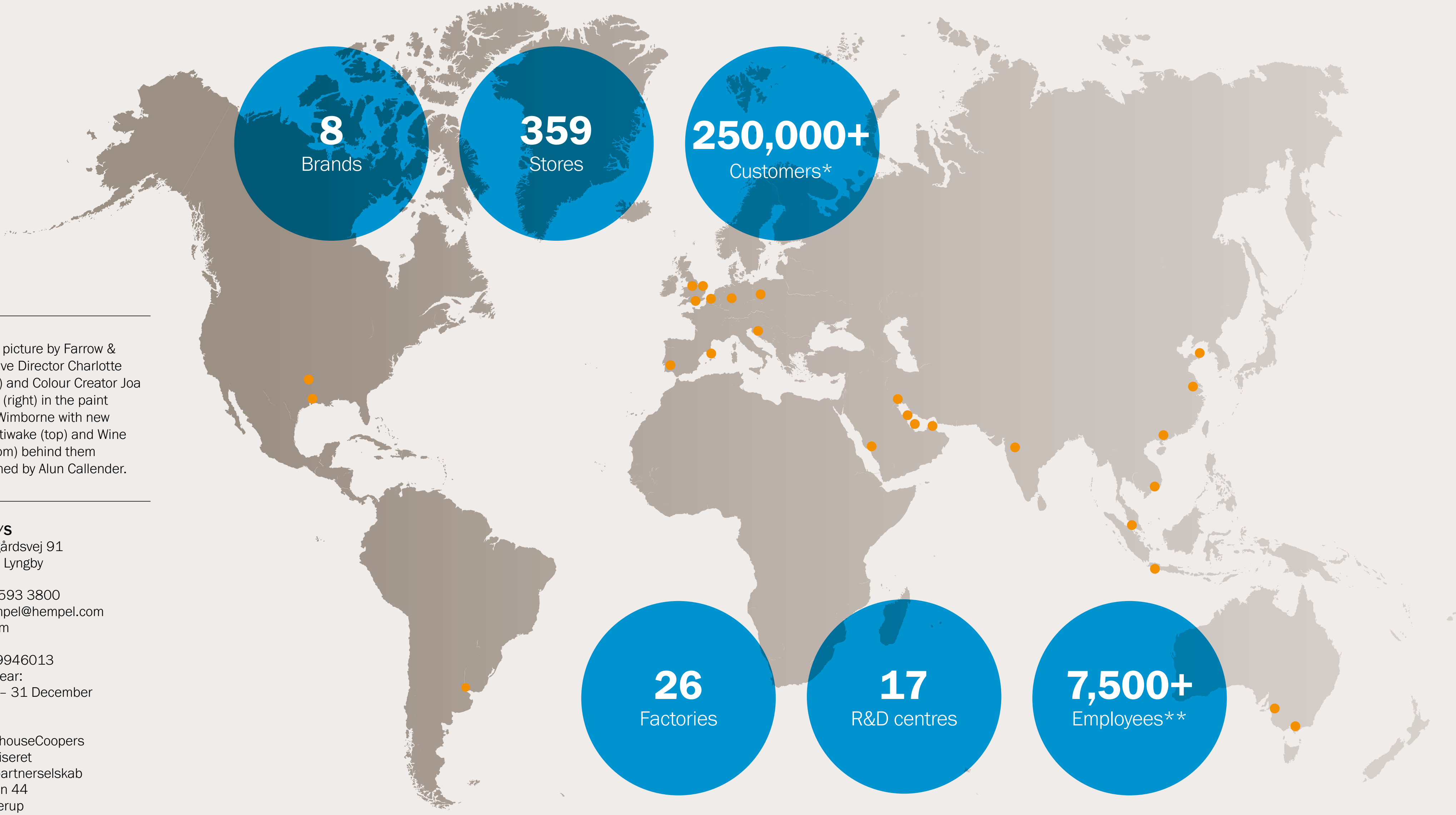
HEMPEL
Trust is earned

# Annual Report 2022

# Hempel around the world




● Hempel factories * Incl. online customers. ** Total number of employees as of 31 December 2022.

Front page picture by Farrow & Ball: Creative Director Charlotte Cosby (left) and Colour Creator Joa Studholme (right) in the paint factory at Wimborne with new colours Kittiwake (top) and Wine Dark (bottom) behind them photographed by Alun Callender.

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

**Auditors**
PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

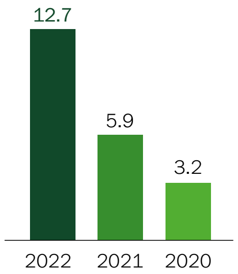
# Contents

# Highlights 2022

## FINANCIAL

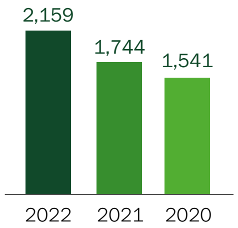
### Organic growth*

**12.7%**
vs 2021



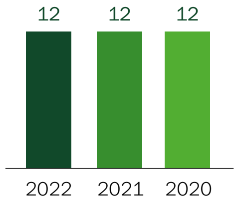

### Revenue (in EUR million)

**2,159**



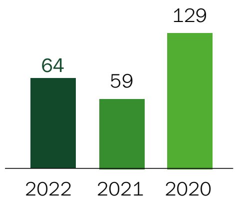

### EBITDA margin, adjusted

**12%**



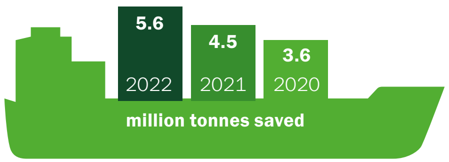

### Cash conversion

**64%**

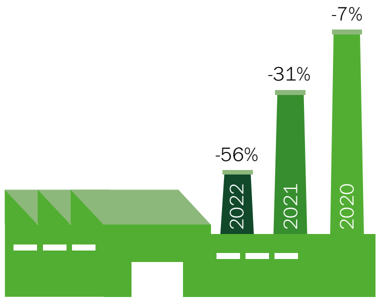



## ESG

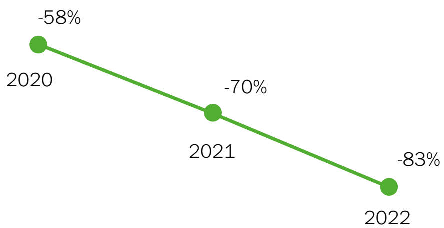
### $CO_2$e emissions saved for our Marine customers



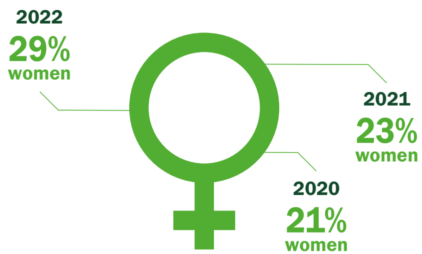

### $CO_2$e emissions in our own operations (Scope 1 & 2 reduction compared to 2019)




### Waste to landfill at production sites (per cent reduction since 2019)




### Women in leadership positions (min. 3 direct reports)




* In constant exchange rates

# Key figures

*In EUR million (unless otherwise stated)*

| | 2022 | 2021[1] | 2020[1] | 2019[1] | 2018[1] |
|---|---|---|---|---|---|
| **Profit and loss** | | | | | |
| Revenue | 2,159 | 1,744 | 1,541 | 1,534 | 1,346 |
| EBITDA | 219 | 196 | 176 | 157 | 145 |
| EBITDA, adjusted | 257 | 205 | 185 | N/A | N/A |
| Amortisation, depreciation and impairment | 105 | 90 | 77 | 65 | 55 |
| Operating profit | 114 | 106 | 99 | 92 | 90 |
| Net financials | -58 | -17 | -28 | -13 | -5 |
| Profit before tax | 56 | 89 | 71 | 79 | 72 |
| Net profit for continuing operations | 37 | 58 | N/A | N/A | N/A |
| Net profit for the year | 35 | 63 | 50 | 50 | 48 |
| **Financial position** | | | | | |
| Total assets | 2,655 | 2,466 | 1,542 | 1,300 | 1,288 |
| Investment in tangible assets | 91 | 113 | 77 | 43 | 32 |
| Shareholders' equity | 519 | 526 | 456 | 443 | 408 |
| Net interest-bearing debt | 1,052 | 907 | 120 | 86 | 97 |
| **Cash flow** | | | | | |
| Total cash flow from operating activities | 72 | 69 | 191 | 71 | 86 |
| Cash flow from acquisitions / divestments of enterprises | -28 | -511 | 0 | -2 | -16 |
| Cash flow from net investments in property, plant and equipment and intangible assets | -107 | -87 | -65 | -33 | -34 |
| Free cash flow | -64 | -529 | 126 | 51 | 144 |

| | 2022 | 2021[1] | 2020[1] | 2019[1] | 2018[1] |
|---|---|---|---|---|---|
| **Working capital** | | | | | |
| Net working capital (NWC) days | 72 | 70 | 70 | 67 | 72 |
| **Ratios (%)** | | | | | |
| Organic growth | 12.7 | 5.9 | 3.2 | 2.5 | -1.4 |
| Gross margin | 36.3 | 37.8 | 39.1 | 39.0 | 38.2 |
| EBITDA margin | 10.1 | 11.2 | 11.4 | 10.2 | 10.8 |
| EBITDA margin, adjusted | 11.9 | 11.8 | 12.0 | N/A | N/A |
| Operating profit margin | 5.3 | 6.1 | 6.4 | 6.0 | 6.7 |
| Return on invested capital | 7.4 | 10.6 | 13.3 | 13.6 | 15.1 |
| Equity ratio | 19.5 | 21.3 | 29.6 | 34.1 | 31.7 |
| Cash conversion | 64 | 59 | 129 | 86 | 84 |
| Leverage ratio | 4.2 | 3.7 | 0.7 | N/A | N/A |
| **ESG** | | | | | |
| Scope 1 & 2 emissions (tonnes $CO_2e$) | 19,090 | 29,710 | 39,872 | 43,089 | N/A |
| Waste to landfill (tonnes) | 1,353 | 1,630 | 1,666 | 3,934 | N/A |
| Average number of employees (FTE) | 7,343 | 6,746 | 6,099 | 6,219 | 5,882 |
| Gender diversity in leadership positions[2], female/male | 29/71 | 23/77[3] | 21/79 | N/A | N/A |
| Satisfaction and motivation[4] | 72 | 73 | N/A[5] | 74 | 71 |
| Suppliers screened through Hempel Procurement/Sustainability Screening (% of spend) | 40 | 22 | N/A | N/A | N/A |

For definitions of financial ratios, see page page 97.

1 Comparative figures for 2021 have been restated to reflect changes in accounting policies and presentation of discontinued operations, see note 1.1 and note 2.5. 2020 has not been restated and 2019-2018 are presented in accordance with the Danish Financial Statements Act, as the Group implemented IFRS on 1 January 2020.
2 Leadership positions with minimum 3 direct reports.
3 Data from Farrow & Ball was not included in 2021.
4 Answers are given on a scale from 1-10 and are subsequently converted to index figures on a scale from 1-100.
5 In 2020, due to COVID-19 and the unusual work environment, the employee engagement survey was only conducted among PC users.

# Letter to stakeholders

Delivering significant organic growth and accelerated progress towards sustainability leadership despite stiff headwinds in 2022.

2022 was a year with unusual instability and with a sequence of unpredictable events. In these challenging times, we showed that we are robust and stand together in Hempel to do our utmost for our customers, colleagues and the societies that we are a part of. We continued to deliver a positive impact in line with our strategic intent. We launched important new coating solutions, took necessary steps to further deliver on our *Double Impact* strategy and made significant progress on our sustainability journey. We welcomed Michael Hansen as our new CEO, and said goodbye to Lars Petersson who left Hempel to take up the position of CEO of VELUX Group.

**Continuing our journey**

Steeply climbing energy costs, high raw material prices combined with raw material shortages, and rising inflation affected all industries in 2022 – the coatings industry included. As a responsible company, it is essential that we react to these external changes. Therefore, we increased our selling prices, working proactively and transparently with customers to ensure full understanding on both sides. We also initiated further cost-savings and revenue management programmes, ensuring value-based price setting, to remain financially robust and have the power to invest in our growth journey in 2023 and beyond.

A continuously improving bottom line is fundamental for us to execute on our ambitious *Double Impact* strategy. Our purpose remains to create a brighter future with sustainable coating solutions. To do this, we must be ambitious on behalf of our customers, our employees and our owner, the Hempel Foundation. This is the focus of our *Double Impact* strategy. By effectively scaling Hempel, we enable our customers to build sustainable business models with higher efficiency, lower emissions and process circularity. At the same time, a prosperous Hempel means greater opportunities for our employees to grow and develop – and higher returns for our owner, the Hempel Foundation, to be able to donate more to its extremely important philanthropic work around the world. This is and will remain our focus.

**Sustainable growth**

Our growth path is ambitious and, since we launched our strategy in 2020, it has been very focused on sales growth. In a challenging 2022, we grew our revenue in line with our strategic focus, and we delivered record high organic growth of 12.7 per cent. This growth is driven by increased sales prices and product mix, while at the same time ensuring that the growth is financially sustainable. In 2022, we emphasised this focus by reducing costs and optimising cash to compensate for rising raw material costs and lower sales volumes to safeguard a healthy financial result.

In line with our strategy, we want to scale our business and increase our EBITDA margin. This will allow us to invest even more in new sustainable solutions in the future and to grow without equally increasing our costs. To strengthen our ability to scale, we reorganised Hempel's operating model and our way of

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

Michael Hansen
Group President & Chief Executive
Officer of Hempel A/S

working together across the world, so we can be even more effective and better support our customers and employees on a global scale and across geographical boundaries. Digitalisation, operational excellence and process excellence are all key to this journey – and will come into even greater focus in 2023 and beyond.

Hempel is first and foremost a people business, and we will continue to put the safety and wellbeing of our customers and employees before anything else. By sharing best practices, standardising our processes and improving our skills, we are enhancing the global safety culture for all Hempel colleagues. It is our people who develop new technology, drive change and serve our customers. Unleashing our full potential requires a truly diverse workforce, taking in the full breadth of experiences and skills. In 2022, we continued our efforts within diversity, equity and inclusion, because we must attract the best people from different industries and backgrounds, challenge each other and give everyone the opportunity to have a positive impact.

**Part of COP27**

Hempel was invited to participate in COP27 in Egypt in 2022. This was our first time at the United Nations Conference of Parties, and it gave us the opportunity to influence discussions about how we can accelerate the move towards a decarbonised future. It was an opportunity to learn, meet like-minded companies and expand our network.

At Hempel, we strive to put sustainability at the heart of everything we do. Like all companies, we have a responsibility to lower emissions from our operations and reduce the amount of resources we use. We have a very clear plan and ambitious goals in this area, which were confirmed and approved by the Science Based Targets initiative in 2022.

In addition, we received a B rating from CDP in its annual environmental disclosure and scoring process. This is regarded as the gold standard of corporate environmental transparency, and we are naturally very pleased to receive this rating in the first year of our participation. Having our efforts validated externally is integral to making further progress towards becoming the sustainability leader within our core business areas in the industry. We will continue to invest in actions towards achieving our ambitious sustainability goals. The climate is an urgent global challenge – one that no one can address alone. There are technologies available to us already. Now is the time for the world to work together to implement these solutions, and as businesses we are obliged to lead the way.

| Revenue growth in 2022 | Organic revenue growth in 2022 | EBITDA margin, adjusted in 2022 |
|---|---|---|
| 23.8% | 12.7% | 12% |

**Reaching milestones**

Despite the challenging year, we reached some very significant commercial milestones in 2022. Our Marine business delivered record performance, we expanded our own store network and range for Decorative customers, launched a ground-breaking new solution for wind turbine blades, and opened our large new factory in Yantai, which marks 30 years with a Hempel factory in China. You can read more about these achievements, and many others, in this report.

**2023 outlook**

In 2023, we expect to see mid to high single-digit organic revenue growth and increasing EBITDA margin, leading to an EBITDA of EUR 260-290 million.

**Thank you**

As well as a tough market landscape, 2022 was challenging in other ways. We had to make some difficult decisions and say goodbye to good colleagues in reaction to steeply rising costs. The war in Ukraine also occupied our hearts and minds, and presented a dilemma: How to cease operations in Russia while protecting and looking after our employees there. On 1 March 2022, we stopped all operations in Russia and on 6 April 2022, we announced the permanent closure of our operations in Russia.

Despite rough seas, we navigated 2022 and delivered on our top-line growth ambition. This was only possible thanks to the dedication of our colleagues around the world. On behalf of the Executive Group Management and the Hempel Board, we would like to thank our colleagues for their commitment, engagement, hard work and continued innovative efforts during the year. We would also like to thank you – our customers and other stakeholders – for your ongoing support.

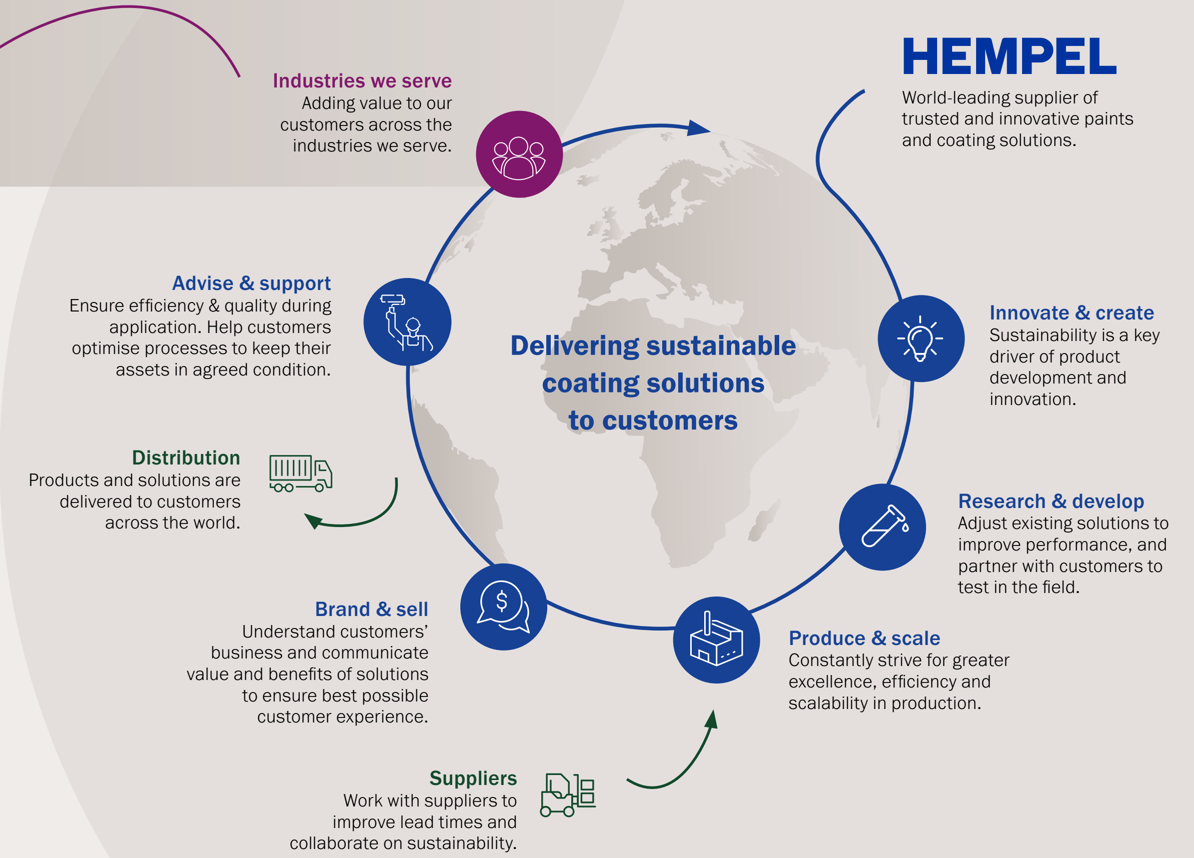
# Hempel at a glance

## Our value chain

**Customer segments**

**Product benefits**

| | Decorative | Marine | Energy | Infrastructure |
|---|---|---|---|---|
| Decrease total cost of ownership | ✓ | ✓ | ✓ | ✓ |
| Decarbonisation | ✓ | ✓ | ✓ | ✓ |
| Asset longevity | ✓ | ✓ | ✓ | ✓ |
| Greater performance | | ✓ | ✓ | |
| Increase aesthetics | ✓ | ✓ | ✓ | ✓ |



# 2022 in review

2022 marked the second year of our *Double Impact* strategy. We closed the year with organic revenue growth of 12.7 per cent and revenue of EUR 2,159 million, an increase of EUR 415 million compared to 2021.

Despite unforeseen and challenging conditions, our expectations of mid to high single digit organic revenue growth, as outlined in the 2021 outlook, were exceeded. Price increase and product mix grew our revenue by 19.3 per cent, which was partly offset by 6.6 per cent impact from lower volumes. The revenue growth translated into an EBITDA of EUR 219 million (10.1 per cent margin) and an adjusted EBITDA of EUR 257 million (adjusted EBITDA margin of 11.9 per cent). Last year, EBITDA was at EUR 196 million, entailing a margin of 11.2 per cent and adjusted EBITDA was EUR 205 million, entailing an adjusted EBITDA margin of 11.8 per cent.

This year we have focused intensively on mitigating a number of challenges, including high inflation, raw material scarcity, geopolitical instability and the derived impact on consumer demand.

**Navigating a challenging year across customer segments**

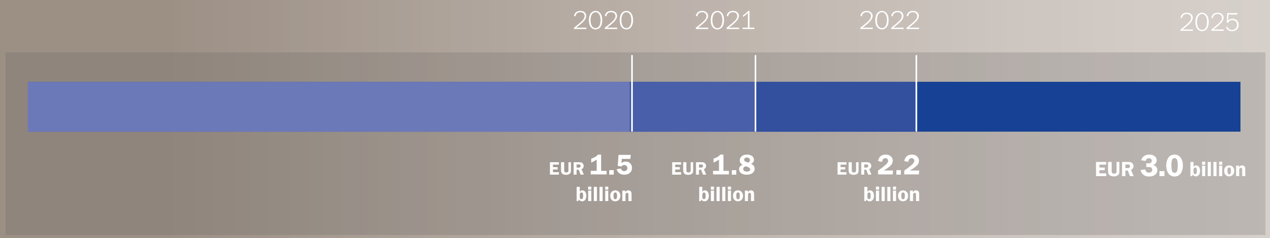
The satisfactory result was spread across all our strategic customer segments – Decorative, Marine, Energy and Infrastructure – and all customer segments delivered important milestones throughout the year.

Our Decorative customer segment ended the year with a total revenue of EUR 775 million, an increase of EUR 120 million, equal to a revenue growth of 18.3 per cent. Organic revenue growth was negative 2.9 per cent. The negative organic growth in Decorative was due to the inevitable slowdown after the pandemic-driven home decoration boost in 2020-2021, double-digit inflation and the cost-of-living crisis, which reduced demand for Do-It-Yourself products.

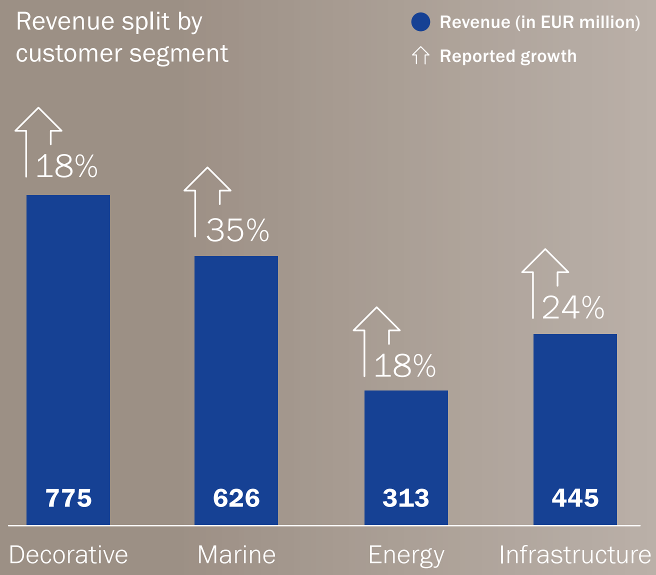
Our Marine customer segment closed the year with revenue of EUR 626 million, an increase of EUR 162 million, corresponding to an organic revenue growth of 33.1 per cent. This is not only an impressive result in a challenging year; it is the highest ever for this customer segment. Our silicone hull coatings were increasingly chosen by customers throughout the year to decrease fuel consumption and reduce their environmental impact. The market for silicone coatings is a low-volume business, which partly explains our lower volumes in 2022 compared to 2021. However, our strategic commitment to focus on sustainability performance established a trend that is here to stay.

In our Energy customer segment, we have earned trust and a better market position throughout geographies, especially in the wind industry. Despite this, we still experienced shrinking margins as the wind market became increasingly commoditised, challenging our profitability. However, the launch of Hempablade Edge signalled a new competitive advantage that will enable us to work towards a continued leadership position in a high-volume market. Overall, our Energy customer segment's revenue grew EUR 47 million, from EUR 266 million in 2021 to EUR 313 million in 2022, entailing organic revenue growth of 5.7 per cent.

Status of doubling revenue




Revenue split by customer segment




**1 million**

More than one million cans were taken back and sent for recycling through our Can Back Scheme in 2022. Read more about this initiative on page 38.

Through a new globalised structure in our Infrastructure customer segment, we are taking learnings from across geographies to become even more present in every step of our customers' value chain. In 2022, we bid on and won projects utilising our expertise in approaching all stakeholders, ranging from governments to applicators. This helped us to return organic revenue growth of 19.6 per cent. Revenue in 2022 totalled EUR 445 million, compared to EUR 359 million last year.

**Increased earnings despite tough external conditions**

We closed the year with an EBITDA from continuing business of EUR 219 million. This was an increase of EUR 23 million versus last year, when we closed at EUR 196 million. Although we experienced high cost inflation and materially increasing raw material prices, our EBITDA margin decreased only by 1.1 percentage points, from 11.2 per cent in 2021 to 10.1 per cent in 2022. The result is slightly below our 2021 outlook of an EBITDA between EUR 220-240 million, and an EBITDA margin between 11 and 12 per cent. This is mainly due to EUR 30 million in special items and an adjustment of EUR 8 million for hyperinflation in accordance with IAS 29. Excluding these items, our adjusted EBITDA closed at EUR 257 million in 2022, slightly exceeding our 2021 outlook, entailing an adjusted EBITDA margin of 11.9 per cent. This compares with an adjusted EBITDA in 2021 of EUR 205 million and an adjusted EBITDA margin of 11.8 per cent.

2022 saw multiple macroeconomic factors that affected our operational costs. Despite significant raw material price inflation, and materially increased freight and energy costs, we strived to constantly translate our top line performance into a satisfactory bottom line.

We finished the year with operational costs of EUR 670 million, EUR 116 million higher than 2021. The cost breaks down as: EUR 552 million in sales and distribution costs (EUR 99 million higher than 2021) and EUR 121 million in administration costs (flat compared to 2021). The higher cost levels incurred in 2022 were mitigated by restructuring our cost baseline and through multiple cost saving initiatives resulting in a close to flat cost development compared to 2021, when adjusting for the full year impact of the acquisitions performed in 2021 and special items. Special items amounted to EUR 30 million in 2022 compared to EUR 8 million in 2021 and comprises internal restructuring and consequent one-off costs as well as M&A related cost.

This year's operating expenses were 31.0 per cent of our revenues, 0.8 percentage points lower than last year, proving our ability to react timely to a challenging environment.

Increased revenues and operational efficiency helped to partly absorb the absolute cost increases to close the year with EUR 114 million in operating profit, an increase of EUR 8 million compared to last year.

**Interest expenses and foreign exchange losses driving financial expenses**

In 2022, net financial expenses ended at EUR 58 million (EUR 17 million in 2021), impacted mainly by net foreign exchange losses of EUR 12 million and interest expenses of EUR 28 million. Higher interest expenses resulted from higher debt following our investments in fixed assets and acquisitions both in this year and in prior years, and at the same time, the increasing market interest rates.

**Tax and net profit**

Tax on profit of continued business in 2022 amounted to EUR 19 million, entailing an effective tax rate of 33.9 per cent and bringing our net profit for the year on continued business to EUR 37 million. Effective tax rate for the continued business without hyperinflation adjustment is 26.8 per cent. 2021 closed with net profit of EUR 58 million, and an effective tax rate of 33.5 percent. The effective tax rate for 2021 without hyperinflation was 32.8 percent. The reduction of the effective tax rate without hyperinflation was mainly driven by capitalisation of previously non-recognised tax losses in the US and Denmark.

Net result from discontinued operations amounted to a loss for the year of EUR 2 million compared to a net profit of EUR 5 million in 2021 as a result of the decision to stop and permanently close all operations in Russia during the year. Net profit for the year ended at EUR 35 million compared to EUR 63 million in 2021.

**Cash balances challenged by net working capital**

Free cash flow for the year was negative EUR 64 million, compared to a negative free cash flow of EUR 529 million in 2021.

Cash flow from operating activities closed at EUR 72 million in 2022 compared to EUR 69 million in 2021. Revenue growth, product mix change, and high inflation tied more cash in our net working capital. Despite the challenges, our cash conversion increased from 59 per cent in 2021 to 64 per cent in 2022.

Cash flow from investing activities amounted to a net outflow of EUR 136 million in 2022, considerably below last year's level when the acquisitions of Wattyl and Farrow & Ball were completed. This year, the main activities were the continued investment in new factories in China, which will allow us to materially increase our capacity in the region, and further investment in Hempel's digitalisation, a key pillar in our long-term strategy. Capital expenditure accounted for 5.2 per cent of the revenue.

Cash flow from financing activities totalled EUR 79 million as a result of our investment-related activities and dividend payment related to 2021 of EUR 33 million. This brought our net interesting-bearing debt to EUR 1,052 million, an increase of EUR 145 million, and a leverage ratio of 4.2, still reflecting 2021 investments.

**Environmental performance**

For Scope 1 & 2 $CO_2e$ emissions in our own operations, we exceeded our target for the year with a reduction of 56 per cent compared to 2019. When we look at the comparative baseline (excl. acquisitions, warehouses and stand-alone R&D facilities), we achieved a reduction of 69 per cent in 2022 compared to 2019. This performance is in line with our validated science-based target for Scope 1 & 2. For Scope 3 $CO_2e$ emissions, we achieved a reduction of 14 per cent compared to 2021.

In 2022, we saw a reduction of waste sent to landfill at our production sites of 45 per cent compared to 2021. This resulted in a total reduction of 83 per cent compared to 2019 with a comparative baseline (excl. acquisitions) and exceeds our target for the year of 80 per cent.

**Social performance**

An increased focus on safety led to a decreased Lost Time Accident (LTA) frequency from 1.72 per 1,000,000 working hours in 2021 to 1.19 per 1,000,000 working hours in 2022. One accident is one accident too many and we continue to focus on safety in everything we do. Diversity and inclusion are key to how we evolve as a company. Gender equality remains a significant part of our diversity and inclusion agenda, and ensuring a balanced workforce is an important part of our strategy. By the end of 2022, 31 per cent of all our employees were women and 29 per cent of leadership positions were held by women. We have now exceeded our targets for 2022 and will therefore set more ambitious targets for 2023 and beyond.

**Governance performance**

In 2022, we saw 44 new cases registered to our compliance hotline. This is slightly lower than last year (46 reports), but still reflects a healthy 'speak up' culture. We closed 52 cases in 2022 and therefore ended the year with 15 open cases. Increasing sanctions complexity related to Russia required constant vigilance in 2022. Compliance remains the foundation for our business model. We continued to implement GDPR as a standard data protection compliance framework for all companies within the Hempel Group. In line with previous years, we continued to train employees in our Code of Conduct.

In 2022, we continued the implementation of our Hempel Procurement Sustainability Screening to strengthen focus and collaboration with suppliers on environmental sustainability. In total, we screened 77 suppliers and started follow-up screening of 12 low-performing suppliers from the previous year. 40 per cent of our spend is now subject to sustainability screening, exceeding our target for 2022 of 36 per cent.


# Strategy

“At the beginning of 2022, we changed Hempel’s organisational structure and way of working together to align better with our strategic intent. We organised our business to be even closer to our customers and introduced a globalised supply chain and global support functions. The front end of our business is now fully organised around our customers.”

Our purpose is to shape a brighter future with sustainable coating solutions. This is extremely relevant today.

2022 saw rapidly rising raw material prices, supply chain challenges and geopolitical unrest – challenging factors affecting all companies across industries. These were testing times, but our *Double Impact* strategy stood up well. Our new organisational structure meant that we unfortunately had to let a number of good colleagues go to continue our growth journey, which will ensure we remain a relevant and trusted partner to our customers.

We continued to execute on our strategy in line with its three pillars: segment leadership, sustainability leader and trusted partner.

**Segment leadership:** We continue to build segment leadership positions in selected geographies within Marine, Decorative, Energy and Infrastructure. See how we are structured on page 18.

At the beginning of 2022, we changed Hempel’s organisational structure and way of working together to align better with our strategic intent. We organised our business to be even closer to our customers and introduced a globalised supply chain and global support functions. The front end of our business is now fully customer-centric in each of our customer segments. This change represents a milestone in our strategy roadmap. Meanwhile our globalised supply chain and support functions enable us to release operational synergies, hereby lowering our costs, and deliver even more specialised products and services to our customers. This is core to the continuous underlying development of our segment leadership positions.

In addition, our technology investments – such as our Hempaguard hull coatings and Hempafire Pro passive fire protection systems – continue to meet our customers’ needs and keep us at the forefront of the market.

**Sustainability leader:** We strive to become sustainability leaders in our industry and core customer segments.

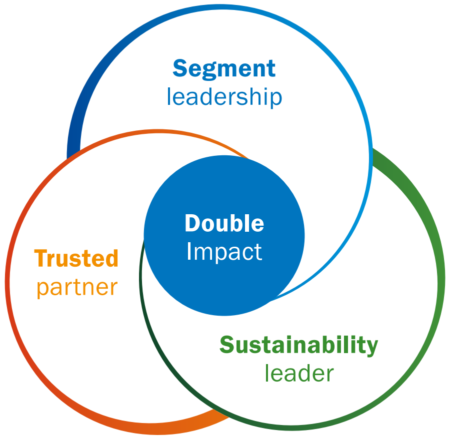
In volatile times, the world’s commitment to sustainability quickly comes under pressure as companies concentrate spend on core activities. We are very proud to report that we continued to progress well on our sustainability agenda, as laid out in our Futureproof sustainability framework and demonstrated by strong development in our sustainability KPIs. We believe that sustainability is not just good business and what our customers want; it is simply the right thing to do. We will continue to pursue our sustainability agenda with great commitment.

**Trusted partner:** We work to continuously earn our customers’ trust by being reliable and transparent, and by providing products and services that protect their assets and beautify homes and buildings.

We continue to relentlessly pursue improvements to our products and services – focusing on performance, efficiency and sustainability. In difficult times, we continue to support our customers when unavoidable variation occurs in their operations and we make it simple for them to find a coating solution that delivers a high return on investment and enables them to reach their environmental targets. For our decorative customers, we continue to expand the colour universe we provide, the experience, quality and sustainable products we deliver and remain a professional partner to the trade.

In 2022, we sharpened our focus on **scalable operations** within Hempel and we will be adding this emphasis as a strategic lever of our *Double Impact* strategy going forward. Because *Double Impact* is not only about doubling our revenue by 2025. Far more than ever before, our focus is on profitability – on the value generated from our sales.

We aim to achieve scalable operations with a more harmonised global setup which enables agility and smarter use of resources, also supporting our ambitious sustainability targets. We will manage our business with a higher degree of automation and digitalisation, as well as globalisation so we can share resources across larger geographies. In essence, scalable operations is about significantly increasing our efficiency, while delivering a consistent quality and experience for our customers.



# The power of colour

Our Decorative customer segment beautifies homes and inspires consumers through a range of colourful and easy-to-use solutions and services. We provide a full portfolio of paints and wallpapers to private consumers, retailers and professional painters. Our solutions include premium brands for the home, coating solutions for commercial buildings and private label products for retailers.

Following extraordinary demand during the COVID-19 pandemic, the Decorative market declined in 2022. Despite this, we maintained a stable cost base and continued to invest in growth by acquiring new infrastructure, opening new stores and developing stronger partnerships with large retail chains.

In 2022, we kept inspiration and sustainability at the core. Across the segment, we introduced new intriguing colours, improved our digital marketing activities and outlet designs and continued to work with our customers to improve the sustainability of their paint solutions.

**TRENDS**

- Flat market following extraordinary demand in 2020-2021
- Return to Do-It-For-Me after strong Do-It-Yourself during the pandemic
- Demand for more sustainable paint solutions for interior and exterior use

**HIGHLIGHTS**

- We acquired the Omani paint producer Khimji Paints
- We acquired six stores from Paint World in Australia and five stores from Cap Couleur in France
- We added 38 new third-party outlets in the Middle East
- Farrow & Ball launched 11 new colours
- Crown reinvigorated its core range, packaging and in-store presence
- We reached one million recycled paint cans in the UK and Ireland

OUR BRANDS

HEMPEL wattyl CROWN PAINTS F&B RENAULAC J.W. OSTENDORF

Marine

# Towards a more sustainable maritime industry

We combine coatings and services to provide world-class solutions to our customers in the maritime industry that help them lower operating costs and carbon emissions.

In 2022, focus on fuel efficiency and carbon emissions intensified as the deadline for the IMO's short-term measures to reach decarbonisation targets, CII and EEXI*, drew nearer. As a result, our customers are facing a new set of challenges to stay operational, and we experienced greatly increased interest in our solutions.

Throughout the year, we further strengthened our position as a trusted partner that drives the adoption of sustainable solutions. For example, to help customers comply with the new IMO measures, we launched a CII calculator that enables them to assess the potential impact of a hull coatings upgrade on their CII rating.

We will continue to innovate and adapt to become the market leader in hull performance and grow our leadership in other areas.

**TRENDS**

- Regulations driving interest in carbon emission reduction technologies
- Hull coatings competing with - and outperforming - other decarbonisation technologies, not just other coatings
- Focus on biocide-free coating solutions
- In the Yacht segment, the second half of 2022 was affected by declining consumer confidence

**HIGHLIGHTS**

- We reached the milestone of 3,000 ships applied with Hempaguard
- Hempel attended COP27 to discuss decarbonisation of the maritime industry
- Introduction of Hempaspeed TF in the Yacht segment further increased our market share in this segment
- Hempaguard X7 was approved by the Water Revolution Foundation, the first antifouling product to achieve this honour

*“The maritime industry is undergoing tremendous change, and we see the adoption of premium hull coatings growing exponentially. The properties of these coatings help shipowners and operators save on fuel consumption and thereby emissions, so they are the obvious choice for our customers.”*

Alexander Enström,
Executive Vice President and Head of Marine


**READ MORE**
Get ready for CII now

*CII and EEXI: the Carbon Intensity Indicator and the Energy Efficiency Existing Ship Index.

Energy

# Increasing safety, driving sustainability and reducing operational costs

Our Energy customer segment has a strong global position in downstream oil & gas and an emerging presence in chemical and thermal plants. In the renewables sector, we hold a leadership position in the wind tower industry, built on trusted partnerships with wind OEMs.

There were strong headwinds in the energy industry in 2022. Competition was fierce and geopolitical uncertainty affected investments in this industry. Despite this, our top line growth remained stable, with profits experiencing a calculated downturn due to the surrounding market conditions.

Customers remain at the core of our inspiration and motivation. We continue our work to develop a position as the best supplier across the energy industries, through trusted partnerships and the launch of new products and technologies.

**TRENDS**

- The global energy crisis increased urgency for renewable energy sources
- The global economic climate and crude oil pricing increased focus on diversification, with growth in renewables and power-to-X projects
- Offshore wind investments started to accelerate outside of Europe, enabling oil & gas supply chains to diversify

**HIGHLIGHTS**

- Overall revenue growth in our Energy segment, despite pressure on volumes
- Double-digit volume and revenue growth in the Americas
- Launched market changing Hempablade Edge 171 wind blade edge protection
- Launched market changing Hempafire XTR 100, a hydrocarbon passive fire protection solution for onshore fire scenarios

## Strong protection. Simple application. Anywhere.

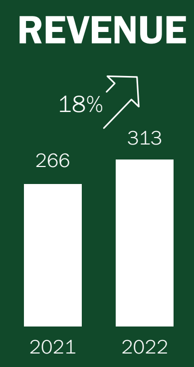
The leading edge of a wind turbine blade is exposed to extremely high wind speed. Impact from rain can cause significant coating erosion or damage, potentially leading to a loss of performance and drop in annual energy production of 2-3 per cent.

This makes leading edge erosion one of the wind industry's most significant maintenance costs and performance challenges. Our new Hempablade Edge is a fast-cure, solvent-free coating delivering the best liquid Leading Edge Protection in the industry.

*"We are committed to support our oil & gas customers in the energy transition by providing solutions and data to serve emerging challenges. Whether it is for the construction of new green hydrogen plants or carbon capture storage, our commercial and technical teams are ready to advise on reliable solutions to fulfil the necessary requirements."*

Lucia Torres,
Director, Solution Management, Energy

**WATCH THE VIDEO**
Hempablade Edge



Infrastructure

# Protecting structures, improving efficiency and driving safety

Our Infrastructure segment remained strong thanks to our diverse and stable position in traditional protective sub-segments and our emerging leadership positions in anti-corrosion and cellulosic passive fire protection (C-PFP). We remain dedicated to our global and local customers and partners throughout the infrastructure industries.

2022 was challenging due to geopolitical and economic instability. Despite this, our top line growth was significant, we expanded our sales footprint in key technologies such as C-PFP, and we realised excellent market potential through customer-driven solutions and services.

Sustainability remains a defining pillar of who we are. We continue to satisfy our customers, partners and the market's needs for more sustainable solutions – for example through our Avantguard® anti-corrosion technology, as well as through Green Building schemes and certifications.

**TRENDS**

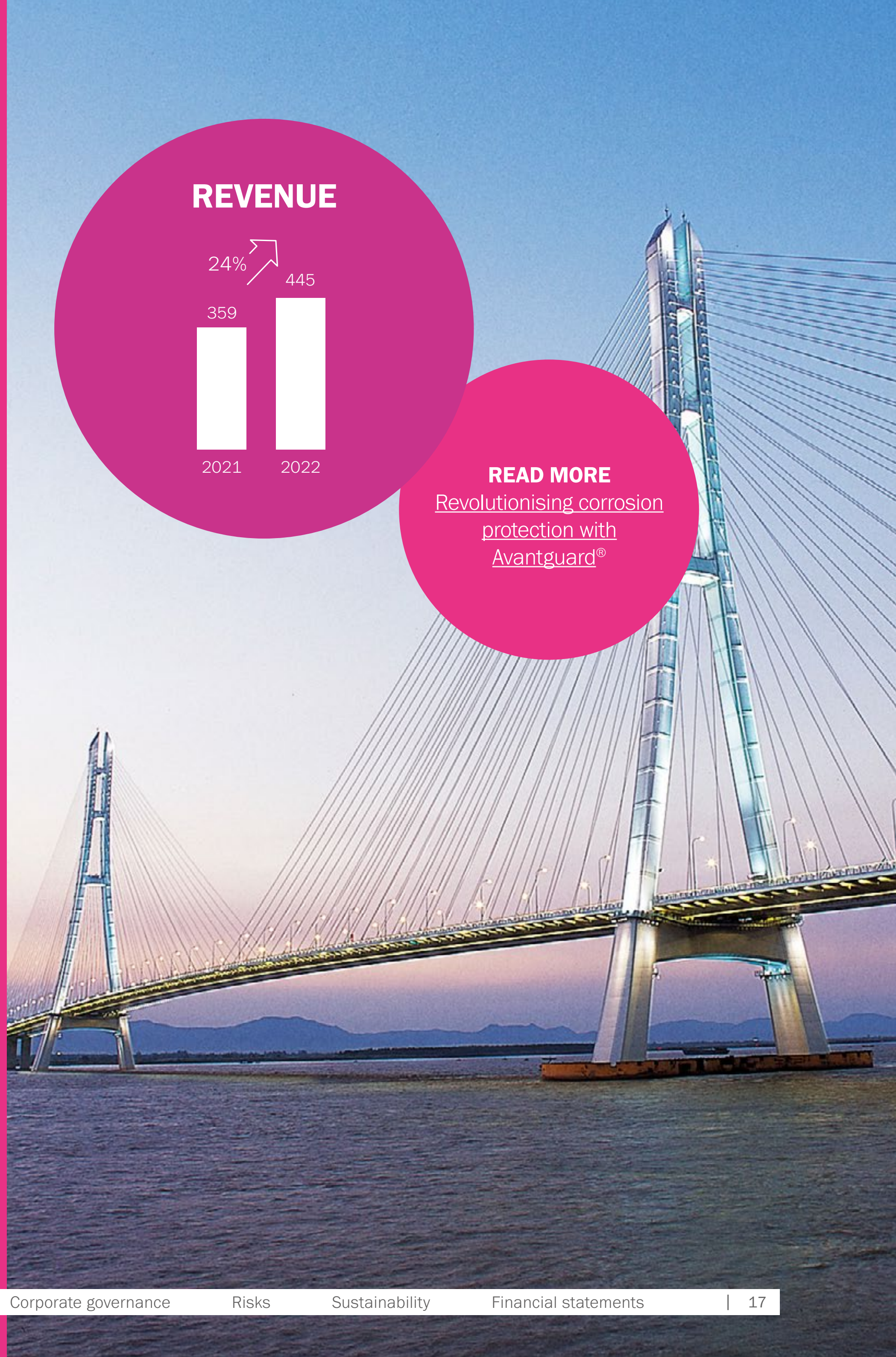
- Total cost of project perspectives play a more important role
- Sustainability criteria throughout construction becoming more important
- Construction projects began to slow throughout the second half of 2022

**HIGHLIGHTS**

- Launched targeted solutions for civil structures & bridges that reduce consumption & waste and meet various Green Building schemes' criteria
- Continued growth in passive fire protection with an improved portfolio and specification tools for customers
- Continued strong growth within our Neogard solutions for roads, flooring and roofing across the Americas
- Strong growth in our Performance OEM sub-segment, driven by a targeted portfolio and new customers

*"Sustainability plays an increasingly important role with owners of larger constructions. As the requirements vary from owner to owner, country to country, the need for both versatile solutions and reliable documentation goes hand in hand. This is where our solutions – products and services with trusted documentation – make a difference for our customers."*

Monica Li Avram,
Director, Solution Management, Infrastructure




**READ MORE**
Revolutionising corrosion protection with Avantguard®

# Corporate governance

Our strong corporate governance structure supports long-term value creation for our company, customers, suppliers, employees and the communities in which we operate, and promotes responsible sustainable business behaviour.

**Management structure**
Our organisational management structure centered around our four customer segments and Technology & Operations (integrated global supply chain and R&D), as illustrated in the figure on the right, ensures that our teams can provide the best possible service to our customers both globally and locally. Our global support functions and our Strategy & Transformation team enable management to drive group-wide initiatives and help speed up decision-making processes and strategy execution.

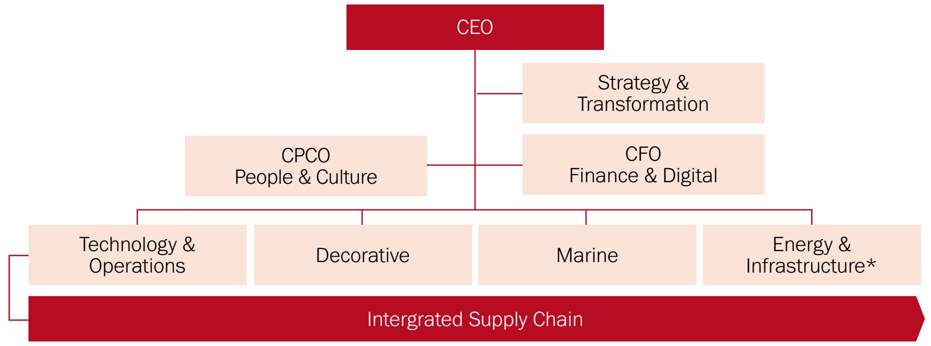
**Board of Directors**
The Board of Directors consists of six members elected by the shareholder at the Annual General Meeting and three employee members elected by the employees based in Denmark. Board members elected by the shareholder at the Annual General Meeting are elected for an annual term and 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 Board of Directors includes both professional board members and members with executive positions. As well as in-depth knowledge of Hempel's business, board members possess expertise within a wide range of areas, from innovation, sustainability, product development, online marketing and commercialisation through to finance and human resources. These diverse profiles ensure that the Board of Directors can operate efficiently and support the Group's strategy.

Each year the Board of Directors carries out a self-evaluation of its competencies and skills. The evaluation is carried out systematically, using clearly defined criteria to ensure the Board constantly improves its own performance and its cooperation with the Executive Group Management. The current composition of the Board of Directors 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. The Board of Directors also evaluates the performance of the Executive Group Management on a continual basis. The Board of Directors and Executive Group Management have a formal agreement with the Hempel Foundation, the ultimate owner of the Hempel Group, regarding decisions that must be presented to the Hempel Foundation for agreement.

Hempel's management structure



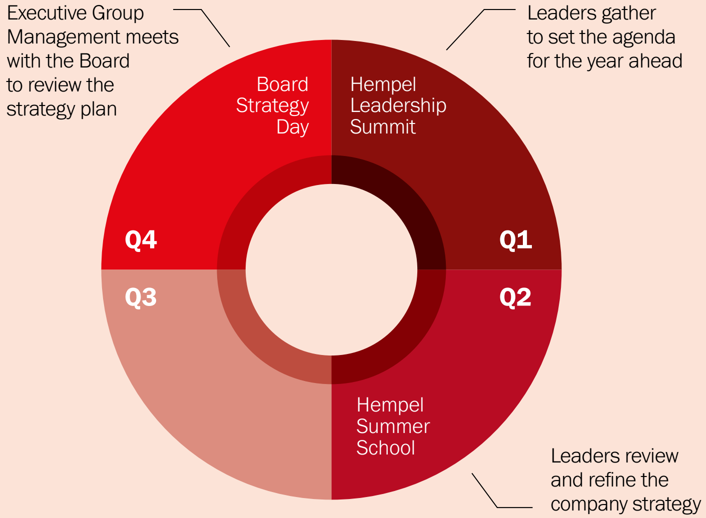

*Energy and Infrastructure are two seperate customer segments headed by the same Executive Vice President

**Tasks managed by the Board of Directors in 2022**
In 2022, the Board of Directors focused on securing the continued implementation of Hempel's *Double Impact* strategy, as well as working with the Executive Group Management to mitigate any financial impacts caused by rapidly increasing raw material prices, declining consumer confidence and general macro-economic uncertainty. Additionally, the Board of Directors conducted a strategic review of the Group's presence in Russia following the start of the war in Ukraine, which led to the permanent closure of the Group's operations in Russia. The Board has subsequently overseen the ongoing controlled divestment process.

**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 by no later than the annual shareholder meeting in 2025. In 2022, the Board of Directors did not meet this target as the current composition of the Board of Directors includes only one shareholder-elected female member and there were no new appointments.

When it is considered necessary to bring new competencies to the Board of Directors, or if a member does not wish to continue serving, diversity is deliberately taken into account when considering the profiles and qualifications of potential candidates. In line with our policies, qualified representatives of both genders are always considered.

## The Annual Management Cycle 2022




## Meeting activity 2022

| Board of Directors | | Audit Committee | | RemCo and NomCo* |
|---|---|---|---|---|
| 25 February | 4 October | 24 February | 20 September | 25 February |
| 29 April | 2 December | 23 May | 25 November | 2 December |
| 14 June | | | | |

| Name | Title | Board of Directors | Audit commitee | RemCo and NomCo* |
|---|---|---|---|---|
| **Richard Sand** | Chair | ●●●●● | – | ●● |
| **Eric Alström** | Deputy Chair | ●●●●● | – | ●● |
| **Karsten Munk Knudsen** | Chair of the Audit Committee | ●○●●● | ●●●● | – |
| **Susanna Schneeberger** | Board member | ●●●●● | – | – |
| **Søren P. Olesen** | Board member | ●●●●○ | ●●●● | – |
| **Leif Jensen** | Board member | ●●●●● | ●●●● | ●● |
| **Mark Terrell Sutton** | Elected by the employees | ●●●●● | – | – |
| **Helle Fiedler** | Elected by the employees | ●●●●● | – | – |
| **Kim Scheibel** | Elected by the employees | ●●●●● | – | – |

● Attended meeting ○ Absent from meeting

*Remuneration and Nomination Committee – Not a commitee member

The Executive Group Management currently consists of two female members and six male members. More information on our initiatives to increase diversity and the percentage of women at other management levels in Hempel can be found on page 36.

**Remuneration**

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

Members of the Board of Directors receive fixed remuneration and do not participate in any incentive programmes.

Remuneration of the Executive Group Management includes a fixed salary and common fringe benefits, such as a company car and telephone, as well as bonus payments in the form of an annual cash bonus and a long-term cash-based incentive scheme. The annual cash bonus payment is contingent upon the fulfillment of ESG targets, implementation of our new way of working together and the realisation of specific financial targets for organic growth, EBITDA and working capital. The annual cash bonus cannot exceed 70-100 per cent of the individual's fixed salary.

The long-term cash-based incentive scheme comprises rolling three-year cash-based bonus programmes. All programmes are subject to vesting criteria based on a number of factors, including the realisation of minimum financial targets for EBITDA for the entire three-year period. The outcomes of the programmes are calculated annually and accumulated over the three-year period. Potential payments are made in the first quarter of the year after the programme expires. The long-term cash incentive programme payment cannot exceed 110-220 per cent of the individual's fixed annual salary. The Board of Directors determines annually whether to instigate new programmes and, if so, the scope and objectives of said programmes.

The Executive Group Management has severance agreements in line with market terms. Conditions for notice of termination are determined individually for each member of the Executive Group Management. The company has a general fixed termination notice of 12 months if given by the company and six months if given by a member of the Executive Group Management.

**Board committees**
The Board of Directors establishes dedicated committees 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 committee evaluates the Board of Directors and the Executive Group Management each year, and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Group Management must have to best perform their tasks. The committee also assists the Board of Directors by selecting and proposing candidates for executive positions, often with the assistance of a professional global search firm. In 2022, the committee proposed new candidates for the position of Group President and CEO, as Lars Petersson, former Group President and CEO, left the company. The committee convenes as necessary. However, it has two fixed meetings during the year.

*The Audit Committee*
The Audit Committee's work includes assisting the Board of Directors with 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. The Audit Committee reviews the annual report, main accounting policies, including significant accounting estimates and judgements, treasury policy and tax policy. In addition, the Audit Committee has an oversight role in relation to the Group's whistleblower reporting system and cases. In 2022, the Audit Committee also oversaw the annual review of cybersecurity as well as the continued roll-out of the ERP platform and the progress on sustainability targets and reporting.

*Internal Audit function*
The Group Internal Audit function provides assurance to the Board of Directors, the Audit Committee and Executive Group Management. It reports to the General Counsel with a dotted line to the Group CFO and the Audit Committee. The Head of Group Internal Audit acts as the Secretary to the Audit Committee and participates in all meetings and meets in private with the Audit Committee at least once a year. The Group Internal Audit function provides assessments on the adequacy and effectiveness of governance, compliance and control processes. The assessments and recommendations are reported to relevant stakeholders, Executive Group Management and the Audit Committee.

In accordance with its charter, the Audit Committee annually assesses the need for a Group Internal Audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether a Group Internal Audit function is required. The Board of Directors' assessment is that the Group Internal Audit's mandate and scope, processes in place, and planned and performed activities are adequate to provide independent and objective assurance.

**The whistleblower reporting system**
Hempel has an internal whistleblower reporting system. The whistleblower system enables any employee or external stakeholder to anonymously report potentially irregular or unethical conduct through a secure reporting portal. 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, led by the Director of Compliance and Data Protection, 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 if deemed necessary. The Ethics Committee consists of: The Group CFO, Group Chief People & Culture Officer and Group General Counsel.

You can read more about our work in the business ethics and compliance area, including reporting statistics from our whistleblower system, on page 40.

**Data Ethics Policy Statement, cf. section §99 d of the Danish Financial Statements Act**
The Hempel Group is committed to the protection of personal data, ethical data processing and data security.

The Group primarily processes data relating to human resources, customer interactions and supplier contact. When processing data, Hempel adheres to the GDPR (General Data Protection Regulation) as well as local applicable privacy regulation in the countries where Hempel is present. In addition, the Hempel Group's Data Ethics Policy, which reflects Hempel's commitment to manage data responsibly, specifies that all processing of data must follow the below listed ethical principles:

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

At all times when processing data, Hempel strives to adhere to the principles of its Data Ethics Policy and comply with applicable legislation to ensure that employees, customers, suppliers and consumers feel safe when entrusting the group with their data. We do not sell customer data to third parties unless in relation to the selling of a business or subsidiary. The Hempel Group's compliance department is responsible for overseeing compliance with the Data Ethics Policy, including initiating relevant initiatives to support policy compliance and development. In 2022, focus was on further refining and formalising the Data Ethics Policy and anchoring the policy within the organisation. Through ongoing awareness initiatives, Hempel will ensure that the organisation is fully aware of and committed to respecting the principles of the Data Ethics Policy. Our goal is to launch data ethics training for a broader scope of our employees in 2023.

# Our approach to tax

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

Taxes are important for societies to help fund development, education, healthcare, infrastructure, etc. Hempel is a global company and taxpayer with a global revenue of EUR 2,159 million in 2022.

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

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

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

### Compliance

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

### Transparency

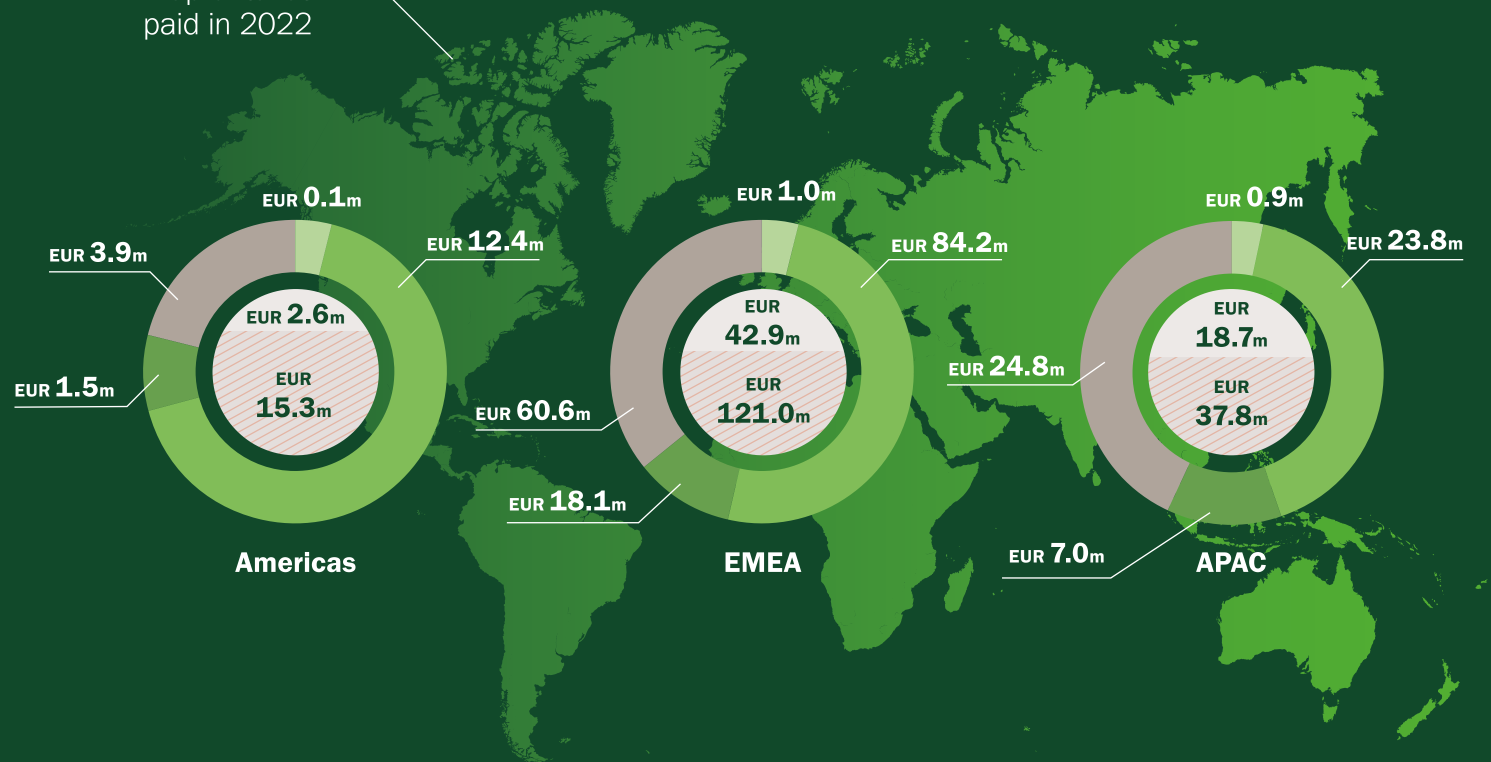
- We provide regular information to our external stakeholders about our approach to tax and taxes paid.
- Where appropriate, we disclose information about our tax position and the choices we make, as long as such disclosures do not damage our business or the business of our partners.
- We take active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

# Global tax footprint

Total tax footprint


Employee-related taxes
Income taxes
Product/sales taxes
Other taxes
Tax borne
Tax collected

Map of taxes paid in 2022




**Hempel Group**

In 2022, Hempel's global tax footprint was **EUR 238.3m**, including EUR 26.6m in corporate income taxes.

**EUR 2,159m**
Revenue

**EUR 56m**
Profit before tax

**EUR 19m**
Corporate tax accrued

**EUR 26.6m**
Corporate tax paid

**7,500+**
Employees

# Focus areas within tax in 2022

Effective tax risk management requires understanding where and how tax risks can arise, and having clear governance arrangements and guidelines on how to deal with tax risks in order to achieve our objectives and strategy. Risks can be caused by a number of factors, including, but not limited to, a changing political landscape, business changes, unintended internal errors and factual disagreements.

In 2022, we filed 100 per cent of our tax returns within the deadline set by the relevant tax authority. In addition, following a number of acquisitions in 2021, we reviewed and implemented our tax governance procedures and transfer pricing set-up in our Decorative customer segment. Based on this and the changes to how we organise our customer segments, we adjusted the governance of taxes to match the business.

We also continued to improve our tax risk management framework and controls, in particular through the use of IT systems that monitor and report on specific tax risks automatically.

**Transparency**
In line with our Futureproof sustainability framework, we are committed to increased tax transparency. Our Tax Policy is publicly available and we reported on our global tax footprint for the first time in last year's annual report. Our global tax footprint for 2022 can be found on page 22.

We maintain a proactive and transparent relationship with tax authorities, as set out in our Tax Policy:

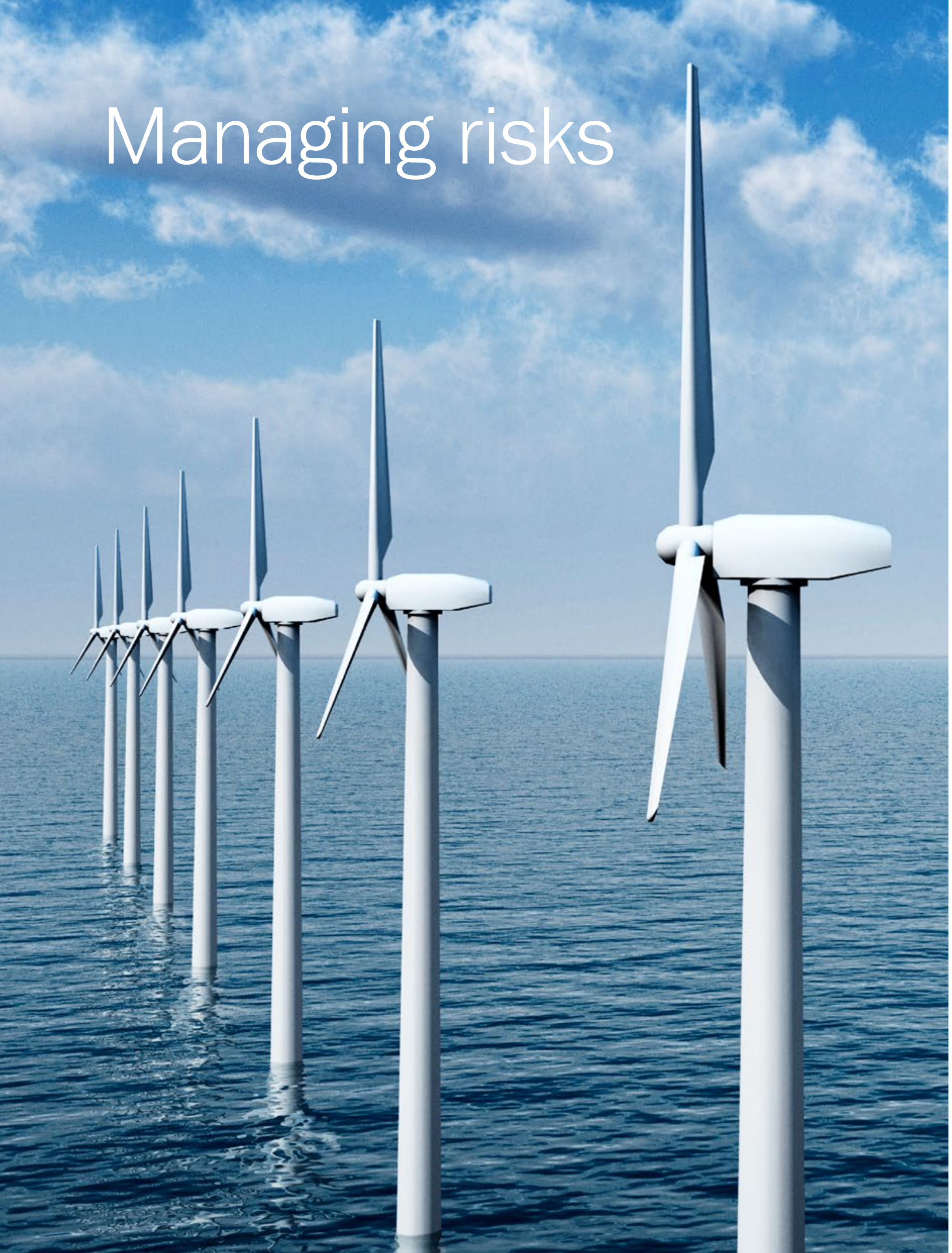
- We act in a professional and courteous manner.
- We respond to the tax authorities' inquiries in a timely and transparent manner.
- Where appropriate and possible, we engage in early dialogue with the tax authorities if significant uncertainties related to tax matters apply to our business operations.

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

"In 2022, we continued to improve our tax risk management framework and controls, for example through the use of IT systems that monitor and report on specific tax risks automatically."

**Transfer pricing**
We seek to pay taxes in the countries where value is created. In doing so, we follow Organisation for Economic Co-operation and Development (OECD) guidance and apply the arm's length principle to intercompany transactions. These are benchmarked against comparable transactions to non-related parties (e.g., customers and suppliers) and reviewed to ensure the profits are aligned with value creation. We continually adapt our business strategy. Therefore, we also adapt our transfer pricing model on a continuous basis to reflect changes in the business and to ensure that taxable profits always reflect where value is created.

# Managing risks



## Risk management is key to achieving the desired level of resilience that supports our strategy execution.

Hempel is focused on achieving its business objectives in the medium term and ensuring the longevity of the company in the long term. We operate globally and serve multiple industries, including both business-to-business and business-to-consumer segments. As a result, risk diversification is a natural part of our risk management strategy.

Risk management and strategic foresight remain more important than ever as risk trends shift. Through our risk management programme, we actively work to mitigate and reduce risk in order to establish an acceptable risk level. We continuously monitor persistent short-term risks that could impact our daily operations, as well as longer-term strategic risks that may impact the Group's ability to meet its strategic objectives.

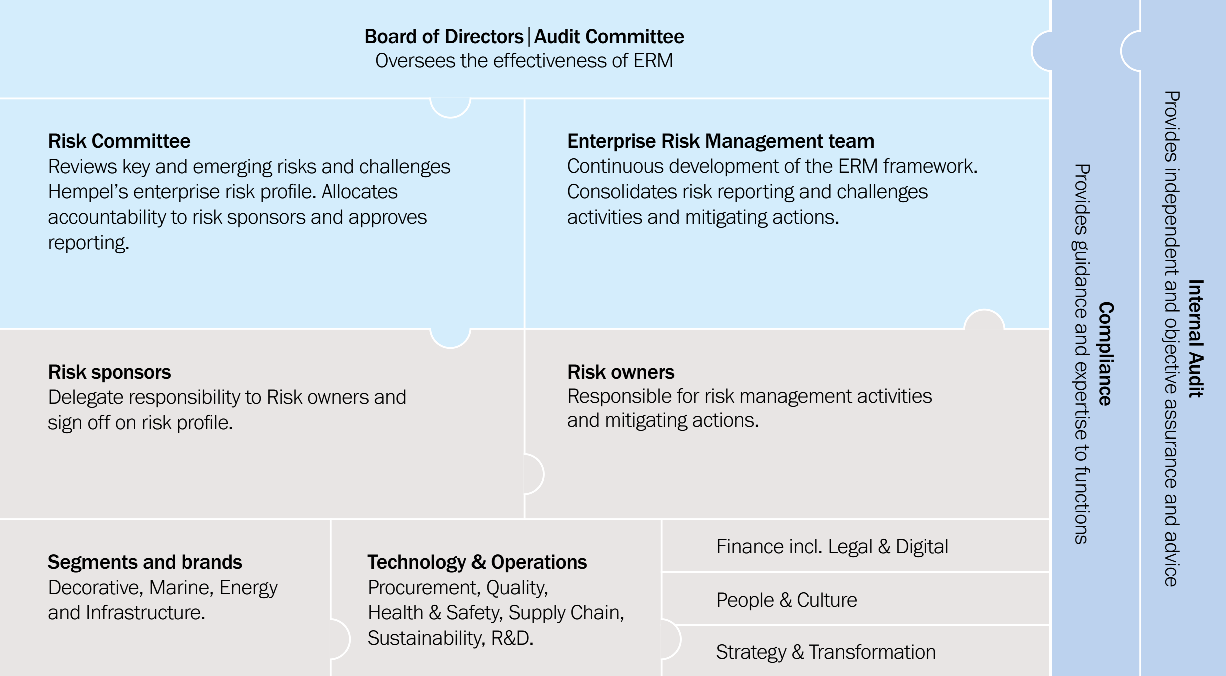
**Main risks in 2022**

Following a couple of years with significant consolidation in the global paints and coatings industry, we saw a lower level of M&A activity this year. A contributing factor may be that plans were disrupted by the geopolitical instability and increasing inflationary pressure globally as energy prices surged, which has negatively impacted global consumer confidence. Russia's invasion of Ukraine led Hempel to cease operations in Russia and following a strategic review, we decided to initiate a controlled exit from the country.

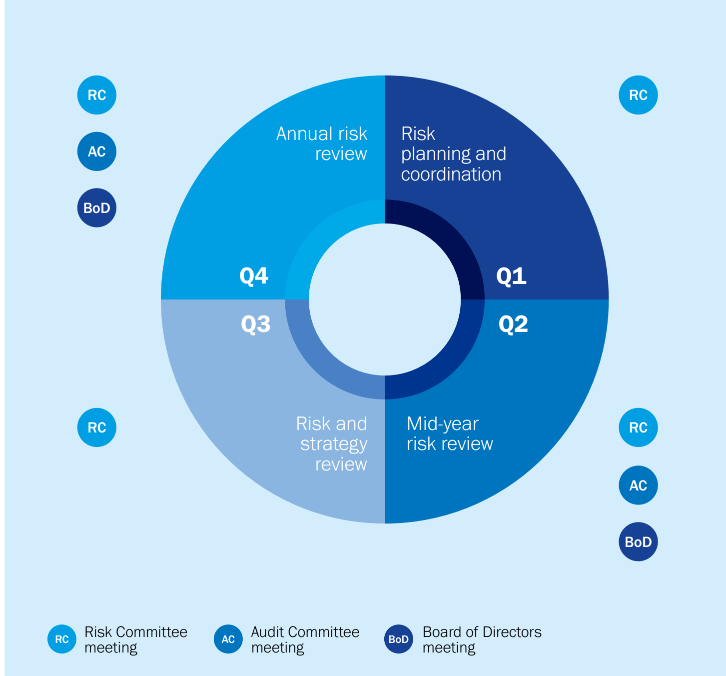
Despite global economic uncertainty, we remain focused on strategy execution and meeting the increasing demand for innovative sustainable coating solutions. The long-term risk of disruptive technologies from other industries making our products obsolete is mitigated through market intelligence and by continuously monitoring the competitor and intellectual property landscape.

Our risk matrix and aggregated main risks are described on pages 26-27.

## Enterprise Risk Management structure




## Annual Enterprise Risk Management wheel




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

# Key risks

## Risk matrix


Risks on this and the following page are listed in alphabetical order.

## Climate adaptation

**Predictions state that warming of 1.5˚C may be reached or exceeded in the early 2030s. Although the full extent and impact of climate change and ensuing impacts is complex to predict, Hempel is inevitably exposed to the risk of water scarcity and extreme temperatures.**

### Potential impact

Climate action failure may change markets where Hempel conducts business activities. As water sources may be depleted or disappear, the potential for cross-border conflicts may intensify. Extreme weather conditions may occasionally disrupt our supply chain and cause delays. Similarly, cyclones, tornados, hurricanes, floods and other severe weather events can cause production to be stopped or delayed for safety reasons or due to damage to physical assets.

### Mitigating actions

Hempel's science-based targets are approved by the SBTi and we work with consultants to study climate change scenarios and periodically carry out materiality assessments. We have conducted a comprehensive climate impact assessment, covering the full range of issues beyond water based on recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). Taking our fire and natural hazard reports into account we reduce losses by ensuring we have proper protection plans in place. Further risk mitigating investments forms an integrated part of CAPEX planning and prioritisation.

## Cybersecurity

**Global digital connectivity continues to transform Hempel and, like other organisations, we are heavily dependent on digital infrastructure for e-commerce and datasharing technology to conduct our day-to-day business activities and serve our customers.**

### Potential impact

Minor digital risks, such as viruses and attempted break-ins, are everyday risks without significant impact. However, a major breakdown or a malicious attempt to cause damage to Hempel, our customers, our suppliers or partners through unauthorised access, destruction, corruption or manipulation of data, could cause our systems to be inaccessible for a period. Loss of proprietary information could cause financial impact and limit business opportunities.

### Mitigating actions

Futureproofing and ongoing enhancements to protect our critical and sensitive data, assets and reputation are a key priority. Hempel's regulatory compliance is ensured via protection mechanisms within our IT systems and business processes, as well as company-wide internal audits of selected information security controls. We foster a culture of awareness around cybersecurity via information security education of employees (e.g., mandatory and frequent e-learning). The Crisis Management Team and Digital Disaster Recovery organisation carry out structured annual exercises.

## Geopolitical instability

**As strategic competition between major powers intensifies, Hempel is exposed to changes in government policies and legislation that could reinforce volatility and further strengthen nationalistic and protectionistic tendencies in some key markets.**

### Potential impact

Contemporary geopolitical tensions leading to soaring energy costs may impact our production costs and cause customers to adjust their spend. Escalating geopolitical unrest may lead to economic sanctions or military action. Trade policies put in place to protect natural security interests, tackle climate change or promote human rights may lead to increased complexity in cross-border sales. Inadvertent breaches of sanctions could damage our brand and reputation.

### Mitigating actions

We continuously strive to minimise such risks via diversification through a balanced product portfolio across the Americas, EMEA and APAC. Our local presence allows us to continuously monitor risk developments in our key markets and develop and adjust contingency plans accordingly. We carefully review cross-border relations and adapt to changing business environments in both public and private sectors as we grow our business. We seek to mitigate risks via our comprehensive sanction screening, export control and legal compliance setup.

## Macroeconomic volatility

**The pandemic and war in Ukraine have led to unprecedented macroeconomic volatility. Foreign policies, economic sanctions, high energy costs, currency fluctuations, inflation and rising interest rates put pressure on private incomes and may push major economies into recession.**

### Potential impact

Market dynamics could impact price levels as continued high energy prices, higher unemployment rates and sustained inflation may lead to a decline in consumer confidence and impact our sales, profits and market position. We may experience uneven performance as potential inflationary recession leads to reduced growth and demand. Hempel's customers could delay their spend decisions if necessary price adjustments impact their behaviour and willingness to pay.

### Mitigating actions

We seek to minimise uneven performance risk through strategy execution, supply enhancing investments and financial planning. Via our revenue management programme, ensuring value-based price setting, we transparently communicate with customers about our assessment of input costs and why price adjustments may be necessary to maintain a desired service level. We have hedged our interest rates, we assess currency developments and follow strict financial planning on costs and cash.

## Supply chain disruption

**The COVID-19 pandemic demonstrated how vulnerable the world is to unpredictable and extreme events with cascading disruptive impacts. Additionally, the prolonged war in Ukraine has generated concerns around the security of energy supply in Europe.**

### Potential impact

Financial impacts due to short and long-term disruptions can be caused by external factors, such as power supply and raw material shortages, fire, cyber attack, logistical constraints, governmental shutdowns or pandemic lockdowns. Gas supply shortages in the EU and forced limitations on energy consumption may delay free movement of raw materials and products, and cause delays. Consequently, shortages may result in reduced demand in our customers' supply chain.

### Mitigating actions

We seek to prevent disruption risks from materialising through our operational risk management approach. Our loss prevention risk engineering programme covers all our production facilities, and the investment in electric heating systems and solar panels is carefully assessed and contingency plans are adjusted. Via our dual-sourcing strategy, Procurement constantly investigates and qualifies alternative sourcing opportunities. Supply planning processes and inventory control initiatives are enhanced across geographies ongoingly.

## Sustainability innovation

**Hempel's sustainability ambitions rely on innovative product development. During uncertain times, optimising value from innovation is key to come out ahead of competition. Facing economic headwinds, the natural tendency is to slow down investments until the economic situation becomes more favorable.**

### Potential impact

Should competitors be more successful in developing new products, which better meet the future needs of our customers, this would challenge our market position. Not having sufficient research & development and product management resources, may cause delays in new product development. Hempel could miss our commitment to the Science Based Targets initiative (SBTi) as we would be unable to provide industry leading sustainable product assortment.

### Mitigating actions

Innovation goals and our product pipeline are re-assessed on an ongoing basis to respond to new identified trends translating into key risks and opportunities. Capacity and capabilities to innovate are prioritised to optimise the value from innovation and to meet Hempel's business goals, as we seek to foster an innovative culture. Our strategic initiatives are closely monitored as we remain focused on delivering futureproof solutions that will help our customers across our segments achieve their business goals, sustainability agendas and ESG ambitions.

# Task Force on Climate-related Financial Disclosures (TCFD) framework

| Topics | Disclosures | What is Hempel doing | Reference in the Annual Report |
|---|---|---|---|
| Governance | a. Describe the board's oversight of climate-related risks and opportunities. | The Board of Directors reviews our risk profile twice a year. The material is prepared by the Risk Committee through the identification of the key incumbent risks. Also, the Audit Committee ensures that the Board of Directors' risk management is effective. Climate-related risks are part of the agenda. | Page 18-20 (Corporate governance)<br>Page 24-27 (Managing risk) |
| | b. Describe management's role in assessing and managing climate-related risks and opportunities. | The Risk Committee includes the eight members of the Executive Group Management and gathers every quarter to discuss and plan against emerging risks, including climate-related risks. | Page 25 (Risk management framework) |
| Strategy | a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. | We conducted a materiality assessment to accelerate our sustainability journey by ensuring a stronger focus. These were mapped according to our existing sustainability framework, Futureproof. The resulting strategic adjustments to Futureproof will enable us to accelerate progress and focus more clearly on our key ambitions within our own operations, products, partners and people. | Page 29-40 (Sustainability) |
| | b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. | The materiality assessment highlighted the most material issues for Hempel to focus on, including greenhouse gas (GHG) emissions, resource consumption, waste disposal, hazardous materials, and social and economic inequality. This helps us to prioritise investments in fixed assets to mitigate incumbent climate-related risks. | Page 26 (Climate adaptation risk)<br>Page 29-33 (Sustainability) |
| | c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | We have performed scenario analysis for our science-based targets. This is the starting point we are using to formulate our climate adaptation strategy to ensure long-term business continuity. | Page 30 (Science based targets) |
| Risk Management | a. Describe the organisation's processes for identifying and assessing climate-related risks. | We address climate-related risk identification and assessment continuously as an integrated part of our risk management activities. Additionally, the materiality assessment is a key necessity for our business continuity. | Page 25 (Risk management framework) |
| | b. Describe the organisation's processes for managing climate-related risks. | Throughout our global presence, consultancy firms are supporting Hempel's in-depth analysis of climate-related risk exposure and we update our sustainability-related CAPEX planning accordingly. | Page 26 (Climate adaptation risk) |
| | c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management. | Climate-related risk management forms an integrated part of Hempel's ongoing risk management work. Significant risks are addressed in alignment with the Enterprise Risk Management structure where the Board of Directors oversees the effectiveness of risk management in Hempel. | Page 26 (Climate adaptation risk) |
| Metrics & Targets | a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. | We report on environmental targets and KPIs in our annual report.<br>Relevant metrics include energy consumption, waste generation and disposal method, GHG emissions, carbon intensity and hazardous materials management. | Page 29-40 (Sustainability)<br>Page 42-47 (ESG data) |
| | b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. | We report absolute $CO_2$ emissions on Scope 1, 2 and 3 in our annual report.<br>We report according to the Greenhouse Gas Protocol and our data reporting is subject to a limited assurance statement by our independent auditors. | Page 30-35 (Science based targets)<br>Page 42-47 (ESG data) |
| | c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. | We have set validated science-based targets for scope 1 & 2 and 3 $CO_2e$ emissions.<br>We are proud to have earned a B rating by CDP recognising our work on tackling climate change through environmental management.<br>We are committed to the UN Global Compact, Climate Group's EV100, and disclosure through the EcoVadis platform. | Page 6-7 (Letter to stakeholders)<br>Page 29-33 (Sustainability) |

# Sustainability

## Increased focus on material issues to accelerate our sustainability journey.

2022 was a year with an emerging energy crisis, high inflation and continued supply chain disruptions. In this context, we focused our sustainability efforts on the areas where Hempel can have the biggest impact.

During the year, we conducted a materiality assessment to accelerate our sustainability journey by ensuring a stronger focus. The materiality assessment highlighted the most material issues for Hempel to focus on, including greenhouse gas (GHG) emissions, resource consumption, waste disposal, hazardous materials, and social and economic inequality. These were mapped according to our existing sustainability framework, Futureproof. The resulting strategic adjustments to Futureproof will enable us to accelerate progress and focus more clearly on our key ambitions within our own operations, products, partners and people.

**ESG Roadmap**

The materiality assessment informed Hempel's first Environment, Social and Governance (ESG) Roadmap. Our ESG Roadmap will strengthen our resilience to a changing environment by ensuring we are better prepared for upcoming legislative requirements and stakeholder expectations. As a means to preparing to meet the new EU Corporate Sustainability Reporting Directive (CSRD), we performed an analysis of the ESG ratings and reporting frameworks landscape and used the criteria in these as a proxy for stakeholder expectations, especially regarding legislators, customers and financial institutions.

In 2022, we prioritised three ESG ratings and reporting frameworks that are recognised and used by our customers and financial stakeholders. We now report according to recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), Carbon Disclosure Project (CDP) and EcoVadis. TCFD and CDP are considered the thought leaders on the climate and disclosure agenda. EcoVadis takes a more holistic approach to ESG by including the social aspect. As a first-time participant in CDP disclosure, we are proud to have received grade B, which is above our industry's average. You can find our TCFD overview on page 28.

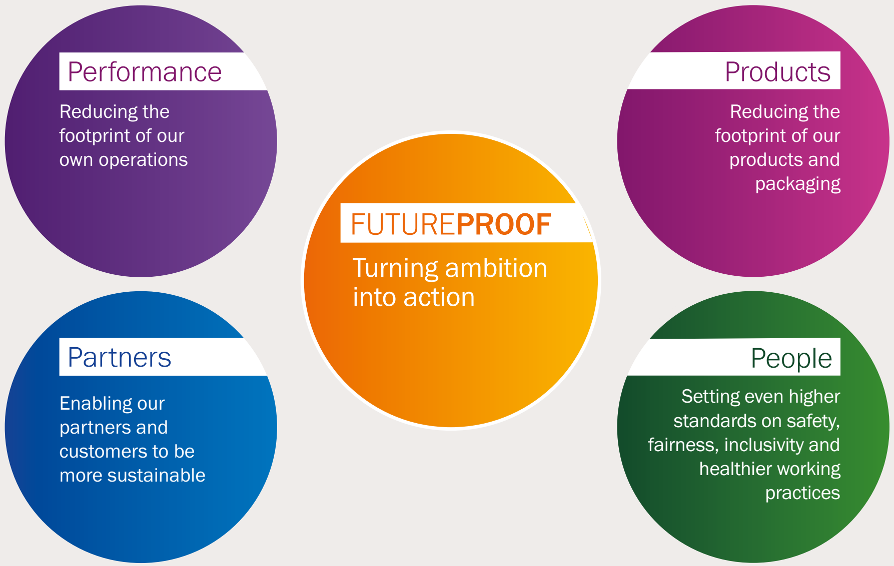
**Sustainability governance**
We recognise sustainability governance as a key enabler for accelerating progress on sustainability KPIs. We organise our work according to the sustainability governance model implemented in 2021.

**Validated science-based targets**
In March, our science-based targets for Scope 1, 2 and 3 $CO_2e$ emissions were validated by the Science Based Targets initiative (SBTi). See our target, roadmap and performance on Scope 1 & 2 $CO_2e$ emissions on page 32-33. For Scope 3 $CO_2e$ emissions, see our target, approach and performance on page 34-35.

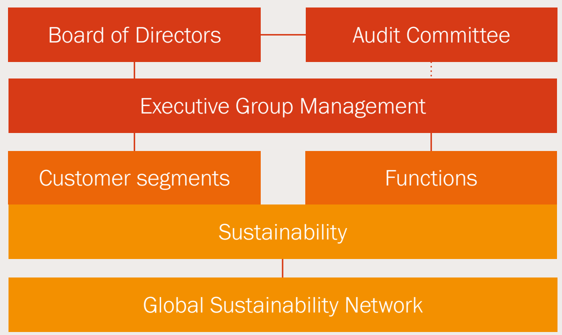
To accelerate action on Scope 3 emission reductions, we implemented a clear governance setup and prioritisation tool. These will enable us to focus on the areas with the highest $CO_2e$ reduction potential and to mobilise our own operations and value chain to reach our targets.

Tackling Scope 3 emission reductions is the most challenging area for Hempel due to the complexity of our value chain as a production company. We are at an early stage in this journey and continue to draw inspiration from similar companies. COP27 in Sharm El Sheikh, Egypt, was a great opportunity to do this. This was our first time participating in a COP Summit and we drew many key learnings from other participants, including legislators, non-government organisations (NGOs), peers and customers.

FUTURE**PROOF**




Sustainability governance model




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

**Circularity Roadmap**
In 2022, we worked to develop Hempel's Circularity Roadmap, which supports our work to reduce our materials footprint, virgin material use and waste generation – in our own operations and across our value chain. The main goal of this initiative is to decouple our materials' footprint – and, by extension, our environmental footprint – from our economic growth.

We identified the four areas with the biggest circularity opportunities for Hempel:

- *Operations*
- *Packaging*
- *Paint*
- *Services*

Consequently, we structured the roadmap along these four tracks to support the circularity transition with dedicated KPIs and targets, new initiatives, and a clear governance structure.

**Sustainability linked credit facilities**
In April, Hempel linked EUR 1.5 billion in credit facilities to four sustainability targets:

- Reduce Scope 1 and 2 $CO_2e$ emissions
- Reduce Scope 3 $CO_2e$ emissions
- Reduce waste to landfill at production sites
- Reduce and phase out hazardous raw materials

We are very pleased to receive support from our banks to rewrite the terms of these facilities, as it further commits and incentivises us to reach our sustainability targets. The annual savings in interest and fees for meeting the ESG KPIs total more than EUR 500,000.

To accelerate action, we increased focus on transparency and data improvements in 2022. This enables us to see real-time performance, so we can adjust current practices and direct investments within the organisation where needed.

**UN Global Compact**
Since 2017, Hempel has been a signatory to the UN Global Compact (UNGC). In 2022, we participated in the UNGC's Early Adopter Programme of the new digital platform for corporate reporting on Communication on Progress (CoP).

In this section of the report, you can read more about our actions and ambitions related to the UNGC's Ten Principles, the Sustainable Development Goals (SDGs), and information required by the Danish Financial Statements Act §99a and §99b. Read more about our business model on page 8.

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

| Disclosure requirements | See page |
|---|---|
| **99a** | |
| Policies on | |
| • Human rights | • 39-40 |
| • Worker and social conditions | • 36-37, 39-40 |
| • Environment and climate | • 32-35, 38 |
| • Anti-corruption and anti-bribery | • 40 |
| Due diligence process | • 28, 29-40 |
| Activities during the year | |
| • Human rights | • 36-37, 39-40 |
| • Worker and social conditions | • 36-37, 39-40 |
| • Environment and climate | • 32-35, 38 |
| • Anti-corruption and anti-bribery | • 40 |
| KPIs and results | • 32-40, 44-47 |
| Sustainability risks | • 24-27 |
| **99b** | |
| Diversity in the Board of Directors (including current gender composition and target) | • 18-19 |
| Diversity in management (including policy, activities during the year and results) | • 36, 46-47 |

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

# Performance

Reducing the footprint of our own operations

## More sustainable operations

Our ambition is to achieve our science-based targets for $CO_2e$ emission reduction and zero waste to landfill.

### Our performance goals

- Science-based target for Scope 1 & 2: Reduce $CO_2e$ emissions by 90% by end of 2026
- Achieve zero waste to landfill by 2025 at our production sites
- Halve the amount of scrapped finished goods and raw materials by the end of 2025, even as we double in size

### Reducing $CO_2e$ emissions in our own operations

In 2022, we reduced our Scope 1 & 2 $CO_2$ emissions by 56 per cent compared to 2019, exceeding our target of 40 per cent for the year. When we look at the comparative baseline (excl. acquisitions, warehouses and stand-alone R&D facilities), we achieved a reduction of 68 per cent in 2022 compared to 2019. This performance is in line with our validated science-based target for Scope 1 & 2.

For Scope 1, we continued to phase out fossil fuel driven equipment and began exchanging our combustion engine forklift trucks with electric equivalents.

For Scope 2, we maintained our commitment to buy 100 per cent renewable grid-supplied electricity wherever accessible. This was progressed when our Poland factory transferred to a fully renewable contract (hydropower) in the beginning of 2022. This change accounts for around 8 per cent of our production electricity use.

At some of our sites where local infrastructure does not yet allow access to 100 per cent renewable energy supply, we invested in Energy Attribute Certificates (EACs – also known as Renewable Energy Certificates or RECs). Purchasing certificates aims to drive the market towards investment in new, renewable energy developments by influencing supply and demand. In 2022, we purchased certificates equivalent to the electricity used in production in our entire APAC business area. Whilst this is an important step, we are committed to continually improving our approach by adopting new low-carbon technologies and more sustainable ways of working, as these options become available.

### Eliminating landfill waste at our production sites

In 2022, we reduced waste to landfill by 45 per cent at Hempel production sites compared to 2021. Compared to our base year of 2019, this is a total reduction of 83 per cent with a comparative baseline (excl. acquisitions). By the end of the year, 15 production sites were zero waste to landfill. This was achieved through waste reduction initiatives (see “Halving scrap at our production sites” below) and by diverting waste from landfill to incineration, recycling and reuse.

- In the Americas, we diverted some waste streams from landfill by re-characterizing them as hazardous secondary materials and sending them to a specialist facility for substance recovery.
- In our Middle East operations, we started a collaboration with industries that use our waste oils as raw materials.
- In some of our European operations, we sent scrap paint to a secondary paint manufacturer that reprocesses and sells it as recycled paint.

### Halving scrap at our production sites

We are committed to achieving a 50 per cent reduction in the value of raw materials and finished goods being scrapped by our facilities by 2025 (compared to a base year of 2019). This target was exceeded in 2022 when we achieved a 65 per cent reduction in the value lost from scrap.

This was possible due to the reduction of scrap at the source (by improving production yields, reducing failed batches and minimising returns) as well as establishing a process for systematically reprocessing as much scrap as possible into new batches.

In 2023, we will increase the target to an 80 per cent reduction by the end of 2025. In addition, we will extend the initiative's scope to include (i) all production units (including sites producing decorative paints and newly acquired sites) and (ii) all types of waste generated (not only scrap). This change will be supported by the ongoing deployment of the Smart Scales system, which provides near real-time monitoring of individual waste flows to enable targeted actions for further waste reductions. The Smart Scales roll-out will be complete by the end of 2023.

### Looking ahead

We will continue to work on delivering our science-based targets for Scope 1 & 2 $CO_2$ emissions.

We achieved Energy Management Standard (ISO 50001) certification in early 2022. The certification covers all our European factories, which ensures compliance with the EU Energy Efficiency Directive. Although the scope of the certificate is for our European operations only, the energy management will be shared globally across Hempel's operations.

*Our targets for 2023 include:*

- Reduce Scope 1 & 2 $CO_2$ emissions by 60 per cent compared to 2019 while becoming more energy efficient throughout our global operations
- Reduce waste sent to landfill from our production sites by 90 per cent compared to 2019 while expanding our efforts on waste reduction in all our facilities, including warehouses, distribution centres, retail stores and offices

## Reducing $CO_2$ emissions in our own operations

| 2020 ✓ | 2021 ✓ | **2022** ✓ | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| • Collected full inventory of Scope 1 & 2 $CO_2$ emissions from our production units in line with the reporting standard Greenhouse Gas Protocol to set reduction targets and baseline | • Materiality assessment conducted to set strategic direction and sustainability goals. Outcome was the launch of Futureproof, our sustainability framework, in February 2021 | • Achieved validation of our science-based targets by the SBTi in line with the 1.5 pathway for Scope 1, 2 and 3 $CO_2$ emissions<br>• Transitioned 9 sites to run on renewable electricity<br>• Invested in Renewable Energy Certificate schemes | • Expand implementation of low carbon technologies such as heat pumps and alternative fuel types<br>• Expand implementation of solar panels to generate renewable electricity on-site | • Full implementation of our company car programme to transition towards electric vehicles | • Expand our decarbonisation initiatives to cover applicable non-production sites including warehouses, offices and retail stores | • Meet our science-based target for Scope 1 & 2 $CO_2$ emissions of a 90% reduction from our baseline year of 2019 |

# Products

Reducing the footprint of our products and packaging

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

## More sustainable products

Our ambition is to develop more sustainable products and services that will enable our customers to meet and exceed their sustainability ambitions.

### Our product goals

- Science-based target for Scope 3: Reduce $CO_2e$ emissions by 50% by end of 2030
- Reduce hazardous substances in our products
- Make sustainability a key driver of all product development and innovation
- Achieve 50% recycled content in primary packaging by end of 2025

### Reducing our value chain $CO_2e$ emissions

In 2022, we began creating the foundation and governance for our Scope 3 reduction ambitions. To allow objective evaluation of potential Scope 3 reduction activities and make implementation easier, we created a prioritisation tool that enables us to analyse and rank projects in terms of expected $CO_2e$ savings. From this detailed and systemic evaluation, three key themes emerged.

- **Use less** by providing longer-lasting coating solutions and through our Services
- **Sell different products** by optimising our product assortment and providing coatings that deliver the same technical performance with a lower $CO_2e$ footprint
- **Improve existing products** by working with our product formulations to phase out raw materials with the greatest $CO_2e$ footprint

### Tackling $CO_2$ emission reduction in our value chain with our prioritisation tool

**USE LESS** 1
(Driving optimisation & our service offering)

**Longer-lasting coatings**
Our products allow extended periods between reapplication. Less paint is used, leading to reduced maintenance and a lower total cost of ownership.

**Services**
We aim to increase company revenue from our technical services, which help customers reduce their sustainability impacts. Effectively this means selling less paint and thereby limiting the impacts from our production.

**SELL DIFFERENT PRODUCTS** 2

**Product assortment**
We are streamlining our range of products and phasing out those with the highest carbon footprint.

**Product conversion**
We are transitioning our customers to products with a lower carbon footprint whilst offering the same technical performance.

**IMPROVE EXISTING PRODUCTS** 3

**Raw materials**
We are reformulating our products to substitute raw materials with the highest carbon footprint. At the same time, we are engaging with our suppliers to support their own sustainability efforts.

We held internal workshops in 2022 to inform and engage our organisation on what it takes to deliver on our Scope 3 commitments. The aim was to create alignment and to give these stakeholders the understanding needed to begin developing Scope 3 reduction workstreams within their own areas of responsibility.

For Scope 3 $CO_2e$ emissions, we achieved a reduction of 14 per cent in 2022 compared to 2021.

### Reducing hazardous substances in our products

Our hazardous (red) raw material programme limits our workers' exposure to materials with substantial health hazards and reduces use of substances that could have a strong environmental impact.

In 2021, we broadened the scope of raw materials included in the programme, created a strategic five-year plan addressing these raw materials, and linked our efforts related to substitutions with the terms of our bank loans. 2022 was our first full year with the expanded scope and five-year plan. This also led to an increase in the intensity of raw materials from 26.67 kg/1,000L paint produced in 2021, representing a half year with our expanded criteria, to 50.65 kg/1,000L in 2022, representing a full year with expanded criteria.

We worked to establish our baseline and integrate the contribution from our acquired companies. In addition, we moved beyond focusing on substitutions and created long-term plans and position papers addressing some of our key raw materials, such as antifouling biocides. With high commitment from the business, we were able to either completely remove the use of or find less hazardous substitutes for 35 raw materials in 2022.

### Product scorecard

In 2022, we further focused our efforts on making sustainability a driver for product innovation through the company-wide roll-out of our sustainability product scorecard. The digital tool enables us to quickly evaluate current and future solutions using quantifiable metrics material to our business. This data is used to integrate sustainability into product strategies and technology roadmaps and to drive our future product portfolio in an increasingly sustainable direction.

### Technology roadmap

We gathered input from inside and outside of Hempel in 2022 for a technology roadmap that will define gaps between where the market is today and where we see it evolving by 2030. This analysis allows us to focus our technology development initiatives on the programmes that will deliver novel value-added products to fuel future strategic growth and significant sustainability gains.

### Recycled plastic in packaging

We are committed to increase the recycled content in our plastic packaging to 50 per cent by 2025. This is a target that challenges our Decorative brands, which are responsible for the vast majority of the plastic packaging we put on the market as a Group.

For our CROWN paints brand, the recycled content in plastic packaging purchased in 2022 was 79 per cent. For our JWO & RENAULAC brands, the recycled content achieved in 2022 was 26 per cent. Overall, Hempel´s Decorative business (excl. Wattyl and Farrow & Ball) achieved 34 per cent of recycled content in its plastic packaging in 2022, up from 25 per cent in 2021 and well on track for achieving our 2025 target.

CROWN is an example of leadership in this space. In 2018, Crown was the first to introduce a paint pail with 100 per cent post-consumer-recycled (PCR) plastic. This product (the result of a collaboration between Crown,  Emballator Packaging UK and Engel UK) was first-of-its-kind in the UK and won “Best Industrial Product Design” award at the Plastics Industry Awards 2022. In 2021, Crown Paints and Berrys trialed pails using PCR plastics and in 2022 Crown Paints started to receive pails using 50 per cent PCR material, 20 per cent above the UK Government requirement.

### Looking ahead

In 2023, we will make sustainability an even bigger driver for product innovation through the company-wide roll-out of our sustainability product scorecard and the integration of sustainability into product strategies and technology roadmaps.

*Our targets for 2023 include:*

- 5 per cent reduction of hazardous materials (kg/1,000L paint produced) from the baseline year 2022
- Introduce a circularity roadmap, including setting goals on paint and packaging

# People

Setting ever higher standards on safety, fairness, inclusivity and healthier working practices

## More fairness, inclusivity, safety, job satisfaction and people development across the Hempel community

Our ambition is to become a global leader in employee development, leadership, diversity, inclusion and social responsibility. At all times, we work to create a culture and environment where every one of us can thrive, both as individuals and as one Hempel.

### Our people goals

- Build an even stronger safety culture and eliminate all Lost Time Accidents and other injuries
- Achieve a target of minimum 30% women in the general workforce and leadership positions by 2025

### Driving diversity and inclusion

An inclusive, non-biased culture benefits all colleagues and improves decision-making, innovation and collaboration. We want everyone to feel respected and treated fairly, regardless of their background, preferences or where they are located. A significant milestone on this journey in 2022 was the launch of our global Diversity, Equity & Inclusion Council, which comprises colleagues from across the global organisation who are determined to drive this agenda through consistent communication.

Gender equality is a priority at Hempel and ensuring a balanced workforce is an important part of our strategy. By the end of 2022, 31 per cent of all our employees were women and 29 per cent of leadership positions were held by women. We have now exceeded our targets for 2022 and will therefore set more ambitious targets for 2023 and beyond.

We are doing this in several ways, including integrating diversity, equity and inclusion metrics, and using artificial intelligence tools, in our global talent acquisition process to eliminate unconscious bias during recruitment. Going forward, we will also put special focus on attracting more women within Technology & Operations.

In accordance with our commitment to provide equal opportunities for all, we proudly sponsored and participated in the Womenomics Nordic Business Conference 2022. The event is the largest of its kind and explores topics such as diversity, inclusion, and women's impact on the global economy. In 2023, we joined The Diversity Council to seek further opportunities to drive change both within and outside of Hempel.

Hempel is a workplace with zero tolerance for harassment or bullying, and actions will be taken accordingly. Based on reported cases last year, we revised our Anti-Harassment training for all colleagues and put an Anti-Harassment Policy in place. In 2022, our annual employee engagement survey, Hempel Heartbeat, also included a special section on bullying.

### Development for everyone

In 2022, we prepared for a new extensive online library, which we launched in the beginning of 2023. This offers courses 24/7 in multiple formats and languages, covering a broad set of topics relevant for leaders and other colleagues at all levels of our global organisation. Besides offering relevant learning to our employees here and now, this is a key steppingstone towards a stronger learning culture across Hempel.

We continued our High 5 leadership development programme to ensure that all our leaders develop their leadership abilities and are better equipped to help their teams thrive and perform. This training also addressed diversity and inclusion to promote a gender balanced management. A total of 272 people participated in the 4-6-month virtual programme in 2022.

In 2022, two groups of senior and mid-level managers completed a talent development programme. However, we have decided to revisit our approach to ensure we accelerate the development of our talents, both their own development and the number of participants we include. In 2023, we will therefore transform our standing programmes into improved development journeys. Not only will we invite more colleagues to actively engage in their own development, we will also ensure that the activities and content are better targeted to fit the participants' individual needs, as we acknowledge that no one size fits all.

To strengthen the pipeline of potential future leaders and specialists at all levels of the organisation, we offer the Pioneer graduate programme. 19 Pioneers, 12 women and 7 men representing 14 nationalities, have completed the 18-month programme. They will graduate early 2023 and continue their careers in Hempel.

### Hempel Heartbeat – measuring engagement and motivation

83 per cent of Hempel colleagues participated in Hempel Heartbeat, our engagement survey. The result showed that Satisfaction & Motivation dropped from 73 to 72 compared to 2021. This reflects a year in which we experienced a great deal of internal change. In addition, many outside factors affected Satisfaction & Motivation, such as inflation, supply chain challenges and the war in Ukraine. Despite this, our score was still on par or above comparable global companies.

In 2021, our survey measured overall incidences of harassment. 2.5 per cent of survey respondents indicated they had experienced some form of harassment, with over 50 per cent of those incidents being bullying. For this year's survey, we did a deep dive on bullying. 82 per cent of colleagues indicated they had not experienced bullying in the workplace, 10 per cent did not answer and 8 per cent responded they had experienced bullying. Our plans to address this include rolling out a revised global Anti-harassment training programme in 2023 with special focus on the topic.

### Increased safety awareness

Promoting a strong safety culture remains a top priority and we continuously work to enhance our safety culture. In 2022, this included further developing our Safety Excellence Programme, which includes maintaining the ISO 45001 Health & Safety Management standard across our operations. As part of this, we increased awareness through initiatives such as incident sharing, learning programmes and a new improvement idea system aimed at eliminating unsafe conditions. Lost Time Accidents (LTAs) decreased from 1.72 per 1,000,000 working hours in 2021 to 1.19 per 1,000,000 working hours in 2022. Our accident severity rate also decreased significantly. Even with the improvements, every accident is one too many, so our commitment to our target of zero accidents is still our main safety objective.

### Looking ahead

We have a strong roadmap in place for building a safer and more diverse, inclusive and successful workplace.

*Our targets for 2023 include:*

- Zero accidents
- On gender diversity in general workforce and leadership positions, we reached our targets for 2022 and will set new and more ambitious targets for 2023 and beyond
- Inclusive leadership training integrated into our High 5 leadership programme

# Partners

Enabling our partners and customers to be more sustainable

8 DECENT WORK AND ECONOMIC GROWTH

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

## Enabling customers to accelerate their sustainability journey

Our ambition is to help our customers achieve their sustainability goals while advancing both our own and our customers' competitive position.

### Our partners goals

- Reduce customers' emissions by at least 30 million tonnes of $CO_2e$ by 2025
- Recycle 1 million paint cans through the Can Back Scheme
- Increase use of reusable packaging

### Reducing our marine customers' $CO_2e$

Our marine customers need to overcome several challenges to comply with regulations related to the decarbonisation of their industry. We want to be part of that important journey. With our coating solutions, we can help accelerate the decarbonisation of the industry here and now.

High performance hull coatings, such as our Hempaguard solutions, are an extremely efficient and readily available way to improve the energy efficiency of a vessel, and so already contribute to the decarbonisation of the shipping sector. In 2022, our high performance hull coatings helped our customers to reduce $CO_2e$ emissions by 5.6 million tonnes. This is an improvement of 24 per cent compared to 2021 (4.5 million tonnes).

In addition, in September 2022 we achieved the milestone of more than 3,000 Hempaguard applications since we launched the solution in 2013. In the past nine years, Hempaguard has delivered $CO_2e$ savings for customers of up to 29 million tonnes, corresponding to 9.2 million tonnes of fuel saved.

### Recycling our Decorative customers' paint cans

Through our Can Back Scheme, our customers in the Decorative segment in the UK can return empty paint cans to our local stores and warehouses. Unlike similar schemes run by our peers, our Can Back Scheme accepts cans from any manufacturer or brand. The returned cans are sent to NIMTECH, our recycling partner, and both the plastic and metal is recycled for future use. Our goal was to take back and recycle more than 725,000 empty paint cans in 2022. We exceeded this target by recycling more than one million cans through better promotion and by expanding the programme to more stores and warehouses. This is a 90% increase compared to 2021.

### Reusable packaging for Energy, Infrastructure and Marine customers

In our industrial customer segments, we go beyond recycling and offer reusable packaging solutions to our customers. In previous years, we have tested reusable steel Individual Bulk Containers (IBCs) with a limited number of selected customers and projects. In 2022, we developed a standard commercial offering. This will be rolled out globally in 2023, and we will set long-term, annualised targets for adoption. In addition, we will run pilot projects for reusable steel drums during the year.

### Looking ahead

In 2023, we will further scale up the Can Back Scheme in the UK and expand it to Ireland. We will also set a new target for 2028. At the same time, we will analyse potential for replicating the scheme in other regions.

We will continue to contribute to the decarbonisation of the shipping industry. We are also committed to the decarbonisation of the decorative, energy and infrastructure industries and are actively developing and tracking performance of energy-saving and circular solutions.

*Our targets for 2023 include:*

- Continue to reduce our customers' $CO_2e$ emissions by providing energy-saving solutions
- Collect and recycle 1.3 million empty paint cans through the Can Back Scheme

# Partnering for impact

To support our ambitions set out in the Futureproof framework, we have programmes and tools that we use when collaborating and working with suppliers and other partners.

**Sustainable Procurement Programme**
Our Sustainable Procurement Programme ensures that our suppliers meet our high standards, but also that we continuously strive to build capabilities, create engagement and foster collaboration on sustainability with our suppliers. The Sustainable Procurement Programme is based on three pillars.

*Business Partner Code of Conduct*
The Hempel Business Partner Code of Conduct sets out our expectations to our business partners. It takes into account the UN Global Compact's Ten Principles within the areas of human rights, labour rights, the environment and anti-corruption. Our business partners are expected to adhere to the standards laid out in the Hempel Business Partner Code of Conduct within their own business and should require the same from their own business partners.

*Mitigating risk with sustainability performance assessments*
Strategic suppliers are expected to participate in regular online sustainability performance assessments, performed by EcoVadis, an external provider of sustainability evaluations. The assessments covers four key topics: labour and human rights, environment, ethics and sustainable procurement.

In 2022, 75 per cent of our raw material and packaging spend is from suppliers assessed by EcoVadis, maintaining the same spend coverage as in 2021. We also improved our follow-up and initiated corrective actions with low-performing suppliers.

*Driving impact with Hempel Procurement Sustainability Screening*
In 2021, we launched Hempel Procurement Sustainability Screening to ensure supplier dialogue and development around key sustainability topics such as carbon footprint, energy and waste management. This screening requires a high degree of engagement from both us and our suppliers. By 2025, we will have engaged suppliers representing 70 per cent of our total spend.

In 2022, we continued implementation of the screening and introduced new categories. These categories range from steel packaging and key logistics to raw materials such as binders, extenders and flatteners. In 2022, we screened 77 suppliers, bringing us up to a total of 118 suppliers since the start in 2021. We also started follow-up screening of

8 low-performing suppliers from the previous year. 40 per cent of our total spend is now covered by Procurement Sustainability Screening.

We are preparing to implement sustainability screening as a commercial factor in tender processes and in 2022, we ran a pilot for one of our major raw material categories.

**Focus on due diligence of forced labour**
Our Human Rights Policy clearly states Hempel's commitment to human rights, and this commitment is extended to our business partners in our Business Partner Code of Conduct. The EcoVadis sustainability assessment also focuses on human and labour rights. It remains a priority in Hempel that our suppliers comply with all labour and Human rights and we engage with our suppliers to improve human and labour rights in Hempel's entire value chain.

**Conflict minerals**
Some of our packaging and raw materials contain tin. For these suppliers, we request full reporting based on recommendations from the Responsible Minerals Initiative. We are in compliance with the EU Conflict Minerals Regulation, as well as the US Dodd-Frank Act Section 1502 on due diligence of conflict minerals.

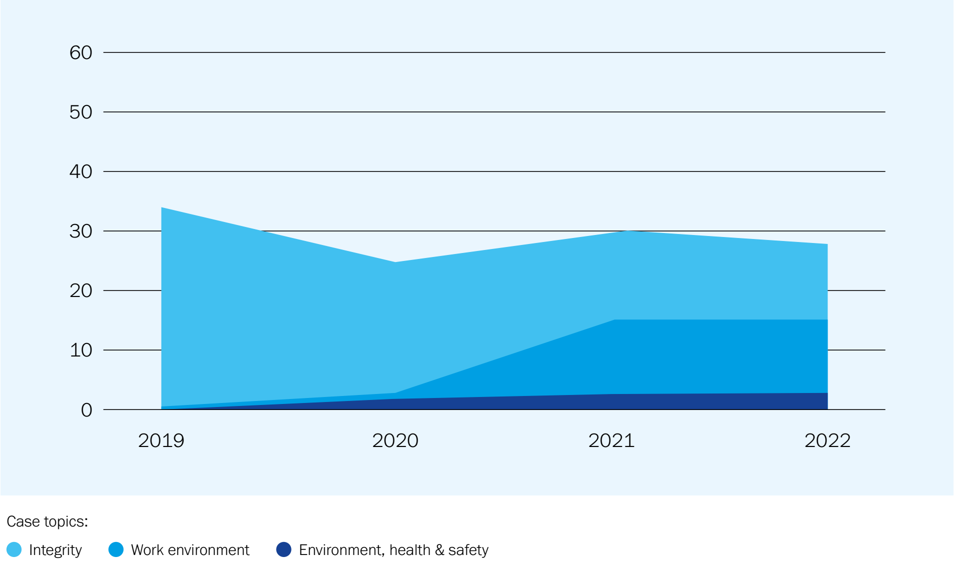
**Bussines ethics & data protection**
Hempel's zero tolerance for bribery and corruption is clearly described in our Business Ethics Policy, which outlines procedures to counter corruption, bribery and other unethical behaviour.

Our sound speak up culture was confirmed in 2022 and our management teams continued to talk about the right ethical behaviour openly and frequently. Following our new way of operating and working together, implemented in early 2022, and the end of COVID-19 restrictions in many regions, Executive Group Management is reaching out to teams around the world – and compliance is part of these conversations.

Hempel's level of focus on anti-bribery remains at a consistently high level, with anti-bribery topics featuring prominently in most of the company's regular compliance initiatives – including management communications, the Employee Code of Conduct and related 2022 training, the Business Partner Code of Conduct, and M&A due diligence. Further improvements to our existing sales partner review and approval process will be a priority in the coming years with a focus on more efficient digital solutions.

Sanctions compliance also remains a priority; 2022 naturally saw increased focus on adhering to sanctions on Russia. Additionally, we updated our investigation policies and procedures to comply with the EU whistleblower directive, and we rolled out a formal Competition Compliance Policy in March 2022.

**Whistleblower statistics, reported cases**




In the area of data protection, Hempel continued to implement GDPR as a standard compliance framework for all companies within the Hempel Group, with particular focus on accountability and data transfer requirements. New employees continued to receive training in various compliance topics. As in past years, all PC-using employees completed Code of Conduct training. In addition, we launched a campaign to ensure delivery of in-person Code of Conduct training to factory and store employees globally.

As Hempel is on a path to double by 2025, we are facing an increasingly complex legal and compliance landscape. To better equip us for the challenges ahead, Legal, Compliance, and Internal Audit joined forces in December under a new VP, General Counsel. The new structure is intended to reinforce the already strong collaboration of these functions.

# Making a difference

Established in 1948 by J.C. Hempel, the primary purpose of the Hempel Foundation is to provide a solid financial base for the continued existence of the Hempel Group. Its secondary purpose is to support good causes around the globe within biodiversity, science and education. As the sole owner of the Hempel Group, all dividends from our work are ultimately paid to make a difference for the good causes supported by the Hempel Foundation.

In 2022, the Hempel Foundation supported 15 projects with nine different partner organisations, which together contribute to sustaining key biodiversity areas in 2.6m hectares of tropical forest, hereby improving the livelihoods of 5,000 families (households) from local communities living within or outside these areas.

Since 2011, the Hempel Foundation has supported 387,000 children with foundational learning, and in 2022 alone, we supported 251,000 children with foundational learning.

Across Hempel, our people stepped up in 2022 to make a difference to the local communities that we are a part of. Here are some examples.

## iWITNESS TOUR 2022 TO UGANDA

Nine Hempel colleagues had the opportunity to travel to Uganda in September 2022 to learn first-hand about some of the projects that the Hempel Foundation is involved in to make a positive impact in the area. The highlights of the trip included educational activities at schools supported by the Foundation, and a visit to the Rwenzori National Park to see how deforestation and poaching are being combatted in this important biodiversity area.


## SUPPORTING UKRAINE WITH MEDICINE

Hempel worked together with *Bevar Ukraine*, a Danish humanitarian organisation, to set up a collection point for medical donations at our headquarters in Lyngby.

Colleagues volunteered to man the collection point and receive donations from the public. Doctors helped to sort the medicine before it was packed and sent to Ukraine.

## PAINTING SCHOOLS IN MEXICO

Hempel worked together with schools in Monterrey, Mexico and the *COMUNIDAR Foundation* to improve public spaces and facilities to encourage children to pursue better opportunities and create social and environmental value. During this paint for disposal initiative, colleagues gathered on weekends together with the school staff to help them paint and rehabilitate several schools using Hempel paints which would have otherwise been disposed of.

## BEAUTIFYING COMMUNITIES

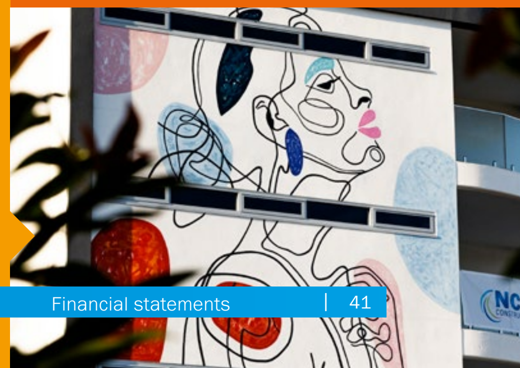
Inspired by an appreciation of nature and its inherent beauty, and aiming to foster a sense of welcoming and belonging in times of big developmental changes on the Sunshine Coast, local Australian artist Timothy Birch created the piece “Holding on” on the exterior of an apartment building. The artwork resembles the style of Pablo Picasso and features more than 50 selected Wattyl colours.

## SUPPORTING PROJECTS WITH PAINT DONATIONS

We support communities across the UK and Ireland, making sure the positive power of paint reaches those that need it the most. In 2022, we supported projects from schools to youth schemes and community gardens, for people to get the most from their local places. One of these projects is nightsafe.org, working with young people who are struggling with homelessness in Blackburn and Darwen. Crown recently donated paint, wallpaper, brushes and rollers to restore a property which will provide assisted living accommodation for up to six young people.

## BEACH CLEAN-UP IN SINGAPORE

The Pow Wow community of Hempel colleagues in Singapore strengthens relationships within Hempel teams and engages socially with the local community. Although regular activities were disrupted due to COVID-19, the team started again in 2022, planning and joining several events, including a beach clean-up.



# ESG data & accounting policies

## General accounting policies

### Basis for preparation

The environmental, social and governance (ESG) data disclosed in the Consolidated ESG data section is prepared based on guidance from the UN Global Compact, recommendations from the CFA Society Denmark and the metrics most relevant and material to the Hempel Group. The conversion of data reported to $CO_2$ equivalents is completed by applying relevant conversion factors from widely accepted authorities, such as the UK Department for Business Energy & Industrial Strategy (BEIS). The consolidation principles are based on the same consolidation principles and period as the financial statements unless otherwise stated. Data from entities acquired or divested are included/excluded as of the date of the acquisition/divestment defined as the date Hempel obtained or ceaseed control.

The accounting policies set out in this section have been applied consistently in the preparation of the consolidated ESG data and related disclosures for all the years presented.

**Estimates & judgements**

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

**Reporting scope**

Environmental KPIs include Hempel Group data from all sites with production or warehouses in which Hempel has operational control. This includes 28 factories (2021: 28), 17 R&D centres (2021: 15) and 24 warehouses (2021: 36) referred to as 'Hempel sites'.

In 2022, Hempel ceased production in Russia and closed its factory in Syria. The Khimji production site in Oman, acquired during the year, was added to the reporting scope as well as the new factory located in Yantai, China, which was completed and fully operational in Q2 2022.

Emissions from production and warehouses, purchase of raw and packaging materials, energy consumption for surface preparation and VOC in produced products cover all material activities in Hempel's value chain. Environmental data related to retail stores and HQ offices are considered immaterial and not included in the ESG data. Emissions from production at toll manufacturing sites on behalf of Hempel are included under the assumption that one tonne of toll-produced goods requires the same energy and results in the same waste generation as if the products had been produced at Hempel sites (i.e. the impact of these third-party emissions is estimated using the Hempel average material, energy and waste impacts per tonne of paint).

The social and governance data covers the Hempel Group, comprising Hempel A/S and entities controlled by Hempel A/S unless otherwise stated in the accounting policy.

## ENVIRONMENTAL DATA

All environmental data is presented in absolute numbers, as well as relative to production. The intensity data is given as the absolute data per 1,000 litres of paint produced.

**Energy (kWh)**
Energy consumption is defined as the energy used at Hempel sites and includes the amount of electricity, fuel, refrigerant top-up, district heating and gas consumption.

Electricity consumption at Hempel sites is calculated based primarily on readings from power managers and is classified according to source as either renewable, non-renewable or renewable energy through electricity bought with renewable certificates. Classification is based on the energy's source of origin, applying generally accepted definitions.

**Waste generation (tonnes)**
Waste generation includes amounts in tonnes of disposed waste, based on waste volumes collected by third-party waste handling providers. All waste generated is categorised by disposal method. Waste disposed through landfill is separately disclosed.

**Carbon footprint scope 1 (tonnes $CO_2$e)**
Scope 1 covers direct emissions originating from Hempel sites. Scope 1 emissions are based on energy consumed in the form of fuel (fuel oils and natural gas) as well as refrigerants (top-up). The consumption of fuels is converted to $CO_2$e emissions by applying relevant Greenhouse Gas Conversion Factors for Company Reporting from the UK government agency BEIS (previously Defra) for the relevant year.

**Carbon footprint scope 2 (tonnes $CO_2$e)**
Scope 2 covers indirect emissions from electricity and district heating consumed at Hempel sites. The consumption of electricity and district heating is converted to $CO_2$e by applying the relevant emission factors (market or location based). Sites using documented renewable electricity contribute with zero emissions in the market-based approach. Electricity supplied through use of renewable certificates is, in the market-based approach, deducted in accordance with the guiding principles provided by RE100.

**Carbon footprint scope 3 (tonnes $CO_2$e)**
Scope 3 covers all relevant categories in the Greenhouse Gas Protocol. The emission factors used to convert to $CO_2$e are from the following datasets:

- Ecoinvent 3.4
- Raw materials LCI database for the European coatings and printing ink industries (CEPE database)
- BEIS (previously Defra 2021 v.1 and 2022 v.1)
- Intergovernmental Panel on Climate Change (IPCC) (2013)
- BEIS Greenhouse Gas Conversion Factors for Company Reporting (2020 v.1) (BEIS GHG)
- BEIS input/output emission factors for indirect supply chain emissions (2020 v.1) (BEIS indirect)
- BEIS Recovery Rate from Non-Hazardous Construction and Demolition Waste for the UK and England (2020) (BEIS waste)

| Energy & Waste | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Renewable energy (kWh) | 30,274,856 | 26,160,687 | N/A | N/A |
| Renewable energy through use of RECs (kWh) | 12,281,000 | 0 | N/A | N/A |
| Non-renewable energy (kWh) | 63,063,036 | 69,596,587 | N/A | N/A |
| Total energy consumption (kWh) | 105,618,892 | 95,757,274 | 95,248,110 | 104,555,353 |
| Share of renewable energy | 40% | 27% | N/A | N/A |
| Share of renewable electricity | 71% | 51% | N/A | N/A |
| Energy (kWh / 1,000 L paint produced) | 290 | 263 | 245 | 270 |
| Waste generation (tonne) | 17,233 | 17,784 | 20,426 | 22,189 |
| Waste generation (kg/1,000 L paint produced) | 47 | 49 | 53 | 57 |
| Waste to landfill (tonne) | 1,353 | 1,630 | 1,666 | 3,934 |
| Waste to landfill (kg / 1,000 L paint produced) | 4 | 4 | 4 | 10 |
| % reduction of waste to landfill from production sites (Baseline: 2019) | -83% | -70% | -58% | N/A |

| Carbon footprint | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Carbon footprint scope 1 (tonnes $CO_2$e) | 8,163 | 8,952 | 8,193 | 8,808 |
| Carbon footprint scope 2 (tonnes $CO_2$e) - Location based | 26,317 | 25,195 | 26,644 | 29,344 |
| Carbon footprint scope 2 (tonnes $CO_2$e) - Market based | 10,927 | 20,758 | 31,679 | 34,281 |
| Carbon footprint scope 3 (tonnes $CO_2$e) | 2,402,253 | 2,803,278 | 1,902,794 | 1,922,694 |
| % reduction in absolute $CO_2$e emissions for Scope 1 & 2 (Baseline: 2019) | -56% | -31% | -7% | N/A |
| Carbon footprint scope 1 (tonnes $CO_2$e / 1,000 L paint produced) | 0.02 | 0.02 | 0.02 | 0.02 |
| Carbon footprint scope 2 (tonnes $CO_2$e / 1,000 L paint produced) Location based | 0.07 | 0.07 | 0.07 | 0.08 |
| Carbon footprint scope 2 (tonnes $CO_2$e / 1,000 L paint produced) Market based | 0.03 | 0.06 | 0.08 | 0.09 |
| Carbon footprint scope 3 (tonnes $CO_2$e / 1,000 L paint produced) | 6.35 | 5.68 | 4.30 | 3.84 |

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

*Category 2: Capital goods*
A spend-based calculation method is applied to this category. The spend data are converted to $CO_2e$ using BEIS indirect conversion factors.

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

*Category 4: Upstream transportation and distribution*
This category includes emissions from the transportation and distribution of raw materials, as well as products to customers, that are not transported by Hempel owned or controlled vehicles. Emissions in this category are calculated based on data on distances converted to $CO_2e$ using BEIS GHG.

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

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

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

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

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

*Volatile Organic Compounds (VOCs) in products*
The calculation of $CO_2e$ from VOCs in products is based on the amounts of VOC in products sold (i.e. grams per litre of product sold). All VOCs are converted to carbon dioxide equivalent emissions using xylene as a representative profile.

*Energy for application of products*
The volume of sold paint is calculated based on actual production and sales data. The data are split per country and recommended product application method. The relevant country-specific emission factor (IEA dataset) is utilised to determine energy consumption for each country. To account for surface preparation, an average coverage of the sold products is calculated based on products supplied. The $CO_2e$ is calculated by applying an estimated abrasive blasting emission factor [kg $CO_2e$/m2].

*Category 12: End of life treatment*
The waste-type specific method is applied to the total volumes produced at Hempel sites and at third-party toll manufacturing sites. A reduction of 15 per cent in product volumes for paint lost to the environment during application (see also category 10.1 for the calculation of emissions related to VOCs in products) is assumed in the calculation. The average waste recovery rates for 2010 to 2020 are used to determine total waste per treatment method, based on BEIS waste statistics.

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

## SOCIAL DATA

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

LTAs are defined as occupational accidents that result in at least one day's absence following the day of the accident, as recommended by a medical professional. Days such as weekends, holidays and vacation are included. If the employees go to work, even though a licensed healthcare professional advises not to, the accident will be reported as an LTA. Similarly, if the employee stays away from work without recommendation from a licensed healthcare professional, it is not included.

Only accidents involving employees employed directly or supervised by Hempel are reported. The number of working hours used to calculate the LTA frequency is based on the number of average full-time employees working for Hempel, multiplied by the most recent OECD average for actual working hours of 1,716 hours per employee per year (2021: 1,687 hours).

**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 based on formulations and production data for specific products. The volume of paint produced includes all products produced by and for the Hempel Group, including products with no red raw material consumption.

A raw material is considered a red raw material if it carries any of the following hazard classifications according to the UN's Globally Harmonised System of Classification and Labelling:

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

Or if the raw material has the following properties:

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

| Health & Safety | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Lost Time Accident frequency (number/million work hours) | 1.19 | 1.72 | 1.61 | 2.68 |
| Consumption of red raw materials (kg /1000 L paint produced)* | 50.65 | 26.67 | 7.90 | 8.09 |

* The scope of red raw materials was expanded during 2021 to include candidate list substances as well as respiratory sensitives. The figures from 2019-2021 are therefore not directly comparable to 2022.

| Diversity | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Average full-time equivalents (FTEs) | 7,343 | 6,746 | 6,099 | 6,219 |
| Total no. of employees | 7,542 | 6,922 | N/A | N/A |
| Gender diversity in general workforce (ratio female/male) | 31/69 | 27/73 | N/A | N/A |
| Gender diversity in management positions (ratio female/male) (previous definition) | 29/71 | 23/77 | 21/79 | N/A |
| Gender diversity in management positions (ratio female/male) (new definition) | 30/70 | N/A | N/A | N/A |

| Employee engagement | 2022 | 2021 | 2020* | 2019 |
|---|---|---|---|---|
| Response rate | 83% | 87% | N/A | 90% |
| Satisfaction & Motivation | 72 | 73 | N/A | 74 |
| Learning & Development | 80 | 80 | N/A | 80 |

* Employee engagement in 2020 was, due to COVID-19, only conducted among PC users.

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

The list of raw materials are reviewed and updated on frequent basis.

**People & Diversity data**
Headcount is defined as all individuals working directly for Hempel on a permanent or temporary contract at the end of the relevant year. Average Full-Time Equivalents (FTEs) is equal to the average number of employees contracted with Hempel. Part-time employees are converted into FTEs proportionally based on the relevant country norm of a full-time employee.

Diversity KPIs are calculated based on the headcount at the end of the reporting period, using the following definitions:

- Total workforce is individuals on either a permanent or temporary contract with Hempel
- Executive Management is defined as the Executive Management as registered with the Danish authorities and individuals at the same organisational level
- All management positions are defined as Managers with at least 3 direct reports (previous definition)
- Other Managerial positions as defined by the Danish Company Act are Executive Group Management and employees who report to the Executive Group Management and have direct reports (new definition)

Employees who identify as non-binary within Hempel make up less than 0.5 per cent of the workforce and are therefore not visible in the above table. However, internally employees who identify as non-binary are given equal weight as other genders.

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

**Employee Engagement – Satisfaction & Motivation and Learning & Development**
The Satisfaction & Motivation and Learning & Development scores are based on several 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 by an external provider.

## GOVERNANCE DATA

**Percentage of employees required to complete the Code of Conduct refresher**
The percentage is calculated as the number of employees who completed and signed off on the Code of Conduct Refresher 2022 e-learning in Hempel's Learning Management System out of the total target group, consisting of approx. 3,800 employees. The relevant target group consists of employees who:

- were active Hempel employees as of the day of the global roll-out on 8 September 2022
- are Hempel PC users with access to Workday
- were not on long-term leave, and not departing Hempel before year-end
- were not assigned the longer foundational Code of Conduct course in June 2022 or later. (The foundational course is assigned to all new PC using employees during onboarding and was assigned to Wattyl PC users in September.)

**Compliance cases**
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 Hempel's Ethics Hotline Policy. Such cases may have been submitted directly to the Ethics Hotline website, reported to our Compliance Department or management, or registered following an internal finding.

**Hempel Procurement Sustainability Screening Programme**
The number of suppliers screened is the number of screenings completed within the current year and previous year. The per cent of direct and indirect spend on screened suppliers is calculated by dividing the total direct and indirect spend of the Hempel Group within the relevant year by the amount of direct and indirect spend on screened suppliers within the last two years.

| Code of Conduct | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Percentage of employees with a Hempel e-mail address who completed and signed off on Code of Conduct Refresher | 100% | 100% | 100% | 100% |

| Compliance cases | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Open compliance cases, beginning of the period | 23 | 23 | 16 | 25 |
| New compliance cases reported during the year | 44 | 46 | 30 | 34 |
| - Environment, health & safety | 3 | 3 | 2 | 0 |
| - Work environment | 13 | 13 | 3 | 1 |
| - Integrity | 28 | 30 | 25 | 33 |
| Compliance cases closed as substantiated during the year | 21 | 23 | 11 | 18 |
| Compliance cases closed as unsubstantiated during the year | 31 | 23 | 12 | 25 |
| Total cases under investigation, end of period | 15 | 23 | 23 | 16 |

| Sustainability Procurement Screening Programme | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Suppliers screened | 77 | 41 | N/A | N/A |
| % of direct and indirect spend suppliers screened through Hempel Procurement Sustainability Screening | 40% | 22% | N/A | N/A |

# Management's statement

The Board of Directors and the Executive Group Management have today considered and adopted the Annual Report of Hempel A/S for the financial year 1 January – 31 December 2022.

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

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2022 of the Group and the Parent Company and of the results of the Group and Parent Company operations and consolidated cash flows for the financial year 1 January - 31 December 2022.

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

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

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

Kgs. Lyngby, 7 March 2023

**Registered Executive Management**

**Michael Hansen**
Group President &
Chief Executive Officer

**Lars Jønstrup Dollerup**
Executive Vice President
& Chief Financial Officer

**Board of Directors**

**Richard Sand**
Chair

**Eric Alström**
Deputy Chair

**Leif Jensen**

**Karsten Munk Knudsen**

**Søren P. Olesen**

**Susanna Schneeberger**

**Helle Fiedler**

**Kim Scheibel**

**Mark Terrell Sutton**

# Executive Group Management

**Michael Hansen**
Group President & Chief Executive Officer

**Lars Jønstrup Dollerup**
Executive Vice President & Chief Financial Officer

**Joe Devitt**
Executive Vice President, Decorative

**Alexander Enström**
Executive Vice President, Marine

| | Michael Hansen | Lars Jønstrup Dollerup | Joe Devitt | Alexander Enström |
|---|---|---|---|---|
| Born | 1975 | 1974 | 1962 | 1983 |
| Core capabilities | • Commercial<br>• Strategy development and execution | • Finance, IT and M&A<br>• Audit | • Commercial (B2C and B2B)<br>• Industry knowledge | • Commercial<br>• Industry knowledge |
| Education | • IE Business School, Global Executive MBA | • Educated as state authorised public accountant (approval deposited with the Danish Business Authority) | • BA (Hons) Business Studies, Staffordshire University | • MSc Material Chemistry, Uppsala University |

**Steen Niemann Madsen**
Executive Vice President, Energy & Infrastructure

**Katarina Lindström**
Executive Vice President & Chief Operations Officer

**Pernille Fritz Vilhelmsen**
Executive Vice President & Chief People & Culture Officer

**René Overgaard Jensen**
Vice President, Strategy & Transformation

| | Steen Niemann Madsen | Katarina Lindström | Pernille Fritz Vilhelmsen | René Overgaard Jensen |
|---|---|---|---|---|
| Born | 1971 | 1965 | 1980 | 1972 |
| Core capabilities | • Commercial and marketing<br>• Industry knowledge | • Operations and supply chain<br>• Product management | • People and HR<br>• Sustainability | • Strategy development and execution<br>• Innovation |
| Education | • Diploma in Business Administration, Copenhagen Business School | • MSc Materials Science, KTH Royal Institute of Technology | • MSc Human Resource Management, Birbeck, University of London | • MBA Business Administration & Management, Heriot-Watt University |

# Board of Directors

| | <br>**Richard Sand**<br>Chair | <br>**Eric Alström**<br>Deputy Chair | <br>**Leif Jensen** | <br>**Karsten Munk Knudsen** |
|---|---|---|---|---|
| Born | 1959 | 1966 | 1954 | 1971 |
| First elected in | 2009 (and Chair since 2010) | 2017 | 2011 | 2021 |
| Core capabilities | • Foundation and company law, M&A<br>• Strategy development & execution<br>• ESG/Sustainability<br>• Industry knowledge | • Operations<br>• Supply chain | • Industry knowledge<br>• Commercialisation through finance | • Finance<br>• Sustainability |
| Committees | • Chair of Nomination and Remuneration Committee | • Nomination and Remuneration Committee member | • Audit Committee and Remuneration & Nomination Committee member | • Chair of Audit Committee |
| Selected positions and directorships | • Partner at Bech-Bruun Law Firm with Right of audience, The Danish Supreme Court<br>• Chair: Aller A/S, Pressalit Holding A/S, E. Callsen & Co. A/S and Kivan Food A/S<br>• Board member: Aller Foundation and Esplanadens Ejendomsselskab P/S | • President: Danfoss Power Solutions<br>• Managing Director: Benteler Automotive | • Chair: Tajco Group A/S and Strømberg Holding A/S<br>• Board member: WindowMaster International A/S | • CFO and EVP Finance, Legal & Global Solutions: Novo Nordisk A/S<br>• Chair: NNE A/S |
| Education | • Master of Law from the University of Copenhagen | • MSc Management, Stanford University Graduate School of Business | • MSc in Economics and Management, Aarhus University | • MSc Finance, University of Aarhus |

| | **Søren P. Olesen** | **Susanna Schneeberger** | **Helle Fiedler**<br>Elected by the employees | **Kim Scheibel**<br>Elected by the employees | **Mark Terrell Sutton**<br>Elected by the employees |
|---|---|---|---|---|---|
| Born | 1967 | 1973 | 1963 | 1960 | 1966 |
| First elected in | 2018 | 2018 | 2015 | 2013-2019, 2022 | 2019 |
| Core capabilities | • Industry knowledge<br>• Product development<br>• M&A | • Commercial & go-to-market<br>• Transformation & digitalisation | • Product development<br>• Innovation | • Commercial<br>• Industry knowledge<br>• Innovation | • Innovation<br>• Information technology |
| Committees | • Audit Committee member | • N/A | • N/A | • N/A | • N/A |
| Selected positions and directorships | • CEO: STARK Group A/S<br>• Board member: Industriens Arbejdsgivere i Danmark, IAD | • Chair: Yunex Traffic<br>• Board member: SKF Group, Hennecke Group and Concentric AB | • Lead Scientist R&D, Hempel A/S | • Customer Futurist, Hempel A/S | • Head of GrowHub, Hempel A/S |
| Education | • MSc Economics, Aalborg University<br>• MA (Econ), Rijksuniversiteit Limburg, Maastricht | • Master of European Affairs (MBA), MSc International Business, Lund University | • MSc Chemical Engineering | • Board Leadership & Corporate Governance, Copenhagen Business School | • Executive MBA: Managing for Growth, Technical University of Denmark |

# Independent auditor's report

To the Shareholder of Hempel A/S

**Opinion**
In our opinion, the Consolidated Financial Statements (pages 57-97) give a true and fair view of the Group's financial position at 31 December 2022 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2022 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements (pages 98-107) give a true and fair view of the Parent Company's financial position at 31 December 2022 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2022 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 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("financial statements").

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

**Statement on Management's Review**
Management is responsible for Management's Review (pages 1-47).

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view
- 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, 7 March 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

# Independent limited assurance report on the ESG data 2022

To the stakeholders of Hempel A/S

Hempel A/S (Hempel) engaged us to provide limited assurance on the ESG Data for the period 1 January - 31 December 2022 on pages 42-47 in the Annual Report for Hempel for 2022.

**Our conclusion**
Based on the procedures we performed and the evidence we obtained, nothing has come to our attention that causes us to believe that the ESG Data on pages 42-47 in the Hempel Annual Report 2022 have not been prepared, in all material respects, in accordance with the ESG Accounting Policies stated on pages 42-47.

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

**What we are assuring**
The scope of our work was limited to assurance over the ESG Data on pages 42-47 in Hempel's Annual Report.

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

Information' and, in respect of the greenhouse gas emissions stated on pages 44-45, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board'. Quantification of greenhouse gas emissions is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

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

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

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

**Understanding reporting and measurement methodologies**
The ESG Data needs to be read and understood together with the ESG accounting policies (pages 42-47), which management of Hempel is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

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

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

**Management's responsibilities**
Hempel's management are responsible for:

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

**Our responsibility**
We are responsible for:

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

Hellerup, 7 March 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

# Financial statements

# Consolidated financial statements

# Consolidated statement
## of profit and loss

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| 2.1 | Revenue | 2,159 | 1,744 |
| 2.4 | Production costs | -1,375 | -1,084 |
| | **Gross profit** | **784** | **660** |
| 2.4 | Sales and distribution costs | -552 | -453 |
| 2.4 | Administrative costs | -121 | -121 |
| 2.3 | Other operating income | 4 | 20 |
| 2.3 | Other operating expenses | -1 | 0 |
| | **Operating profit** | **114** | **106** |
| 4.5 | Financial income | 5 | 4 |
| 4.5 | Financial expenses | -63 | -21 |
| | **Profit before tax** | **56** | **89** |
| 2.5 | Income tax | -19 | -31 |
| | Net profit for the year from continuing operations | 37 | 58 |
| 4.7 | Net profit / (loss) for the year from discontinued operations | -2 | 5 |
| | **Net profit for the year** | **35** | **63** |
| | **Attributable to:** | | |
| | Equity holders of Hempel A/S | 46 | 62 |
| | Non-controlling interests | -11 | 1 |
| | **Net profit for the year** | **35** | **63** |

# Consolidated statement
## of comprehensive income

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| | Net profit for the year | 35 | 63 |
| | **Other comprehensive income:** | | |
| | *Items that may be reclassified to profit and loss:* | | |
| | Exchange rate differences on translation of foreign operations and hyperinflation | -23 | 37 |
| 2.5 | Tax on other comprehensive income | 2 | -4 |
| | *Items that will not be reclassified to profit and loss:* | | |
| 3.6 | Remeasurements of defined benefit obligations | 5 | 3 |
| 2.5 | Tax on other comprehensive income | -1 | 0 |
| | **Other comprehensive income for the year, net of tax** | **-17** | **36** |
| | **Total comprehensive income for the year** | **18** | **99** |
| | **Attributable to:** | | |
| | Equity holders of Hempel A/S | 26 | 95 |
| | Non-controlling interests | -8 | 4 |
| | **Total comprehensive income for the year** | **18** | **99** |

# Consolidated statement
## of financial position

*In EUR million*

| Note | | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| 3.1 | Intangible assets | 765 | 766 |
| 3.2 | Property, plant and equipment | 511 | 477 |
| 3.3 | Right-of-use assets | 161 | 172 |
| | Other financial assets | 13 | 11 |
| 2.5 | Deferred tax assets | 94 | 60 |
| | **Total non-current assets** | **1,544** | **1,486** |
| 3.4 | Inventories | 343 | 334 |
| 3.5 | Trade receivables | 476 | 397 |
| | Income tax receivables | 4 | 4 |
| | Prepayments | 17 | 21 |
| | Other receivables | 70 | 48 |
| | Cash | 180 | 176 |
| 4.7 | Assets held for sale | 21 | – |
| | **Total current assets** | **1,111** | **980** |
| | **Total assets** | **2,655** | **2,466** |

*In EUR million*

| Note | | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| 4.1 | Share capital | 15 | 15 |
| | Translation reserve | -25 | -1 |
| | Retained earnings | 529 | 479 |
| | Proposed dividend for the year | – | 33 |
| | **Hempel A/S shareholders' share of equity** | **519** | **526** |
| | Non-controlling interests | 28 | 41 |
| | **Total equity** | **547** | **567** |
| 4.2 | Borrowings | 901 | 770 |
| 3.3 | Lease liabilities | 129 | 138 |
| 3.7 | Provisions | 36 | 41 |
| 3.6 | Pensions and similar obligations | 16 | 21 |
| 2.5 | Deferred tax liabilities | 99 | 101 |
| | **Total non-current liabilities** | **1,181** | **1,071** |
| 4.2 | Borrowings | 100 | 67 |
| 3.3 | Lease liabilities | 36 | 38 |
| | Trade payables | 355 | 344 |
| 5.5 | Payables to parent company | 66 | 70 |
| | Deferred income | 7 | 8 |
| 3.7 | Provisions | 11 | 11 |
| | Income tax payables | 26 | 7 |
| 3.8 | Other liabilities | 320 | 283 |
| 4.7 | Liabilities held for sale | 6 | – |
| | **Total current liabilities** | **927** | **828** |
| | **Total liabilities** | **2,108** | **1,899** |
| | **Total equity and liabilities** | **2,655** | **2,466** |

# Consolidated statement

## of changes in equity

*In EUR million*

| Note | | Share capital | Translation reserve | Retained earnings | Proposed dividend | Hempel A/S shareholders' share of equity | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | **Equity at 1 January 2021** | **15** | **-31** | **447** | **25** | **456** | **43** | **499** |
| | Net profit for the year | – | – | 62 | – | 62 | 1 | 63 |
| | Other comprehensive income | – | 30 | 3 | – | 33 | 3 | 36 |
| | **Total comprehensive income for the year** | **–** | **30** | **65** | **–** | **95** | **4** | **99** |
| | *Transactions with owners in their capacity as owners:* | | | | | | | |
| | Paid dividends | – | – | – | -25 | -25 | -5 | -30 |
| | Proposed dividends | – | – | -33 | 33 | – | – | – |
| | Transactions with non-controlling interests | – | – | – | – | – | -1 | -1 |
| | **Total transactions with owners** | **–** | **–** | **-33** | **8** | **-25** | **-6** | **-31** |
| **4.1** | **Equity at 31 December 2021** | **15** | **-1** | **479** | **33** | **526** | **41** | **567** |
| | **Equity at 1 January 2022** | **15** | **-1** | **479** | **33** | **526** | **41** | **567** |
| | Net profit for the year | – | – | 46 | – | 46 | -11 | 35 |
| | Other comprehensive income | – | -24 | 4 | – | -20 | 3 | -17 |
| | **Total comprehensive income for the year** | **–** | **-24** | **50** | **–** | **26** | **-8** | **18** |
| | *Transactions with owners in their capacity as owners:* | | | | | | | |
| | Paid dividends | – | – | – | -33 | -33 | -5 | -38 |
| | **Total transactions with owners** | **–** | **–** | **–** | **-33** | **-33** | **-5** | **-38** |
| **4.1** | **Equity at 31 December 2022** | **15** | **-25** | **529** | **–** | **519** | **28** | **547** |

# Consolidated statement
## of cash flows

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| | **Cash flows from operating activities** | | |
| | Operating profit | 114 | 106 |
| | Operating profit from discontinued operations | -5 | 3 |
| 5.2 | Adjustment for non-cash items | 105 | 82 |
| | **Total cash flow from operating activities before financial items, tax and changes in working capital** | **214** | **191** |
| | *Changes in working capital:* | | |
| | Change in receivables | -97 | -27 |
| | Change in inventories | -10 | -45 |
| | Change in payables | 32 | -2 |
| | **Total change in working capital** | **-75** | **-74** |
| | **Total net cash flow from operating activities before financial items and tax** | **139** | **117** |
| | Income tax paid | -27 | -31 |
| | Interest paid, net | -40 | -17 |
| | **Total cash flow from operating activities** | **72** | **69** |
| | **Cash flows from investing activities** | | |
| | Purchase of property, plant and equipment | -84 | -86 |
| | Purchase of intangible assets | -28 | -11 |
| | Sale of property, plant and equipment | 5 | 10 |
| 4.6 | Acquisition of enterprises | -28 | -511 |
| | Change in deposits | -1 | – |
| | **Total cash flow from investing activities** | **-136** | **-598** |
| | **Free cash flow** | **-64** | **-529** |

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| | **Cash flow from financing activities** | | |
| 4.4 | Repayment of lease liabilities | -42 | -37 |
| | Proceeds from borrowings | 254 | 1,250 |
| | Repayment of borrowings | -95 | -748 |
| | *Transactions with shareholders:* | | |
| 4.1 | Dividend distributed to shareholders | -33 | -25 |
| 4.1 | Dividend distributed to non-controlling interests | -5 | -5 |
| | **Total cash flow from financing activities** | **79** | **435** |
| | **Net cash flow** | **15** | **-94** |
| | Cash at the beginning of the year | 176 | 265 |
| | Exchange rate adjustment | -8 | 5 |
| | **Cash at the end of the year** | **183** | **176** |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# Section 1
## Basis of preparation

### 1.1 General accounting policies

**Introduction**
The consolidated financial statements of Hempel A/S for the period 1 January – 31 December 2022 comprise Hempel A/S and its subsidiaries (the Group).

The Board of Directors considered and approved the 2022 Annual Report of Hempel A/S on 7 March 2023. The Annual Report will be submitted to the shareholders of Hempel A/S for approval at the Annual General Meeting on 27 April 2023.

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

The notes are grouped in sections and include the relevant accounting policies. The Group's significant accounting estimates and judgements are described in note 1.2 Significant accounting estimates and judgements.

**Basis of measurement**
The consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments and assets held for sale that are measured at fair value.

The accounting policies have, with the exceptions described below, been applied consistently in preparation of the consolidated financial statements and for the comparative figures.

**Assets held for sale and discontinued operations**
Non-current assets and disposal groups are classified as held for sale when their carrying amount will be recovered through a sale transaction rather than through continuing use. Non-current assets and disposal groups are measured at the lower of the carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of the disposal group, excluding finance costs and income tax expense. Property, plant and equipment, intangible assets and right-of-use assets are not depreciated or amortised once classified as held for sale. Assets and liabilities held for sale are presented separately as current items in the statement of the financial position. Discontinued operations are excluded from the results of the continuing operations and presented as a single amount in profit and loss after tax from discontinued operations in the statement of profit and loss. For discontinued operations, comparatives have been restated in the statement of profit and loss. Refer also to note 4.7 Discontinued operations and assets and liabilities held for sale.

**New standards, interpretations and amendments adopted**
The Group applied certain standards, interpretations and amendments, which are effective for annual periods beginning on or after 1 January 2022: Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to IFRS 2018-2020 cycle.

The amendments listed above did not have any impact on the amounts recognised in current or prior periods and are not expected to significantly affect future periods.

**New standards and interpretations not yet adopted**
Certain new accounting standards and interpretations that have been published are not mandatory for the 31 December 2022 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future reporting periods, or on foreseeable future transactions.

**Change of accounting policy**
The Group has changed its accounting policy related to capitalisation of certain software costs. This change follows the IFRIC Interpretation Committee's agenda decision published in April 2021 and relates to the capitalisation of costs of configuring or customising software under 'Software as a Service' ('SaaS') arrangements.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over a contract period. In these arrangements, the Group does, in accordance with the new IFRIC agenda decision, not obtain control over a software intangible asset why implementation and configurations costs should be expensed when incurred.

The Group's accounting policy has historically been to capitalise most configuration and customisation costs related to SaaS arrangements as intangible assets in the statement of financial position.

As a result of the change in accounting policy, SaaS arrangements were reviewed and assessed to determine if the Group controls the software. For arrangements where the Group does not control the software, the adoption of the agenda decision has resulted in restatement of some previously capitalised intangible assets to an expense in the statement of profit and loss. This change in accounting treatment has been accounted for retrospectively and comparative information has been restated accordingly. Operating profit and net profit for the year 2021 was impacted negatively by EUR 3 million. Consequently, intangible assets and retained earnings was reduced by EUR 3 million. The net cash flows remained unchanged in 2021, however cash flows from investing activities were improved by EUR 3 million, offset by a corresponding negative impact on cash flows from operating activities.

The impact in 2022 of the change in accounting policy is considered immaterial.

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

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

When the Group loses control of a subsidiary, it derecognises assets (including goodwill), liabilities, the carrying amount of any non-controlling interests and components of other comprehensive income attributable to the non-controlling interests. Any gain or loss is recognised within other operating income and expenses.

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

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

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in retained earnings within equity.

Where a non-controlling interest holds a put option to sell the remaining minority shares to the Group, a liability is recognised in the statement of financial position at fair value calculated as the present value of the exercise price of the option. Any subsequent adjustment to the fair value of the put option is recognised directly within equity under retained earnings.

**Presentation currency**
The functional currency of the parent company is DKK, however the consolidated financial statements is presented in million EUR as the Group operates in a global environment with international stakeholders.

**Translation of transactions and balances in foreign currencies**
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.

Transactions in foreign currencies are translated into the functional currency defined for each company using the exchange rates prevailing at the dates of transaction.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates on the balance sheet date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised as foreign exchange gains and losses in the statement of profit and loss as financial income or financial expenses.

Non-monetary items recognised in foreign currencies are measured at the transaction date rates and are not retranslated subsequently.

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

- assets and liabilities are translated at the exchange rate on the balance sheet date
- income and expenses in profit and loss and in the statement of comprehensive income are translated at monthly average exchange rates (unless this is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- share capital denominated in a currency that differs from the presentation currency of the consolidated financial statements is translated at historical cost
- all resulting exchange differences are recognised in other comprehensive income and attributed to a separate translation reserve in equity. However, where the foreign entity is not wholly-owned, a proportion of the translation difference is allocated to the non-controlling interests.

Foreign currency translation adjustments of a loan to or borrowings from subsidiaries which are neither planned nor likely to be settled in the foreseeable future, and which are therefore considered to form part of the net investment in the subsidiary, are recognised directly in other comprehensive income under the separate translation reserve within equity. When a foreign operation is derecognised, the associated cumulative exchange rate differences are reclassified to profit or loss, as part of the gain or loss on sale. Repayment of loans considered a part of the net investment in a subsidiary is not considered a disposal when Hempel retains its proportionate ownership interests, thus the cumulative exchange difference is not reclassified to profit and loss.

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

**Hyperinflation**

In foreign subsidiaries that operate in hyperinflationary economies, income and expenses are translated into the presentational currency EUR at the exchange rate at the balance sheet date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, the income statement and non-monetary balance sheet items are restated taking into account changes in the general purchasing power of the functional currency based on the inflation up to the balance sheet date ('inflation adjustment'). The effect of the inflation adjustment is recognised in Other comprehensive income within the translation reserve. In the income statement, gain/loss on the net monetary position in the foreign entities is recognised as financial income or expense. The assessment as to when an economy is hyperinflationary is based on qualitative as well as quantitative factors, including whether the accumulated inflation over a three-year period exceeds 100%. Currently, Turkey, which entered into hyperinflation as of 30 June 2022, and Argentina are considered hyperinflationary economies and thus the Group's operations in Argentina and Turkey have been remeasured in accordance with the principles described, applying the national Consumer Price Index (CPI) of Argentina and Turkey, respectively, for the inflation adjustment.

As the Group's consolidated financial statement is presented in a stable currency EUR, comparatives are not restated as a consequence of Turkey entering into hyperinflation. The effect on the opening balance of Turkey entering into hyperinflation is recognised directly within equity under retained earnings.

**Classification of operating expenses in the statement of profit and loss**

*Production costs*

Production costs comprise costs incurred to achieve revenue for the year. Costs comprise raw materials, consumables, direct labour costs and indirect production costs, such as maintenance and amortisation and depreciation, as well as costs for operation, administration and management of factories. Production costs also include research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs (except for amortisation of business application software). Write-downs of inventory are also included.

*Sales and distribution costs*

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

*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, depreciations and write-downs for bad debt. Amortisation of brands and software business applications are also recognised in administrative costs.

**Cash flow statement**

The statement of cash flows is presented using the indirect method. The statement of cash flows for the Group shows the cash flows for the year, broken down into operating, investing and financing activities and changes in the Group's cash and cash equivalents from the beginning of the year to the end of the year. The statement of cash flows cannot be immediately derived from the published financial records.

*Cash flow from operating activities*

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

*Cash flow from investing activities*

Cash flow from investing activities comprise cash flows from purchases and disposals of intangible assets, property, plant and equipment and acquisitions of enterprises.

*Cash flow from financing activities*

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

*Cash flow from currencies other than the functional currency*

Cash flow 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, in which case the exchange rate at the transaction date is applied.

*Cash*

Cash comprises cash at hand and bank deposits.

## 1.2 Significant accounting estimates and judgements

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

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

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

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

*Warranties*
The Group generally offers warranties for its products. Management makes estimates regarding the related provisions, including the probability of pending legal disputes and future litigation outcomes. When determining the most likely outcome, management considers input of internal and external counsel, historical warranty claim information, as well as recent trends that might suggest that historic cost levels do not accurately represent an approximation of the costs of future claims. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated amounts include whether the claims are deemed valid, to which extent the claims are covered by the product warranty and estimates of the costs of coating and other associated costs of remediating any product failure. Reference is made to note 3.7 Provisions for information about the Group's warranty provision.

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

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

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

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

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

The Group recognises deferred tax assets, including the expected value of carry-forward tax losses, based on an assessment of the recoverability of the deferred tax assets.
The assessment of the recoverability of the deferred tax assets involves estimates by management as to the likelihood of the utilisation of the deferred tax assets within a foreseeable future. This depends on a number of factors, including whether there will be sufficient taxable profits available in future periods, against which the carry-forward tax losses can be utilised.  In the event that actual future taxable profits generated are less than expected, and depending on the tax strategies that the Group may be able to implement, impairment of the deferred tax assets may be required. Reference is made to note 2.5 Income tax, tax assets and liabilities.

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

*Impairment test of brand*
In performing the annual impairment test of the Farrow & Ball brand, management assesses whether the brand will be able to generate sufficient positive net cash flows to support the carrying amount of the brand. The assessment is performed using a relief-from-royalty method based on expected future cash flows generated from the royalty savings attributable to owning the brand. The expected cash flows are based on assumptions about the royalty rate, expected future revenue and the discount rate. The key assumptions used to determine the recoverable amount of the brand, are disclosed and further explained in note 3.1 Intangible assets.

**Significant accounting judgements**
The significant judgements, apart from those that involve estimations, are the judgements that management made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Useful life of brands*
Management has assessed that certain brands, mainly the Farrow & Ball brand, have indefinite useful life as there is no foreseeable limit to the period over which the brand is expected to generate net cash inflows, based on the brand being well-established in its markets, have existed for decades and have no legal, regulatory, contractual, competitive, economic or other factors limiting the useful life of the brand.

# Section 2
## Results for the year

## 2.1 Revenue

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

Revenue from sale of paints and coatings is recognised when the related performance obligation is satisfied by transferring control of the promised goods to a customer. The Group's customer contracts usually include only a single performance obligation. Control of the paints and coatings is obtained when the goods are transferred to the customer. Where the Group provides technical services, including advice, training, project oversight and surface management services etc., revenue is recognised over time as the services are rendered.

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

The Group offers various discounts, including rebates, bonuses, volume discounts and payments to customers depending on the nature of the customer and business. These discounts are considered variable consideration. Bonuses and discounts payable to a customer are accrued for as the related performance obligations are satisfied and revenue is recognised. Historical experience is used to estimate and provide for the discounts, using the expected value method. Variable consideration related to discounts is only recognised as revenue to the extent that it is highly probable that a significant reversal will not occur in a later period. In case of expected returns, a refund liability and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned.

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| EMEA | 1,240 | 1,042 |
| Asia-Pacific | 653 | 537 |
| Americas | 266 | 165 |
| **Total revenue** | **2,159** | **1,744** |

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Decorative | 775 | 655 |
| Marine | 626 | 464 |
| Infrastructure | 445 | 359 |
| Energy | 313 | 266 |
| **Total revenue** | **2,159** | **1,744** |

The comparative figures for 2021 have been restated to ensure comparability from year to year and to reflect a new internal customer categorisation implemented in 2022, where customers, which in 2021 were categorised as "other", now are presented within Marine, Energy and Infrastructure.

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

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

# 2.2 Employee costs

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

Employee costs are recognised in the financial year in which the associated services are rendered. Costs for long-term employee benefits provided by the Group are recognised in the period in which they are earned.

For further information about the Group's pension plans, reference is made to note 3.6 Pensions and similar obligations.

**Key management compensation**
Together with the Board of Directors, key management personnel comprise individuals in the Executive Board and the Executive Group Management (EGM). The Executive Board is a part of the EGM and the EGM consists of 8 individuals (2021: 8 members). For a further description of the Executive Board's remuneration, reference is made to Management's Review.

The compensation paid or payable to the key management personnel for employee services is shown below. Total remuneration for Executive Board and Board of Directors amounted to EUR 4.3 million in 2022 (2021: EUR 6.5 million).

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Staff costs:* | | |
| Wages and salaries | 381 | 323 |
| Pensions – defined contribution plans | 21 | 18 |
| Pensions – defined benefit plans | 2 | 1 |
| Other social security contributions | 28 | 24 |
| Other employee costs | 23 | 20 |
| **Total employee costs for the year** | **455** | **386** |
| Average number of full-time employees | 7,343 | 6,746 |
| *Staff costs have been recognised in the profit and loss as follows:* | | |
| Production costs | 131 | 114 |
| Sales and distribution costs | 258 | 206 |
| Administrative costs | 66 | 66 |
| **Total employee costs in the profit and loss** | **455** | **386** |

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Executive Board[1]):* | | |
| Wages and salaries | 3.4 | 3.8 |
| Pensions, defined contribution plans | 0.1 | 0.2 |
| Other long-term benefits | -0.3 | 1.5 |
| **Total** | **3.2** | **5.5** |
| *Other key management personnel[2]):* | | |
| Wages and salaries | 3.9 | 2.4 |
| Pensions, defined contribution plans | 0.3 | 0.2 |
| Other long-term benefits | 1.6 | 0.3 |
| **Total** | **5.8** | **2.9** |
| *Board of Directors:* | | |
| Board fee | 1.1 | 1.0 |
| **Total** | **1.1** | **1.0** |
| **Total compensation to key management personnel** | **10.1** | **9.4** |

1) The Executive Board registered with the Danish Business Authority (Erhvervsstyrelsen) at year end 2022 consisted of 2 members (2021: 3 members).

2) Other key management personnel consists of 6 members at the end of 2022 (2021: 5 members).

## 2.3 Other operating income and expenses

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

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

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

**Other operating income**
*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Gain on sale of property, plant and equipment | 4 | 3 |
| Government grants | – | 17 |
| **Total other operating income** | **4** | **20** |

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

**Other operating expenses**
*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Loss on sale of property, plant and equipment | -1 | – |
| **Total other operating expenses** | **-1** | **–** |

## 2.4 Special items

Special items include significant income and expenses of a special nature relative to the Group's earnings generating operating activities, such as costs related to M&A activities, integration of acquired businesses and restructuring costs. Other significant amounts of non-recurring nature are also included in special items such as impairment of intangible assets and gain/loss on divestments of subsidiaries.

In 2022, special items comprised employee redundancy costs and other related costs in connection with the organisational changes implemented to reduce costs and ensure the Group's competitiveness, following the increases in production costs as a result of, among other factors, the significant increases in raw material prices.

Further, special items comprised in both 2022 and 2021 integration costs related to acquired business as well as M&A related costs. Integration and M&A costs comprise salaries, consultancy costs and, to a lesser extent, travel, accommodation costs, etc.

**Special items, expenses**
*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Restructuring costs | 27 | – |
| M&A and integration related costs | 3 | 8 |
| **Total special items** | **30** | **8** |

Due to the significant impact on the statement of profit and loss in 2022, these non-recurring items of special nature are disclosed separately in this note. The special items are presented in the statement of profit and loss within the following functions:

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Production costs | 5 | – |
| Sales and distribution costs | 11 | – |
| Administrative costs | 14 | 8 |
| **Total special items** | **30** | **8** |

# 2.5 Income tax, tax assets and liabilities

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

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

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

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

**Tax for the year**
*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Tax for the year is specified as follows:* | | |
| Tax on profit for the year | -19 | -31 |
| Tax on other comprehensive income | 1 | -4 |
| **Total tax for the year** | **-18** | **-35** |
| *Tax on profit for the year is calculated as follows:* | | |
| Current tax for the year | -51 | -26 |
| Deferred tax for the year | 32 | -6 |
| Adjustment in respect of previous years | 1 | -3 |
| **Total tax on total comprehensive income** | **-18** | **-35** |
| **Effective tax rate of the Group** | | |
| *Reconciliation of tax rate:* | | |
| Danish tax rate | 22.0% | 22.0% |
| Higher/(lower) tax rates of foreign subsidiaries | -8.6% | -5.5% |
| **Weighted tax rate of the Group** | **13.4%** | **16.5%** |
| *Tax effect of:* | | |
| Permanent differences | -0.1% | 0.7% |
| Unrecognised deferred tax assets | 21.8% | 11.1% |
| Recognised deferred tax assets related to prior years | -18.3% | -7.5% |
| Adjustments in respect of previous years | 1.6% | 3.7% |
| Other adjustments | 1.9% | 0.4% |
| Withholding taxes etc. | 6.5% | 7.9% |
| **Effective tax rate of the Group excluding hyperinflation** | **26.8%** | **32.8%** |
| Hyperinflation | 7.1% | 0.7% |
| **Effective tax rate of the Group** | **33.9%** | **33.5%** |

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where

Hempel A/S is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

**Deferred tax recognised in the balance sheet**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Deferred tax, beginning of year | -41 | -1 |
| Recognised in profit and loss | 32 | -6 |
| Adjustment in respect of previous year | 4 | – |
| Adjustments arising from business combinations | – | -34 |
| **Tax assets and liabilities at 31 December, net** | **-5** | **-41** |

**Specification of deferred tax assets**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Intangible assets | 17 | 11 |
| Property, plant and equipment | 10 | 6 |
| Inventories | 2 | 1 |
| Trade receivables | 4 | 4 |
| Provisions and defined benefit obligations | 17 | 21 |
| Lease liabilities | 3 | – |
| Tax loss carryforwards | 41 | 17 |
| **Deferred tax assets at 31 December** | **94** | **60** |

Deferred tax assets and liabilities within the same tax jurisdiction are presented as either a net asset or net liability. Last year, deferred tax assets and liabilities were presented gross. As a result of the change in presentation, comparative figures have been restated to also present the deferred tax asset and liabilities on a net basis.

**Specification of deferred tax liabilities**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Intangible assets | 54 | 45 |
| Property, plant and equipment | 3 | 7 |
| Inventories | – | 2 |
| Provisions and defined benefit obligations | 42 | 47 |
| **Deferred tax liabilities at 31 December** | **99** | **101** |

| | 2022 | 2021 |
|---|---|---|
| Deferred tax assets | 94 | 60 |
| Deferred tax liabilities | -99 | -101 |
| **Net at 31 December** | **-5** | **-41** |

The Group recognises deferred tax assets, including the expected value of tax loss carryforwards, based on an assessment of the recoverability of the deferred tax assets. At 31 December 2022, Hempel recognised a deferred tax asset related to tax loss carryforwards of EUR 41 million (2021: EUR 17 million).

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

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

**Deferred tax not recognised in the balance sheet**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Temporary differences | 9 | 9 |
| Tax loss carryforwards | 36 | 35 |
| **Total tax asset not recognised** | **45** | **44** |

Out of not recognised tax loss carryforwards 0% (2021: 0-5%) expire within 1 year, 10-15% (2021: 10-15%) expire within five years from the balance sheet date and the remaining balance has no expiry date.

# Section 3

## Operating assets and liabilities

### 3.1 Intangible assets

**Accounting policies**

*Goodwill*

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

*Brands with an indefinite useful life*

Brands acquired in a business combination are initially recognised in the statement of financial position at fair value and subsequently measured at cost less accumulated impairment losses. Brands which are considered to have an indefinitely useful life are not amortised, since there is no foreseeable limit to the period over which the brands are expected to generate net cash inflows.

*Software and software under development*

Acquired software and developed software are initially measured at costs and subsequently at cost less amortisation and impairment losses. Acquired software and developed software are amortised on a straight-line basis over the estimated usefull life, which is 3-10 years, though typically 5 years for ERP systems.

For software as a service arrangements, implementation costs are capitalised only where customisation and configuration of the SaaS arrangement results in an intangible asset controlled by the Group. Where customisation and configuration costs do not result in an intangible asset, costs are either expensed as incurred or alternatively over the contract term when the received services are not distinct from the SaaS solution.

Software under development is recognised at cost less impairment losses. Software under development is not amortised.

*Customer relationships*

Customer relationships acquired in a business combination are initially recognised at fair value 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 5-12 years.

*Other intangible assets*

Other intangible assets comprise development projects such as development of products or processes, formulas and smaller brands.

Development projects concerning products or processes (other than software development projects) that are clearly defined and identifiable, and in respect of which, technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the product or process in question, are recognised as intangible assets. Development projects are initially measured at cost, which comprises expenses, including salaries, amortisation and external costs, directly attributable to these development projects. Development projects are subsequently measured at cost less amortisation and impairment losses. Development projects are amortised on a straight-line basis over the estimated useful life, which is 3-10 years.

Formulas and smaller brands 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 2-10 years.

Amortisation and impairment are included as follows in the statement of profit and loss. No impairment was recognised in 2022 or 2021.

**Research and development costs expensed**

Research and development costs that are not eligible for capitalisation are expensed in the period incurred and are included in the statement of profit and loss within production costs. In 2022, this amounted to EUR 29 million (2021: EUR 31 million).

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Production costs | 5 | 1 |
| Sales and distribution costs | – | 1 |
| Administrative costs | 16 | 15 |
| **Total amortisation and impairment loss** | **21** | **17** |

**Re-allocation of goodwill**

In 2022, the Group re-allocated goodwill to align with the new organisational structure announced in December 2021 and implemented in 2022. The re-allocation was carried out to reflect the new internal management reporting and consequently how goodwill is monitored. Before the re-allocation of goodwill was carried out, an impairment test was performed which did not result in an impairment.

Previously, the Group monitored the Decorative business separately and the remaining activities on a regional basis. Now goodwill is monitored based on four commercial business units (Marine, Energy, Infrastructure and Decorative) and one internal business unit (Technology & Operations).

The four key commercial business units manage sales and are responsible for daily contact with the customers.

Marine customers comprise both newbuilding shipyards, ship owners requiring maintenance in dry dock, or at sea, and maintenance contractors. Maintenance work relates to every area of a vessel, most notably hull coating to protect the metal structure of the vessels.

Energy customers are owners of energy assets, often subject to harsh weather conditions such as windmills and other energy solution assets.

Infrastructure mainly relates to bridges, transportation assets and other infrastructure buildings. Customers are e.g. governments responsible for maintenance of critical infrastructure, company owners of infrastructure assets and maintenance contractors.

Decorative sells indoor and outdoor coating products. Decorative customers are both private and commercial customers, e.g. retailers.

Technology & Operations is an internal business unit where most of the Group's production and supply chain is managed, and where R&D activities take place. All products developed and produced by Technology & Operations are sold internally to the four key commercial business units.

The goodwill has been reallocated to the new groups of CGUs described above based on the relative headroom, defined as the difference between the carrying amount of allocated net assets and the recoverable amount for each group of CGUs in percentage of the total headroom. The carrying amount of goodwill re-allocated to the new groups of CGUs is shown in the table above.

*Goodwill at time of re-allocation (in EUR million)*

| Old groups of CGUs | New groups of CGUs | | | | | |
|---|---|---|---|---|---|---|
| | Marine | Energy | Infrastructure | Decorative | T&O | Total |
| Decorative | – | – | – | 161 | 323 | 484 |
| Americas | 4 | 3 | 4 | – | 23 | 34 |
| **Total goodwill** | **4** | **3** | **4** | **161** | **346** | **518** |

In performing the re-allocation of goodwill certain estimates and judgements have been applied by management in determining both the recoverable amounts, as well as the carrying amounts of each group of CGUs, including forecasting future income and expenses and allocating assets and liabilities to the relevant groups of CGUs. Reference is made to assumptions described in the section Impairment test goodwill.

**Impairment of non-current assets**

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

**Impairment test**

Hempel has tested the carrying amount of software under development, brands with indefinite useful life and goodwill for impairment. The tests did not result in any impairment of carrying amounts (2021: no impairment loss was recognised).

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

*In EUR million*

| | 2022 |
|---|---|
| Marine | 4 |
| Energy | 3 |
| Infrastructure | 3 |
| Decorative | 160 |
| T&O | 341 |
| Unallocated | 18 |
| **Total goodwill** | **529** |

EUR 18 million goodwill was recognised from the acquisitions of Paint World and Cap Couleurs and two smaller acquisitions, all in the second half of 2022 (refer to note 4.6 Acquisition of enterprises). The goodwill from these acquisitions has not yet been allocated to groups of CGUs.

**Impairment test goodwill**

As described under accounting policies, goodwill was re-allocated to align with the new internal management reporting structure. For the purpose of impairment testing, revenue in Technology & Operations comprises internal sales of coating and paint products to the four commercial business areas. The internal selling prices in Technology & Operations and thus COGS in the commercial business units are, for the purpose of impairment testing, adjusted to reflect management's best estimate of prices that could have been achieved in an arm's length transaction based on the commercial business units' operating model. In determining the carrying amount of net assets of each group of CGUs, certain allocation keys were applied.

The recoverable amounts of each group of CGUs are based on value in use calculations and based on cash flow projections for the years 2023-2027. The forecast represents management's best expectation of the future cash flows and is assumed to be both reasonable and achievable. The assumptions applied by management in forecasting the future cash flows reflect management's expectations considering all relevant factors, including Hempel's strategic initiatives, local initiatives, past experience and external sources of information, where possible and relevant. The key assumptions used in the cash flow projections are revenue growth, EBITDA margin, long-term growth rate and pre-tax discount rate (refer to the table to the right). Cash flows beyond the five-year forecast period are extrapolated using the estimated growth rates stated in table.

| Key assumption | Description |
|---|---|
| Revenue growth and EBITDA margin | Revenue is for all commercial business units assumed to increase over the forecasting period on average by mid single-digit growth rates, assuming a slight increase in market share. This is based on assumptions on the general market development in the different commercial business areas, taking into consideration the maturity of the market and the current challenges with high inflation, high energy and raw material prices and an assumption of a normalisation of the global economy over the forecasting period. Further, group and local strategic initiatives are considered when estimating the revenue growth rates for the individual commercial businesses, including initiatives focusing on increasing sales prices and volumes. A stable EBITDA margin is assumed in all the commercial business units in the forecasting period, based on the business units ability to generally increase selling prices in line with inflation.<br><br>The estimated revenue growth in Decorative is, in particular, to be achieved through our strong market position, brand awareness and through the in 2021 and 2022 acquired companies and stores that increases Decorative's accessibility in selected markets. For Marine, the estimated revenue growth is to be achieved through our strong, competitive products, e.g. within hull coatings, and higher sales prices through a more value-based price setting model, as well as increased sales volumes based on the assumed continuation of the trend of increasing demand for products in the marine industry that reduce both fuel consumption and CO2 emissions. For Energy and Infrastructure, the estimated revenue growth is based on an assumption of a normalisation of the global economy on the back of COVID-19 with an increased demand for sustainable solutions in the renewable and infrastructure sector and higher sales prices through a more value-based price setting model.<br><br>For Technology & Operations, revenue and EBITDA margin is derived from sales to the four commercial business units. Sales volumes are therefore based on the expected sales volumes in the four commercial business units. The internal sales prices are adjusted to reflect an arm's length selling price. EBITDA margin is assumed to increase slightly over the forecasting period. This is based on assumptions of a stabilisation of raw material prices, the ability to continuously optimise the production and supply chain, including higher utilisation of existing production capacity and reduction in production and employee cost as well as the realisation of expected synergies from acquired businesses during the period and in previous years. In addition, completion of the ongoing construction of new cost-efficient factories in 2022 and 2023 is assumed to improve the EBITDA margin over the forecasted period. |
| Long-term growth rate | The terminal growth rates do not exceed the expected long-term inflation. |
| Pre-tax discount rate | The pre-tax discount rate reflects the specific risks in the CGUs. |

| | Long-term growth rate | Pre-tax discount rate |
|---|---|---|
| Marine | 2.00% | 15.26% |
| Energy | 2.00% | 15.11% |
| Infrastructure | 2.00% | 15.11% |
| Decorative | 2.00% | 14.30% |
| Technology & Operations | 2.00% | 14.35% |

*Sensitivity analysis*

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

**Impairment test of the Farrow & Ball brand**

The carrying amount of the Farrow & Ball brand with indefinite useful life of EUR 136 million (2021: 136 million) was tested separately for impairment as the brand relates to the Farrow & Ball CGU. The recoverable amount is calculated based on a relief-from-royalty method, assuming a steady revenue growth of average 4.8% in the forecasting period based on expected market development within the luxury paint business. Further, the forecast assumes that selling prices increase in line with raw material price increases.

The royalty rate applied in the relief-from-royalty calculation is based on a benchmark study for high-end brands with similar market position as Farrow & Ball. A royalty rate of 6.15% (2021: 6.15%) and a weighted average cost of capital (WACC) of 8.79% (2021: 7.0%) were applied.

*In EUR million*

| | Goodwill | Brands (indefinite life) | Software | Software under development | Customer relationships | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Intangible assets** | | | | | | | |
| Costs at 1 January 2022 | 530 | 145 | 50 | 18 | 139 | 84 | 966 |
| Effect of exchange rate adjustment | -23 | -7 | – | – | 3 | 2 | -25 |
| Additions for the year | – | – | 1 | 22 | – | 1 | 24 |
| Acquisition of enterprises | 22 | – | – | – | – | – | 22 |
| Transfers and reclassifications | – | – | 7 | -11 | – | 4 | – |
| Disposals for the year | – | – | -1 | – | – | – | -1 |
| Reclassification to assets held for sale | – | – | -1 | – | – | – | -1 |
| **Costs at 31 December 2022** | **529** | **138** | **56** | **29** | **142** | **91** | **985** |
| Accumulated amortisation at 1 January 2022 | – | – | 42 | – | 101 | 57 | 200 |
| Effect of exchange rate adjustment | – | – | – | – | 2 | -1 | 1 |
| Amortisation for the year | – | – | 5 | – | 9 | 7 | 21 |
| Reversal of amortisation of assets disposed | – | – | -1 | – | – | – | -1 |
| Reclassification to assets held for sale | – | – | -1 | – | – | – | -1 |
| **Accumulated amortisation at 31 December 2022** | **–** | **–** | **45** | **–** | **112** | **63** | **220** |
| **Carrying amount at 31 December 2022** | **529** | **138** | **11** | **29** | **30** | **28** | **765** |
| **Intangible assets** | | | | | | | |
| Costs at 1 January 2021 | 65 | – | 41 | 11 | 127 | 81 | 325 |
| Effect of exchange rate adjustment | 14 | 3 | 1 | – | 8 | 3 | 29 |
| Additions for the year | – | – | – | 15 | – | – | 15 |
| Acquisition of enterprises | 449 | 142 | 3 | – | 4 | – | 598 |
| Adjustments* | 2 | – | – | -3 | – | – | -1 |
| Transfer and reclassifications | – | – | 5 | -5 | – | – | – |
| **Costs at 31 December 2021** | **530** | **145** | **50** | **18** | **139** | **84** | **966** |
| Accumulated amortisation at 1 January 2021 | – | – | 37 | – | 87 | 50 | 174 |
| Effect of exchange rate adjustment | – | – | 1 | – | 6 | 2 | 9 |
| Amortisation for the year | – | – | 4 | – | 8 | 5 | 17 |
| **Accumulated amortisation at 31 December 2021** | **–** | **–** | **42** | **–** | **101** | **57** | **200** |
| **Carrying amount at 31 December 2021** | **530** | **145** | **8** | **18** | **38** | **27** | **766** |

* Comparative figures for goodwill have been restated to reflect the increase in goodwill of EUR 2 million resulting from an adjustment to the preliminary purchase price allocation related to the acquisition of Wattyl in 2021, as detailed in note 4.6 Acquisition of enterprises. Further, comparative figures have been adjusted to reflect the change in accounting policies described in note 1.1 General accounting policies.

# 3.2 Property, plant and equipment

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

Costs comprise the purchase price, including import duties and non-refundable taxes, and expenses directly related to the acquisition up until the time when the asset is ready for intended use. In the case of assets of own construction, costs comprise direct expenses for labour, materials, components and suppliers.

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

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

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

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

If the individual material components of an asset have different useful lives, each component will be depreciated separately. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in other operating income and expenses (refer to note 2.3 Other operating income and expenses). The assets' residual values and useful lives are reviewed, and adjusted if necessary, at the end of each reporting period.

Information about commitments for acquisition of property, plant and equipment is provided in note 5.3 Contingent liabilities and other commitments.

**Impairment**

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment. If an asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised in the statement of profit and loss.

*In EUR million*

| | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| **Property, plant and equipment** | | | | | |
| Costs at 1 January 2022 | 321 | 277 | 113 | 111 | 822 |
| Effect of exchange rate adjustment | 6 | 1 | -1 | -3 | 3 |
| Acquisition of enterprises | – | 1 | – | – | 1 |
| Additions for the year | 1 | 2 | 5 | 83 | 91 |
| Transfer and reclassifications | 10 | 28 | 18 | -56 | – |
| Disposals for the year | -2 | -7 | -4 | – | -13 |
| Reclassification to assets held for sale | -13 | -10 | -2 | – | -25 |
| **Costs at 31 December 2022** | **323** | **292** | **129** | **135** | **879** |
| Accumulated depreciations at 1 January 2022 | 89 | 183 | 73 | – | 345 |
| Effect of exchange rate adjustment | 4 | 2 | -1 | – | 5 |
| Depreciation for the year | 10 | 19 | 11 | – | 40 |
| Transfer and reclassifications | -1 | – | 1 | – | – |
| Reversal of depreciations of assets disposed | – | -7 | -4 | – | -11 |
| Reclassification to assets held for sale | -2 | -8 | -1 | – | -11 |
| **Accumulated depreciation at 31 December 2022** | **100** | **189** | **79** | **–** | **368** |
| **Carrying amount at 31 December 2022** | **223** | **103** | **50** | **135** | **511** |

Capitalised interest expenses in 2022 amounted to EUR 1 million.

*In EUR million*

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

Capitalised interest expenses in 2021 amounted to EUR 1 million.

# 3.3 Leases

**Accounting policies**

*Lease liabilities*

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

Contracts may contain both lease and non-lease components. The Group has elected to separate lease and non-lease components. For these contracts, the consideration promised in the contract is allocated based on the relative stand-alone prices between the lease and non-lease component. Non-lease components are accounted for in accordance with the accounting policy applicable to such items.

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

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

When lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, any further reduction is recognised in the statement of profit and loss.

*Right-of-use assets*

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

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

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

*COVID-19 rent concessions*

The Group elected to apply the practical expedient for COVID-19 rent concessions applicable for payments due on or before 30 June 2022. Under the practical expedient, rent concessions arising as a direct consequence of the COVID-19 pandemic are not accounted for as a lease modification. Instead, the amount forgiven is recognised directly within the income statement.

*Short-term and low-value leases*

Short-term and low-value leases are expensed directly as operating costs in the statement of profit and loss, usually on a straight-line basis over the lease term.

The Group has recognised the following amounts relating to leases:

*In EUR million*

| | Land and buildings | Vehicles | Other fixed assets | Total |
|---|---|---|---|---|
| **Leases** | | | | |
| Costs at 1 January 2022 | 196 | 26 | 1 | 223 |
| Effect of exchange rate adjustment | -1 | – | – | -1 |
| Acquisition of enterprises | 3 | – | – | 3 |
| Additions for the year | 7 | 8 | – | 15 |
| Remeasurement | 16 | -1 | – | 15 |
| Disposals | -11 | -6 | – | -17 |
| Reclassification to assets held for sale | -1 | – | – | -1 |
| **Cost at 31 December 2022** | **209** | **27** | **1** | **237** |
| Accumulated depreciations at 1 January 2022 | 40 | 11 | – | 51 |
| Effect of exchange rate adjustment | -1 | – | – | -1 |
| Depreciation for the year | 35 | 9 | – | 44 |
| Disposals | -11 | -6 | – | -17 |
| Reclassification to assets held for sale | -1 | – | – | -1 |
| **Accumulated depreciations at 31 December 2022** | **62** | **14** | **–** | **76** |
| **Carrying amount at 31 December 2022** | **147** | **13** | **1** | **161** |
| **Leases** | | | | |
| Costs at 1 January 2021 | 100 | 19 | 1 | 120 |
| Effect of exchange rate adjustments | 4 | 1 | – | 5 |
| Acquisition of enterprises | 58 | 3 | – | 61 |
| Additions for the year | 37 | 7 | – | 44 |
| Remeasurement | 5 | – | – | 5 |
| Disposals | -8 | -4 | – | -12 |
| **Cost at 31 December 2021** | **196** | **26** | **1** | **223** |
| Accumulated depreciations at 1 January 2021 | 16 | 6 | – | 22 |
| Effect of exchange rate adjustments | 2 | – | – | 2 |
| Depreciation for the year | 30 | 8 | – | 38 |
| Disposals | -8 | -3 | – | -11 |
| **Accumulated depreciation at 31 December 2021** | **40** | **11** | **–** | **51** |
| **Carrying amount at 31 December 2021** | **156** | **15** | **1** | **172** |

**Lease liabilities**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Current | 36 | 38 |
| Non-current | 129 | 138 |
| **Total** | **165** | **176** |

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Depreciation expense of right-of-use assets | 44 | 38 |
| Interest expense on lease liabilities | 3 | 3 |
| Expense relating to short-term leases, excluding short-term leases of low-value assets | 1 | 2 |
| **Total amount recognised in profit and loss** | **48** | **43** |

Total cash outflows from leases amounted to EUR 46 million, including cash outflows from short-term and low-value leases (2021: EUR 42 million).

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

# 3.4 Inventories

**Accounting policies**
Inventories are measured at cost, determined using the FIFO-method, or net realisable value, if the net realisable value is lower. Costs of inventories comprise purchase costs of raw materials, including import duties and transportation costs directly attributable to the acquisition of raw materials, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

The costs of finished goods and work in progress also include indirect production costs, which comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process and costs of factory administration and management.

The net realisable value is calculated as the selling price less costs of completion and costs necessary to make the sale and is determined based on the most reliable evidence available at the time the estimates are made, taking into account obsolescence and development in expected selling prices.

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Raw materials and consumables | 109 | 127 |
| Work in progress | 7 | 6 |
| Finished goods | 227 | 201 |
| **Total inventories** | **343** | **334** |
| Cost of inventories, included under production costs | 1,283 | 1,037 |
| Write-downs to net realisable value during the year | 11 | 8 |

# 3.5 Trade receivables

**Accounting policies**
Trade receivables are recognised initially at their transaction price. The Group holds trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less loss allowance. Due to the short-term nature of trade receivables, amortised cost will equal the invoiced amount less loss allowance for expected credit losses.

**Expected credit loss 2022**
*In EUR million*

| | Carrying amount gross | Expected loss rate (%) | Loss allowance |
|---|---|---|---|
| Current | 352 | 0.7% | 2.3 |
| Overdue 1-30 days | 61 | 0.9% | 0.6 |
| Overdue 31-60 days | 27 | 1.5% | 0.4 |
| Overdue 61-120 days | 19 | 1.7% | 0.3 |
| Overdue 121-240 days | 12 | 6.8% | 0.8 |
| Overdue 241-360 days | 6 | 26.1% | 1.5 |
| Overdue > 360 days | 31 | 82.7% | 25.7 |
| **Total** | **508** | | **31.6** |

**Expected credit loss 2021**
*In EUR million*

| | Carrying amount gross | Expected loss rate (%) | Loss allowance |
|---|---|---|---|
| Current | 294 | 0.7% | 2.1 |
| Overdue 1-30 days | 46 | 1.6% | 0.7 |
| Overdue 31-60 days | 21 | 3.3% | 0.7 |
| Overdue 61-120 days | 18 | 5.6% | 1.0 |
| Overdue 121-240 days | 11 | 11.9% | 1.3 |
| Overdue 241-360 days | 4 | 31.8% | 1.2 |
| Overdue > 360 days | 32 | 69.6% | 22.4 |
| **Total** | **426** | | **29.4** |

**Loss allowance provision**
*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Provision at 1 January | 29 | 29 |
| Additions for the year | 2 | – |
| Losses recognised | -2 | -2 |
| Currency translation | 2 | 2 |
| **Total** | **31** | **29** |

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

The Group applies the simplified approach to providing the expected credit losses, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. Trade receivables not due are also included when assessing the expected lifetime loss provision.

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

# 3.6 Pensions and similar obligations

## Accounting policies

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

*Defined contribution plans*

Hempel operates a number of defined contribution plans which receive fixed contribution from Group companies. The Group's contributions to the defined contribution plans are recognised in the statement of profit and loss in the year to which they relate. The Group's obligation is limited to the amount that it agrees to contribute to the pension funds. Contributions payable are recognised in the statement of financial position under other current liabilities. The Group has no further obligations once the contributions have been paid.

*Defined benefit plans*

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

The net obligation is recognised in Pensions and similar obligations where service costs are recognised as employee benefit expenses.

Service costs comprise current service costs and past service costs. Current service cost is the increase in the present value of the defined benefit obligation resulting from employee services in the current period. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit and loss as past service costs.

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and the balance sheet.

## Pension costs

In 2022, net costs of EUR 24 million relating to Hempel's pension plans were recognised in the statement of profit and loss (2021: EUR 20 million) and the figures break down as follows:

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Costs for defined contribution plans:* | | |
| Employee costs | 21 | 18 |
| *Costs for defined benefit plans:* | | |
| Employee costs | 2 | 1 |
| Interest expense | 1 | 1 |
| **Total costs recognised in the profit and loss** | **24** | **20** |

## Hempel's defined benefit plans

The Group operates defined benefit plans in a range of countries with the major plans being in Ireland and the UK. None of the plans are individually significant at Group level.

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

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

**Present value of obligation at 31 December**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Present value of defined benefit plans | 51 | 64 |
| Fair value of assets related to the plans | 35 | 43 |
| **Pension obligations recognised in the balance sheet, net** | **16** | **21** |

Of these obligations, EUR 19 million relates to unfunded pension obligations (2021: EUR 20 million) and EUR 32 million relates to partly funded obligations (2021: EUR 44 million). Of the total gross obligation, 51% (2021: 58%) relates collectively to Ireland and the UK.

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| **Present value of obligation at 1 January** | **64** | **58** |
| Current service cost | 2 | 1 |
| Interest expense | 1 | 1 |
| Actuarial gains/losses arising from changes in financial assumptions | -13 | -3 |
| Actuarial gains/losses arising from experience adjustments | 1 | 1 |
| Exchange differences | -1 | 3 |
| Acquired in business combinations | 1 | 5 |
| Payments from the plans | -4 | -2 |
| **Present value of obligation at 31 December** | **51** | **64** |

The expected average duration of the obligations is 12 years and the expected contributions to post-employment benefit plans for the year ending 31 December 2023 are EUR 1 million.

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| **Fair value of pension plan assets at 1 January** | **43** | **35** |
| Return on plan assets excluding calculated interest | -7 | 1 |
| Exchange differences | -1 | 2 |
| Acquired in business combinations | – | 6 |
| *Contributions and payments:* | | |
| Employers | 1 | 1 |
| Payments from the plans | -1 | -2 |
| **Fair value of pension plan assets at 31 December** | **35** | **43** |

The composition of the plan assets are as follows:

| | 2022 | 2021 |
|---|---|---|
| **Defined benefit plans** | | |
| *Specification of plan assets:* | | |
| Shares and properties | 26% | 23% |
| Fixed interest current asset investments | 73% | 75% |
| Cash at bank and in hand | 1% | 2% |
| **Total** | **100%** | **100%** |

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

| | 2022 | 2021 |
|---|---|---|
| Weighted average discount rate | 4.24% | 2.34% |
| Weighted average future wage/salary increase | 3.86% | 3.34% |

**Sensitivity analysis**

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Discount rate:* | | |
| Increase of 0.5 p.p. | -3 | -4 |
| Decrease of 0.5 p.p. | 3 | 4 |
| *Future wage/salary increase:* | | |
| Increase of 0.5 p.p. | 1 | 1 |
| Decrease of 0.5 p.p. | -1 | -1 |
| *Mortality* | | |
| Increase of +1 year | 1 | 1 |
| Decrease of -1 year | -1 | -1 |

# 3.7 Provisions

**Accounting policies**
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

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

Decommission and restoration obligations are measured at the present value of the future liability in respect of decommissioning as expected at the balance sheet date. The present value of the provision and changes in estimate are recognised as part of the cost of property, plant and equipment and depreciated together with the associated asset.

Interest on provisions is recognised in the statement of profit and loss under financial expenses.

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

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

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

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

*In EUR million*

| | Environmental obligations | Warranties | Other provisions | Total |
|---|---|---|---|---|
| **Total provisions, beginning of year** | **20** | **20** | **12** | **52** |
| Effect of exchange rate adjustment | – | – | 1 | 1 |
| Additions for the year | – | 7 | 1 | 8 |
| Reversed for the year | – | -5 | -2 | -7 |
| Consumed for the year | -1 | -7 | 0 | -8 |
| Unwind of discount | 1 | – | – | 1 |
| **Total provisions, end of year** | **20** | **15** | **12** | **47** |
| Current liabilities | 3 | 7 | 1 | 11 |
| Non-current liabilities | 17 | 8 | 11 | 36 |
| **Total provisions, end of year** | **20** | **15** | **12** | **47** |

Comparative figures for environmental provisions have been restated to reflect the increase in provisions of EUR 3 million resulting from an adjustment to the preliminary purchase price allocation related to the acquisition of Wattyl in 2021, as detailed in note 4.6 Acquisition of enterprises.

# 3.8 Other liabilities

**Accounting policies**
Other liabilities mainly comprise accrued employee costs, including bonuses, withholding tax and VAT, customer bonuses, commission payables, accrued interests and prepaid rent.

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

# Section 4
## Capital structure and financing items

### 4.1 Share capital, distribution to shareholder

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

The translation reserve comprises foreign exchange differences arising from the translation to EUR of financial statements of the parent company and its subsidiaries. Also, the effect of the inflation adjustment from hyperinflationary economies is recognised within the translation reserve.

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

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

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

**Dividends**
The Group proposes a dividend of EUR 0 per A share and EUR 0 per B share (2021: EUR 297 thousand per A share and EUR 8 thousand per B share) amounting to EUR 0 million per A share and EUR 0 million per B share (2021: EUR 32.9 million per A share and EUR 0.1 million per B share).

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | Number of shares | Nominal value (DKK) | Number of shares | Nominal value (DKK) |
| *The share capital comprises:* | | | | |
| A shares | 111 | 110,900,000 | 111 | 110,900,000 |
| B shares | 8 | 4,100,000 | 8 | 4,100,000 |
| **Share capital (fully paid)** | **119** | **115,000,000** | **119** | **115,000,000** |

During 2022, dividends related to the year 2021 of EUR 297 thousand per A share and EUR 8 thousand per B share were paid out (2021: EUR 225 thousand per A share and EUR 8 thousand per B share) equal to a total dividend payment of EUR 33 million (2021: EUR 25 million).

**Capital structure**
The capital structure of the Group is intended to ensure sufficient financial flexibility and stability for the Group to reach its strategic goals. The Group aims to maintain an optimal capital structure, and to use the free operating cash flow after financial items and tax for debt servicing and business development. At the end of 2022, the net interest-bearing debt to EBITDA ratio was 4.8 (2021: 4.6) on a reported basis. The increase is primarily a result of increased net working capital items driven by organic growth, investment in factories and business acquisitions.

The Group's dividend policy is to distribute 50% of net profit for the year, with a lower limit of EUR 25 million. The Group has for 2022 decided to adjust the amounts of dividend paid to EUR 0 million to accommodate its policies and strategic goals.

The Group strives to ensure adequate credit resources at all times, which includes securing access to committed bank financing and refinancing maturing debt in a timely manner.

The Group aims to have minimum EUR 225 million of free committed credit resources available for the next 12 months.

In order to achieve this overall objective, the Group's capital management aims to ensure that it meets its financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. The covenants' terms relate to the Group's leverage ratio. At the end of 2022 the leverage ratio was 4.2 (2021: 3.7). The Group aims to maintain a leverage ratio below 2.5x in the long term while a higher leverage ratio is accepted when acquiring strategic businesses.

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches, nor otherwise close to default, of the financial covenants of any interest-bearing loans or borrowings in the current period or in the previous period.

No changes were made in the objectives, policies or processes for managing capital during 2022 and 2021.

# 4.2 Borrowings

**Accounting policies**
Long-term loans, such as loans from credit institutions, are recognised initially at fair value net of directly attributable transaction costs. Subsequently, the loans are measured at amortised cost using the effective interests method. The difference between the proceeds initially received and the nominal value is recognised as financial expenses in the statement of profit and loss over the loan term.

The bank loans are floating interest loans based on mainly EURIBOR. Further, the interest rate is linked to the Group's leverage ratio and from 2022 also linked to achievement of the Group's sustainability targets aimed at reducing CO2 emissions, landfill waste and use of hazardous materials in the production.

A negative pledge clause is attached to the Group's long-term loan arrangements that prevents Hempel A/S from pledging certain assets as security.

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

**The Group's borrowings consist of the following:**

*In EUR million*

| 2022 | Interest rate | Maturity | Carrying amount |
|---|---|---|---|
| Bank loans | 3.78% | 2024-2026 | 901 |
| Overdraft facilities | 2.8 - 7.9% | 2023 | 100 |
| Lease liabilities | 0.16 - 12.00% | 2022-2045 | 165 |
| Loan from parent company | 4.43% | 2023 | 66 |
| **Total borrowings** | | | **1,232** |
| Current | | | 202 |
| Non-current | | | 1,030 |
| **Total borrowings** | | | **1,232** |

*In EUR million*

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

# 4.3 Financial risks

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

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

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

| Financial risk type | Significance |
|---|---|
| Foreign exchange risk | Low |
| Interest rate risk | Medium |
| Credit risk | Low |
| Liquidity risk | Low |

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

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

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

**Market risk**
The Group's exposure to market risks is related to foreign exchange risks and interest rate risk. All market risks are managed in accordance with the Group's Treasury Policy.

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

Hempel's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's trade receivables or trade payables, respectively arising from revenue and purchase transactions denominated in a foreign currency and intercompany loans and deposits. The currency exposure in these balances may affect Hempel's result.

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

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

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

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

*Foreign currency sensitivity*

The table below demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates against EUR, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities denominated in foreign currencies and non-designated FX derivatives. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur. The movement in pre-tax equity equals the effect on profit before tax as all FX derivatives are measured at fair value through profit and loss.

| | Change in rate | Nominal value | Effect on profit before tax | Effect on equity |
|---|---|---|---|---|
| **2022** | | | | |
| USD/EUR | 5% | -45.5 | -2.3 | -1.8 |
| USD/EUR | -5% | -45.5 | 2.3 | 1.8 |
| **2022** | | | | |
| GBP/EUR | 5% | 2.3 | 0.1 | 0.1 |
| GBP/EUR | -5% | 2.3 | -0.1 | -0.1 |
| **2021** | | | | |
| USD/EUR | 5% | -36.4 | -1.8 | -1.4 |
| USD/EUR | -5% | -36.4 | 1.8 | 1.4 |
| **2021** | | | | |
| GBP/EUR | 5% | 3.8 | 0.2 | 0.2 |
| GBP/EUR | -5% | 3.8 | -0.2 | -0.2 |

**Interest rate risk**

Interest-bearing debt increased due to additional acquisitions in 2022 and increased net working capital driven by organic growth.

The Group's exposure to changes in interest rates primarily relates to long-term loans and borrowings with floating interest rates. The Group's policy is to hedge its interest rate risk depending on the Group's interest coverage level (EBITDA/interest). When the Group's interest coverage level (EBITDA/interest) falls below 10, the Group assesses whether it is necessary to mitigate the interest rate risk by entering into hedging instruments. In December 2022, Hempel fixed the interest rate on EUR 700 million of debt by entering into variable-to-fixed interest rate swaps that commence in March 2023 and mature in December 2024, which reduces the exposure to changes in interest rates in 2023 and 2024.

There is an economic relationship between the loans and the hedging instruments as both the nominel amount and terms of the interest rate swaps mirror the hedged exposure, creating an equal opposite interest receipt and a fixed interest payment. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swaps are identical to the hedged risk.

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

*In EUR million*

| | Increase/ decrease in bps | Effect on profit before tax | Effect on equity |
|---|---|---|---|
| **2022** | | | |
| Euro | +100 bps | -9 | -7 |
| Euro | -100 bps | 9 | 7 |
| | | | |
| **2021** | | | |
| Euro | +100 bps | -4 | -3 |
| Euro | -100 bps | 1 | 1 |

**Credit risk**
Credit risk arises from the possibility that trading partners and customers may default on their obligations, causing financial losses for the Group. The Group is exposed to credit risk on cash, trade and other receivables. Please refer to note 3.6 for a description of the Group's credit risk in relation to trade receivables.

The carrying amount of EUR 253 million (2021: EUR 224 million) represents the maximum credit exposure related to cash and other receivables.

Hempel's main banks are all financial institutions with a high credit rating and, therefore, financial assets such as cash are considered to be of low risk.

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

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

The Group considers a financial asset in default when the Group is unlikely to recover the outstanding contractual amount in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Liquidity risk**
The liquidity risk is assessed to be low. Hempel ensures the availability of the required liquidity through a combination of cash management and both uncommitted and committed credit facilities. Hempel applies cash pool arrangements for optimisation and centralisation of cash management.

Hempel has an undrawn credit facility of EUR 565 million (2021: EUR 709 million).

*Maturities of financial liabilities*
The table to the right provides an analysis of Hempel's financial liabilities divided into relevant maturity groupings based on their contractual maturities for non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows.

*In EUR million*

| Contractual undiscounted cash flows | Less than 1 year | Between 1 and 5 years | More than 5 years |
|---|---|---|---|
| **2022** | | | |
| *Non-derivatives:* | | | |
| Borrowings, current and non-current | 136 | 953 | – |
| Loans from parent company | 69 | – | – |
| Trade payables | 355 | – | – |
| Lease liabilities | 39 | 95 | 42 |
| **Total contractual undiscounted cash flows end of year** | **599** | **1,048** | **42** |
| Non-current liabilities | 1,090 | | |
| Current liabilities | 599 | | |
| | | | |
| **2021** | | | |
| *Non-derivatives:* | | | |
| Borrowings, current and non-current | 75 | 808 | – |
| Loans from parent company | 71 | – | – |
| Trade payables | 344 | – | – |
| Lease liabilities | 39 | 93 | 51 |
| **Total contractual undiscounted cash flows end of year** | **529** | **901** | **51** |
| Non-current liabilities | 952 | | |
| Current liabilities | 529 | | |

For borrowings, the contractual payments are based on the variable interest rates at December 2022, except for in total EUR 700 million loans where the fixed interest swap rates are applied until maturing of the swaps in December 2024, thus reflecting the Group's expected net cash outflow until maturity of the loan and the interest rate swaps.

# 4.4 Financial instruments

**Accounting policies**
Derivative financial instruments, FX forwards, currency swaps and interest rate swaps are initially recognised in the balance sheet at fair value and subsequently remeasured at their fair value. For FX forwards and currency swaps, positive and negative fair values of these derivative financial instruments are recognised as Other receivables and Other payables, respectively. Changes in the fair values of FX forwards and currency swaps are recognised in the statement of profit and loss under financial income and expenses.

For interest rate swaps, cash flow hedge accounting is applied. Positive and negative fair values are recognised as Other receivables and Other payables, respectively. Changes in the fair values are recognised directly within Other comprehensive income. The amount accumulated in Other comprehensive income is reclassified to Profit and loss as a reclassification adjustment in the same periods during which the hedged cash flows affect profit and loss. Fair value of the interest rate swaps is negative EUR 53 thousand per 31 December 2022.

Fair values of derivate financial instruments are calculated on the basis of market data and generally accepted valuation methods.

| Financial instruments by category | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| *Carried at amortised cost:* | | | | |
| Other interest-bearing receivables and deposits | 13 | 11 | 13 | 11 |
| Trade receivables | 476 | 397 | 476 | 397 |
| Other receivables (non-interest-bearing) | 63 | 48 | 63 | 48 |
| Cash and bank balances | 180 | 176 | 180 | 176 |
| **Financial assets at amortised cost** | **732** | **632** | **732** | **632** |
| *Carried at fair value through profit and loss:* | | | | |
| Derivatives | 7 | 1 | 7 | 1 |
| **Financial assets at fair value through profit or loss** | **7** | **1** | **7** | **1** |
| **Total financial assets** | **739** | **633** | **739** | **633** |
| *Carried at amortised cost:* | | | | |
| Bank and other credit institutions | 1,001 | 837 | 1,004 | 842 |
| Loan from parent company | 66 | 70 | 66 | 70 |
| Lease liabilities | 165 | 176 | 165 | 176 |
| Trade payables | 355 | 344 | 355 | 344 |
| Other liabilities | 317 | 283 | 317 | 283 |
| **Financial liabilities at amortised cost** | **1,904** | **1,710** | **1,907** | **1,715** |
| *Carried at fair value through profit and loss:* | | | | |
| Derivatives | 3 | 1 | 3 | 1 |
| **Financial liabilities at fair value through profit or loss** | **3** | **1** | **3** | **1** |
| **Total financial liabilities** | **1,907** | **1,711** | **1,910** | **1,716** |

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

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

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

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

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

**Reconciliation of liabilities arising from financing activities**

*In EUR million*

| | Beginning of year | Cash flows | Non-cash movements: Additions | Disposals | Acquisi-tions | Exchange rates | End of year |
|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | |
| Lease liabilities | 176 | -42 | 30 | – | 3 | -2 | 165 |
| Borrowings | 907 | 159 | – | – | – | 1 | 1,067 |
| **Liabilities arising from financing activities** | **1,083** | **117** | **30** | **–** | **3** | **-1** | **1,232** |
| **2021** | | | | | | | |
| Lease liabilities | 98 | -37 | 49 | -1 | 63 | 4 | 176 |
| Borrowings | 287 | 502 | – | – | 117 | 1 | 907 |
| **Liabilities arising from financing activities** | **385** | **465** | **49** | **-1** | **180** | **5** | **1,083** |

## 4.5 Financial income and expenses

### Accounting policies

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

**Financial income**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Interest income | 5 | 1 |
| Foreign exchange gain (net) | – | 3 |
| **Total financial income** | **5** | **4** |

**Financial expenses**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Interest expense on borrowings | 23 | 6 |
| Interest expense on lease liabilities | 3 | 3 |
| Interest expenses to parent company | 2 | 1 |
| **Interest expenses on financial liabilities measured at amortised cost** | **28** | **10** |
| Foreign exchange loss (net) | 12 | – |
| Net monetary loss | 3 | 1 |
| Other financial expenses | 20 | 10 |
| **Total financial expenses** | **63** | **21** |

# 4.6 Acquisition of enterprises

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

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

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

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

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

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

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

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

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

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

**Acquisitions made during the year**
On 10 February 2022, Hempel acquired via the existing company in Oman, 99% of the share capital of Khimji Paints LLC, a Decorative-based company with its own production located in Oman that employs more than 70 people and has a strong distribution network. The acquisition is aligned with the *Double Impact* strategy and strengthens our presence in the Middle East and the Decorative customer segment.

On 1 August 2022, Hempel acquired 6 stores in Australia that provide customers with coating and different coating accessories. The acquisition is a good strategic match with a pre-existing Wattyl customer base and supports Hempel's growth ambitions within the decorative business by giving access to desirable locations, distribution channels and customers in Sydney. In addition, a few minor acquisitions were completed in Australia for a total consideration of EUR 2 million.

On 1 September 2022, one of Hempel's subsidiaries acquired Cap Couleurs, a store network in France consisting of 5 stores and over 30 employees. The acquisition will help expanding the Renaulac brand and strengthen the Group's presence in the French decorative market and support our growth strategy towards doubling Hempel in 2025.

The total consideration of EUR 26 million for the three acquisitions was paid entirely in cash. The assets and liabilities as a result of the acquisitions are shown in the table on the next page.

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

*Pro-forma revenue and profit contribution*
If the acquisitions had occurred on 1 January 2022, consolidated pro-forma revenue and profit for the year ending 31 December 2022 would have been EUR 2,174 million and EUR 37 million respectively. These amounts were calculated using the subsidiary's and store's results, adjusted for differences in the accounting policies between the Group and the subsidiary and stores, and additional COGS charged, assuming the fair value adjustment of inventories had been applied from 1 January 2022, together with the consequential tax effects.

*Acquired receivables*
The fair value of acquired trade receivables is EUR 2.0 million. The gross contractual amount for trade receivables due is EUR 2.1 million

*In EUR million*

| | Fair value |
|---|---:|
| Right-of-use assets | 3 |
| Property, plant and equipment | 1 |
| Inventories | 4 |
| Trade and other receivables | 2 |
| Cash and cash equivalents | 4 |
| Lease liabilities | -3 |
| Pensions | -1 |
| Trade payables | -1 |
| Other payables | -1 |
| **Net identifiable assets acquired** | **8** |
| Goodwill | 22 |
| **Net assets acquired** | **30** |
| **Outflow of cash to acquire subsidiary, net of cash acquired** | **30** |
| Less: Cash acquired | -4 |
| **Net outflow of cash – investing activities** | **26** |

with a loss allowance of EUR 0.1 million recognised on acquisition.

*Revenue and profit contribution*

The acquired businesses contributed revenues of EUR 11 million and a net profit of EUR 0.1 million to the Hempel Group for the period from the dates of acquisitions to 31 December 2022.

*Acquisition-related costs*

EUR 0.3 million acquisition-related costs are included in administration costs in the statement of profit and loss and in operating cash flows in the statement of cash flows in 2022.

**Acquisition of Wattyl made in 2021**

The provision for environmental obligations recognised in the 2021 financial statements related to the acquisition were based on a provisional assessment of the fair value, pending further investigations. In 2022, the valuation was completed and the acquisition date fair value of the provision was assessed to EUR 4 million, an increase of EUR 3 million compared to the provisional value. The 2021 comparative information has been restated to reflect the adjustment to the provisional amounts. As a result, there was a decrease in the deferred tax liability of EUR 1 million and an increase in goodwill of EUR 2 million.

## 4.7 Discontinued operations & assets and liabilities held for sale

Hempel has been established in Russia since 1996 and employed 124 employees at the beginning of 2022. Following a strategic review of its presence in Russia, Hempel decided to leave Russia permanently as a result of the Russian invasion of Ukraine.

Hempel suspended all production in Russia in April 2022 after having completed prepaid orders, and subsequently a controlled divestment process was initiated. Hempel intends to sell-off all activities in Russia, including a sales office and production facilities such as production buildings, machinery and equipment.

As of 31 December 2022, management has assessed it as highly probable that Hempel will dispose of its legal entity in 2023, and as such, Hempel's operations in Russia have been classified as assets held for sale and discontinued operations.

No impairment was identified at 31 December 2022.

The total impact on the profit and loss statement in 2022 amounts to a loss of EUR 2 million. The loss is attributable to the Shareholder of Hempel A/S.

**Net profit / (loss) from discontinued operations**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Revenue | 10 | 30 |
| Expenses | -15 | -27 |
| **Net profit / (loss) before tax** | **-5** | **3** |
| Income tax | 3 | 2 |
| **Net profit / (loss) from discontinued operations** | **-2** | **5** |

**Cash flow from discontinued operations**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Cash flow from operating activities | -6 | 7 |
| Cash flow from financing activities | – | -13 |
| **Total cash flow from discontinued operations** | **-6** | **-6** |

**Statement of financial position classified as held for sale**

*In EUR million*

| | 2022 |
|---|---|
| Fixed assets | 14 |
| Deferred tax assets | 3 |
| Cash | 3 |
| Other current assets | 1 |
| **Assets held for sale** | **21** |
| | |
| Deferred tax liabilities | 4 |
| Current liabilities | 2 |
| **Liabilities held for sale** | **6** |

# Section 5
## Other disclosures

### 5.1 Fee to the auditors appointed at the General Meeting

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Audit fee | 2 | 2 |
| Tax advice | 1 | 1 |
| Other fees | 1 | 1 |
| **Total auditor's fee** | **4** | **4** |

### 5.2 Adjustment for non-cash items

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Amortisation, depreciation and impairment | 107 | 91 |
| Provisions | -7 | -6 |
| Gains and losses on the sale of fixed assets | -3 | -3 |
| Hyperinflation adjustment | 8 | – |
| **Total adjustments** | **105** | **82** |

### 5.3 Contingent liabilities and other commitments

*Bid and performance bonds*
Performance bonds are issued to guarantee specific customers satisfactory completion of work according to contracts. Bid and performance bond guarantees amounted to EUR 8 million (2021: EUR 8 million).

*Other contingent liabilities*
The Group is, through its ongoing business, involved in product liability claims and disputes in connection with the Group's operational activities. The Group does not expect the pending litigations, claims and investigations, individually or in aggregate, to have a material impact on the Group's financial position, operating profit or cash flows in addition to the amounts accrued as provision for legal disputes.

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

*Commitments*
Contruction of a factory in China is ongoing. The total capital expenditure contracted for at the end of the reporting period related to the construction of the factory, but not recognised as liabilities, amounted to EUR 6 million.

## 5.4 Events after the reporting period

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

## 5.5 Related parties and ownership

*Parent companies*

**Hempel Invest A/S**

Hempel A/S paid EUR 2 million in rent expenses to Hempel Invest A/S (2021: EUR 2 million). Interest expenses during the year amount to EUR 2 million (2021: EUR 1 million).

At 31 December 2022, Hempel A/S had EUR 1 million deposit receivables from Hempel Invest related to office leases (2021: EUR 0 million).
As of 31 December 2022, loan payables to Hempel Invest A/S amount to EUR 66 million (2021: EUR 70 million).

A dividend of EUR 33 million was paid to Hempel Invest A/S during 2022 (2021: EUR 25 million).

**Hempel Foundation**

Hempel A/S paid EUR 3 million rent expenses to the Hempel Foundation (2021: EUR 3 million).

At 31 December 2022, Hempel A/S had EUR 1 million deposit receivables from Hempel Foundation related to office leases (2021: EUR 1 million).

**Other related parties**

In addition, Hempel A/S paid on behalf of Brænderupvænge ApS, Keldskov ApS, Innovation S E ApS and Frontier Innovation ApS minor amounts related to administrative service totalling EUR 0 million, that on an ongoing basis are reimbursed to Hempel A/S (2021: EUR 1 million). No material outstanding balances exist at the end of the year.

**Key management personnel of the entity or its parent**

For information on remuneration of key management personnel of Hempel, please refer to note 2.2 Employee costs. There were no loans to the Board of Directors or Executive Management in 2022 or 2021.

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

# 5.6 The Hempel Group

| Location | Name | Currency | Ownership |
|---|---|---|---|
| Denmark | Hempel A/S | DKK | 100% |
| Argentina | Hempel Argentina S.R.L. | ARS | 100% |
| Australia | Hempel (Australia) Pty. Ltd. | AUD | 100% |
| Australia | Hempel NewCo (Australia) Pty. Ltd. | AUD | 100% |
| Australia | Hempel (Wattyl) Australia Pty. Ltd. | AUD | 100% |
| Australia | Hempel (Wattyl) New Zealand Ltd. | AUD | 100% |
| Austria | Ostendorf GmbH | EUR | 65% |
| Bahrain | Dahna Paint Middle East Holding B.S.C. | BHD | 51% |
| Bahrain | Hempel Paints (Bahrain) S.P.C. | BHD | 51% |
| Brazil | Hempel Tintas do Brasil Ltda | BRL | 100% |
| Canada | Farrow & Ball Canada Limited | CAD | 100% |
| Canada | Hempel (Canada) Inc. | CAD | 100% |
| Chile | Pinturas Hempel Chile SpA | CLP | 100% |
| China | Hempel North Asia Holding Co., Ltd | CNY | 100% |
| China | Hempel (Hong Kong) Limited | HKD | 100% |
| China | Hempel (China) Limited | HKD | 100% |
| China | Hempel (Kunshan) Coatings Ltd. | CNY | 100% |
| China | Hempel (Yantai) Coatings Ltd. | CNY | 100% |
| China | Hempel (Guangzhou) Coatings Ltd. | CNY | 100% |
| China | Hempel (Zhangjiagang) Coatings Ltd. | CNY | 100% |
| Croatia | Hempel Coatings (Croatia) Ltd. | HRK | 100% |
| Cyprus | Hempel Coatings (Cyprus) Limited | EUR | 100% |
| Czech Republic | Hempel (Czech Republic) s.r.o. | CZK | 100% |
| Denmark | HSA (Danmark) A/S | DKK | 100% |
| Denmark | Hempel Decorative Paints A/S | DKK | 100% |
| Denmark | Brifa Maling A/S | DKK | 65% |
| Denmark | HF (Denmark) A/S | DKK | 100% |
| Ecuador | Hempel Ecuador S.A. | USD | 100% |

| Location | Name | Currency | Ownership |
|---|---|---|---|
| Egypt | Hempel Coatings (Egypt) LLC | EGP | 100% |
| Egypt | Hempel Egypt L.L.C. | EGP | 100% |
| Egypt | Hempel Paints Egypt LLC | EGP | 99% |
| Finland | OY Hempel (Finland) AB | EUR | 100% |
| France | Hempel (France) SAS | EUR | 100% |
| France | BB Participations SAS | EUR | 65% |
| France | B.B Fabrications SAS | EUR | 65% |
| France | Bontemps-Bonnarme SAS | EUR | 65% |
| France | Capcouleurs SAS | EUR | 65% |
| France | Cap Couleurs Brignoles SAS | EUR | 65% |
| France | Cap Couleurs Distribution SAS | EUR | 65% |
| France | Cap Couleurs Est SAS | EUR | 65% |
| France | Cap Couleurs Gestion SAS | EUR | 65% |
| Germany | Farrow & Ball DE GmbH | EUR | 100% |
| Germany | Hempel (Germany) GmbH | EUR | 100% |
| Germany | Hempel Beteiligungsgesellschaft GmbH | EUR | 100% |
| Germany | J.W. Ostendorf GmbH & Co. KG* | EUR | 65% |
| Germany | Ostendorf-Beteiligungs-GmbH | EUR | 65% |
| Germany | FLT Handel & Service GmbH | EUR | 65% |
| Germany | Brand.IQ GmbH | EUR | 65% |
| Germany | Rottkamp Immoblilien GmbH & Co. KG* | EUR | 65% |
| Germany | Rottkamp Immobilien Verwaltung GmbH | EUR | 65% |
| Greece | Hempel Coatings (Hellas) Single Member S.A. | EUR | 100% |
| India | Hempel Paints (India) Private Limited | INR | 100% |
| Indonesia | P.T. Hempel Indonesia | IDR | 100% |
| Ireland | Crown Paints Ireland Limited | EUR | 100% |
| Italy | Hempel (Italy) S.r.l. | EUR | 100% |
| Kenya | Hempel Paints Kenya Company Limited | KES | 100% |

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

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

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

# 5.7 Financial definitions

| Financial ratios for the continuing business are calculated as follows: | | |
|---|---|---|
| Organic growth | = | Organic revenue / 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 margin, adjusted | = | EBITDA, adjusted / Revenue |
| EBITDA | = | Operating profit (and loss) before impairment, amortisations and depreciations |
| EBITDA, adjusted | = | EBITDA before special items and before adjustment for hyperinflation according to IAS 29 |
| 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 | = | Shareholders' equity / Total assets |
| Leverage ratio | | Net interest-bearing debt / Pro-forma EBITDA before special items (incl. full-year figures from acquisitions) |
| Net interest-bearing debt | = | Overdraft facilities + bank loans, etc. + interest-bearing payables to Group enterprises + lease liabilities - cash at bank and in hand |
| Free cash flow | = | Total net cash generated from operating activities less net cash used in investing activities |
| Cash conversion | = | Total net cash flows from operating activities before financial items and tax / Total EBITDA |

| Financial ratios for the continuing business are calculated as follows: | | |
|---|---|---|
| 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) |

| The following key figures are calculated as follows: | | 2022 |
|---|---|---|
| Operating profit | | 114 |
| Amortisation and depreciation | | 105 |
| **EBITDA** | **=** | **219** |
| Special items | | 30 |
| Adjustment for hyperinflation according to IAS 29 | | 8 |
| **EBITDA, adjusted** | **=** | **257** |

| The following key figures are calculated as follows: | | 2022 |
|---|---|---|
| Borrowings | | 1,001 |
| Payables to parent company | | 66 |
| Lease liabilities | | 165 |
| Cash | | -180 |
| **Net interest bearing debt** | **=** | **1,052** |
| EBITDA, adjusted | | 257 |
| Adjustment for hyperinflation according to IAS 29 | | -8 |
| EBITDA from 1 January to date of acquisition for acquired companies | | 1 |
| Pro forma EBITDA before special items | = | 250 |
| **Levarage ratio** | **=** | **4.2** |

# Parent company financial statements

# Statement of profit and loss

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| 2.1 | Revenue | 220 | 170 |
| 2.2 | Production costs | -119 | -107 |
| | **Gross profit** | **101** | **63** |
| 2.2 | Sales and distribution costs | -28 | -22 |
| 2.2 | Administrative costs | -73 | -54 |
| | **Operating profit** | **0** | **-13** |
| 5.5 | Income from investments in subsidiaries | -2 | 49 |
| | **Profit before financial income and expenses** | **-2** | **36** |
| 4.3 | Net financial income/expenses | -8 | 5 |
| | **Profit before tax** | **-10** | **41** |
| 2.3 | Income tax | -2 | -3 |
| | **Net profit / (loss) for the year** | **-12** | **38** |

# Statement of financial position

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| | Software | 6 | 4 |
| | Software under development | 29 | 15 |
| | Other intangible assets | 7 | 7 |
| **3.1** | **Intangible assets** | **42** | **26** |
| | Plant and machinery | 7 | 7 |
| | Leasehold improvements | 21 | 21 |
| | Other fixed assets | 1 | - |
| | Assets under construction | 8 | 7 |
| **3.2** | **Property, plant and equipment** | **37** | **35** |
| 5.5 | Investments in subsidiaries | 891 | 427 |
| | Loans to Group enterprises | 136 | 176 |
| 2.3 | Deferred tax assets | 13 | 6 |
| | Deposits | 2 | 1 |
| | **Other non-current assets** | **1,042** | **610** |
| | **Total non-current assets** | **1,121** | **671** |
| 3.3 | Inventories | 7 | 9 |
| | Trade receivables | 17 | 4 |
| | Receivables from Group enterprises | 643 | 859 |
| | Tax receivables | – | 3 |
| | Other receivables | 25 | 17 |
| | Prepayments | 14 | 6 |
| | Cash | 35 | 11 |
| | **Current assets** | **741** | **909** |
| | **Total assets** | **1,862** | **1,580** |

*In EUR million*

| Note | | 2022 | 2021 |
|---|---|---|---|
| 4.1 | Share capital | 15 | 15 |
| | Reserve for development costs | 30 | 16 |
| | Retained earnings | 372 | 431 |
| | Proposed dividend for the year | – | 33 |
| **4.1** | **Total equity** | **417** | **495** |
| 4.2 | Borrowings | 900 | 760 |
| | Provisions | 6 | 9 |
| | **Total non-current liabilities** | **906** | **769** |
| 4.2 | Overdraft facilities | 10 | 7 |
| | Trade payables | 12 | 12 |
| 4.2 | Payables to parent company | 66 | 70 |
| | Payables to Group enterprises | 401 | 196 |
| | Other liabilities | 50 | 31 |
| | **Total current liabilities** | **539** | **316** |
| | **Total liabilities** | **1,445** | **1,085** |
| | **Total equity and liabilities** | **1,862** | **1,580** |

# Statement of changes in equity

*In EUR million*

| Note | | Share capital | Reserve for development costs | Retained earnings | Proposed dividend | Total equity |
|---|---|---|---|---|---|---|
| | **Equity at 1 January 2021** | **15** | **8** | **404** | **25** | **452** |
| | Net profit for the year | – | – | 38 | – | 38 |
| | Exchange adjustment | – | – | 31 | – | 31 |
| | Remeasurements of defined benefit plans | – | – | 3 | – | 3 |
| | Tax on equity transactions | – | – | -4 | – | -4 |
| | Dividend distributed | – | – | – | -25 | -25 |
| | Proposed dividend | – | – | -33 | 33 | – |
| | Development projects reserve, additions | – | 9 | -9 | – | – |
| | Development projects reserve, amortisation | – | -1 | 1 | – | – |
| **4.1** | **Equity at 31 December 2021** | **15** | **16** | **431** | **33** | **495** |
| | | | | | | |
| | **Equity at 1 January 2022** | **15** | **16** | **431** | **33** | **495** |
| | Net profit / (loss) for the year | – | – | -12 | – | -12 |
| | Exchange adjustment | – | – | -39 | – | -39 |
| | Remeasurements of defined benefit plans | – | – | 5 | – | 5 |
| | Tax on equity transactions | – | – | 1 | – | 1 |
| | Dividend distributed | – | – | – | -33 | -33 |
| | Development projects reserve, additions | – | 16 | -16 | – | – |
| | Development projects reserve, amortisation | – | -2 | 2 | – | – |
| **4.1** | **Equity at 31 December 2022** | **15** | **30** | **372** | **–** | **417** |

# Section 1
## Basis of preparation

### 1.1 General accounting policies

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

The financial statements for 2022 are presented in EUR million.

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

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

*Revenue*

Revenue is generated mainly from the 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.

*Receivables*

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

*Leases*

A finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. The parent company does not have any finance lease agreements. An operating lease is a lease other than a finance lease. Operating lease commitments mainly relate to office buildings, leased cars and, to some extent, office equipment. Payments made under operating leases are recognised in the income statement over the lease term.

*Hyperinflationary economies*

The results and financial position in Argentina and Turkey are translated into the presentational currency EUR following the principles described in section 1.1 Translation of Group companies in the consolidated financial statements. The results and financial position are therefore not restated taking into account inflation adjustments in hyperinflationary economies.

*Assets held for sale and discontinued operations*

Activities in Russia are not presented as assets held for sale and discontinued operations. Assets in Russia are depreciated until the assets are derecognised at disposal.

# Section 2

## Results for the year

### 2.1 Revenue

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Marine | 46 | 19 |
| Infrastructure | 4 | 3 |
| Energy | 6 | 6 |
| Other | 164 | 142 |
| **Total revenue** | **220** | **170** |

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

### 2.2 Employee costs

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Staff costs:* | | |
| Wages and salaries | 52 | 51 |
| Pension costs | 3 | 3 |
| Other social security contributions | 1 | – |
| Other employee costs | 2 | 1 |
| | **58** | **55** |
| Average number of employees | 347 | 351 |

### 2.3 Income tax, tax assets and liabilities

**Income tax**

**Tax for the year**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Tax for the year is specified as follows:* | | |
| Tax on profit for the year | -2 | -29 |
| Tax in respect of subsidiaries | – | 26 |
| **Total tax for the year** | **-2** | **-3** |
| *Tax on profit for the year is calculated as follows:* | | |
| Current tax for the year | -5 | 1 |
| Deferred tax for the year | 2 | -4 |
| Adjustment in respect of previous years | 1 | – |
| **Total tax on profit for the year** | **-2** | **-3** |

**Deferred tax**

**Deferred tax recognised in the balance sheet**

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Deferred tax (net):* | | |
| Deferred tax, beginning of year | 6 | 10 |
| Recognised in profit and loss | 2 | -3 |
| Adjustment in respect of previous years | 5 | -1 |
| **Deferred tax (net), end of year** | **13** | **6** |

The Danish corporate tax rate was 22% in 2022 (22% in 2021). At 31 December 2022, the company had recognised a deferred tax asset of EUR 13 million (2021: EUR 6 million) which relates to temporary differences.

# Section 3

## Operating assets and liabilities

### 3.1 Intangible assets

*In EUR million*

| | Software | Software under development | Other intangible assets | Total |
|---|---|---|---|---|
| **Intangible assets** | | | | |
| Costs at 1 January 2022 | 13 | 15 | 31 | 59 |
| Additions for the year | – | 22 | – | 22 |
| Transfer between categories | 4 | -8 | 4 | – |
| **Costs at 31 December 2022** | **17** | **29** | **35** | **81** |
| Accumulated amortisation and impairment at 1 January 2022 | 9 | – | 24 | 33 |
| Amortisation for the year | 2 | – | 4 | 6 |
| **Accumulated amortisation and impairment at 31 December 2022** | **11** | **–** | **28** | **39** |
| **Carrying amount at 31 December 2022** | **6** | **29** | **7** | **42** |

Other intangible assets comprise mainly brands and formulas.

### 3.2 Property, plant and equipment

*In EUR million*

| | Plant and machinery | Leasehold improvements | Other fixed assets | Assets under construction | Total |
|---|---|---|---|---|---|
| **Property, plant and equipment** | | | | | |
| Costs at 1 January 2022 | 10 | 23 | 2 | 7 | 42 |
| Additions for the year | – | – | – | 6 | 6 |
| Transfer and reclassifications | 1 | 3 | 1 | -5 | – |
| Disposals for the year | – | – | – | – | – |
| **Costs at 31 December 2022** | **11** | **26** | **3** | **8** | **48** |
| Accumulated depreciation and impairment at 1 January 2022 | 3 | 2 | 2 | – | 7 |
| Depreciation for the year | 1 | 3 | – | – | 4 |
| **Accumulated depreciation and impairment at 31 December 2022** | **4** | **5** | **2** | **–** | **11** |
| **Carrying amount at 31 December 2022** | **7** | **21** | **1** | **8** | **37** |

### 3.3 Inventories

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Raw materials and consumables | 7 | 8 |
| Finished goods | – | 1 |
| **Inventories** | **7** | **9** |

# Section 4
## Capital structure and financing items

### 4.1 Share capital, distribution to shareholder

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Distribution of profit:* | | |
| Proposed dividends | – | 33 |
| Retained earnings | -12 | 8 |
| **Total** | **-12** | **41** |

An amount equal to capitalised development costs, net of tax is reserved in the Reserve for development costs within equity. The reserve is reduced with amortisation and write-downs of development projects. The reserve cannot be used for payments of dividends.

### 4.2 Borrowings

As of 31 December, loans from Hempel Invest A/S amounted to EUR 66 million (2021: EUR 70 million). Overdraft facilities amounted to EUR 10 million (2021: EUR 7 million).

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Long-term borrowings etc. including short-term part:* | | |
| Due within 1 year | 76 | 77 |
| Due within 1 to 5 years | 900 | 760 |
| **Total borrowings** | **976** | **837** |

### 4.3 Net financials

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| Interest income from subsidiaries | 27 | 15 |
| External interest expenses | -20 | -1 |
| Other financial expenses | -6 | -5 |
| Interest paid to Group enterprises | -6 | -1 |
| Realised and unrealised exchange gains/losses, net | -3 | -3 |
| **Net financial income/ expenses** | **-8** | **5** |

# Section 5

## Other disclosures

### 5.1 Fee to the auditors appointed at the General Meeting

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

### 5.2 Contingent liabilities and other commitments

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

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| *Rental and lease obligations:* | | |
| Due within 1 year from the balance sheet date | 6 | 5 |
| Due within 1 to 5 years from the balance sheet date | 22 | 20 |
| Due more than 5 years from the balance sheet date | 16 | 21 |
| **Total rental and lease obligations** | **44** | **46** |
| *Guarantees:* | | |
| For local loans and bank credits to subsidiaries | 49 | 52 |
| **Total guarantees** | **49** | **52** |

Parent company guarantees for unutilised local loans and bank credits to subsidiaries amounted to EUR 66 million (2021: EUR 33 million).

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

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

### 5.3 Events after the reporting period

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

### 5.4 Related parties

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

### 5.5 Investments in subsidiaries

**Accounting policies**
Investments in subsidiaries are recognised and measured under the equity method. This implies that the proportionate share of the net result, less amortisation of goodwill and other fair value adjustments from business acquisitions, is recognised in income from investments in subsidiaries in the statement of profit and loss. Goodwill and brands are amortised over 10 years. Goodwill is amortised over the period the company is expected to derive benefits from the goodwill, which is based on the acquisition business case.

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

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

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

*In EUR million*

| | 2022 | 2021 |
|---|---|---|
| **Investments in subsidiaries** | | |
| Costs at 1 January 2022 | 521 | 384 |
| Additions for the year | 528 | 137 |
| **Costs at 31 December 2022** | **1,049** | **521** |
| Net revaluations at 1 January 2022 | -114 | -105 |
| Exchange rate adjustments | -44 | 16 |
| Remeasurements of defined benefit plans | 4 | 3 |
| Net profit for the year | 69 | 77 |
| Amortisation of goodwill and brands | -71 | -28 |
| Dividend received | -39 | -77 |
| **Net revaluations at 31 December 2022** | **-195** | **-114** |
| **Carrying amount at 31 December 2022** | **854** | **407** |
| Recognised in the balance sheet as follows: | | |
| Subsidiaries with negative equity | -37 | -20 |
| Investments in subsidiaries | 891 | 427 |
| | **854** | **407** |
| *Subsidiaries with negative equity are recognised in the balance sheet as follows:* | | |
| Recognised as provisions | -6 | -9 |
| Recognised in receivables from subsidiaries | -31 | -11 |
| **Net value at 31 December 2022** | **-37** | **-20** |

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

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