no special items in 2019 or 2020 and thus the separate presentation of special items incurred in 2018 and 2016 only affect the presentation of certain historic key figures and financial ratios presented in the Management's Review section.

Section 2
Results for the year

2.1 Revenue, segment information

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.

Customer segments

In EUR million	Group		Parent company	
	2020	**2019**	**2020**	**2019**
Decorative	512	472	–	–
Marine	413	377	26	21
Infrastructure	177	199	2	2
Energy	247	277	6	5
Other	193	209	102	103
	1,542	**1,534**	**136**	**131**

Customer segment information is based on the internal management reporting and is presented in accordance with the Group accounting policy. The other category includes other business areas that are not directly associated with the four customer segments. In the parent company, the other category primarily consists of intercompany sales.

Geographical segments

In EUR million	Group		Parent company	
	2020	**2019**	**2020**	**2019**
EMEA	995	990	136	131
Asia-Pacific	397	351	–	–
Americas	150	193	–	–
	1,542	**1,534**	**136**	**131**

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

2.2 Employee costs

Accounting policies
Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are rendered by employees of Hempel. Where Hempel provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned. Please also refer to the Corporate governance section of Management's Review for further description of renumeration of the Executive Board.

In EUR million	Group		Parent company	
	2020	**2019**	**2020**	**2019**
Employee costs				
Remuneration of the Board of Directors	1	1	1	1
Remuneration of the Executive Board [1]	6	5	6	5
Wages and salaries etc.	314	314	41	36
Pension costs	14	14	3	3
	335	**334**	**51**	**45**
Average number of employees	6,099	6,219	346	321
Employee costs have been recognised in the income statement as follows:				
Production costs	103	101	15	14
Sales and distribution costs	173	178	14	12
Administrative costs	59	55	22	19
	335	**334**	**51**	**45**

1) The Executive Board registered with the Danish Business Authority (Erhvervsstyrelsen) at year end consisted of 3 members. The Executive Board registered with the Danish Business Authority had 4 members in the period 1 January to 1 December 2020.

2.3 Other operating income and expenses

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

In EUR million	Group		Parent company	
	2020	**2019**	**2020**	**2019**
Gain on disposal of fixed assets	2	–	–	–
Loss on disposal of fixed assets	-1	–	–	–
License income	–	1	–	1
	1	**1**	**–**	**1**

2.4 Income from investments in subsidiaries

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

In EUR million	Parent company	
	2020	**2019**
Income from investments in subsidiaries		
Profit before tax	60	77
Amortisation of goodwill	-10	-11
Tax for the year	-17	-20
Profit after tax	**33**	**46**

2.5 Income tax, tax assets and tax liabilities

Income tax
Accounting policies

Income tax for the year consists of current tax for the year, changes in deferred tax and adjustments from previous years. The tax attributable to the profit/loss for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes. Subsidiaries are included in the joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated.

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

	Group	
	2020	2019
Effective tax rate of the Group	**32.5%**	**36.7%**
Reconciliation of tax rate:		
Danish tax rate	22%	22%
Higher/(lower) tax rates of foreign subsidiaries	-7.8%	-6.2%
Weighted tax rate of the Group	**14.2%**	**15.8%**
Permanent differences	2.2%	2.3%
Unrecognised deferred tax assets	18.9%	19.5%
Recognised deferred tax assets related to prior years	-2.8%	-4.5%
Adjustments in respect of previous years	-6.0%	-0.7%
Other adjustments	0.5%	-1.2%
Withholding taxes etc.	5.5%	5.5%
Effective tax rate of the Group	**32.5%**	**36.7%**

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Income tax on profit for the year:				
Total tax in the profit and loss for the year	-21	-29	-21	-27
Total tax at equity	1		1	
Tax in respect of subsidiaries	–	–	17	20
	-20	**-29**	**-3**	**-7**
Current tax for the year	-25	-25	-6	-5
Deferred tax for the year	1	-6	1	-3
Adjustment in respect of previous years	4	2	2	1
Income tax	**-20**	**-29**	**-3**	**-7**

Deferred tax assets and liabilities
Accounting policies

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and the carrying amounts. Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively. Deferred tax assets, including the tax base of tax loss carry forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set off against deferred tax liabilities within the same legal tax entity. Deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences, apart from in business combinations, arose at the time of acquisition without affecting either net profit or taxable income.

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

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Deferred tax (net):				
Deferred tax, beginning of year	-5	-4	7	10
Exchange adjustment at year-end rate	1	1	1	–
Acquisition of enterprises	–	2	–	–
Deferred tax for the year	1	-6		-3
Adjustment in respect of previous years	2	2	2	–
Deferred tax (net), end of year	**-1**	**-5**	**10**	**7**

In EUR million	Group		Parent company	
	2020	2019	2020	2019
The net value is recognised in the balance sheet as follows:				
Deferred tax assets	47	47	10	7
Deferred tax liabilities	-48	-52	–	–
	-1	**-5**	**10**	**7**

In EUR million	Group		Parent company	
	2020	2019	2020	2019
The net value is recognised in the balance sheet as follows:				
Current tax assets	3	8	1	–
Current tax liabilities	-9	-10	–	–
	-6	**-2**	**1**	**–**

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Deferred tax (net) relates to the following items:				
Intangible assets	4	1	5	4
Property, plant and equipment	–	1	3	2
Inventories	2	3	–	–
Trade receivables	7	2	2	–
Provisions and other payables	-26	-27	–	1
Tax losses	12	15	–	–
	-1	**-5**	**10**	**7**

At 31 December 2020, the Group had recognised a deferred tax asset comprising tax losses carried forward of EUR 12 million (2019: EUR 15 million). Management believes it is likely that the unutilised tax losses can be utilised within the next years.

The Group has non-recognized deferred tax assets of EUR 36 million (2019: EUR 27 million). Management believes that the non-recognised deferred tax assets are not likely to be utilised in the future taxable income within the next years.

Current tax receivables and liabilities

Accounting policies

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

Section 3

Operating assets and liabilities

3.1 Intangible assets

Accounting policies

Goodwill acquired is measured at cost less accumulated amortisations and impairment. Goodwill is amortised on a straight-line basis over its useful life. The amortisation period is 2-20 years, the longest period applicable to acquired enterprises with a strong market position and a long-term earnings profile.

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

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

An amount corresponding to development costs capitalised as intangible assets is transferred to ‘Reserve for development cost’ under equity (in the parent company). The reserve is reduced with amortisation and impairment of the intangible assets.

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.

Impairment of intangible assets

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

If an asset’s carrying amount exceeds its recoverable amount, an impairment loss is recognised in the income statement.

In EUR million — **Group**

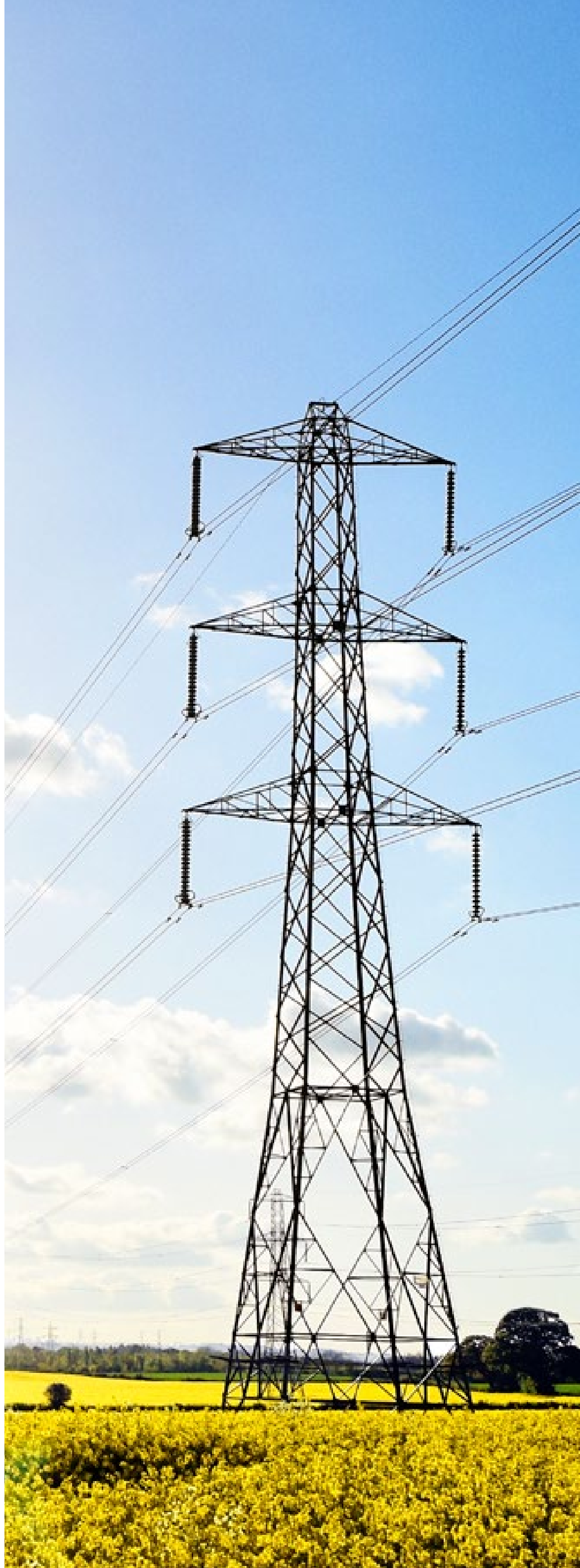
	Goodwill	Software	Software under development	Customer relationships	Other intangible assets	Total
Intangible assets						
Cost at 1 January 2020	164	43	6	135	83	431
Additions for the year	–		6	–		6
Transfer between categories	–	1	-1	–	–	–
Disposals for the year	–	-1	–	–	–	-1
Exchange rate adjustment	-12	-2	–	-8	-2	-24
Costs at 31 December 2020	**152**	**41**	**11**	**127**	**81**	**412**
Accumulated amortisation and impairment at 1 January 2020	96	37	–	85	45	263
Amortisation for the year	9	3	–	8	6	26
Reversal of amortisation of assets disposed	–	-1	–	–	–	-1
Exchange rate adjustment	-9	-2	–	-6	-1	-18
Accumulated amortisation and impairment at 31 December 2020	**96**	**37**	**–**	**87**	**50**	**270**
Carrying amount at 31 December 2020	**56**	**4**	**11**	**40**	**31**	**142**

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

In EUR million	Parent company			
	Software	Software under development	Other intangible assets	Total
Intangible assets				
Costs at 1 January 2020	8	6	31	45
Additions for the year	–	6	–	6
Transfer between categories	1	-1	–	–
Disposal for the year	-1	–	–	-1
Costs at 31 December 2020	**8**	**11**	**31**	**50**
Accumulated amortisation and impairment at 1 January 2020	7	–	19	26
Amortisation for the year	1	–	2	3
Reversal of amortisation of assets disposed	-1	–	–	-1
Accumulated amortisation and impairment at 31 December 2020	**7**	**–**	**21**	**28**
Carrying amount at 31 December 2020	**1**	**11**	**10**	**22**

Other intangible assets mainly comprise brands and formulas.

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Amortisation and impairment are specified as follows:				
Production costs	1	1	–	–
Sales and distribution costs	1	1	–	1
Administrative costs	24	26	3	3
	26	**28**	**3**	**4**



3.2 Property, plant and equipment

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

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

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

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

Depreciation is based on 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

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

The assets' residual values and useful lives are reviewed annually. If residual value exceeds the carrying amount, depreciation is discontinued. If the depreciation period or the residual values are changed, the depreciation effect is recognised prospectively as a change in accounting estimates.

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

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

In EUR million	Group				
	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs at 1 January 2020	256	266	98	34	654
Additions for the year	2	6	2	67	77
Transfer between categories	1	9	16	-26	–
Disposals for the year	-7	-14	-12	–	-33
Exchange rate adjustment	-15	-16	-6	-1	-38
Costs at 31 December 2020	**237**	**251**	**98**	**74**	**660**
Accumulated depreciations and impairment at 1 January 2020	87	174	79	–	340
Depreciation for the year	9	20	7	–	36
Reversal of depreciation of assets disposed	-7	-13	-12	–	-32
Exchange rate adjustment	-6	-11	-5	–	-22
Accumulated depreciation and impairment at 31 December 2020	**83**	**170**	**69**	**–**	**322**
Carrying amount at 31 December 2020	**154**	**81**	**29**	**74**	**338**
Including leased assets of	2	–	1	–	3
Capitalised interest expenses in the year	–	–	–	–	–

In EUR million	Parent company				
	Land and buildings	Plant and machinery	Other fixed assets	Assets under construction	Total
Property, plant and equipment					
Costs at 1 January 2020	1	3	6	9	19
Additions for the year	–	–	–	15	15
Transfer between categories	–	2	11	-13	–
Disposals for the year	–	-1	-2	–	-3
Costs at 31 December 2020	**1**	**4**	**15**	**11**	**31**
Accumulated depreciations and impairment at 1 January 2020	–	2	5	–	7
Depreciation for the year	–	1	–	–	1
Reversal of depreciation of assets disposed	–	-1	-2	–	-3
Accumulated depreciation and impairment at 31 December 2020	**–**	**2**	**3**	**–**	**5**
Carrying amount at 31 December 2020	**1**	**2**	**12**	**11**	**26**

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Depreciation and impairment are specified as follows:				
Production costs	24	23	–	–
Sales and distribution costs	9	9	–	–
Administrative costs	3	5	1	1
	36	**37**	**1**	**1**

3.3 Inventories

Accounting policies
Inventories are measured at cost in accordance with the FIFO principle.

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

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

Where the net realisable value is lower than the carrying amount, inventories are written down to this lower value. 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	Group		Parent company	
	2020	2019	2020	2019
Raw materials and consumables	62	73	3	4
Work in progress	5	7	–	–
Finished goods	153	154	–	1
Inventories	**220**	**234**	**3**	**5**

3.4 Prepayments

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

3.5 Receivables

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

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Receivables	394	432	246	240
of which due more than one year from balance sheet date	1	1	–	–

3.6 Pension obligations

Accounting policies
Hempel operates a number of defined contribution plans throughout the world. Hempel's contributions to the defined contribution plans are recognised in the income statement in the year to which they relate. In a few countries, Hempel also operates defined benefit plans. The Group's net obligation is calculated using the projected unit credit method. Pension costs for the year are calculated based on financial expectations at the beginning of the year and actuarial assumptions primarily regarding discount rates used in determining the present value of benefits and projected rates of remuneration growth. Discount rates are based on the market yields of high-rated corporate bonds in the country concerned. Service costs are recognised in the income statement and net interest is recognised in financial expenses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in equity in the period in which they arise. Past service costs are recognised immediately in the income statement. Pension assets are only recognised to the extent that Hempel is able to derive future economic benefits such as refunds from the plan or reductions of future contributions.

The present value of the defined benefit obligation less the fair value of plan assets is recognised in Pensions and similar obligations.

In EUR million	Group	
	2020	**2019**
Pension obligations comprise:		
Pension obligations	58	56
Fair value of assets related to the plans	-35	-34
Pension obligations, net	**23**	**22**
Recognition in the balance sheet:		
Liabilities	23	22
Pension obligations recognised in the balance sheet, net	**23**	**22**
Defined benefit plans		
Specification of plan assets:		
Shares and properties	14%	13%
Fixed interest current asset investments	86%	84%
Cash at bank and in hand	–	3%
Total	**100%**	**100%**
Weighted average assumptions:		
Discount rate	1.0%	1.3%
General wage inflation	2.4%	2.1%
General price inflation	1.4%	1.4%

3.7 Provisions

Accounting policies

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

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

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

In EUR million

Group

	Environmental obligations	Warranty commitments	Other provisions	2020 Total	2019 Total
Total provisions, beginning of year	15	13	12	40	84
Exchange adjustment at year-end rate	–	–	-1	-1	–
Acquisition of enterprises	–	–	–	–	6
Additions for the year	2	12	–	14	12
Consumed	-1	-1	–	-2	-56
Reversed	–	–	-1	-1	-6
Total provisions, end of year	**16**	**24**	**10**	**50**	**40**
Maturities are expected to be:					
Within 1 year	1	4	1	6	12
Between 1 and 5 years	9	20	7	36	19
After 5 years	6	–	2	8	9
	16	**24**	**10**	**50**	**40**

3.8 Deferred income

Accounting policies

Deferred income comprises prepayments from customers where the related revenue cannot be recognised in the income statement until the next financial year as well as government grants relating to property, plant and equipment. The grants are recognised in the profit and loss over the useful lives of the assets.

3.9 Other liabilities

Accounting policies

Other liabilities are measured at amortised cost, substantially corresponding to nominal value. Other liabilities comprise employee costs payable, VAT and duties payable, accruals, other payables and fair values of derivative financial instruments.

Section 4

Capital structure and financing

4.1 Share capital, distribution to shareholders

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

The share capital 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. B shareholders enjoy special dividend rights.

There have been no changes to the share capital in the past five years.

In EUR million	Group		Parent company	
Distribution of profit	**2020**	**2019**	**2020**	**2019**
Proposed distribution of profit:				
Proposed dividend	25	25	25	25
Minority interests	2	1	–	–
Retained earnings	16	24	16	24
	43	**50**	**41**	**49**

4.2 Bank loans, etc.

Accounting policies
Fixed-interest loans, such as mortgage loans and loans from credit institutions, are recognised initially at fair value net of incurred transaction costs and subsequently at amortised cost using the effective interest method. The difference between the proceeds initially received and the nominal value is recognised as a financial expense in the income statement over the term of the loan.

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

In EUR million	Group		Parent company	
	2020	**2019**	**2020**	**2019**
Long-term bank borrowings etc. including short-term part:				
Due within 1 year	9	14	–	–
Due within 1 to 5 years	189	19	179	–
Due after 5 years	1	1	–	–
	199	**34**	**179**	**–**

4.3 Financial risks

Due to its operations, investments and financing, the Group is exposed to commercial risks as well as financial risks related to changes in exchange rates and interest rates. Hempel has centralised handling of these risks, except for commercial credit risk, which is managed by the operating units across the world. The risks are managed in accordance with the policies and guidelines laid out by the Board of Directors. It is the Group's policy not to speculate actively in financial risks.

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

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 short-term transactional exposure in the major currencies using financial instruments. FX hedge contracts are predominantly entered into in order to mitigate accounting and settlement risks from internal transactions between subsidiaries and the parent company.

The Hempel Group currently has a low level of interest-bearing debt and is therefore not materially exposed to interest rate risks.

Currency risks

Open foreign currency hedges at 31 December 2020 entered into in order to hedge receivables and payables in foreign currencies are specified as follows:

Bank borrowings of EUR 199 million comprising loans denominated in various currencies, EUR 99 million, USD 108 million (EUR 88 million), SAR 29 million (EUR 6 million), DKK 30 million (EUR 4 million) and other currencies amounting to EUR 2 million.

Interest rate risks

The weighted average effective interest rates as at the balance sheet date were as follows:

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Bank borrowings etc.	0.6%	3.5%	0.6%	-

4.4 Derivative financial instruments

Derivative financial instruments are initially recognised at cost on the acquisition date and subsequently remeasured at their fair value at the reporting date. Positive and negative fair values of derivative financial instruments are recognised as 'Other receivables' and 'Other liabilities', 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 income statement under financial items.

Derivative financial instruments are recognised as other receivables amounting to EUR 5 million and as other payables amounting to EUR 6 million.

Financial liabilities

Liabilities concerning minorities' 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.

FX forward contracts

In EUR million

	Contract amount based on exercise price [1]	Fair value	Term to maturity (months)
AUD	-1.4	–	1
BRL	-2.3	–	3
CAD	3.6	–	1
CLP	-2.5	-0.1	3
CZK	4.5	–	1
EUR	63	–	1
GBP	-5.5	-0.2	1
HKD	11.5	-0.9	1
HRK	2	–	1
IDR	-0.5	–	3
KRW	-5	–	3
NOK	1.8	–	1
NZD	-0.8	–	1
PLN	-16.8	0.4	1
SAR	-2	–	1
SEK	-0.4	–	1
SGD	-7.5	0.2	1
USD	39.9	–	1
		-0.6	

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

4.5 Net financials

Accounting policies
Financial income and expenses comprise interest income and expenses, gains and losses on receivables, payables and transactions denominated in foreign currencies.

In EUR million	Group		Parent company	
	2020	2019	2020	2019
External interest income	–	1	–	–
Interest income from subsidiaries	–	–	8	10
External interest expenses	-11	-11	-5	-5
Interest paid to Group enterprises	-1	-2	–	-1
Realised and unrealised exchange gains/losses, net	-13	-1	-2	-1
	-25	**-13**	**1**	**3**

4.6 Cash and cash equivalents

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

In EUR million	Group	
	2020	2019
Cash at bank and in hand, beginning of year	101	85
Overdraft facilities, beginning of year	-26	-57
	75	**28**
Cash at bank and in hand, end of year	265	101
Overdraft facilities, end of year	-40	-26
	225	**75**

Section 5
Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

In EUR million	Group		Parent company	
	2020	2019	2020	2019
Audit fee	1	1	–	–
Tax advice	1	1	–	–
Other fees	1	–	1	–
	3	**2**	**1**	**–**

5.2 Adjustments for non-cash items

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

In EUR million	Group	
	2020	2019
Amortisation, depreciation and impairment, including goodwill	62	65
Provisions	10	-52
Exchange rate adjustment, operating profit	-2	-2
Gains and losses on the sale of fixed assets	-1	-1
	69	**10**

5.3 Commitments and contingent liabilities

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.

Other guarantees primarily relate to bid and performance bonds.

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

Hempel 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.

Commitments
In 2020, the Group entered into contracts for the construction of two new factories located in Yantai, China and Zhangjiagang, China. The construction of the factory in Yantai is expected to be completed in 2021 and 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 factories, but not recognised as liabilities, amount to EUR 53 million.

In EUR million	Group		Parent company	
	2020	**2019**	**2020**	**2019**
Rental and lease obligations:				
Due within 1 year from the balance sheet date	20	17	3	2
Due within 1 to 5 years from the balance sheet date	48	39	8	6
Due more than 5 years from the balance sheet date	18	13	4	–
	86	**69**	**15**	**8**
Guarantees:				
For local loans and bank credits to subsidiaries [1)]	–	–	47	128
Other guarantees	5	6	–	–
	5	**6**	**47**	**128**

1) Parent company guarantees for unutilised local loans and bank credits to subsidiaries. The guarantees amount to EUR 24 million (2019: EUR 74 million).

5.4 Events after the reporting period

On 18 February 2021, Hempel entered into a binding agreement with The Sherwin Williams Company to purchase Wattyl, one of Australia and New Zealand's leading manufacturers and distributors of paint primarily within the Decorative segment.

The transaction is a share purchase, in which the Hempel Group acquires 100 per cent of the shares in two of The Sherwin Williams Company's subsidiaries in Australia and New Zealand. The transaction is subject to customary approval from relevant authorities and is financed through existing credit facilities.

The business model of the acquired activities includes development, manufacturing and distribution of innovative and technologically advanced branded products, primarily for the Decorative segment. The business includes two manufacturing facilities, five distribution centres and nearly 100 company-owned paint stores, with approximately 750 employees in total. In 2020, the acquired activities generated revenue of approximately EUR 150 million.

The acquisition is in line with Hempel's *Double Impact* strategy and growth ambitions. With the acquisition, Hempel will significantly expand its activities within the Decorative segment and create a strong platform for continuous growth in its entire South & East Asia region.

No other events have occurred after the balance sheet date that could significantly affect the financial position of the Group and the parent company.

5.5 Related parties and ownership

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%)
Members of the Executive Management Board and Board of Directors of Hempel A/S as well as the Board of Directors of the Hempel Foundation and Hempel Invest A/S are also regarded as related parties. The members of the Boards of Directors of the Hempel Foundation and Hempel Invest A/S coincide.	
Other related parties	
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Employee Foundation of 2017, Lundtoftegårdsvej 91, 2800 Kgs. Lyngby	Related party
Innovation S E ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Frontier Innovation ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Transactions	
All related-party transactions were carried out at arm's length.	

5.6 Investments in subsidiaries

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

The 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.

With reference to the accounting treatment of liabilities concerning minorities' put options described in section 4.4, these are recognised directly in equity of the consolidated Group. As this liability lies within a subsidiary, the liability is not presented in the parent company and hence not presented as such nor directly recognised against the equity of the parent company. The value of the liability will cause a difference between the Group's share of equity and the equity of the parent company. Once the put option has been settled, this difference will cease.

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.

In EUR million	Parent company	
	2020	2019
Investments in subsidiaries		
Costs, beginning of year	380	371
Additions for the year	4	9
Costs, end of year	**384**	**380**
Net revaluations, beginning of year	-3	-52
Exchange adjustment at year-end rate	-27	5
Contributions	–	27
Remeasurements of defined benefit plans	-2	-3
Profit before tax	60	77
Amortisation of goodwill	-10	-11
Tax for the year	-17	-20
Dividend received	-106	-26
Net revaluations, end of year	**-105**	**-3**
Carrying amount, end of year	**279**	**377**
Recognised in the balance sheet as follows:		
Subsidiaries with negative equity	-22	-22
Investments in subsidiaries	301	399
	279	**377**
Subsidiaries with negative equity are recognised in the balance sheet as follows:		
Recognised in provisions to subsidiaries	-9	-8
Recognised in receivables from subsidiaries	-13	-14
Net value, end of year	**-22**	**-22**
Hereof comprises premium	6	6

The premium included is similar to goodwill related to acquisition of minority shares. The premium is subject to an amortisation period of 10 years.

5.7 The Hempel Group

Location	Name	Ownership
Denmark	Hempel A/S	100%
Argentina	Hempel Argentina S.R.L.	100%
Australia	Hempel (Australia) Pty. Ltd.	100%
Austria	Ostendorf GmbH	65%
Bahrain	Dahna Paint Middle East Holding B.S.C. (closed)	51%
Bahrain	Hempel Paints (Bahrain) S.P.C.	51%
Brazil	Hempel Tintas do Brasil Ltda	100%
Canada	Hempel (Canada) Inc.	100%
Chile	Pinturas Hempel Chile SpA	100%
China	Hempel (Hong Kong) Limited	100%
China	Hempel (China) Limited	100%
China	Hempel (China) Management Co., Ltd.	100%
China	Hempel (Kunshan) Coatings Ltd.	100%
China	Hempel (Yantai) Coatings Ltd.	100%
China	Hempel (Guangzhou) Coatings Ltd.	100%
China	Hempel Coatings (Zhangjiagang) Ltd.	100%
Croatia	Hempel Coatings (Croatia) Ltd.	100%
Cyprus	Hempel Coatings (Cyprus) Limited	100%
Czech Republic	Hempel (Czech Republic) s.r.o.	100%
Denmark	HSA (Danmark) A/S	100%
Denmark	Hempel Decorative Paints A/S	100%
Denmark	Brifa Maling A/S	65%
Ecuador	Hempel (Ecuador) S.A.	100%
Egypt	Hempel Coatings Egypt LLC	100%
Egypt	Hempel Egypt L.L.C.	100%
Egypt	Hempel Paints Egypt LLC	99%
Finland	OY Hempel (Finland) AB	100%
France	Hempel (France) S.A.	100%
France	BB Participations SAS	65%
France	BB Fabrications SAS	65%

Location	Name	Currency	Ownership
France	Bontemps-Bonnarme SAS		65%
Germany	Hempel (Germany) GmbH		100%
Germany	Hempel Beteiligungsgesellschaft mbH		100%
Germany	J.W. Ostendorf GmbH & Co. KG		65%
Germany	Ostendorf-Beteiligungs-GmbH		65%
Germany	FLT Handel & Service GmbH		65%
Germany	Brand.IQ GmbH		65%
Germany	Rottkamp Immoblilien GmbH & Co. KG		65%
Germany	Rottkamp Immobilien Verwaltung GmbH		65%
Greece	Hempel Coatings (Hellas) S.A.		100%
India	Hempel Paints (India) Private Limited		100%
Indonesia	P.T. Hempel Indonesia		100%
Iraq	Hempel (Iraq) Ltd		31%
Ireland	Crown Paints Ireland Limited		100%
Italy	Hempel (Italy) S.r.l.		100%
Kenya	Hempel Paints Kenya Company Limited		100%
Korea	Hempel Korea Co. Ltd.		100%
Kuwait	Hempel Paints (Kuwait) K.S.C.C.		51%
Malaysia	Hempel (Malaysia) Sdn. Bhd		100%
Malaysia	Hempel Manufacturing (Malaysia) Sdn. Bhd.		100%
Mexico	Pinturas Hempel de Mexico S.A. de C.V.		100%
Morocco	Hempel Maroc SARL		100%
New Zealand	Hempel (New Zealand) Ltd.		100%
Norway	Hempel (Norway) AS		100%
Oman	Hempel (Oman) L.L.C		25%
Peru	Hempel Pinturas Del Perú S.A.C.		100%
Poland	Hempel Paints (Poland) S.p. z o.o.		100%
Portugal	Hempel (Portugal) S.A.		100%
Qatar	Hempel Paints (Qatar) W.L.L.		28%
Russia	JSC Hempel		100%

Location	Name	Currency	Ownership
Saudi Arabia	Hempel Paints (Saudi Arabia) W.L.L.		51%
Saudi Arabia	Painting Materials and Equipment Centre Co. LTD		26%
Singapore	Hempel (Singapore) Pte. Ltd.		100%
South Africa	Hempel Paints South Africa (Pty) Ltd.		100%
Spain	Pinturas Hempel SAU		100%
Sweden	Hempel (Sweden) AB		100%
Switzerland	Hempel Schweiz AG		100%
Switzerland	J.W. Ostendorf (Schweiz) AG		65%
Syria	Hempel Paints (Syria) W.L.L.		49%
Taiwan	Hempel (Taiwan) Co., Ltd.		100%
Thailand	Hempel (Thailand) Ltd.		100%
The Netherlands	Hempel (The Netherlands) B.V.		100%
The Netherlands	Hempel Industrial B.V.		100%
Turkey	Hempel Coatings San. ve Tic. Ltd. Sti.		100%
UK	Crown Brands Limited		100%
UK	Crown Paints Limited		100%
UK	Crown Paints Group Limited		100%
UK	Crown Paints Holdings Limited		100%
UK	Hempel Decorative Paints Limited		100%
UK	Hempel UK Ltd.		100%
UK	Reebor Limited		1%
UK	Ostendorf U.K. Ltd.		65%
Ukraine	Hempel Ukraine LLC		100%
UAE	Hempel Paints (Abu Dhabi) L.L.C.		39%
UAE	Hempel Paints (Emirates) L.L.C.		49%
USA	Hempel (USA), Inc.		100%
USA	Jones-Blair Company, LLC		100%
Vietnam	Hempel Vietnam Company Limited		100%

5.8 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 / EBITDA
Net interest-bearing debt	=	Overdraft facilities + bank loans, etc. + interest-bearing payables to Group enterprise - cash at bank and in hand
Free cash flow	=	Free cash flow is defined as net cash generated from operating activities less net cash used in investing activities
Cash conversion	=	Total cash from operating activities + income tax paid + interest income and expenses paid, net / 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)

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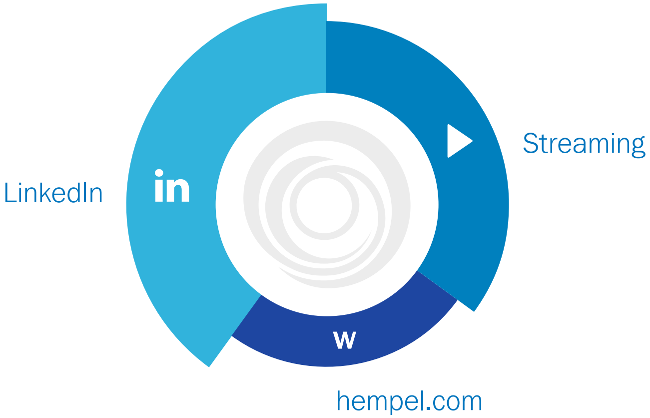

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