Annual Report 2023

HEMPEL

Contents

EUR 2,351 million
Revenue

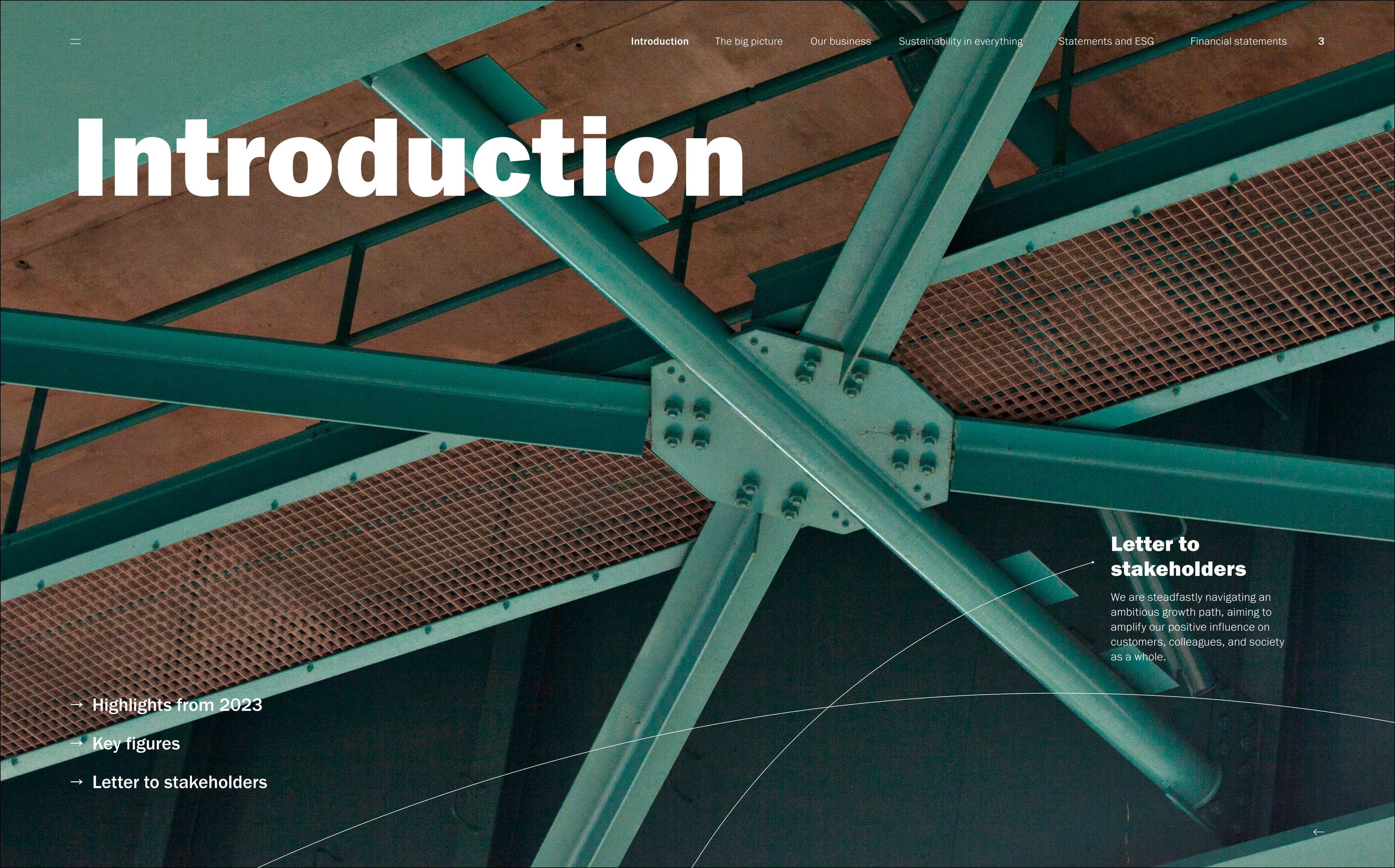
2023 saw Hempel deliver its best financial results ever. The results were above expectations in a year that also brought progress on our ambitious sustainability journey (page 6).

Management report

Financials

Carte Blanche

Farrow & Ball launched Carte Blanche, a collaboration with fashion designer Christopher John Rogers, consisting of 12 new paint shades and three wallpaper patterns (page 17).



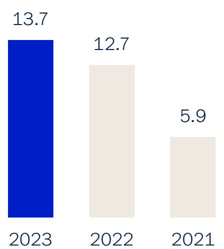
Introduction

Letter to stakeholders

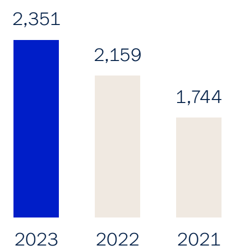
We are steadfastly navigating an ambitious growth path, aiming to amplify our positive influence on customers, colleagues, and society as a whole.

Highlights from 2023

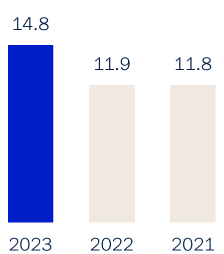
Organic growth[1]
(%)



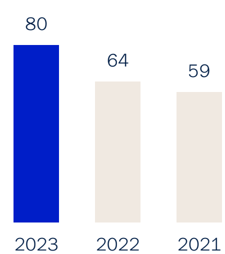
Revenue
(EUR m)



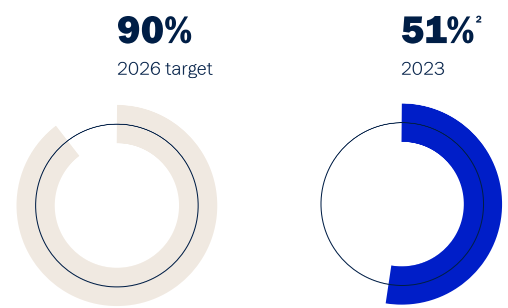
EBITDA margin, adjusted [1]
(%)



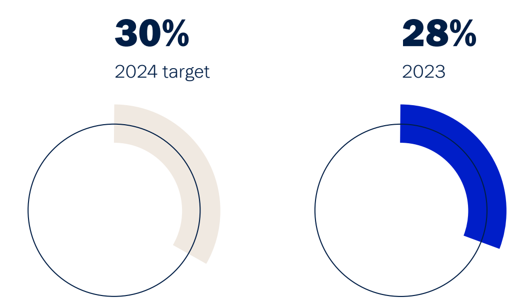
Cash conversion [1]
(%)



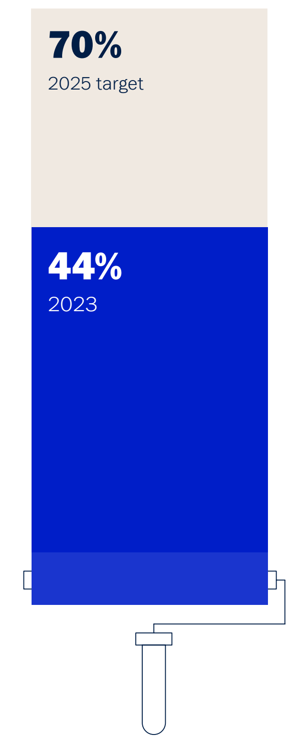
Environment
Scope 1 & 2 reduction from 2019 baseline
(%)



Social
Women in leadership
(%)



Governance
Total supplier spend screened
(Procurement sustainability screening for our suppliers, based on monetary spend and climate footprint)
(%)



1 Please see definition on page 111.
2 Excluding company vehicles, we reached a reduction of 64% in Scope 1 & 2. Amounts in absolute tonnes are shown on page 61.

Key figures

(EUR m, unless otherwise stated)	2023	2022	2021[1]	2020[1]	2019[1]
Profit and loss					
Revenue	2,351	2,159	1,744	1,541	1,534
EBITDA	337	219	196	176	157
EBITDA, adjusted	349	257	205	185	N/A
Amortisation, depreciation and impairment	148	105	90	77	65
Operating profit	189	114	106	99	92
Financial items, net	- 107	- 58	- 17	- 28	- 13
Profit before tax	82	56	89	71	79
Net profit for continuing operations	61	37	58	N/A	N/A
Net profit for the year	50	35	63	50	50
Financial position					
Total assets	2,667	2,655	2,466	1,542	1,300
Investment in tangible assets	59	91	113	77	43
Shareholders' equity	502	519	526	456	443
Net interest-bearing debt	1,075	1,052	907	120	86
Cash flow					
Total cash flow from operating activities	127	72	69	191	71
Cash flow from acquisitions / divestments of enterprises	6	- 28	- 511	0	- 2
Cash flow from net investments in property, plant and equipment and intangible assets	- 104	- 107	- 87	- 65	- 33
Free cash flow	29	- 64	- 529	126	51
Dividend distributed	26	33	25	25	30
Working capital					
Net working capital (NWC) days	61	72	70	70	67

(EUR m, unless otherwise stated)	2023	2022	2021[1]	2020[1]	2019[1]
Ratios (%)					
Organic growth	13.7	12.7	5.9	3.2	2.5
Gross margin	38.9	36.3	37.8	39.1	39.0
EBITDA margin	14.3	10.1	11.2	11.4	10.2
EBITDA margin, adjusted	14.8	11.9	11.8	12.0	N/A
Operating profit margin	8.0	5.3	6.1	6.4	6.0
Return on invested capital	8.5	5.6	7.5	9.5	9.2
Equity ratio	18.8	19.5	21.3	29.6	34.1
Cash conversion	80	64	59	129	86
Leverage ratio	3.1	4.2	3.7	0.7	N/A
Environment, social and governance (ESG)					
Scope 1 & 2 emissions (tonnes CO_2e)	21,167	19,090	29,710	39,872	43,089
Waste to landfill (tonnes)	934	1,353	1,630	1,666	3,934
Average number of employees (FTEs)	7,403	7,343	6,746	6,099	6,219
Gender diversity in leadership positions[2], female/male	28/72	29/71	23/77[3]	21/79	N/A
Satisfaction and motivation[4]	75	72	73	N/A[5]	74
Suppliers screened through Hempel Procurement Sustainability Screening (% of spend)	44	40	22	N/A	N/A

For definitions of financial ratios, see page 111.

1 Comparative figures for 2021 have been restated to reflect changes in accounting policies and presentation of discontinued operations, see note 1.1. 2020 has not been restated and 2019 is 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 (with 10 being the highest) 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 from our Chair and CEO

2023 saw Hempel deliver its best financial results ever. The results were above expectations in a year that also brought progress on the company's ambitious sustainability journey.

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

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

STRONG PERFORMANCE ACROSS SEGMENTS

Driven by our Double Impact strategy, Hempel is steadfastly navigating an ambitious growth path, aiming to amplify our positive influence on customers, colleagues, and society as a whole. This expansion is facilitated by cutting-edge technologies and compelling brands, all geared towards fulfilling our customers' demand for increasingly sustainable solutions. At the heart of this growth expedition lies the synergy between our highly skilled people and our extensive global presence.

In 2023, we maintained sharp focus on innovations to develop more sustainable solutions that meet our customers' needs, enabling them to lower their CO_2 footprint while protecting and beautifying their assets.

Our Decorative segment continued to innovate and inspire with new ranges, colours, designer collaborations and collections, such as the new multi-surface, ultra-matt finish, Dead Flat from Farrow & Ball. Our Marine segment performed strongly, launching new products, such as Hempablue which reduces fuel consumption and emissions while providing customers with unique anti-fouling characteristics. Our Energy and Infrastructure segments also performed very well, supported by both existing and new technologies, such as our Hempaprime Strength solution for offshore wind turbines.

With our new state-of-the-art Chinese factories in Yantai and Zhangjiagang now up and running, we are in a robust position to accelerate growth in the years to come. All this made for a 2023 that we can be very proud of.

TURNING AMBITION INTO ACTION WITH SUSTAINABILITY LEADERSHIP

During 2023, we made significant progress on our ambition to become the sustainability leader within paints and coatings.
In May, the Carbon Disclosure Project (CDP) recognised our efforts to engage our supply chain on climate issues, awarding us an A in its 2022 Supplier Engagement Rating. Having our efforts validated externally is integral to becoming the sustainability leader in our industry within our core business areas.

> **“In 2023, we delivered our best financial result ever with a total revenue of EUR 2,351m and an adjusted EBITDA margin of 14.8%.”**
>
> — Michael Hansen, Group President & CEO

In September, our CEO, Michael Hansen, joined the Private Sector Forum, which took place during the United Nations General Assembly. The forum gave us an opportunity to exchange ideas and collaborate with other leaders who are equally passionate about shaping a more sustainable and equitable future.

Our customers and industry partners remain key to our success and focus within sustainability. We entered into many new partnerships and collaborations in 2023, including with the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping.

BECOMING AN INDUSTRY-WINNING ENTERPRISE

We unveiled our Double Impact strategy in 2020 with the ambitious goal of doubling both our revenue and positive influence within a five-year timeframe. The success and efficacy of this strategic framework have been evident, prompting us to extend its application beyond the initial 2025 horizon. Continuing the current trajectory, we are confident that we are firmly on the path to establishing ourselves as an industry-winning enterprise. This is not just a goal; it is our unwavering ambition and the focal point of our dedicated efforts.

In 2023, we added a fourth pillar to our strategy called Scalable Operations. We did so to make sure that we maintain focus on fostering a profitable business that is scalable for future growth. This in turn will ensure that we can continue to invest in innovation, digitalisation and our people – the enablers of our strategy. Our ultimate goal is to increase value creation for the Hempel Foundation, so it can have an even more positive impact on society through its important philanthropic work.

During the year, we welcomed more high calibre leaders to our executive team: Peter la Cour Gormsen, new CFO and EVP of Finance, and Ana Henriques, new EVP and Head of Hempel’s Decorative segment. We also strengthened our focus on digital transformation when René Overgaard Jensen joined Hempel’s Executive Group Management (EGM) as Chief Transformation & Information Officer. Together with the rest of the EGM, they will help us unleash our full potential in the coming years.

We remain firmly committed to achieving a balanced workforce with no more than 60% of one gender represented. As women currently remain underrepresented in our general workforce, we are increasing our efforts in this area, with focus on both our general workforce and leadership.

We completed the sale of our assets in Russia in July and were able to exit the market in a responsible way (see page 22 for further details). During this process, looking after the safety and wellbeing of our now former Russian colleagues was paramount to us.

2024 OUTLOOK

In 2024, we expect to see single-digit organic revenue growth and an EBITDA margin around 15%.

CELEBRATING THE HEMPEL FOUNDATION AND THANK YOU

30 November 2023 marked the Hempel Foundation’s 75th anniversary. At Hempel, we take pride in not just working for a company, but working for a purpose. The anniversary was an opportunity to celebrate our collective contributions to the important philanthropic work undertaken by the Hempel Foundation. We marked the anniversary internally and externally, sharing our pride with our colleagues, customers and partners. We are committed to our growth journey – not just because it makes good business sense, but because it will maximise the positive impact that our company, people and owner can have together on the world around us.

Finally, we would like to extend thanks to all our Hempel colleagues for their efforts, enthusiasm and dedication over the year. You remain the heartbeat of our company. We would also like to thank all our customers and other stakeholders for their continued trust and support.

The big picture

Innovation

Innovation comes to life in all aspects of what we do. An innovative mindset keeps us ahead of our customers – anticipating their needs and responding to their challenges.

→ Our value chain
→ Strategy
→ Spotlight on innovation

Our value chain

World-leading supplier of trusted, sustainable and innovative paints and coating solutions.

Add value to customers

Customers first
We solve our customers' challenges and add value to their business across the industries we serve.

- Decorative
- Marine
- Energy
- Infrastructure

Research, develop & innovate

Research & develop
We research and develop new products and adjust existing solutions to improve performance. We partner with customers to innovate and test in the field.

Innovate
Sustainability is at the heart of our business. And it is a key driver of our product development and innovation across our 15 R&D centres.

Produce

Produce & scale
We constantly strive for greater excellence, efficiency and scalability in our production.

Suppliers
With a mindset to continuously improve, we engage and work with our suppliers to shorten lead times and collaborate on sustainability.

Deliver & supply

Brand & sell
We strive to always understand our customers' business. We communicate the value and benefits of our solutions to give customers the best possible experience no matter how or where they meet us.

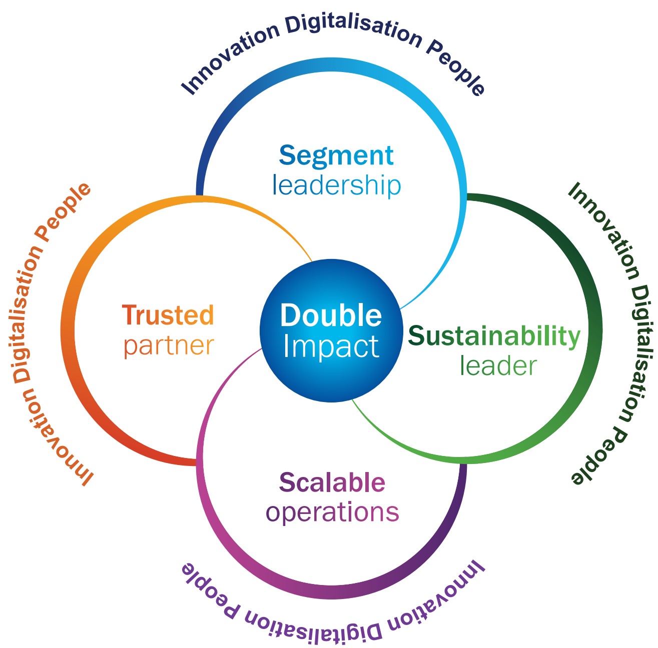
Advise & support
Our global team of coating advisors ensure efficiency and quality during application. They help our customers optimise processes to keep their assets in the agreed condition, reduce maintenance costs, cut down on waste and improve environmental performance. In our stores, we advise and inspire our private customers.

Distribution
Our global integrated supply chain and store network allow us to deliver products and solutions to our customers across the world every day.

Re-invest profits

Monetary streams
Parts of our profits are re-invested into our company. The rest is paid as dividends to the Hempel Foundation to be invested into biodiversity, education and science projects around the world.

Doubling our impact



In 2020, we launched Double Impact, a strategy aiming to deliver innovative, sustainable solutions that create a significant positive impact for our customers and society at large. We also strive for a positive impact for our colleagues, who are not just working for a company, but truly for a purpose: Shaping a brighter future with sustainable coating solutions. Lastly, our strategy is about the social impact we want to make through the dividends we pay to our owner, the Hempel Foundation.

Initially, our strategy had one clear goal: doubling our revenue within five years. We are well on our way to deliver on this. However, our strategy encompasses much more than revenue growth and increased dividends.

Double Impact has proved very robust and effective, and in 2023, we decided to let the principles of our strategy guide us beyond 2025. We will naturally refine and adjust as we move forward to ensure our course remains aligned with the changing external landscape around us. This will allow us to consistently achieve our intended impact.

INCREASING VALUE CREATION AND IMPACT

In 2023, we added 'Scalable Operations' as a pillar in our strategy to drive a more harmonised global setup, enabling smarter use of resources across functions and segments. The aim is for us to generate higher sales, without seeing an equal increase in costs, through more effective and efficient ways of working together.

The four strategic pillars in Double Impact now are: Segment Leadership, Sustainability Leader, Trusted Partner and Scalable Operations. See the next page for 2023 highlights for each of the four pillars.

We also added three strategic enablers to guide execution of our strategy and give us greater impact in the market as we move forward: Innovation, Digitalisation and People.

Innovation is what sets us apart from the competition. Our innovative and sustainable solutions are a key driver, enabling us to be a sustainability leader in our segments.

Digitalisation, enabled by strong data, will be the key to success in our quest to standardise key processes to build scale. Digitalisation will further differentiate our customer offerings. We build long-term partnerships with our key customers because we deliver best-in-class innovation and superior technology.

We emphasise the importance of our **people** in the updated Double Impact strategy, and we aim for each and every one of our colleagues to find their work engaging and meaningful. Hempel colleagues should feel empowered and guided by a strong purpose, in which we deliver value for our owner, the Hempel Foundation, by counting Hempel among the best performers in our industry.

2023 strategic milestones

SEGMENT LEADERSHIP

- We continued to build customer segment leadership positions in 2023. One example is the launch of our innovative and sustainable solution Hempablue, a new biocide-free hull coating for the world merchant fleet (see page 18).
- We revitalised our product offering in our luxury Decorative brand, Farrow & Ball, with the launch of new finishes and collections (see page 17).
- We expanded our leadership position within the market for cellulosic passive fire protection (C-PFP), where our Hempafire product portfolio continues to perform strongly (see page 20).

SUSTAINABILITY LEADER

- We are turning our ambitions within sustainability into actions and our efforts are increasingly recognised and validated by our customers and partners. Our work to engage our supply chain on climate-related issues received an A score in the Carbon Disclosure Project's Supplier Engagement Rating (see page 49).
- Our Sustainable Procurement Programme created visibility on sustainability within the supply chain, while linking sustainable performance to our commercial evaluation of suppliers (see page 48).

SCALABLE OPERATIONS

- We continuously optimise how we work with our customers across segments. We acknowledge the value of a scalable organisation in supporting our customers in the most efficient way now and in the future. In 2023, we formed a new Customer Care department serving customers across our Marine, Energy and Infrastructure segments. With this change, we promote scalability and synergies in our three performance coatings customer segments: Marine, Energy and Infrastructure.
- Our new state-of-the-art factories in Yantai and Zhangjiagang in China are now fully operational. This provides us with the capacity to meet increasing demand in the region and allows us to better serve our customers in the Marine, Energy and Infrastructure sectors. With the majority of the world's marine newbuild business located in China, and over 50% of Chinese shipyards located in a 200km radius around Zhangjiagang, antifouling coatings are in high demand. This new location will significantly improve our 'time to market' of both products and services, especially at the shipyards along the Yangtze River.
- We announced our plans to form a Digital Hub in Mumbai, where a team of specialists will focus on development and configuration of our ERP platforms, automation, IT infrastructure and architecture.

TRUSTED PARTNER

- Thanks to an organisational structure implemented in 2022, today we work and organise around our customers. In 2023, this allowed us to get even closer to customers across the industries we serve, and to embrace their full eco-system when we engage with them. We continued to differentiate our offerings by moving beyond selling coatings to selling differentiated solutions that solve our customers' business challenges.
- In our bi-annual Customer Engagement Survey, we were happy to see that our customers rated Hempel as 'High' in terms of sustainability, an increase compared to the last survey in 2021. Likewise, customers continued to rate Hempel as 'Excellent', the highest score possible in the survey, when it comes to trust.

Spotlight on innovation

We innovate for and with our customers. Our R&D centres are located across the world, driving innovation in new products and solutions.

Segments served

- Decorative
- Marine
- Energy and Infrastructure

+330

R&D employees as of 31 December 2023 in a network of 15 locations around the world to ensure close proximity to our customers.

15

R&D centres innovating new solutions with world-class capabilities and scientists.

Research & Development		Development & Support			Product and Business Technical Support
Coesfeld	Darwen	Busan	Merzig	Zhangjiagang	Footscray
Copenhagen	Guangzhou	Dorset	Mina Salma		Kilburn
Dallas	Barcelona	Kampen	Nashik		

Innovation — a vital enabler for executing our strategy

Innovation comes to life in all aspects of what we do – in how we develop new paints and coatings, in our services, our business models and our new strategic initiatives. An innovative mindset keeps us one step ahead of our customers – anticipating their needs and responding to their challenges.

Innovating new technologies and business models

At Hempel, our innovation ambitions stretch far beyond liquid in the can. We want to transform how paints and coatings are made, packaged, sold and applied in order to increase impact and value, for both our customers and our planet. This happens in many ways – for example, developing coatings that deliver higher quality protection while using less raw material, recycling and reusing coating materials to create new coatings or other products, and developing technologies that reduce the carbon footprint of coating application.

We do this by fostering an innovative culture where our people and our partners think differently. Where we are encouraged to re-write the status quo and change the industry and the planet for the better. One example is PaintGreen, a dedicated innovation programme within our Decorative customer segment, focused on sustainability in product innovation.

Innovation also includes how we innovate in the digital space. We develop digital solutions that address customer needs and give us the capability to act as a strategic advisor in order to foster closer partnerships. For example, SHAPE (Systems for Hull And Propeller Efficiency), is our fully integrated maintenance concept for customers in Marine, which gives a holistic view on biofouling on the ship hull from multiple data sources, and allows the customer to lower fuel consumption and emissions.

ACCELERATING THE ENERGY TRANSITION

The urgency of climate action has increased focus on innovation, particularly around optimising processes, reducing use of raw materials and enabling our customers to reduce their environmental footprint. In the wind power industry, for example, we are working in partnership with key industry players to enhance wind turbine blade durability, reduce maintenance expenses, and extend blade lifespan.

When it comes to wind turbine blades, the leading edge presents a unique protection challenge. In this respect, our membership of the DURALEDGE Consortium, which we joined when it launched in 2018, has proven extremely important. New insights from the DURALEDGE Consortium supported the development of our advanced leading edge protection (LEP) solution and has contributed to a better, industry-wide understanding of the leading edge erosion challenges, paving the way for future solutions.

WHAT YOU MEASURE, YOU CAN MANAGE

As part of delivering on Sustainability Leadership, we have performed a structured assessment of the environmental impacts of our product portfolio across the entire value chain, including data from raw materials suppliers. Gathering this data has been a complex process, involving collecting and analysing carbon information (for example, on the embodied and downstream CO_2 of each product), as well as information on circularity and the footprint of the application process.

In 2023, we applied this information in our Product Sustainability Scorecards, which enable our customers to make better, more sustainable choices on which coating solutions to choose. In many markets – the Marine, Energy and Infrastructure industries in particular – a more sustainable option is often also a more financially sound choice, which makes our Product Sustainability Scorecards valuable from both a financial and a sustainability point of view.

The scorecards are the result of extensive work and innovative collaboration with customers. As well as providing our customers with data on the sustainability impacts and benefits of our solutions, they also give us insight to drive our future product portfolio towards more sustainable products.

ARTIFICIAL INTELLIGENCE SPEEDS UP CUSTOMER FEEDBACK

The use of generative Artificial Intelligence (AI) is accelerating in all areas of work and life. At Hempel, generative AI is, for example, being applied to the retrieval of technical information and documentation. Hempawise is our own generative AI solution, which is based on OpenAI's language model. In 2023, we loaded Hempawise with technical documentation. Working with Hempawise, our business technical experts in R&D receive feedback in a dialogue format – including links to relevant documents – which significantly reduces the response time in relation to the approximately 6,000 enquiries they receive annually.

CLOSER PARTNERSHIPS BOOST SUSTAINABLE INNOVATION

The urgent demand for more sustainable coating solutions calls for even closer collaboration across Hempel's value chain, and with universities, to speed up early research and testing of new solutions. No one entity can respond to market demands at the pace needed by our customers. Therefore, we accelerate innovation through closer partnerships that leverage each partner's diverse competencies, both within and beyond the industry.

Over the years, Hempel has sponsored several PhDs at DTU's Coatings Science and Technology Centre (CoaST). These have typically used deep exploration to understand the mechanism of performance in Hempel's industry-leading technology, for example in fouling defence and passive fire protection. In 2023, we began a collaboration with CoaST on our waterborne technology roadmap, triggering two work-streams: "Improving the adhesion performance of waterborne primers" and "Improving the film formation of waterborne coating systems".

"We're tapping into the power of AI with care — seeking opportunities to reduce our environmental footprint and enhance customer service. It's about innovating wisely with a clear purpose in mind."

— Emilie Lundblad, Head of AI and Automation

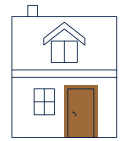
Our business

12

New colours and three wallpapers were created this year in a collaboration between Farrow & Ball and Christopher John Rogers.

Customer segment overview

DECORATIVE



792
Revenue in EUR m

4.0%
Organic growth

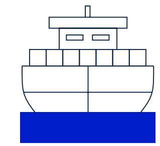
The Decorative customer segment delivered 4.0% organic growth, landing at EUR 792 million revenue in 2023.

Rising living costs, inflation, and interest rates posed challenges across Decorative paint sectors and geographies, but we successfully achieved revenue growth in nearly all our brands. This was supported by the positive impact of price increases implemented following the raw material price increases in early 2022.

Despite a declining market in 2023 and the ongoing challenges in Do-It-Yourself since Covid-19, our team navigated the context with resilience.

The Middle East business delivered strong double-digit growth, the UK businesses gained market share and the business in Australia showed positive momentum.

MARINE



725
Revenue in EUR m

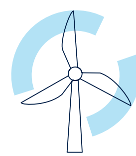
26.2%
Organic growth

The Marine customer segment delivered 26.2% organic growth, landing at EUR 725 million revenue in 2023.

We realised growth in all main sub-segments. The main growth driver in 2023 was the New Build business, where we achieved significant gains due to strong global commercial collaboration, our global presence and a favourable market development. This allowed us to serve our customers' full eco-system. In addition, the strong growth also reflected our customers' need for solutions that improve the energy efficiency of their vessels, such as our premium antifouling hull coating Hempaguard, which helps customers to decarbonise and save on fuel costs.

Silicone hull coatings continued to attract new customers searching for ways to decrease fuel consumption and reduce their environmental impact. The market for silicone coatings is a low-volume business compared to older solutions.

ENERGY



364
Revenue in EUR m

18.6%
Organic growth

The Energy customer segment grew 18.6% organically, ending the year at EUR 364 million revenue in 2023.

Global energy companies continue to ratify their commitment to the energy transition, as they increasingly adhere to ESG principles and work to minimise their environmental footprint.

We continued to benefit from the trust earned with our partners throughout the different sub-segments and geographies.

A continued focus on specification work, high-value solutions and close customer relationships enabled us to continue our strong growth during 2023. We returned to a strong double-digit growth rate across geographies, measured in both revenue and volume.

We have benefitted from the annualisation of price increases introduced in 2022. We also experienced strong performance in premium solutions, such as Avantguard and hydrocarbon passive fire protection (H-PFP).

INFRASTRUCTURE

470
Revenue in EUR m

9.6%
Organic growth

The Infrastructure customer segment grew 9.6% organically, ending the year at EUR 470 million revenue in 2023.

During 2023, geopolitical and economic instability continued and the investment climate in parts of our global business continued to be low.

Our global structure continues to support the winning of projects as we are present in every step of our customers' value chain, and we therefore continued to expand sales in the Infrastructure customer segment. We did this by maintaining clear focus on solutions that help both new and existing customers improve within sustainability, increase safety and lower their costs.

A clear focus on our key technologies, such as Avantguard, Hempafire and cellulosic passive fire protection (C-PFP), helped us return to solid double-digit growth within key markets.

In 2023, we also benefitted from the annualisation of price increases introduced in 2022.

Decorative

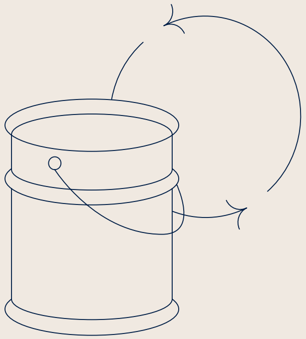
The power of colour

Our Decorative brands inspire consumers through a range of high-quality, colourful and easy-to-use solutions and services. We provide a complete portfolio of paints and wallpapers for Do-It-Yourself consumers, retailers and professional painters. Our solutions include premium brands for the home, coating solutions for commercial buildings and private label products for retailers.

In 2023, we saw a return to Do-It-For-Me after a strong Do-It-Yourself trend during the pandemic. Demand increased for more sustainable solutions for both interior and exterior use.

We opened new stores and developed stronger partnerships with large retailers in 2023, and we added approximately 50 new third-party outlets in the Middle East.

Inspiration, quality and sustainability remain central to our work. Across the Decorative segment, we introduced new colours and wallpapers, enhanced our digital marketing and store designs, and continued to improve sustainability within our range – all in close collaboration with customers.



1.4 million

Cans returned in 2023 through our Can Back Scheme in the UK and Ireland.

Product innovations

- Farrow & Ball launched a new unique finish – called Dead Flat – which boasts a sheen of just 2% and is easy to clean. Like all Farrow & Ball products, the Dead Flat finish is water-based.
- Farrow & Ball launched Carte Blanche, a collaboration with fashion designer Christopher John Rogers, consisting of 12 new paint shades and three wallpaper patterns.
- J.W. Ostendorf developed a floor & roof paint concept under the product brand Renaulac that is characterised by its project-oriented product range and was launched at one of the most important DIY retailers in Europe.
- Wattyl won a significant partnership in the Interior Category with new DIY product lines, including a Kitchen & Bathroom range and a high opacity paint. This strengthens the Wattyl brand as a powerful whole-of-house solution.
- Hempel Middle East successfully launched a new cement filler and exterior textured paint named Casa Moderno. Both products are water-based and exceeded sales expectations.
- Crown Paints reinvigorated its core range, packaging and in-store presence.

Sustainability highlights

- We reached 1.4 million paint cans collected and recycled through our Can Back Scheme in the UK and Ireland. We are participating in similar recycling schemes in Australia, New Zealand and France.
- We want to be at the forefront of packaging sustainability. Our goal is to use an average of 50% recycled content in our plastic cans in Decorative by 2025. By the end of 2023, we reached 49%.
- Working in collaboration with customers, J.W. Ostendorf expanded its bio-based and biocide-free product ranges.

Marine

Working with the industry to lower emissions

As a trusted advisor to the maritime industry, we combine world-class coatings and services to help customers protect their assets, lower operating costs and reduce carbon emissions. We launched a number of new innovations in 2023 to improve both flexibility and performance for our customers. Hempablue, for example, is a groundbreaking biocide-free product that enables more efficient hull performance.

We continued to strengthen our digital services, and developed a new platform for SHAPE (Systems for Hull And Propeller Efficiency), our fully integrated maintenance concept. SHAPE combines performance data, automatic identification system, environmental data, and visual data into a holistic biofouling monitoring of the customer's fleet. We also began developing live customer login functionality and AI-enhanced proactive recommended actions, to build stronger trusted partnerships aimed at lowering both fuel consumption and emissions. In addition, we launched our Sea Stock Alert system, which simplifies the ordering process for customers and is used by more than 300 vessels worldwide.

At the same time, we continued to support our customers' decarbonisation journey by collaborating with different stakeholders as partners in pursuit of the accelerated decarbonisation of the maritime industry. For example, we became a member of the network of Mission Ambassadors to the Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping to drive this work further and broaden our impact.

6.5 million

Tonnes CO_2e saved for our customers in the maritime industry in 2023.

Product innovations

- Our groundbreaking Hempablue hull coating solution delivers significant antifouling performance without biocides.
- We launched the Flex hull coating system, which gives customers greater flexibility during application – extending the application window.
- Our new state-of-the-art Ultraclean cargo hold coating gives dry bulk operators greater operational flexibility by reducing their turnaround time for cleaning, and improving their ability to change cargoes frequently.

Sustainability highlights

- We continue to provide market-leading hull performance solutions – with our Hempaguard brand and SHAPE – that enable our customers to reduce fuel consumption and emissions. High performance hull coatings, such as our Hempaguard solutions, are an extremely efficient way to improve the energy efficiency of a vessel, contributing to the decarbonisation of the maritime industry. In 2023 alone, our high performance hull coatings helped customers in the maritime industry reduce their CO_2e emissions by 6.5 million tonnes (see page 67 for definition). This is an improvement of 16% compared to 2022 (5.6 million tonnes).
- In 2023, we joined the International Maritime Organization's Global Industry Alliance for Marine Biosafety to provide best practice guidance on biofouling reduction to governments and NGOs.

Energy

Supporting our customers in the energy transition

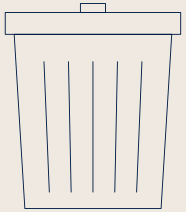
2023 was another challenging year due to geopolitical and economic instability. Despite this, revenue and volume growth remained stable in our energy customer segment.

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

Onshore technology continues to dominate the wind market, but offshore is growing. At the same time, investments in natural gas and liquified natural gas projects are increasing, as is the use of robotics and other automated solutions, which are seen as key tools to optimise construction, maintenance and inspection of energy assets in the future.

We saw strong revenue and volume growth in linings and solutions for corrosion under insulation and high heat, consolidating our strong position in the downstream anti-corrosion market.

We continue to offer solutions that extend the lifetime of energy assets and provide sustainability benefits to customers, such as our award-winning Avantguard solutions. In addition, we offer key new technologies, wind blade coatings for the protection of wind blades and hydrocarbon passive fire protection (H-PFP).



75% less waste

Our Hempablade solution delivers a reduction in application waste as well as 30% less manpower costs.

Product innovations

- We launched the Hempablade solution. The system consists of an overall blade coating and a robust leading edge protection (LEP) coating. It is designed to support production efficiency, and all coatings fully comply with the highest technical industry requirements.
- We launched Hempaprime Strength 530, a heavy-duty coating for aggressive corrosive environments, such as splash zones, that prolongs the lifetime of offshore wind structures.
- We secured key wins for Hempatop Repel 800, an advanced water-repellent coating that extends the lifetime of offshore assets by reducing the cost and frequency of maintenance cycles.

Sustainability highlights

- We launched Hempablade – a full system solution developed especially to protect wind turbine blades against ever increasing blade-tip speeds and challenging site conditions, such as erosion caused by rain. Hempablade uses less material and takes less time to apply. From putty to filler, and from topcoat to final LEP coating, all application stages are optimised to provide excellent performance with fewer process steps and manhours, and less coating consumption.

Infrastructure

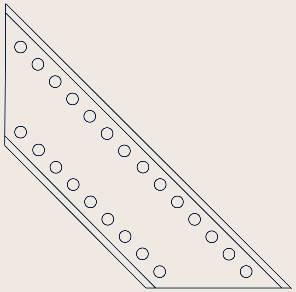
New take on structures and equipment

From stadiums and airports to other public buildings and structures, our solutions are used across the infrastructure sector to protect assets from corrosion, abrasion, extreme temperatures, harsh weather and fire. All our Infrastructure solutions are designed to improve sustainability performance by extending asset lifetime and reducing maintenance requirements.

2023 was a challenging year within the construction and infrastructure business due to global geopolitical and economic instability. While growth in infrastructure investments remained relatively stable, many projects were delayed or indefinitely postponed.

We performed well despite these conditions, extending our sales footprint due to our key leadership positions in several areas, including cellulosic passive fire protection (C-PFP), where our Hempafire product portfolio continues to perform strongly.

Sustainability is increasingly becoming a qualifier for customer projects. We offer a full range of solutions to help customers reach their sustainability targets. Our Avantguard anti-corrosion solutions, for example, require less paint than other solutions, yet provide the same amount of protection, which reduces costs and carbon footprint during application. In addition, we provide many low carbon footprint solutions to support green building schemes.



100%

Up to 100% estimation accuracy with our HEET Dynamic software automatic volume calculations.

Product innovations

- We launched HEET Dynamic (Hempel Estimation and Engineering Technology), a software solution that enables fabricators to perform PFP estimations quickly, easily, and accurately. With an intelligent BIM (Building Information Modeling) plug-in, HEET Dynamic enables advanced users to automate estimations and incorporate the data into 3D models and objects at a 10 times faster pace.
- We began piloting CraneCare, a new service solution that helps port equipment owners and operators identify critical maintenance requirements, suggesting maintenance schemes with long-lasting coating solutions that optimise costs and protect assets more sustainably.
- We launched Hempatop Direct 420 for freight railcar exteriors – a market where sustainability is a must. The Hempatop Direct 420 waterborne acrylic coating is easily applied direct-to-metal in one coat, and ensures high durability, flexibility and a long-lasting appearance.

Sustainability highlights

- We introduced carbon footprint information on our product data sheets for our core Energy, Infrastructure and Marine products, enabling customers to choose products with the lowest carbon footprint for a given project. The carbon footprint includes raw materials, in-bound transport to the Hempel factory, the manufacturing processes, and any volatile organic compounds (VOCs) emitted during or after product application.

Performance review

Revenue and earnings

REVENUE AND ORGANIC GROWTH

Total revenue in 2023 reached EUR 2,351 million. Organic growth in constant currencies amounted to 13.7%, and annualisation of business acquired in 2022 contributed to 0.4%.

Despite geopolitical and macro-economic unrest, our optimistic expectations for mid-to-high single-digit organic revenue growth, as outlined in the 2022 outlook, were surpassed. Total revenue growth was driven by volume expansion and the full-year impact of price increases.

Growth was driven by double-digit growth in our Marine and Energy customer segments.

Our Decorative customer segment delivered 4.0% organic growth, ending the year at EUR 792 million revenue in 2023. The main driver of growth was the positive impact of price increases taken in 2022 following raw material price developments.

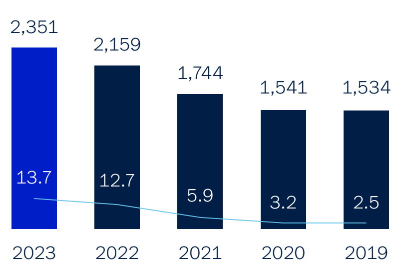
Our Marine customer segment drove the strongest organic growth of 26.2%, landing at EUR 725 million revenue in 2023. Growth was driven by increased volumes in New Build business solutions and our premium antifouling hull coating Hempaguard.

Our Energy customer segment grew 18.6% organically, landing at EUR 364 million revenue in 2023. The expansion of our customer base and the strong performance of our Avantguard solutions contributed to this growth.

Our Infrastructure customer segment reported 9.6% organic growth, ending the year at EUR 470 million revenue in 2023. The result was strong considering the challenging geopolitical and economic instability causing delays in projects. Hempafire and Avantguard were among the main drivers of growth.

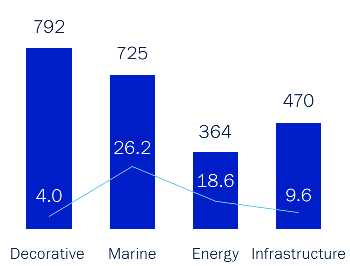
Revenue and organic growth

Revenue (EUR m) — Organic growth (%)



Revenue and organic growth by segment

Revenue (EUR m) — Organic growth (%)



GROSS PROFIT AND MARGIN

Gross profit increased by 16.7% in 2023, up from EUR 784 million in 2022 to EUR 915 million in 2023. The gross profit margin increased from 36.3% in 2022 to 38.9% in 2023.

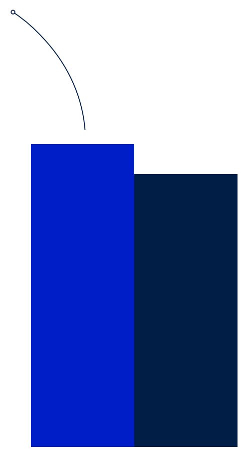
The positive impact on gross profit and margin is attributed to higher volumes, increased demand for high value proposition products, increased sales prices, and a decline in raw material costs.

38.9%

in 2023

36.3%

in 2022



SALES, DISTRIBUTION AND ADMINISTRATIVE COSTS

Sales, distribution and administrative costs amounted to EUR 726 million in 2023, EUR 53 million higher than 2022.

The operating expenses to revenue ratio was 31%, 0.3 percentage points lower than 2022.

The increase in operating expenses was driven by investments to support growth, increased manning to support higher volumes in the supply chain, and technical service, as well as inflation, which impacted merit and operation costs.

Additionally, we invested in capabilities to support and drive digitalisation.

726

EUR m in 2023

673

EUR m in 2022

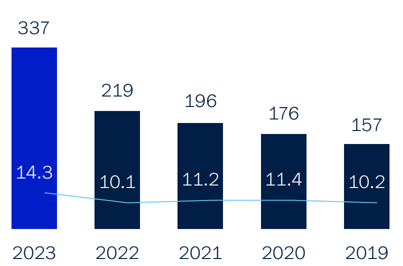
EBITDA AND EBITDA MARGIN

EBITDA from continuing business amounted to EUR 337 million in 2023, an increase of EUR 118 million from 2022. The improved EBITDA was the result of flowthrough from the improvement in gross profit. The result was well above our outlook of an EBITDA of EUR 260-290 million for 2023.

The EBITDA margin increased by 4.2 percentage points, from 10.1% in 2022 to 14.3%, in line with the expectation of growing the EBITDA margin in 2023.

EBITDA and EBITDA margin

☐ EBITDA (EUR m) — EBITDA margin (% of revenue)



FINANCIAL ITEMS AND FOREIGN EXCHANGE

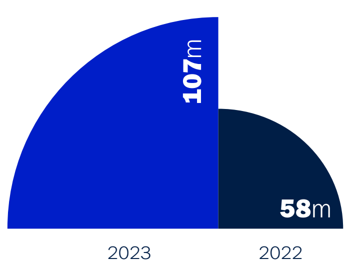
Financial items, net amounted to EUR 107 million (EUR 58 million in 2022). The increase was driven by net foreign exchange losses and increasing interest costs.

The loss on foreign exchange was heavily impacted by currency devaluation in Argentina and partially offset by financial income.

Increasing interest rates, coupled with a stable and unchanged debt position, explains the increase in interest costs and bank charges.

Net financial expenses

(EUR m)



TAX AND NET PROFIT

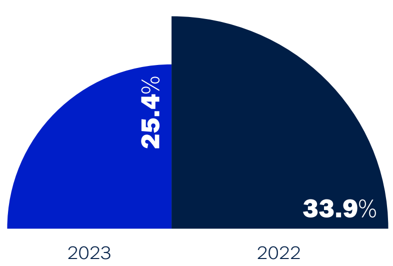
Tax on profit of continued business in 2023 amounted to EUR 21 million, resulting in an effective tax rate of 25.4%, down from 33.9% in 2022.

The effective tax rate adjusted for hyperinflation was 23.6% and was reduced from 26.8% in 2022. This was due to a lower weighted tax rate for the group and a reduction of uncertain tax positions.

Net profit for the year from continued business amounted to EUR 61 million (EUR 37 million in 2022).

Effective tax rate

(%)



DISCONTINUED OPERATIONS

As a result of the Russian invasion of Ukraine, Hempel decided to leave Russia and ceased operations in Russia in 2022. The associated operations, assets and liabilities were consequently presented as discontinued operations and assets and liabilities held for sale.

On 13 July 2023, the divestment of Hempel's activities in Russia was completed.

The total impact on the profit and loss statement in 2023 amounted to a loss of EUR 11 million (EUR 2 million in 2022), mainly driven by the reclassification of accumulated foreign exchange differences.

Performance review

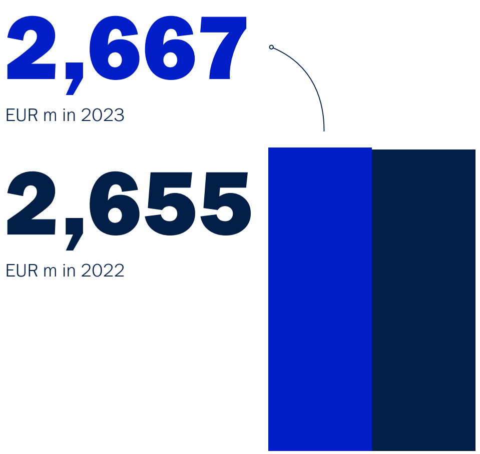
Financial position and related key figures

TOTAL ASSETS

Total assets increased from EUR 2,655 million at 31 December 2022 to EUR 2,667 million at 31 December 2023.

Non-current assets amounted to EUR 1,514 million in 2023, a decrease of EUR 30 million from 2022. The decrease is partly attributed to asset impairments.

Current assets amounted to EUR 1,153 million in 2023, an increase of EUR 42 million from 2022. The increase is attributed to a higher cash postion, income tax receivables, and an increase in trade receivables driven by revenue growth.



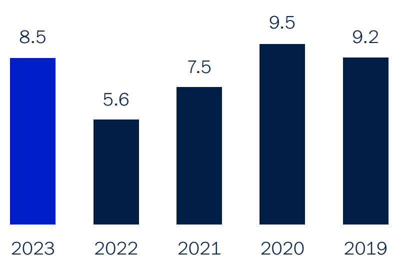
RETURN ON INVESTED CAPITAL

Return on invested capital amounted to 8.5% in 2023, up from 5.6% in 2022. A significantly higher operating profit, linked to an improved gross profit, drove the positive development in return on invested capital.

Average invested capital increased in 2023 following investments in the expansion of our production capabilities in China.

Return on invested capital

(%)



NET WORKING CAPITAL

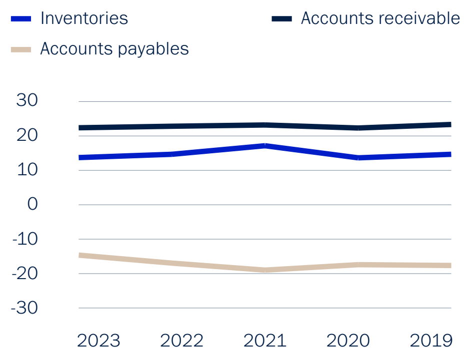
The trade receivables balance amounted to EUR 505 million in December 2023, up by EUR 29 million from 2022. The increase in trade receivables followed revenue growth.

The inventory balance amounted to EUR 332 million in 2023, down by EUR 11 million from 2022. The result followed an improved sales and operations planning process and decreasing raw material prices.

Trade payables amounted to EUR 332 million in 2023, down by EUR 23 million from 2022. The result followed a decline in raw material prices and year-over-year timing of payments.

Net working capital

(% of revenue)

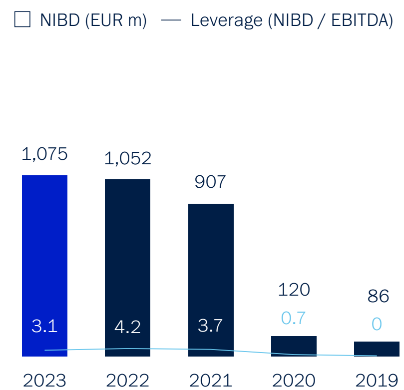


NET INTEREST-BEARING DEBT AND LEVERAGE RATIO

Net interest-bearing debt at 31 December 2023 amounted to EUR 1,075 million, an increase of EUR 23 million from 31 December 2022.

The leverage ratio improved to 3.1x in December 2023, down from 4.2x in December 2022. The deleveraging of our financial position was a key success criteria for the year, following the acquisitions made in 2021. This positive shift is primarily attributed to the enhanced profitability of our underlying business. The net interest-bearing debt was adversely affected by increased net working capital, resulting from higher growth in 2023.

NIBD and leverage



Performance review

Cash flow

CASH FLOWS FROM OPERATING ACTIVITIES

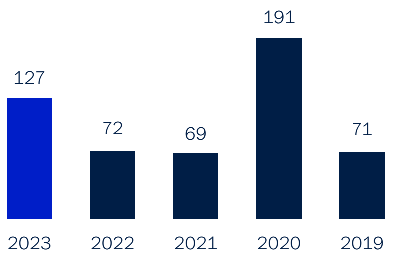
Cash flows from operating activities amounted to EUR 127 million in 2023, up from EUR 72 million in 2022.

The higher cash flow from operating activities was mainly driven by the positive development in the operating profit.

The positive development offset the slight negative development of cash flow from working capital of EUR 87 million, which was driven by increased receivables coming from higher revenues. It also offset the higher absolute tax and interest paid, in total up by EUR 69 million in 2023.

Cash flow from operating activities

(EUR m)



CASH FLOWS FROM INVESTING ACTIVITIES

Cash outflows from investing activities, including cash flows from acquisitions and divestments, amounted to EUR 98 million in 2023, down from EUR 136 million in 2022.

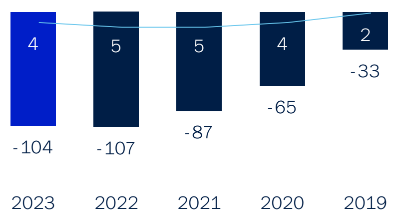
Investments in 2023 mainly related to completion of factories in China and in digitalisation. The investment in factories in China will allow us to materially increase our capacity from 2024. Digitalisation includes investments in ERP systems. These are key to delivering on our strategy, Double Impact.

Net cash flows from divestments and acquisitions amounted to EUR 6 million.

Capital expenditure accounted for 4% of revenue, down from 5% in 2022.

Cash flow from net investments in property, plant and equipment and intangible assets

☐ (EURm) — (EURm, % of revenue)



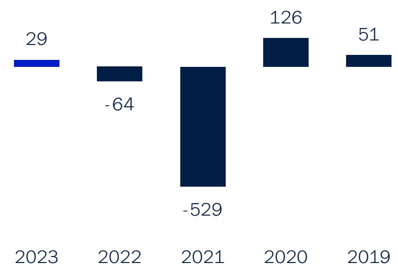
FREE CASH FLOW

Free cash flow amounted to EUR 29 million in 2023, up from negative EUR 64 million in 2022.

The increase was mainly a result of improved cash flows from operating activities. The result was driven by a positive development in volume and product mix, supported by the annualisation of price increases implemented in 2022 following raw material price increases.

Free cash flow

(EUR m)



CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities totalled EUR 12 million and included a dividend payment of EUR 26 million. Net proceeds from borrowings amounted to EUR 83 million and repayment of lease liabilities amounted to EUR 38 million.

Sustainability in everything we do

- → Sustainability leadership
- → Environment
- → Social
- → Governance
- → Tax
- → Risk management
- → Whistleblowing, business ethics and data protection

‘A’ score

We received an ‘A’ score in Carbon Disclosure Project’s Supplier Engagement Rating.

Sustainability leadership

WHAT SUSTAINABILITY LEADERSHIP MEANS TO US
At Hempel, sustainability leadership means being frontrunners within the coatings industry; working with material topics such as climate, biodiversity, resource depletion and diversity. By making clear commitments and setting relevant targets, we can turn ambition into action.

'Action' is critical for us. 'Turning our ambitions into action' has required us to continuously seek new knowledge around sustainability. Our sustainability framework, Futureproof, has been instrumental in driving our work. Over the last two years, we have built on our Futureproof framework, deep diving into our material topics to create a baseline that aligns with the EU Corporate Sustainability Reporting Directive (CSRD) implementation. As a decisive step, we have chosen to structure this Annual Report around the essential components of Environment, Social and Governance (ESG).

UNDER ENVIRONMENT WE FOCUS ON:
- Scope 1, 2 & 3 CO_2e emissions
- Product and packaging goals
- Waste and circularity

UNDER SOCIAL WE FOCUS ON:
- People sustainability
- Diversity, Equity & Inclusion
- Learning and development
- Health and safety
- Materials harzardous to people and the environment

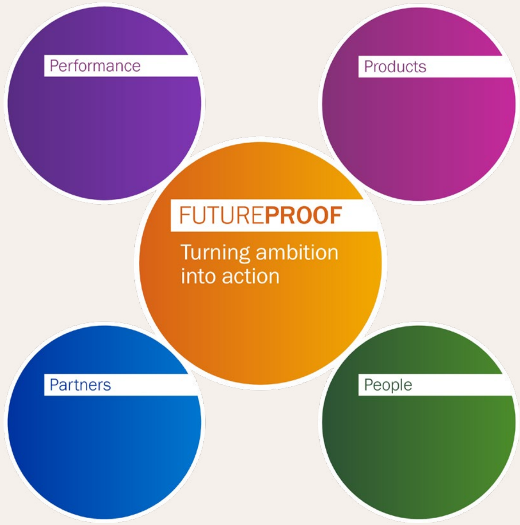
UNDER GOVERNANCE WE FOCUS ON:
- Corporate governance
- Tax
- Risk management
- Compliance
- Procurement Sustainability Screening

We commit to our science-based targets and have linked our credit facilities to four ESG targets. This has intensified focus on these topics.

THE FOUR ESG TARGETS LINKED TO OUR CREDIT FACILITIES ARE:
- Reduce Scope 1 and 2 CO_2e emissions
- Suppliers screened
- Reduce waste to landfill at production sites
- Reduce and phase-out hazardous raw materials

The annual savings in interest and fees that we will gain by meeting our ESG targets total approximately EUR 500,000.

Futureproof
Our sustainability framework



Linking material issues to Futureproof

To maintain a position of sustainability leadership in the future, and to prepare for the European Sustainability Reporting Standards (ESRS), we will focus on the ESG issues that are most material to our business. Our approach is based on double materiality assessments, which enable us to define, act and report on issues where Hempel has a significant impact on the environment and society, as well as issues that pose significant risks or opportunities for our business. We connect our material issues to our Futureproof framework pillars (see table on the right).

In 2022, we conducted our first materiality assessment to ensure our efforts are geared towards the most relevant and key areas, specific to Hempel. The assessment confirmed that the Climate Crisis, Resource Depletion, Biodiversity Crisis and Health & Wellbeing are the most important material issues for us to focus on.

As our ESG efforts and reporting processes mature, we expect the quality of our disclosures around these issues to improve further. This will bring us in line with the future reporting requirements specified in the CSRD. Our materiality assessment serves as the basis for preparation for CSRD, which mandates a structured approach to ESG governance and a systematic process to engage with ESG subject matter experts. During 2023, we established processes for this, with the aim of improving ESG data quality and creating robust internal controls for reporting.

Futureproof pillars	Hempel sustainability targets	Climate Crisis	Resource Depletion	Biodiversity Crisis	Health & Wellbeing
PERFORMANCE	90% reduction of Scope 1 & 2 CO_2e emissions by 2026	●	●		
	Achieve zero waste to landfill at our production sites by end of 2025	●	●	●	
PRODUCTS	Reduce CO_2e emissions in our value chain by 50% by 2030 (Scope 3)	●	●		
	Complete a five-year plan to reduce and phase out hazardous materials			●	●
	Achieve 50% recycled plastic in primary plastic packaging by end of 2025	●	●	●	
PEOPLE	Build an even stronger safety culture and eliminate all Lost Time Accidents and other injuries				●
	Achieve the targets of 33% women in general workforce and 30% women in leadership by 2024				●
PARTNERS	Reduce customer emissions by at least 30 million tonnes CO_2e by 2025	●			
	1.3 million cans collected and recycled through the Can Back Scheme	●	●		
	Promote and further good ethical behaviour and environmental practices in our supply chain	●	●		●

Environment

Turning ambition into action

SCIENCE-BASED TARGETS

We made significant progress towards delivering on our science-based targets and ESG commitments in 2023. Our combined Scope 1 & 2 emissions decreased by 51% compared to our 2019 baseline. We also formalised our reporting metrics and governance around Scope 3 emissions – and are now working to set clear KPIs for Scope 3 emissions at segment and function levels.

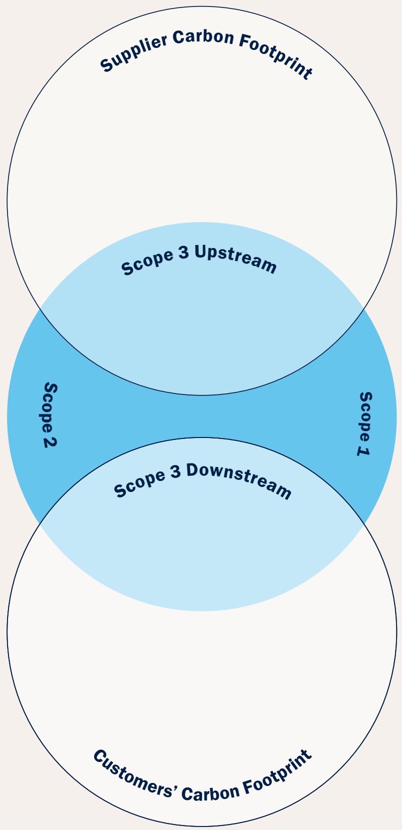
INCREASING USE OF RENEWABLE ENERGY

Our goal is to source 100% renewable electricity wherever available, at all of our sites, including production units, warehouses, offices and retail stores.

We took significant steps towards this in 2023. We mapped all fossil fuel driven equipment in use at our production units around the globe. By collecting data on fuel type and power consumption, we were able to identify replacement equipment that can deliver the greatest CO_2 savings at the lowest cost. We also continued to install solar panels at key sites, including new installations at two Wattyl production units in Australia that enable the sites to self-generate up to 30% of the electricity they use.

Installing solar panels and purchasing grid-supplied renewable electricity at key sites are our first priorities when it comes to sourcing electricity. However, due to differences in renewable energy infrastructure between countries, access is not yet available for all locations. Therefore, during 2023, we continued our investment in Renewable Energy Certificates (REC) to help account for part of our Scope 2 footprint. At the same time, we remain on the look out for new sources of grid-supplied renewables as infrastructure develops internationally.

Our approach to de-carbonising the full value chain



The carbon footprint from our suppliers has a direct influence on our own Scope 3 emissions.

Our coating solutions leave a carbon handprint, bringing an opportunity to reduce our customers' Scope 1, 2 & 3 emissions.

Our road to meet our science-based target for Scope 1 & 2 CO_2e emissions of a 90% reduction from our baseline year of 2019

2026

Meet our science-based target for Scope 1 & 2 CO_2e emissions of a 90% reduction from our baseline year of 2019

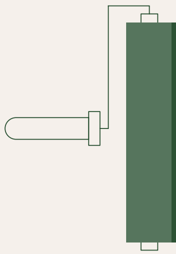
2025

Full implementation of our company car programme to transition to electric vehicles

- Continue phase-out of fossil fuel use from across our production units
- Update of our baseline year calculations to account for acquisitions

2024

Expand our decarbonisation initiatives to cover applicable non-production sites, including warehouses, offices and retail stores. Complete a comprehensive rebaselining exercise to account for the changes to our business, e.g. acquisitions



We have expanded our reporting scope to include the fuel from our **company vehicles**. The inclusion contributed significantly to increasing our Scope 1 emissions. Even with this inclusion, we were able to achieve a 51% reduction of Scope 1 & 2 emissions. Excluding company vehicles, our reduction was 64%.

2023

Expanded phase-out of fossil fuel equipment, and implementation of solar panels

- The installation of solar panels to generate renewable electricity with focus on our Decorative and EMEA production sites
- Phase-out of fossil fuel equipment in favour of lower carbon technologies

2022

Achieved validation of our science-based targets by the SBTi in line with the 1.5°C pathway for Scope 1, 2 and 3 CO_2e emissions

- Transitioned 9 sites to run on renewable electricity
- Invested in Renewable Energy Certificate schemes

2021

Launched our sustainability framework
Materiality assessment conducted to set strategic direction and sustainability goals. The outcome was the launch of Futureproof, our sustainability framework, in February 2021

2020

Collected full inventory of Scope 1 & 2 CO_2e emissions from our production units in line with the reporting standard Greenhouse Gas Protocol to set reduction targets and baseline

←

Environment

Our product & packaging goals

GOAL 1

50%

Reduce Scope 3 CO_2e emissions from our value chain by 50% by end of 2030

- Use less by providing longer-lasting coating solutions and through services that optimise paint application and use
- 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
- Use our Sustainability Product Scorecard to evaluate the carbon footprint of our different solutions and drive the above objectives
- Engage suppliers to reduce carbon emissions across the upstream value chain

For our value chain (Scope 3) CO_2e emissions, we had an increase of 7% in 2023 compared to 2022. In 2023, we progressed our efforts around Scope 3 with continued focus on our three value chain decarbonisation themes: use less, sell different and improve existing.

Use less examples: Avantguard systems are proven to deliver the same or better performance than conventional zinc-rich epoxy systems, with fewer coats and lower dry film thicknesses. This means less paint consumption, which reduces VOC emissions and lowers carbon footprint.

Sell different examples: We developed a lightweight paint formulation resulting in improved performance across environmental impact categories and we launched bio-based product ranges with lower carbon footprint through J.W. Ostendorf / Renaulac.

Improve existing examples: We established projects to reduce both cost and CO_2 emissions from our existing formulations.

In 2023, we focused on building the foundation and organisational maturity needed to execute on our Scope 3 programme. We executed internal training programmes, launched sustainability tools and developed support measures to ensure that all key functions across segments have the capacity and capability to identify opportunities and drive plans for decarbonisation. Our Scope 3 commitment has now transitioned from being a high-level corporate ambition to a more tangible outline of plans that are anchored at business unit level. As we are now 1.5 years into our decarbonisation journey, awareness and knowledge have developed, commitment has increased, and a heightened sense of accountability is evident across our organisation.

Engaging with suppliers to reduce the impact of our purchased goods, services and raw materials continues to be a central priority of our overall Scope 3 plans, and we are helping suppliers focus on emissions through our Sustainable Procurement Programme.

GOAL 2

Reduce hazardous substances in our products

In 2023, we completely removed or found less hazardous substitutes for 29 raw materials through our Hazardous Raw Materials Programme (see page 33).

29

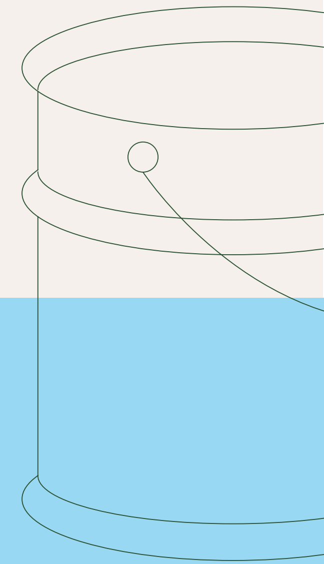
GOAL 3

Make sustainability a key driver of all product development and innovation

We achieve this through our Sustainability Product Scorecard and Carbon Footprint Report. Carbon footprint data on product data sheets enable easy promotion of more sustainable products. We launched this concept for core products in our Marine, Energy and Infrastructure segments in 2023. The remaining products in these segments will follow in 2024. We believe this to be an industry-first initiative, which sends a strong signal to our customers that we have a clear focus on sustainability and that we support them in achieving their sustainability agenda. In our Decorative customer segment, we launched PaintGreen, a dedicated innovation programme focused on sustainability in innovation. 19 out of the 20 ideas selected for further development under this programme are related to sustainability. In addition, we launched our Sustainable Solution Definition for Decorative paints, a tool that we will use in 2024 to guide product development by setting sustainability thresholds that new products must meet.

GOAL 4

Achieve 50% recycled content in primary packaging by end of 2025



50%

recycled plastic in packaging of Decorative products

Our Decorative products account for over 95% of the plastic packaging we put on the market. In 2020, we set a target of having 50% recycled plastic in the primary packaging of our Decorative products by 2025. In 2023, we managed to reach 49% recycled content (from 0% in 2017). As a result, we decided to expand the scope of our 2025 target to include all plastic packaging (primary and secondary) from all our customer segments: Decorative, Marine, Energy and Infrastructure.

Environment

Moving the needle on waste management and circularity

We have a goal to eliminate all waste to landfill from our own operations by 2025.

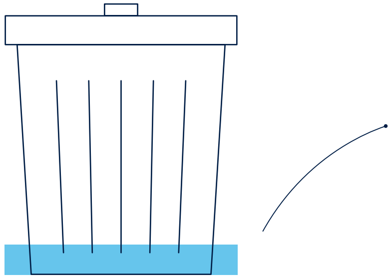
In 2023, we reduced waste to landfill by 69% at Hempel production sites compared to 2022. Compared to our baseline year of 2019, this is a total reduction of 95% (using a comparative baseline that excludes acquisitions).

In 2023, we added our production unit in Sharjah in the United Arab Emirates to our list of sites that deliver zero landfill waste. This was the result of dedicated effort by our factory team in collaboration with the Danish Foreign Ministry to help identify clean incineration facilities in the region.

Our team at Farrow & Ball also achieved zero operational waste to landfill by recycling 100% of their end use material, independent of the waste stream. Even paint-related waste streams are re-worked and recycled by an external supplier to ensure our resources remain in the use-phase for as long as possible.

We will now extend the paint-recycling initiative to include all production units (i.e. including newly acquired sites).

This change is supported by the ongoing deployment of our 'Smart Scales' automated waste monitoring and reporting system. By the end of 2023, all our production units had Smart Scales onsite. During 2024, we will focus on aligning data collection between sites, as well as data verification and assurance.



95%

Reduction of waste to landfill from our production sites compared to 2019.

Social

People sustainability

A diverse workforce and an inclusive culture benefit all colleagues, while improving decision-making, innovation and collaboration. We want everyone at Hempel to feel safe, respected and treated fairly.

40%
60%

Our long-term goal is to have no more than 60% of one gender represented.

DRIVING DIVERSITY & INCLUSION

At Hempel, gender balance is one of our top priorities. Our long-term goal is to have no more than 60% of one gender represented. Currently, women make up 32% of our general workforce. At the same time, 28% of our leaders at group level (defined as people with 3 or more direct reports) are female. For 2024, our target for women in leadership is 30%. To ensure we fulfil our ambition going forward, we continue to engage with our female colleagues to get their input, and we are implementing the following initiatives:

- Targeting a balanced gender mix in our recruitment for managerial positions, focusing on our employee pipelines, interview slate and new hires.
- Creating focus groups with the CEO. These will use data from new questions in our engagement survey to better understand how we enable a higher retention of women in our general workforce and improve our gender balance in leadership.
- Making attrition and recruitment metrics available for tracking as well as follow-up during quarterly Business Reviews with Executive Management.

We will also continue our strategic partnership with the Womenomics Global DE&I Summit in 2024, which we sponsored in 2022 and 2023. This event is the largest of its kind and explores important topics, such as diversity, inclusion, and women's impact on the global economy.

CREATING AN INCLUSIVE WORKPLACE

Diversity extends far beyond gender. We want to create an inclusive workplace where everyone feels welcome and valuable, regardless of their background, demographics, beliefs or preferences. Our Human Rights Policy outlines the scope and governance process of human rights across our value chain. It emphasises the responsibilities of leadership and employees in relation to human rights and any suspected violations including the process for reporting any violations.

We launched several initiatives in 2023 to increase diversity and create a more inclusive workplace.

- We launched the first Hempel Human Rights Council. The council focuses on analysing human rights practices across the Hempel organisation and will put systems and processes in place to promote human rights for all.
- We joined the Diversity Council – a cross-industry alliance that enables large organisations to share and learn from best practice cases.
- We hosted the Diversity Council CEO Meeting in April where topics included 'The role of the CEO as an ally' and 'Inclusive leadership and psychological safety'.
- We updated our Global Anti-Harassment Training to include new content covering topics such as bullying and microaggressions.

In 2024, we are developing a company-wide due diligence process to ensure our practices going forward are consistent in terms of upholding human rights and investigating any suspected violations.

As well as new initiatives, we continued many existing programmes in the DEI (Diversity, Equity and Inclusion) sphere. For example, we run Inclusive Leadership Training for our people leaders. We have also integrated DEI into every step of our talent acquisition process by providing targeted training in unconscious bias for our talent acquisition partners. In addition, the Hempel DEI Council communicates, educates and celebrates DEI topics, such as International Women's Day and World Pride.

Our goal is to become an employer and brand known for its inclusive culture. By becoming a leader in this field, we will continue to attract a diverse group of employees, which we believe is paramount to our future success.

LEARNING AND DEVELOPMENT FOR ALL

In 2023, we launched Hempel Academy – our online learning offering – to enable colleagues at all levels of the organisation to access training 24/7 in multiple languages. Following the launch, we promoted relevant topics to create awareness and inspire employees to upskill in a variety of areas, including project management, language and communication.

In addition to our High 5 leadership development programme, targeting all leaders at Hempel, we run talent development training for three distinct target groups (see below). We revamped these programmes in 2023, allowing us to invite more colleagues to actively engage in their own development and help us build a strong pipeline of potential leaders. To ensure that the activities and content are targeted to individual needs, all programmes kick off with a personality profile, and individual feedback is used to guide participants' development plans.

OUR TALENT DEVELOPMENT PROGRAMMES COVER:

- Lighthouse (20 top-level leaders enrolled in 2023)
- Navigator (54 mid-level leaders enrolled in 2023)
- Greenhouse (190 early-stage leaders enrolled in 2023)

SUSTAINABILITY TRAINING FOR ALL

Sustainability underpins all our work and everyone in our organisation plays a role. Therefore, we rolled out a mandatory Sustainability Foundation e-learning module for over 4,500 employees in 2023. Subsequent engagement with employees showed that they had a better understanding of our sustainability goals following the training.

THE HEALTH AND SAFETY OF EMPLOYEES ARE OUR TOP PRIORITY

Given the inherent complexities of our operational processes and the use of various chemicals, we acknowledge a heightened risk of work-related incidents. This assessment stems from our careful examination of operational dynamics, chemical handling protocols, and associated risks within our operations environment. The safety of our people is our number one priority, and one accident is one too many.

In 2023, we continued to strengthen our health and safety initiatives. These included implementing our Safety Leadership Programme as part of our target to achieve zero accidents. The programme focuses on training our leaders to be safety champions and promote a healthy and safe environment for our colleagues. It was piloted in our Decorative customer segment in Germany and the UK – and the full programme will run throughout 2024. In addition, we launched Safety Excellence 2.0, a training programme for all employees that runs until Q4 2024. Our other health and safety initiatives in 2023 included introducing a new compliance training module to monitor and manage local compliance in all our operations and introducing a new regulatory platform to train our colleagues in relevant chemical requirements.

Despite our increased focus on safety, our Lost Time Accident (LTA) frequency increased slightly from 1.19 per 1,000,000 working hours in 2022 to 1.62 per 1,000,000 working hours in 2023. We will continue to focus on this in 2024 and beyond.

REDUCING SUBSTANCES THAT ARE HARMFUL TO PEOPLE AND THE ENVIRONMENT

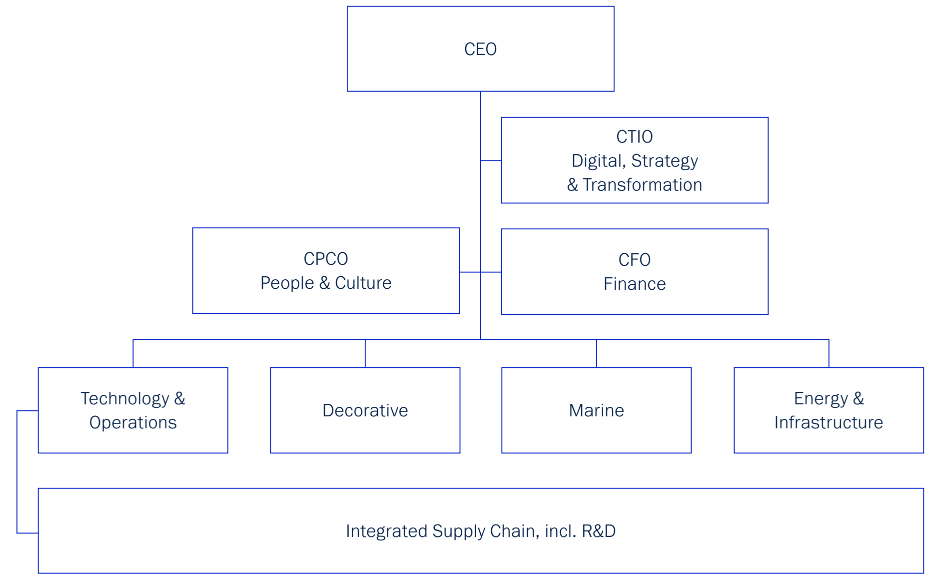
Our Hazardous Raw Materials Programme was established to limit exposure to substances in our products that can be hazardous to people's health, while at the same time reducing environmental impact. These efforts focus on removing carcinogens, reproductive toxicants, non-biodegradable materials and other substances that can have severe health and environmental impacts. Based on established classification hierarchies, we are actively substituting and phasing out materials with the highest potential impact, while creating long-term plans, based on internal and external research, to support and drive our efforts.

In 2022, we linked our near-term substitution/reduction goals with the terms of our bank loans. Our target was to reduce the intensity (kg of hazardous substances / 1,000 L paint produced) by 25% by the end of 2025, compared to the baseline year of 2022, with an interim target of a 5% reduction in 2023 . We exceeded this interim target, reducing the intensity from 20.37 kg/1,000 L in 2022 to 17.04 kg/1,000 L in 2023. Due to new and stricter regulation, the classification of hazardous substances was expanded in 2023 and some additional substances were included in our programme. Despite this, we reduced our overall consumption of hazardous raw materials from 50.65 kg / 1,000 L to 47.88 kg / 1,000 L paint produced in 2023. We will continue to focus our efforts on lowering this number further in the coming years through both near-term and long-term projects.

Governance

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.



GOVERNANCE STRUCTURE

Our organisational management structure is centred around our Decorative, Marine, Energy & Infrastructure customer segments, as well as Technology & Operations, our integrated global supply chain and R&D, as illustrated in the figure on the right. This structure ensures that our teams can provide the best possible service to our customers, both globally and locally. At the same time, our global support functions and Digital, Strategy & Transformation enable management to drive group-wide initiatives and help speed up decision-making processes and strategy execution.

In 2023, our transformation and digital capabilities were united under the new role of Chief Transformation & Information Officer. This enables a coordinated and efficient approach to transforming processes through standardisation, automation and digitalisation. René Overgaard Jensen was appointed to this role in 2023.

BOARD OF DIRECTORS

The Board of Directors consists of six members elected for a one-year term by the shareholder at the Annual General Meeting and three employee members elected for a four-year term by the employees based in Denmark (the latest election took place in 2023).

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. On an annual basis, the Board of Directors aligns its priorities and tasks with 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.

The Annual Management Cycle 2023

Q1	Q2	Q3	Q4
	Hempel Leadership Summit Leaders gather to set the agenda for the year ahead	**Annual Leadership Seminar**	**Board Strategy Day** Executive Group Management meets with the Board to review the strategy plan

Meeting activity 2023

● Attended meeting ○ Absent from meeting

Board of Directors		Audit Committee		RemCo and NomCo*
7 March	27 September	6 March	18 September	7 March
21 April	22 November	24 May	14 November	27 September
20 June				22 November

Name	Title	Board of Directors	Audit Committee	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 Sutton	Elected by the employees	● ●		
Kim Scheibel	Elected by the employees	● ●		
Helle Fiedler	Elected by the employees	● ● ● ● ●		
Stephan Rolsted	Elected by the employees	● ● ●		
Vibeke Stendal Larsen	Elected by the employees	● ● ●		

* Remuneration and Nomination Committee.

TASKS MANAGED BY THE BOARD OF DIRECTORS IN 2023

In 2023, the Board of Directors worked to refine the continued implementation of Hempel's Double Impact strategy. This work focused on ensuring profitable growth by having scalable operations and working with the Executive Group Management to mitigate any financial impacts caused by declining consumer confidence and general macroeconomic uncertainty, while concurrently placing significant emphasis on maintaining sustainability initiatives. Additionally, following the Group's strategic decision in 2022 to permanently close its operations in Russia, the Board of Directors oversaw the controlled divestment process, which was completed in July 2023.

DIVERSITY & INCLUSION

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 33% female shareholder-elected Board members by no later than the Annual General Meeting in 2025.

In 2023, the Board of Directors did not meet this target despite our efforts to enhance diversity. Our initiatives included establishing clear diversity goals at all levels and reviewing board selection criteria to broaden the candidate pool with qualified female candidates. As the current composition of the Board of Directors includes only one shareholder-elected female member and there were no new appointments in 2023, we remain committed to fostering an inclusive corporate culture that values diverse perspectives and promotes gender equality throughout the organisation.

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 Executive Group Management currently consists of three women and five men. The Group's members are of three different nationalities. More information on our initiatives to increase diversity and inclusion, as well as relevant statistics for other management levels in Hempel, can be found on pages 32 and 63.

REMUNERATION

Hempel offers its Board of Directors and Executive Group Management remuneration that is competitive with industry peers and other global companies with their headquarters in Denmark, 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, company car and other standard fringe benefits, as well as bonus payments in the form of an annual cash bonus and a long-term cash-based incentive scheme. The annual cash bonus payment is contingent upon the fulfilment of ESG targets and the realisation of specific financial targets for organic growth, EBITDA and working capital. The annual cash bonus cannot exceed 70-100% 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 the nominal EBITDA accumulated over the three-year period. The outcome is calculated at the end of the three-year programme 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% 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 service and employment 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 has established dedicated committees to supervise and solve specific tasks. Currently, there are two permanent committees: a Remuneration and Nomination Committee, and an Audit Committee.

THE REMUNERATION AND NOMINATION COMMITTEE

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 2023, Executive Vice President and Chief Financial Officer Lars Dollerup left the company, and Executive Vice President for the Decorative segment Joe Devitt retired. Both positions were filled by candidates recommended by the Remuneration and Nomination Committee.

The committee convenes as necessary. However, it has three 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 2023, the Audit Committee also oversaw the annual review of cybersecurity, the continued roll-out of the Group's new ERP platform and the Group's progress on sustainability targets and reporting.

INTERNAL AUDIT FUNCTION

The Internal Audit function provides independent and objective assurance to the Board of Directors, Audit Committee and Executive Group Management primarily within areas related to governance, business ethics and internal control. It reports to the General Counsel with dotted lines to the Group's Chief Financial Officer and the Audit Committee. The Head of Internal Audit acts as Secretary to the Audit Committee, participates in all Audit Committee meetings and meets separately with the Audit Committee at least once a year. Internal Audit's 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 an Internal Audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether an Internal Audit function is required. The Board of Directors' assessment is that the Internal Audit function is required and that its mandate and scope, processes in place, and planned and performed activities are adequate to provide independent and objective assurance.

DATA ETHICS POLICY STATEMENT, CF. SECTION §99D 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 ethical principles outlined in the table below.

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 relevant initiatives to support policy compliance and development. In 2023, Hempel established a cross functional working group to ensure the above ethical principles are known, understood and followed.

Hempel Group's Data Ethics Policy

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.

Governance

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 and other services. Hempel is a global company and taxpayer, and had a global revenue of EUR 2,351 million in 2023. 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 the dialogue on 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.

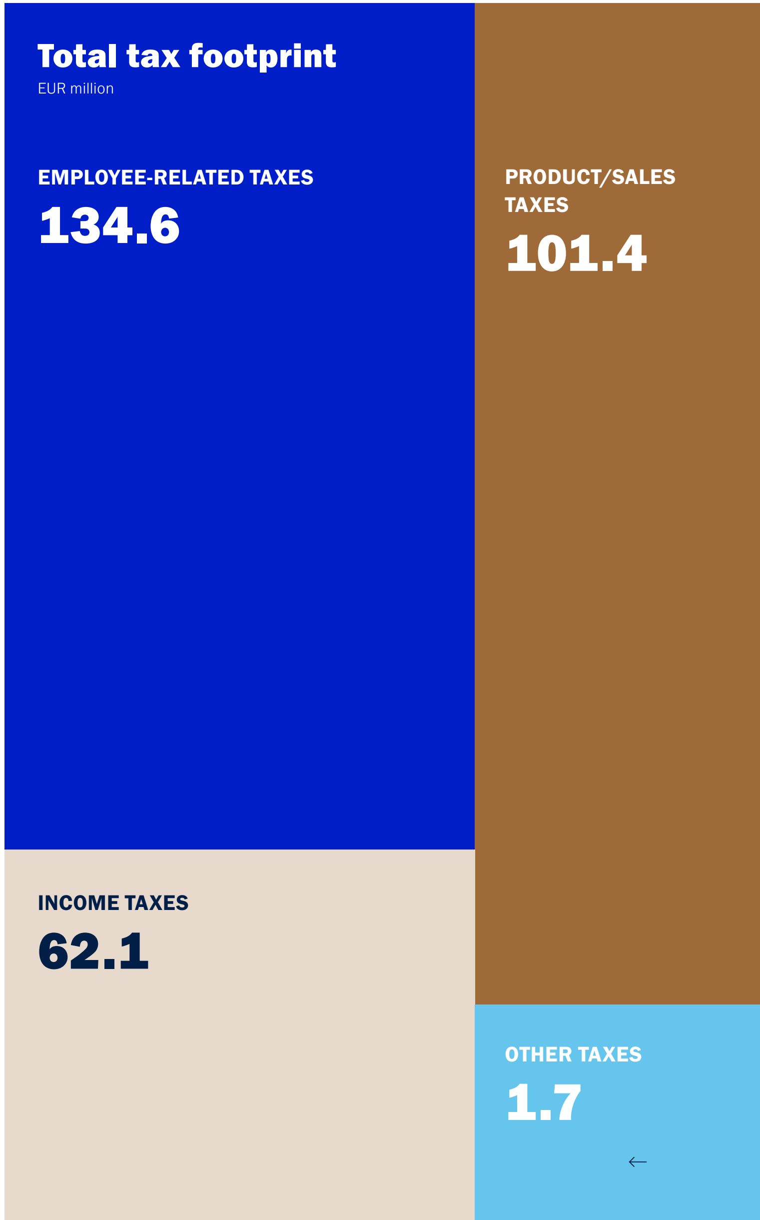
Our Tax Policy is built upon two pillars: Compliance and Transparency. It contains the principles, guidance and expectations, set by Hempel's Board of Directors, for how all Hempel Group companies should approach tax. Our Tax Policy is relevant to all directors, managers and employees who are involved in, or whose actions impact, the management of taxes within the Hempel Group, and it applies 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 an 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.

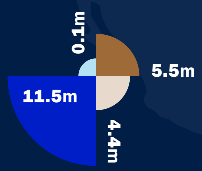


Global tax footprint

The Americas

15.9m
Tax collected

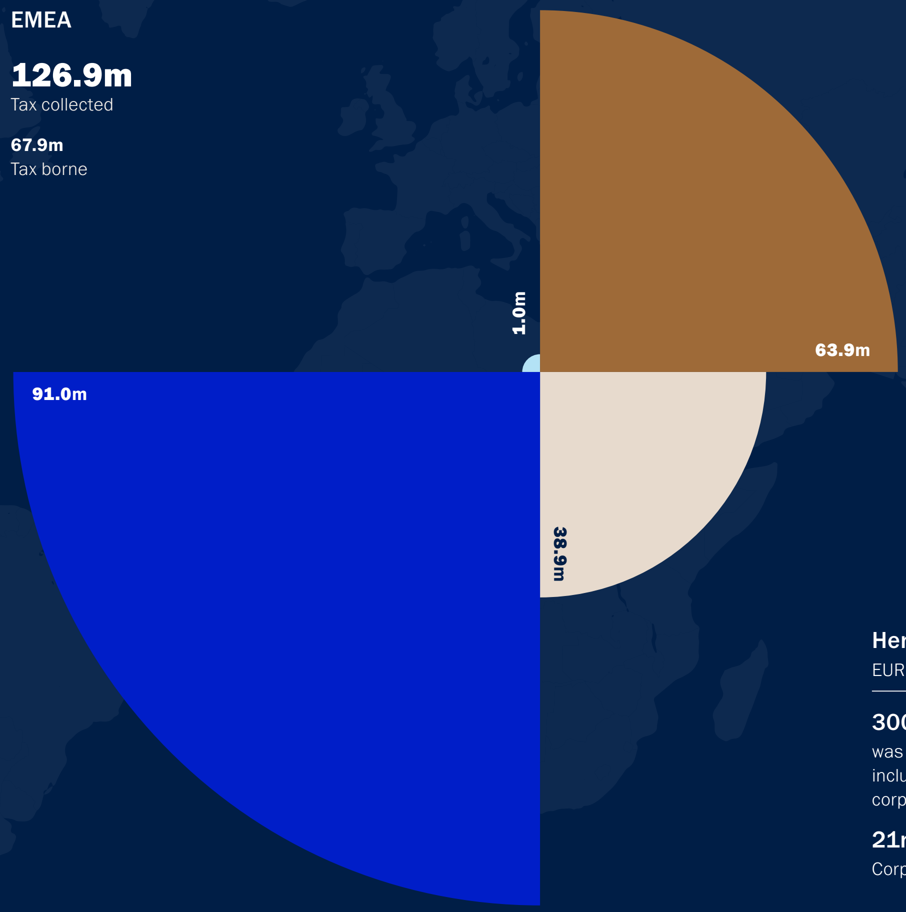
5.6m
Tax borne



EMEA

126.9m
Tax collected

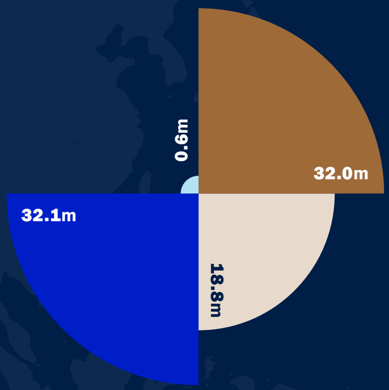
67.9m
Tax borne



APAC

48.6m
Tax collected

34.9m
Tax borne



- Employee-related taxes
- Income taxes
- Product/sales taxes
- Other taxes

Hempel Group

EUR million

300m
was the global tax footprint including EUR 62.1m in corporate income taxes.

2,351m
EUR in revenue

81.7m
Profit before tax

21m
Corporate tax accrued

62.1m
Corporate tax paid

7,600+
Employees

Governance

Focus areas within tax in 2023

In 2023, Hempel's tax function focused on multiple areas, including:
- Global Minimum Tax (Pillar Two)
- Improvements to the management of tax data
- Alignment and improvement of global tax compliance processes

The work conducted in these areas also contributed to increasing our readiness for the upcoming EU Directive on Public Country-by-Country reporting.

With the exception of one country, we filed all of our tax returns in 2023 within the deadline set by the relevant tax authority.

In 2022, we appointed one global provider for tax compliance to ensure consistency, quality and central monitoring. The transition to the global provider continued in 2023.

TRANSPARENCY

In line with our Futureproof sustainability framework, we are committed to increased tax transparency. Our Tax Policy is publicly available, and we report on our global tax footprint. Our global tax footprint for 2023 can be found on page 39.

We maintain a proactive and transparent relationship with tax authorities, as set out in our Tax Policy:
- We act in a responsible, professional and courteous manner.
- We respond to the tax authorities' enquiries 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 damage to Hempel's credibility or reliability if uncertainties exist in tax regulations or if tax matters are inadvertently incorrect.

TRANSFER PRICING

We seek to pay taxes in the countries where value is created. In doing so, we follow Organization 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.

We do not set up companies in low or no-tax jurisdictions for the purpose of minimising taxes

GLOBAL MINIMUM TAX
In 2023, we actively worked to prepare for the Change to Global Minimum Tax compliance requirements, which come into effect in 2024. We conducted preliminary impact assessments, assessed the use of transitional safe harbours, and are configuring systems and processes to effectively collect the large amount of data needed for Pillar Two reporting.

More details on Hempel's financial exposure to Global Minimum Tax, including risk areas, can be found on page 84.

TAX INCENTIVES RECEIVED IN 2023
As stated in our Tax Policy, the countries in which we do business may offer tax incentives or preferential tax relief. Hempel only accepts such incentives when these are specified in law and generally available. As an example, in 2023, Hempel made use of the Danish R&D super deduction. The costs qualifying for the super deduction were used for innovation in new products and solutions for our customers, which contribute to Hempel's sustainability framework and objective of developing more sustainable products.

ACTIVITY IN LOW TAX JURISDICTIONS OR COUNTRIES CATEGORISED AS TAX HAVENS
As a policy, Hempel is only active in countries where we have commercial substance. We do not set up companies in low or no-tax jurisdictions for the purpose of minimising taxes.

In 2023, Hempel was present for a part of the year in Russia, which was added to the EU list of non-cooperative jurisdictions on 14 February 2023. We completed our exit from Russia in July 2023, and were not present in any other country listed by the EU as non-cooperative.

In addition, we are also present in Bahrain and the United Arab Emirates, which are both zero-tax jurisdictions. Hempel has long had a presence in these countries, with production and sales companies in both countries, and close to 200 employees in total.

Governance

Risk management

Risk management is key to achieving the desired level of resilience to support our strategy execution and to safeguard our existence.

As a company, we face a wide range of business risks and uncertainties ("risks"). Ensuring an effective approach to managing such risks is fundamental to deliver on our strategic objectives and secure sustainable growth.

We operate in a global business setting. This exposes our company to a wide variety of risks and opportunities as part of our geographical footprint and due to the mixture of segments we operate in and the products we sell. Therefore, our active risk management approach maintains focus on the key risks, threats and opportunities that may impact our business objectives or result in adverse consequences.

TOP RISKS IN RANDOM ORDER

Cyber Security
Geopolitical Instability
Macroeconomic Volatility
Supply Chain
Research & Development Innovation
Climate Adaptation

RISK MANAGEMENT IN 2023

In 2023, we focused on the continued implementation of our Enterprise Risk Management model across the organisation, including strengthening our governance processes.

Due to Russia's invasion of Ukraine in 2022, we decided to cease our operations in Russia. Following a strategic review, Hempel initiated a controlled exit from the country. In April 2022, all production was suspended. The strategic divestment process was completed in July 2023 when Atomstroykomplex acquired the legal entity in Russia, including its assets and employees. No active business was part of the transaction.

The war in Ukraine sent inflation to levels not seen in decades. The geopolitical tensions, increased interest rates and financial instability combined with supply chain disruption can have an adverse effect on our business. This geopolitical risk is something we constantly monitor and manage. However, we remain focused on strategy execution and meeting increasing demand for innovative sustainable coating solutions in a volatile market. Our aggregated key risks are described on pages 44-45.

RISK MANAGEMENT FRAMEWORK

The Board of Directors is ultimately responsible for the management of risks and for deciding Hempel's risk appetite. At least once a year, the Board of Directors signs off on the key risks and ensures that our governance is adequate vis-à-vis enterprise risk management. The Audit Committee is responsible for overseeing the effectiveness of our risk management system and monitoring its performance.

The Risk Committee consists of Hempel's Executive Group Management team, see page 52. The Committee is responsible for signing off on key risks before they are reported to the Audit Committee and Board of Directors. Each key risk is assigned an executive owner (Risk Sponsor), who is responsible for ensuring the execution of the agreed risk treatment plans and bringing the risk within the agreed risk appetite.

Annual Enterprise Risk Management Cycle

Q1
Risk governance
- Risk Committee meeting

Q2
Mid-year risk review
- Risk Committee meeting
- Audit Committee meeting
- Board of Directors meeting

Q3
Risk and strategy review
- Risk Committee meeting

Q4
Annual risk review
- Risk Committee meeting
- Audit Committee meeting
- Board of Directors meeting

Board of Directors
Oversees the effectiveness of the Enterprise Risk Management programme.

Executive Group Management (EGM) / Risk Committee
Reviews and approves risk management governance, evaluates and approves Hempel's key risks and ensures the allocation of accountability of risks to risk sponsors. Reports to the Audit Committee & Board of Directors on a bi-annual basis.

Risk Sponsors
Ensure that risk management processes are implemented in the segment/functional area. Assess, manage, and own risks and controls impacting the objectives in the segment/functional area.

Risk Owners
Responsible for the assigned risks in the segments/functions, and the design, implementation and monitoring of risk treatment plans.

Segments and functions
Decorative, Marine, Energy and Infrastructure, Digital , Strategy & Transformation, Finance, Legal and People & Culture

Technology & Operations
Supply Chain, Procurement, Quality, Health & Safety, Sustainability and R&D

Enterprise Risk Management function

Assists and supports the EGM in fulfilling its Enterprise Risk Management responsibilities.

Reviews and maintains the enterprise risk management framework and tools to ensure its ongoing effectiveness.

Reports to the EGM/Risk Committee and Audit Committee on key risks including emerging risks.

Compliance function

Provides guidance and expertise to segments and functions.

Cyber Security

Global digital connectivity continues to transform Hempel. Like other organisations, we are heavily dependent on a robust digital infrastructure for e-commerce and data sharing technology to conduct our day-to-day business activities and serve our customers.

There is a constant threat of sophisticated cyber-attacks, including phishing, ransom attacks and malware, and in general attacks are becoming much more frequent.

— RISK DRIVERS

- Breaches of our infrastructure can lead to internal breaches or system failure, which could in turn lead to the theft of personal data and disruption to critical assets and our business in general.
- Malicious attempts to cause long-term damage to Hempel, our customers, our suppliers and 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 our business opportunities.

+ MITIGATING ACTIONS

- We ensure an appropriate governance structure including futureproofing and enhancing to protect our critical and sensitive data, assets and reputation.
- We ensure regulatory compliance through various 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 employee information security education and training (e.g., mandatory and frequent e-learning).
- We ensure our Crisis Management Team and Digital Disaster Recovery organisation carry out structured annual exercises.

Geopolitical Instability

With a footprint that stretches across the world, we are exposed to global market forces and changes in government policies and legislation, as well as increasing complexity in the regulatory environment.

— RISK DRIVERS

- Geopolitical tensions between China and the US may impact our production costs.
- Trade tariffs imposed by the US on Chinese goods and export restrictions to protect national security interests, tackle climate change or promote human rights may lead to increased complexity in cross-border sales.
- Escalating geopolitical unrest may lead to economic sanctions or military action.
- Inadvertent breaches of sanctions could damage our brand and reputation.

+ MITIGATING ACTIONS

- We continuously strive to minimise risks via diversification and have a balanced product portfolio across the Americas, EMEA and APAC.
- We have a global manufacturing footprint which 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

Our financial performance can be adversely affected, for example by changes in foreign policies and economic sanctions combined with high energy costs, currency fluctuations, inflation and rising interest rates, which may push major economies into recession.

— RISK DRIVERS

- Market dynamics could impact raw material prices.
- An economic slowdown caused by higher unemployment rates and sustained inflation could lead to a decline in consumer confidence, impacting sales and profits.
- 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 risks through strategy execution and financial planning.
- We have a balanced geographical presence, with revenue generated from various regions, which helps to ensure a steady revenue.
- We ensure value-based price setting through our revenue management programme.
- We hedge interest rates, assess currency developments and follow strict financial planning on costs and cash.

Supply Chain

Our manufacturing operations and global supply chain partners are exposed to adverse risks, such as physical disruption, cyber-attacks, trade restrictions and climate change risks. The loss of a critical supplier or multiple suppliers would have a damaging impact on our ability to fulfil contractual obligations and could ultimately impact our ability to serve our customers.

— RISK DRIVERS

- Risk factors such as power supply disruption, raw material shortages and trade restrictions can cause delay or non-delivery of critical raw materials.
- Suppliers are exposed to cyber-attacks and trade restrictions which can limit the delivery of raw materials.
- Extreme weather events such as drought, high temperatures, floods or storms can cause physical damage to critical suppliers' locations.
- Potential regulatory changes can have an impact on our ability to manufacture products in their current form.
- Climate action failure may change markets in which Hempel conducts business activities or sources raw materials.

+ MITIGATING ACTIONS

- We seek to prevent disruptive risks through our operational risk management approach, which includes a loss prevention risk engineering programme.
- We review and assess interdependencies and back-up possibilities across manufacturing sites to secure a steady production pipeline.
- We have implemented a business continuity management programme.
- We have implemented a dual-sourcing strategy, whereby our Procurement team constantly investigates and qualifies alternative sourcing opportunities.
- We have implemented specific supply chain risk assessments, which also include assessment of climate-related risks.

Research & Development Innovation

In order to come out ahead of our competition, we must ensure that research and development is a continuing catalyst for innovative product development.

— RISK DRIVERS

- Our market position may be challenged if competitors develop new products that better meet the future needs of our customers.
- Insufficient research, development and product management resources may cause delays in new product development.
- Hempel could miss our commitment to the SBTi as we would be unable to provide an industry leading sustainable product assortment.

+ MITIGATING ACTIONS

- We assess our innovation goals and product pipeline on an ongoing basis to respond to new trends and translate them into key risks and opportunities.
- We foster an innovative culture that prioritises our capacity to innovate in order to optimise value from innovation and meet our business goals.
- We closely monitor our strategic initiatives to ensure we remain focused on delivering futureproof solutions that will help our customers across our segments achieve their business goals, sustainability agendas and ESG ambitions.

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 a larger number of various climate-related risks.

We are aligning our assessment and disclosure practices with the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) as described on page 66.

— RISK DRIVERS

- Potential regulatory risks associated with the shift to a low-carbon emissions economy may impact government regulation and Hempel's ability to deliver on its strategic objectives.
- Potential regulatory risk can have a significant impact on our ability to manufacture products in their current form.
- Climate action failure may change markets in which Hempel conducts business activities.
- As water sources may be depleted or disappear, the potential for cross-border conflicts may intensify.
- Extreme weather conditions can cause disruption to our supply chain, challenging our business continuity.
- Extreme weather such as cyclones, tornados, hurricanes and floods can cause business interruption at our production facilities with the risk of delaying production for safety reasons or causing damage to physical assets.

+ MITIGATING ACTIONS

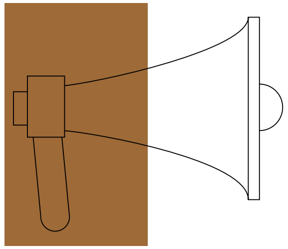
- We assess the impact that climate related risk can have on our business, and we periodically carry out materiality assessments. Hempel's science-based targets are approved by the Science Based Targets initiative (SBTi).
- We conduct comprehensive climate impact assessments, covering the full range of issues beyond water, based on recommendations from the TCFD.
- We assess and react to our fire and natural hazard reports, and work to reduce the risk of losses by ensuring proper protection plans are in place.
- Investments to further mitigate risk form an integrated part of CAPEX planning and prioritisation.

Governance

The whistleblower reporting system

33

Compliance cases closed as unsubstantiated during the year.



Hempel has an externally hosted whistleblower system that 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 with an objective and independent investigation led by the Compliance and Data Protection department, which recommends appropriate action to handle the reported issue to the Ethics Committee. The Ethics Committee then discusses the proposed action and decides on appropriate action following the investigation, including disciplinary action if deemed necessary. The Ethics Committee consists of the Hempel Group's Chief Financial Officer, Chief People & Culture Officer, and General Counsel. Hempel's Audit Committee receives regular updates that summarise reported cases and case resolutions.

In 2023, Hempel had 69 new registered compliance cases from 21 countries, a 57% increase in total reports compared to last year. This reflects a healthy speak-up culture, as well as increased reporting from Hempel's more recently integrated businesses. As applicable local transpositions of the EU whistleblower protection directive have come into force, we have updated our procedures and communications to further facilitate safe, confidential and accessible reporting.

Governance

Business 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. In addition, anti-bribery topics feature prominently in most of our regular compliance initiatives – including management communications, the Employee Code of Conduct and related 2023 training, and the Business Partner Code of Conduct.

Sanctions compliance remained a priority in 2023. We continued to work on ensuring that the escalating Russia sanctions are complied with, and we ensured that mandatory Danish authority approvals were obtained for the sale of Hempel's assets in Russia.

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 training. In April, we released an updated global Personal Data Protection Policy, which more clearly and concisely articulates Hempel's privacy commitments (i.e., the responsibilities and expectations for all employees when processing personal data). In November, all Hempel PC users were assigned online training in privacy and data protection awareness.

New employees joining Hempel receive Data Privacy training along with courses in our Code of Conduct, Sanctions and Fair Competition. In addition, we provide annual refresher training to continuing employees. We achieved a completion rate of 99% for the 2023 Code of Conduct refresher. We continue to follow-up as not completing the mandatory training is not an option.

Governance

Leading on sustainable procurement

Hempel operates a complex global supply chain. To ensure responsible business conduct throughout our supply chain and achieve our sustainability ambitions, we must engage and collaborate extensively with our suppliers. We do this through our Sustainable Procurement Programme, through which we are proud to have received an A score in the Carbon Disclosure Project's Supplier Engagement Rating.

SUSTAINABILITY RISK MANAGEMENT

We are committed to avoiding and mitigating sustainability risk in our supply chain. To this end, we use EcoVadis, an external provider of company sustainability assessments. The assessment covers four key topics – labour and human rights, environment, ethics and sustainable procurement – and our strategic direct spend suppliers are expected to participate.

In 2023, 83% of our suppliers (by spend) were risk assessed by EcoVadis, compared to 75% in 2022. In addition, we increased the focus of the EcoVadis risk assessments by implementing a regular procurement risk review to identify and follow up high risk suppliers.

SUPPLIER ENGAGEMENT FOR POSITIVE IMPACT

To drive positive impact, we launched Hempel's Procurement Sustainability Screening in 2021. This gives us a structured approach to dialogue and development with suppliers around key environmental sustainability topics. The screening process has been rolled out at category level, starting with the largest categories in terms of monetary spend and climate footprint. These include raw materials, such as epoxy, titanium dioxide and metallic pigments, as well as other categories such as steel packaging and logistics.

Our goal is to screen suppliers representing 70% of our total spend by 2025. In 2023, Hempel Group Procurement screened 49 suppliers, 29 for the first time and 20 to follow up on low performance in earlier years. In total, this brought the spend covered by the screening to 44%. During 2023, we piloted the screening in tenders for selected categories.

CONFLICT MINERALS

Hempel monitors suppliers of conflict minerals (tin, tantalum, tungsten and gold, also called 3TG) on an annual basis. Screening and reporting are based on guidelines from the Responsible Minerals Initiative.

70%

44%

Procurement Sustainability Screening: Our goal is to engage with suppliers representing 70% of our total spend by 2025. In 2023, we achieved 44%.

ESG ratings and benchmarks

EXTERNAL VALIDATION AND RECOGNITION

Based on our customers' and other stakeholders' requirements, we have selected and prioritised three ESG ratings and reporting frameworks connected to our readiness and material issues. In 2022, we began reporting 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. We continue disclosing to the UN Global Compact.

CARBON DISCLOSURE PROJECT

This is our second year of disclosing to CDP's annual environmental disclosure and scoring process, which is regarded as the gold standard for corporate environmental transparency. Our CDP rating for global sustainability initiatives for 2023 was B, in line with our last year's score and the industry average, which was also B. This indicates that our environmental management and efforts to address the environmental impacts of our business continue to be at a good level.

In addition, we were recognised by CDP for having best practices (A rating) within Scope 1 & 2 emissions, emission reduction targets and sustainability governance. We also submitted to CDP's Supplier Engagement Rating (SER) on climate issues, receiving an A rating. In the rating, CDP recognised our work to accelerate climate action in our supply chain, including our Sustainable Procurement Programme, validated science-based targets on Scope 3 emissions, and sustainability governance and reporting. The top rating demonstrates that we are a supplier engagement leader and validates our overall sustainability framework, Futureproof.

Disclosing to CDP helps us prepare to meet increasing demand for environmental transparency from financial institutions, customers and policymakers – and shows we are taking action to deliver on our goals and ambitions.

ECOVADIS

In January 2023, we received our first corporate sustainability external ESG rating from EcoVadis, with a score of 55 out of 100. This is above the paint industry average of 47. The score was based on a self-assessment, covering our policies, actions and results within labour & human rights, ethics, sustainable procurement and environmental impacts. We have established a structured process to follow up on EcoVadis' corrective actions, and we are continuing to improve and track our performance and progress for the next upcoming self-assessment.

UN GLOBAL COMPACT

At the end of 2023, we submitted our Communication on Progress (CoP) to the UN Global Compact (UNGC). We continue to disclose and report on our progress within the Sustainable Development Goals (SDGs) and are also proud members of the Valuable 500 and EV100 Climate Group.

In our Sustainability section you can read more about our actions and ambitions related to the UNGC's Ten Principles, the Sustainable Development Goals, and information required by the Danish Financial Statements Act §99a and §99b. Read more about our business and value chain on page 9.

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

Disclosure requirements	See page
99a	
Policies on	
Human rights	32-33
Worker and social conditions	32-33, 46-47
Environment and climate	28-31
Anti-corruption and anti-bribery	47
Due diligence process	26-49, 66
Activities during the year	
Human rights	32-33, 67
Worker and social conditions	32-33, 46-47, 67
Environment and climate	28-31, 48, 67
Anti-corruption and anti-bribery	47
KPIs and results	48-49, 59-67
Sustainability risks	42-49
99b	
Diversity in the Board of Directors (including current gender composition and target)	35, 63
Diversity in management (including policy, activities during the year and results)	32, 63

Statements and ESG

51%

Reduction compared to 2019 for scope 1 & 2 CO_2e emissions in our own operations.

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 2023.

The Consolidated Financial Statements have been prepared in accordance with IFRS Accounting 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 2023 of the Group and the Parent Company and of the results of the Group's and Parent Company's operations and consolidated cash flows for the financial year 1 January - 31 December 2023.

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, 4 March 2024

Registered Executive Management

Michael Hansen
Group President
& Chief Executive Officer

Peter la Cour Gormsen
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

Stephan Rolsted

Vibeke Stendal Larsen

Executive Group Management

	Michael Hansen Group President & Chief Executive Officer	**Peter la Cour Gormsen** Executive Vice President & Chief Financial Officer	**Ana Henriques** Executive Vice President, Decorative	**Alexander Enström** Executive Vice President, Marine
Born	1975	1974	1983	1983
Core capabilities	• Commercial • Strategy development and execution	• Finance and IT • M&A	• Commercial and marketing • Portfolio management and strategy	• Commercial • Industry knowledge
Education	• IE Business School, Global Executive MBA	• MSc in Finance, University of Aarhus	• MSc Marketing, Northwestern 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** Executive Vice President & Chief Transformation & Information Officer
Born	1971	1965	1980	1972
Core capabilities	• Commercial and marketing • Industry knowledge	• Operations and supply chain • Product management	• People and HR • Diversity, Equity & Inclusion • Communication	• Strategy development and execution • 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




	Richard Sand Chair	**Eric Alström** Deputy Chair	**Leif Jensen**	**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 • Strategy development and execution • ESG/Sustainability • Industry knowledge	• Operations • Supply chain	• Industry knowledge • Commercialisation through finance	• Finance • ESG/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 • Chair: Aller A/S, Pressalit Holding A/S, E. Callsen & Co. A/S and Kivan Food A/S • Board member: Aller Foundation and Esplanadens Ejendomsselskab P/S	• President: Danfoss Power Solutions • Managing Director: Benteler Automotive	• Chair: Strømberg Holding A/S • Chair: Strømberg Ejemdomme A/S • Board member: WindowMaster International A/S	• CFO and EVP Finance, Legal & Global Solutions: Novo Nordisk A/S • Chair: NNE A/S • Board member: 3shape Holding A/S
Education	• Master of Law, 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** Elected by the employees	**Stephan Rolsted** Elected by the employees	**Vibeke Stendal Larsen** Elected by the employees
Born	1967	1973	1963	1971	1965
First elected in	2018	2018	2015	2023	2023
Core capabilities	• Industry knowledge • Product development • M&A	• Commercial and go-to-market • Transformation and digitalisation	• Product development • Innovation	• Facility service management • Working Environment	• Product development and performance • Safety compliance • Working Environment
Committees	• Audit Committee member	• N/A	• N/A	• N/A	• N/A
Selected positions and directorships	• CEO: STARK Group A/S • Board member: Industriens Arbejdsgivere i Danmark, IAD	• Chair: Yunex Traffic • Board member: SKF Group, Hennecke Group and Concentric AB	• Lead Scientist R&D, Hempel A/S	• Campus Service Manager, Hempel A/S	• HSE & Compliance Manager, Hempel A/S
Education	• MSc Economics, Aalborg University • MA (Econ), Rijksuniversiteit Limburg, Maastricht	• Master of European Affairs (MBA), MSc International Business, Lund University	• MSc Chemical Engineering	• Business school	• Chemical technician • Employee Board Member certification

Independent auditor's report

To the Shareholder of Hempel A/S

OPINION

In our opinion, the Consolidated Financial Statements (pages 69-111) give a true and fair view of the Group's financial position at 31 December 2023 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2023 in accordance with IFRS Accounting 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 112-121) give a true and fair view of the Parent Company's financial position at 31 December 2023 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2023 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 2023, which comprise income statement, balance sheet, statement of changes in equity and notes, including material accounting policy information, 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 1-49, 52-54 and 59-67).

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 Statement 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 IFRS Accounting 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 skepticism 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, 4 March 2024

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

Independent limited assurance report on the ESG data 2023

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 2023 on pages 60-65 in the Annual Report for Hempel for 2023.

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 60-65 in the Hempel Annual Report 2023 have not been prepared, in all material respects, in accordance with the ESG Accounting Policies stated on pages 60-65.

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 60-65 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 61-62, 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 Management 1, ISQM 1, which requires the firm to design, implement and operate a system of quality management including policies or 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 60-65), 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, 4 March 2024

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33771231

Anders Stig Lauritsen
State Authorised Public Accountant
mne32800

Kristian Pedersen
State Authorised Public Accountant
mne35412

2023 ESG performance

ENVIRONMENTAL PERFORMANCE

We outperformed our target for 2023 with a reduction of 51% compared to 2019 for Scope 1 & 2 CO_2e emissions in our own operations. We have expanded our reporting scope to include the fuel from our company vehicles. Excluding company vehicles, our reduction is 64%. We achieved a reduction of 70% when we look at the comparative baseline (excl. acquisitions, warehouses and standalone R&D facilities). For Scope 3 CO_2e emissions, we observed an increase of 7% compared to 2022, driven by our increase in production.

In 2023, we saw a reduction of waste sent to landfill at our production sites of 85% compared to 2022. This resulted in a total reduction of 95% compared to our 2019 comparative baseline (excl. acquisitions) and exceeded our target for the year of 90%.

SOCIAL PERFORMANCE

Our Lost Time Accident (LTA) frequency slightly increased from 1.19 per 1,000,000 working hours in 2022 to 1.62 per 1,000,000 working hours in 2023. However, the severity rate was lower in 2023 than the previous 4 years. We are committed to reducing the LTA frequency, and a comprehensive action plan has been formulated as an integral component of the overarching process.

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 2023, 32% of our employees were women and 28% of leadership positions were held by women at a Group level. For 2024, our target for women in leadership is 30%. To ensure we fulfil our ambition going forward, we will continue to engage with our female colleagues to get their input and follow up with action.

GOVERNANCE PERFORMANCE

In 2023, Hempel had 69 registered new compliance cases, a 57% increase in new reports compared to last year. This reflects a healthy speak-up culture, as well as increased reporting from Hempel's more recently integrated businesses.

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 also continued to train employees in our Code of Conduct.

We also continued to implement Hempel Procurement Sustainability Screening to strengthen focus and collaboration with suppliers on environmental sustainability. In total, we screened 49 suppliers and started follow-up screening of 20 low-performing suppliers from the previous year. 44% of our spend is now subject to sustainability screening, exceeding our target for 2023 of 43%.

ESG data & accounting policies

General accounting policies

BASIS FOR PREPARATION

The environmental, social and governance (ESG) data disclosed in this 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 Energy Security and Net Zero (DESNZ). 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 obtains or ceases 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 26 factories (2022: 28), 15 R&D centres (2022: 17) and 27 warehouses (2022: 24) referred to as 'Hempel sites'.

In 2023, the scope was expanded to also include emissions from company cars in scope 1 emissions and the new factory located in Zhangjiagang, China, which was completed in Q2 2023 and has continuously increased its production, expecting to reach full capacity in 2025.

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, company cars, purchase of raw and packaging materials, energy consumption for surface preparation and Volatile Organic Compounds 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 are presented in absolute numbers, as well as relative to production. The intensity data are 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 company cars 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 invoices, and adjusted to account for the reporting period. Electricity is classified according to source as either renewable, non-renewable or renewable energy through electricity bought with renewable energy certificates (RECs). 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_2e)
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_2e emissions by applying relevant Greenhouse Gas Conversion Factors for Company Reporting from DESNZ (previously Defra) for the relevant year.

Carbon footprint scope 2 (tonnes CO_2e)
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_2e 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.

Energy & Waste	2023	2022	2021	2020	2019
Renewable energy (kWh)	30,615,786	30,274,856	26,160,687	N/A	N/A
Renewable energy through use of RECs (kWh)	22,873,014	12,281,000	0	N/A	N/A
Non-renewable energy (kWh)	78,861,943	63,063,036	69,596,587	N/A	N/A
Total energy consumption (kWh)	132,350,743	105,618,892	95,757,274	95,248,110	104,555,353
Share of renewable energy	40%	40%	27%	N/A	N/A
Share of renewable electricity	80%	71%	51%	N/A	N/A
Energy (kWh / 1,000 L paint produced)	291	290	263	245	270
Waste generation (tonne)	19,123	17,233	17,784	20,426	22,189
Waste generation (kg / 1,000 L paint produced)	42	47	49	53	57
Waste to landfill (tonne)	934	1,353	1,630	1,666	3,934
Waste to landfill (kg / 1,000 L paint produced)	2	4	4	4	10
% reduction of waste to landfill from production sites (Baseline: 2019)	- 95%	- 83%	- 70%	- 58%	N/A

Carbon footprint	2023	2022	2021	2020	2019
Carbon footprint scope 1 (tonnes CO_2e)	13,614	8,163	8,952	8,193	8,808
Carbon footprint scope 2 (tonnes CO_2e) Location based	30,968	26,317	25,195	26,644	29,344
Carbon footprint scope 2 (tonnes CO_2e) Market based	7,553	10,927	20,758	31,679	34,281
Carbon footprint scope 3 (tonnes CO_2e)	2,561,928	2,402,253	2,803,278	1,902,794	1,922,694
% reduction in absolute CO_2e emissions for Scope 1 & 2 (Baseline: 2019)	- 51% *	- 56%	- 31%	- 7%	N/A
Carbon footprint scope 1 (tonnes CO_2e / 1,000 L paint produced)	0.03	0.02	0.02	0.02	0.02
Carbon footprint scope 2 (tonnes CO_2e / 1,000 L paint produced) Location based	0.07	0.07	0.07	0.07	0.08
Carbon footprint scope 2 (tonnes CO_2e / 1,000 L paint produced) Market based	0.02	0.03	0.06	0.08	0.09
Carbon footprint scope 3 (tonnes CO_2e / 1,000 L paint produced)	5.41	6.35	5.68	4.3	3.84

* Excluding company vehicles we reached a reduction of 64% in Scope 1&2

Carbon footprint scope 3 (tonnes CO_2e)
Scope 3 covers all relevant categories in the Greenhouse Gas Protocol.
The emission factors used to convert to CO_2e are from the following datasets:
- Ecoinvent 3.4
- Raw materials LCI database for the European coatings and printing ink industries (CEPE database)
- Department for Energy Security and Net Zero (DESNZ) (previously Defra, 2023 v.1.1)
- Intergovernmental Panel on Climate Change (IPCC) (2013)
- Defra input/output emission factors for indirect supply chain emissions (2020 v.1) (Defra indirect)
- Defra Recovery Rate from Non-Hazardous Construction and Demolition Waste for the UK and England (2020) (Defra waste)

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 Defra 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 is used as indicated by the CEPE database, or Ecoinvent 3.4 characterisation factors are 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 DESNZ 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 Defra 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 factors from DESNZ.

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 factors from DESNZ.

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 factors from DESNZ.

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 factors from DESNZ. The spend-based calculation principle is deployed for terrestrial business travel by taxi, rental car and train, and converted to CO_2e using DEFRA 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 as well as our non-operational control warehouses. A distance-based approach is used for the transportation emissions, and converted to CO_2e using factors from DESNZ. The energy consumption is based on the footprint of our operational control warehouses, and is extrapolated based on the area of the non-operational control warehouse that is occupied by Hempel.

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/m^2).

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% 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 2022 are used to determine total waste per treatment method, based on DEFRA 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 1,752 hours per employee per year (2022: 1,716 hours).

Consumption of hazardous raw materials (kg/1,000 L paint produced)
Hazardous 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 falls under the Hazardous Raw Materials Programme 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	2023	2022	2021	2020	2019
Lost Time Accident frequency (number/million work hours)	1.62	1.19	1.72	1.61	2.68
Consumption of red raw materials (kg /1000 L paint produced)*	47.88	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. During 2023 regulatory changes from ATP18 were implemented causing additional raw materials to become a part of the programme.

Diversity	2023	2022	2021	2020	2019
Average full-time equivalents (FTEs)	7,403	7,343	6,746	6,099	6,219
Number of employees (headcount)	7,643	7,542	6,922	N/A	N/A

Diversity in Hempel Group	2023 Total	2023 Ratio female/male	2022 Total	2022 Ratio female/male	Target for the under-represented gender
General workforce (total employees 31 Dec 2023)	7,643	32/68	7,542	31/69	
Leadership positions (3 direct reports)	952	28/72	942	29/71	30% in 2024

Statutory gender reporting under Danish law (only including Hempel A/S)	2023 Total	2023 Ratio female/male	2022 Total	2022 Ratio female/male	Target for the under-represented gender
Board of Directors, excluding employee-elected members	6	17/83	6	17/83	33% in 2025
Upper Management*	40	28/72	37	35/65	29% in 2024

* Upper management consists of Executive Group Management (EGM) and employees who report to EGM with staff responsibility.

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

The list of raw materials is reviewed and updated on a frequent basis, and our approach for reducing the amount of hazardous substances is split between two tracks: Substitution and Major Category Challenge. The Substitution track focuses on replacing existing raw materials with a less hazardous alternative, while the Major Category Challenge track focuses on long-term plans for some of the main ingredients in our paint products, resulting in position papers and overall business guidance related to the specific chemistry type.

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 full-time 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
- Upper Management is defined as Executive Group Management and employees who report to the Executive Group Management and have staff responsibilities in accordance with the definition in the Danish Company Act
- All management positions are defined as managers with at least 3 direct reports (previous definition)

Employees who identify as non-binary within Hempel make up less than 0.5% of the workforce and therefore are 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 (with 10 being the highest) and are subsequently converted to index figures on a scale from 0 to 100 by an external provider.

Employee engagement	2023	2022	2021	2020	2019
Response rate	84%	83%	87%	N/A*	90%
Satisfaction & Motivation	75	72	73	N/A*	74
Learning & Development	81	80	80	N/A*	80

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

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 2023 e-learning in Hempel's Learning Management System out of the total target group, consisting of over 4,500 employees. The relevant target group consists of employees who:

- were active Hempel employees and regular PC users with access to Workday from the day of the global roll-out on 19 October 2023 until the end of the year
- were not on long-term leave, and not departing Hempel before year-end
- were not assigned the longer foundational Code of Conduct course in July 2023 or later. (The foundational course is assigned to all new PC-using employees during onboarding.)

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 percentage 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	2023	2022	2021	2020	2019
Percentage of employees with a Hempel e-mail address who completed and signed off on the Code of Conduct Refresher	99%	100%	100%	100%	100%

Compliance cases	2023	2022	2021	2020	2019
Open compliance cases, beginning of the period	15	23	23	16	25
New compliance cases reported during the year	69	44	46	30	34
– Environment, health & safety	-	3	3	2	0
– Work environment	29	13	13	3	1
– Integrity	40	28	30	25	33
Compliance cases closed as substantiated during the year	34	21	23	11	18
Compliance cases closed as unsubstantiated during the year	33	31	23	12	25
Total cases under investigation, end of period	17	15	23	23	16

Sustainability Procurement Screening Programme	2023	2022	2021	2020	2019
Suppliers screened	29	77	41	N/A	N/A
% of direct and indirect spend suppliers screened through Hempel Procurement Sustainability Screening	44%	40%	22%	N/A	N/A

TCFD Table

Topic	Disclosures	What is Hempel doing	Reference
Governance	a. Describe the board's oversight of climate-related risks and opportunities.	The Board of Directors maintains full overview of Hempel's key risks, including any risks and opportunities related to climate and/or environmental sustainability. The risk identification process, as well as risk reporting, is anchored in our Enterprise Risk Management (ERM) Policy. The Board of Directors has overall responsibility for reviewing and challenging the top key risks on a biannual basis; the Audit Committee has responsibility for overseeing the effectiveness of the risk management activities.	Page 42-45 (Sustainability governance)
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	Executive Group Management, including the Risk Committee, oversees our risk management process on a quarterly basis. This also includes a holistic review of the key risks in our segments and functions. Furthermore it is the Executive Group Management's role to ensure that the risk appetite in our strategy, objectives, and business model is appropriate to ensure a sustainable business.	Page 42-45 (Sustainability governance)
Strategy	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Climate change is one of the top risks to Hempel and has the potential to impact our business in the short, medium and long term. We are exposed to various physical risks from the effects of climate change, both at our factories and our R&D centres around the world. The risks include extreme weather and water scarcity, as well as the fact that our products contain volatile organic compounds (VOC) and solvents. Further, we must ensure that our production facilities are adequately protected to secure resilience. We assess risk stemming from the changing physical environment – such as acute and chronic weather changes (e.g., flood, fires, droughts, increasing temperatures and rising sea levels) – as part of our overarching ERM process. Potential regulatory risks associated with the shift to a low carbon emissions economy may impact governmental regulation and our ability to deliver on our strategic objectives. The potential regulatory risk can have a significant impact on our ability to manufacture our products in their current form. Although these risks are significant, they also present opportunities for R&D, new product development and recycling.	Page 42-45 (Risk management)
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	The potential impacts of climate change are taken into account when we assess our top enterprise-wide risks. 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.	Page 27 (Futureproof), 42-45 (Risk management)
	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 a 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 28-29 (Science-based targets)
Risk management	a. Describe the organisation's processes for identifying and assessing climate-related risks.	The process for assessing and identifying climate-related risks is the same as identifying any other principal business risks. The overall process is an integral part of the ERM framework, which enables us to assess risks and opportunities in a consistent manner. Our current method is based on a scenario analysis in which we evaluate risks based on the possible risk scenario and how it could impact our objectives.	Page 42-45 (Risk management)
	b. Describe the organisation's processes for managing climate-related risks.	We continue to review our business risks and opportunities consistently. The top key risks are reported to our Executive Group Management and the Board of Directors according to our ERM framework and our Annual Enterprise Risk Management Cycle.	Page 42-45 (Risk management)
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	We continue to consider and integrate climate-related matters into our overarching ERM framework in order to identify and analyse relevant climate-related data. We are also continuing to develop tools and explore opportunities for third-party data to measure and quantify climate-related risks.	Page 42-45 (Risk management)
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. Relevant metrics include energy consumption, waste generation and disposal method, GHG emissions, carbon intensity and hazardous materials management.	Page 60-65 (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. We report according to the Greenhouse Gas Protocol and our data reporting is subject to a limited assurance statement by our independent auditors.	Page 28-29 (Science-based targets) Page 60-65 (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. We are proud to have earned a B rating by CDP, recognising our work on tackling climate change through environmental management. We are committed to the UN Global Compact, Climate Group's EV100, and disclosure through the EcoVadis platform.	Page 28-29 (Science-based targets) Page 49 (ESG ratings and benchmarks)

Target summary

Futureproof pillars	Hempel Sustainability targets	SDGs	2023 status	Page no.
PERFORMANCE	90% reduction of Scope 1 & 2 CO_2e emissions by 2026 (2019 baseline)	12, 13	For our Scope 1 & 2 CO_2e emissions, we achieved a reduction of 51% in 2023.	4
	Achieve zero waste to landfill at our production sites by end of 2025	12, 13	In 2023, we reduced waste to landfill by 69% at Hempel's production sites compared to 2022. Compared to our baseline year of 2019, this is a total reduction of 95% (using a comparative baseline that excludes acquisitions).	31
PRODUCTS	Reduce CO_2e emissions in our value chain by 50% by 2030 (Scope 3)	12, 13	We saw an increase of 7% in our value chain (Scope 3) CO_2e emissions in 2023, compared to 2022. This is in line with our increased production volume. In 2023, we progressed our efforts around Scope 3 with continued focus on our three value chain decarbonisation themes: Use less, Sell different and Improve existing.	30
	Complete a five-year plan for reducing and phasing out hazardous materials	12, 13	In 2023, we removed or found less hazardous substitutes for 29 raw materials through our Hazardous Raw Materials Programme.	30, 33, 63
	Achieve 50% recycled plastic in primary plastic packaging by end of 2025	12, 13	In 2023, we reached 49% recycled content (from 0% in 2017). As a result, we decided to expand the scope of our 2025 target to include all plastic packaging (primary and secondary) across all our customer segments: Decorative, Marine, Energy and Infrastructure.	30
PEOPLE	Build an even stronger safety culture and eliminate all Lost Time Accidents and other injuries	8, 3	In 2023, despite our increased focus on safety, our Lost Time Accident (LTA) frequency increased slightly from 1.19 per 1,000,000 working hours in 2022 to 1.62 per 1,000,000 working hours in 2023. We will continue to focus on this in 2024 and beyond.	33, 63
	Achieve the targets of 33% women in general workforce and 30% women in leadership by 2024	8, 5	In 2023, 32% of our general workforce were women. At the same time, 28% of our leaders (defined as people with 3 or more direct reports) were women.	59
PARTNERS	Reduce customer emissions by at least 30 million tonnes CO_2e by 2025	8, 13, 17	In 2023, our high performance hull coatings helped customers in the maritime industry reduce their CO_2e emissions by 6.5 million tonnes. This is an improvement of 16% compared to 2022 (5.6 million tonnes). Fuel savings are calculated based on Hempaguard's speed loss reductions and out of dock fuel savings compared to the market average speed loss estimated by IMO (2009). These are multiplied by the number of vessels using Hempaguard annually during drydock, with assumptions on service life, consumption, and activity. The resulting savings are converted to CO_2 emission reductions using BEIS Greenhouse Gas Conversion Factors.	18
	1.3 million cans collected and recycled through the Can Back Scheme	8, 13, 17	We reached 1.4 million paint cans collected and recycled through our Can Back Scheme in the UK & Ireland. We are participating in similar recycling schemes in Australia, New Zealand and France.	17
	Promote and further good ethical behaviour and environmental practices in our supply chain	8, 13, 17	In 2023, Hempel Group Procurement screened 49 suppliers; 29 for the first time and 20 to follow up on low performance in earlier years. In total, this brought the spend covered by the screening to 44%. During 2023, we piloted the screening in tenders for selected categories.	48

Financial statements

337

EBITDA EUR MILLION

We delivered our best financial result ever in 2023 with a revenue of EUR 2,351m and and EBITDA of EUR 337m.

Consolidated financial statements

Primary statements

Notes

Consolidated statement of profit and loss

Note	(EUR m)	2023	2022
2.1	Revenue	2,351	2,159
2.4	Production costs	- 1,436	- 1,375
	Gross profit	**915**	**784**
2.4	Sales and distribution costs	- 561	- 552
2.4	Administrative costs	- 165	- 121
2.3	Other operating income	-	4
2.3	Other operating expenses	-	- 1
	Operating profit	**189**	**114**
4.5	Financial income	14	12
4.5	Financial expenses	- 121	- 70
	Profit before tax	**82**	**56**
2.5	Income tax	- 21	- 19
	Net profit for the year from continuing operations	61	37
4.6	Net loss for the year from discontinued operations	- 11	- 2
	Net profit for the year	**50**	**35**
	Attributable to:		
	Equity holders of the parent company	41	46
	Non-controlling interests	9	- 11
	Net profit for the year	**50**	**35**

Consolidated statement of comprehensive income

Note	(EUR m)	2023	2022
	Net profit for the year	50	35
	Other comprehensive income:		
	Items that may be reclassified to profit or loss:		
	Exchange rate differences on translation of foreign operations	1	- 23
4.4	Value adjustments of hedges	- 5	-
2.5	Tax on other comprehensive income	- 1	2
	Items that will not be reclassified to profit or loss:		
3.6	Remeasurements of defined benefit obligations	- 1	5
2.5	Tax on other comprehensive income	-	- 1
	Other comprehensive income for the year, net of tax	**- 6**	**- 17**
	Total comprehensive income for the year	**44**	**18**
	Attributable to:		
	Equity holders of the parent company	37	26
	Non-controlling interests	7	- 8
	Total comprehensive income for the year	**44**	**18**

Consolidated statement of financial position

31 December

Note	(EUR m)	2023	2022
3.1	Intangible assets	761	765
3.2	Property, plant and equipment	492	511
3.3	Right-of-use assets	136	161
	Other financial assets	13	13
2.5	Deferred tax assets	112	94
	Total non-current assets	**1,514**	**1,544**
3.4	Inventories	332	343
3.5	Trade receivables	505	476
	Income tax receivables	18	4
	Prepayments	18	17
	Other receivables	71	70
	Cash	209	180
4.6	Assets held for sale	-	21
	Total current assets	**1,153**	**1,111**
	Total assets	**2,667**	**2,655**

Note	(EUR m)	2023	2022
4.1	Share capital	15	15
	Translation reserve	- 24	- 25
	Cash flow hedging	- 4	-
	Retained earnings	490	529
	Proposed dividend for the year	25	-
	Shareholders in Hempel A/S's share of equity	**502**	**519**
	Non-controlling interests	57	28
	Total equity	**559**	**547**
4.2	Borrowings	1,034	901
3.3	Lease liabilities	105	129
3.7	Provisions	36	36
3.6	Pensions and similar obligations	19	16
2.5	Deferred tax liabilities	77	99
	Total non-current liabilities	**1,271**	**1,181**
4.2	Borrowings	53	100
3.3	Lease liabilities	35	36
	Trade payables	332	355
5.5	Payables to parent companies	57	66
	Deferred income	8	7
3.7	Provisions	10	11
	Income tax payables	41	26
3.8	Other liabilities	301	320
4.6	Liabilities held for sale	-	6
	Total current liabilities	**837**	**927**
	Total liabilities	**2,108**	**2,108**
	Total equity and liabilities	**2,667**	**2,655**

Consolidated statement of changes in equity

Note	(EUR m)	Share capital	Translation reserve	Cash flow hedging	Retained earnings	Proposed dividend	Shareholders in Hempel A/S' share of equity	Non-controlling interest	Total equity
	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**
	Equity at 1 January 2023	**15**	**- 25**	**-**	**529**	**-**	**519**	**28**	**547**
	Net profit for the year	-	-	-	41	-	41	9	50
	Other comprehensive income	-	1	- 4	- 1	-	- 4	- 2	- 6
	Total comprehensive income for the year	**-**	**1**	**- 4**	**40**	**-**	**37**	**7**	**44**
	Transactions with owners in their capacity as owners:								
	Paid extraordinary dividend	-	-	-	- 26	-	- 26	-	- 26
	Paid dividend	-	-	-	-	-	-	- 5	- 5
	Proposed dividend	-	-	-	- 25	25	-	-	-
	Transactions with non-controlling interests[1]	-	-	-	- 28	-	- 28	27	- 1
	Total transactions with owners	**-**	**-**	**-**	**- 79**	**25**	**- 54**	**22**	**- 32**
4.1	**Equity at 31 December 2023**	**15**	**- 24**	**- 4**	**490**	**25**	**502**	**57**	**559**

[1] On 28 June 2023, the remaining 35% of shares in the JWO Group, previously recognized as non-controlling interests, were acquired. The non-controlling interests related to the 35% of shares have been transferred directly to retained earnings.

Consolidated cash flow statement

Note	(EUR m)	2023	2022
	Cash flows from operating activities		
	Operating profit	189	114
	Operating profit from discontinued operations	- 11	- 5
5.2	Adjustment for non-cash items	172	105
	Total cash flows from operating activities before financial items, tax and changes in working capital	**350**	**214**
	Changes in working capital:		
	Change in receivables	- 62	- 97
	Change in inventories	1	- 10
	Change in trade payables, other liabilities etc.	- 26	32
	Total change in working capital	**- 87**	**- 75**
	Total cash flows from operating activities before financial items and tax	**263**	**139**
	Income tax paid	- 62	- 27
	Interest received	12	5
	Interest paid	- 86	- 45
	Total cash flows from operating activities	**127**	**72**
	Cash flows from investing activities		
	Purchase of property, plant and equipment	- 71	- 84
	Purchase of intangible assets	- 34	- 28
	Sale of property, plant and equipment	1	5
	Acquisition of enterprises	-	- 28
	Divestment of enterprises	6	-
	Change in deposits, net	-	- 1
	Total cash flows from investing activities	**- 98**	**- 136**
	Free cash flow	**29**	**- 64**

Note	(EUR m)	2023	2022
	Cash flows from financing activities		
4.4	Repayment of lease liabilities	- 38	- 42
	Proceeds from borrowings	188	254
	Repayment of borrowings	- 105	- 95
	Transactions with shareholders:		
4.1	Dividend distributed to shareholders	- 26	- 33
4.1	Dividend distributed to and other transactions with non-controlling interests	- 7	- 5
	Total cash flows from financing activities	**12**	**79**
	Net cash flow	**41**	**15**
	Cash beginning of year	183	176
	Exchange adjustment	- 15	- 8
	Cash end of year	**209**	**183**

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 2023 comprise Hempel A/S and its subsidiaries (the Group).

The Board of Directors considered and approved the 2023 Annual Report of Hempel A/S on 4 March 2024. The Annual Report will be submitted to the shareholders of Hempel A/S for approval at the Annual General Meeting on 2 May 2024.

Accounting policies
The consolidated financial statements have been prepared in accordance with the IFRS accounting standards 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 been applied consistently in the 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 financial costs and income tax. 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 are restated in the statement of profit and loss. Refer also to note 4.6 Discontinued operations, 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 2023: Amendments to IAS 1, IAS 8, IAS 12 and IFRS 17.

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.

Changes to IAS 12 Income taxes
The changes to IAS 12 provides a temporary relief from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes. Reference is made to note 2.5 Income tax, tax assets and liabilities.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations that have been published are not mandatory for the 31 December 2023 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 future reporting periods, or on foreseeable future transactions.

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

1.1 General accounting policies — continued

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.

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 are 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 date 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.

1.1 General accounting policies — continued

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. The effect on the opening balance of Turkey entering into hyperinflation in 2022 was 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 is 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 comprises 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 comprises cash flows from raising and repayment of principal long-term and short-term debt, including repayment of lease liabilities as well as payments to and from shareholders.

Cash flow in 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 which could result in adjustments to the carrying amount of assets and liabilites in future periods.

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 from 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 for 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 overall exposure to warranty claims 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 uncertainty in the interpretation of tax legislation in the countries Hempel operates in.

Significant estimates and judgements are required when 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 Cash Generating Units (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.

1.2 Significant accounting estimates and judgements — continued

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.

Impairment test of Decorative Germany and France CGU
An impairment test of Decorative Germany and France CGU has been performed based on a fair value less costs of disposal model. The significant estimates relate to improvements of revenue through volume increases, development in fixed expenses and the discount rate.

The applied assumptions are based on expectations for market development, expansion of our relationship with key customers and increased focus on toll manufactoring and optimization of production capacity. Refer to note 3.2 Property, plant and equipment.

A change in key estimates, i.e. a decrease/increase in EBITDA margin in the terminal period by 0.5% would result in a decrease/increase in impairment loss of EUR 10 million, whereas an increase or decrease in the long-term growth rate of 0.5% would result in an decrease in impairment loss of EUR 6 million, respectively an increase of EUR 5 million. If the development of net working capital in the terminal period was affected positively or adversely by 5%, a decrease, or a corresponding increase, in impairment loss of EUR 13 million would have been recognised in the financial statements. An increase in the discount rate of 1% would result in an additional impairment of EUR 12 million, where a corresponding decrease of 1% would positively impact the recoverable amount by EUR 17 million.

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, having existed for decades and having no legal, regulatory, contractual, competitive, economic or other factors limiting the useful life of the brand.

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 comprises 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 the 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.

Revenue
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. Longer credit terms are provided in certain countries, though normally not exceeding 180 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.

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

(EUR m)	2023	2022
EMEA	1,338	1,240
Asia-Pacific	750	653
Americas	263	266
Total revenue	**2,351**	**2,159**

Revenue disaggregated into sale of goods per customer category:

(EUR m)	2023	2022
Decorative	792	775
Marine	725	626
Infrastructure	470	445
Energy	364	313
Total revenue	**2,351**	**2,159**

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 (2022: 8 individuals).

Remuneration of the Executive Group Management includes a fixed salary, company car and other standard fringe benefits, as well as bonus payments in the form of an annual cash bonus and a long-term cash-based incentive scheme. of specific financial targets for organic growth, EBITDA and working capital. The annual cash bonus cannot exceed 70-100% of the individual's fixed salary.

The annual cash bonus payment is contingent upon the fulfilment of ESG targets and the realisation

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 the nominal EBITDA accumulated over the three-year period. The outcome is calculated at the end of the three-year programme 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% 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 compensation paid or payable to the key management personnel for employee services is shown in the table to the right. Total remuneration for the Executive Board and Board of Directors amounted to EUR 10 million in 2023 (2022: EUR 4.3 million).

(EUR m)	2023	2022
Employee costs		
Wages and salaries	413	381
Pensions – defined contribution plans	22	21
Pensions – defined benefit plans	1	2
Other social security contributions	29	28
Other employee costs	25	23
Total employee costs for the year	**490**	**455**
Average number of full-time employees	7,403	7,343
Employee costs have been recognised in the profit and loss as follows:		
Production costs	155	131
Sales and distribution costs	247	258
Administrative costs	88	66
Total employee costs in the profit and loss	**490**	**455**

(EUR m)	2023	2022
Executive Board		
Wages and salaries	3.6	3.4
Pensions, defined contribution plans	0.2	0.1
Severance pay	1.8	-
Other long-term benefits	3.3	- 0.3
Total	**8.9**	**3.2**
Other key management personnel		
Wages and salaries	4.9	3.9
Pensions, defined contribution plans	0.2	0.3
Other long-term benefits	2.1	1.6
Total	**7.2**	**5.8**
Board of Directors		
Board fee	1.1	1.1
Total	**1.1**	**1.1**
Total compensation to key management personnel	**17.2**	**10.1**

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 (EUR m)	**2023**	**2022**
Gain on sale of property, plant and equipment	-	4
Total other operating income	**-**	**4**

Other operating expenses (EUR m)	**2023**	**2022**
Loss on disposal of property, plant and equipment	-	- 1
Total other operating expense	**-**	**- 1**

2.4 Special items

Special items include significant income and expenses of a special nature relative to the Group's earnings-generating 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 gain/loss on divestments of subsidiaries.

In 2023, special items comprised employee redundancy costs and related costs in connection with organisational changes.

Special items also included M&A related costs, mainly consultancy costs and an insurance settlement payment related to a past business acquisition.

Due to the significant impact on the statement of profit and loss, 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 functions, shown in the table below.

Special items (EUR m)	**2023**	**2022**
Restructuring costs	5	27
M&A and integration related costs	5	3
Insurance settlement	- 3	-
Total special items	**7**	**30**

(EUR m)	**2023**	**2022**
Production costs	1	5
Sales and distribution costs	3	11
Administrative costs	3	14
Total special items	**7**	**30**

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 for 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.

Uncertain tax positions are recognized where the probability of the tax position being upheld in individual cases is considered less than 50%. Uncertain tax positions are assessed individually, and the possible outcome is measured based on management's best estimate of the amount required to settle the obligation. Uncertain tax positions relate to various tax disputes, including transfer pricing cases.

Tax for the year (EUR m)	**2023**	**2022**
Tax for the year is specified as follows:		
Tax on profit for the year	- 21	- 19
Tax on other comprehensive income	- 1	1
Total tax for the year	**- 22**	**- 18**
Tax on profit for the year is calculated as follows:		
Current tax for the year	- 59	- 51
Deferred tax for the year	41	31
Adjustment in respect of previous years	- 3	1
Total tax on profit for the year	**- 21**	**- 19**
Effective tax rate of the Group		
Danish tax rate	22.0%	22.0%
Higher/(lower) tax rates of foreign subsidiaries	- 12.0%	- 8.6%
Permanent differences	4.7%	- 0.1%
Unrecognised deferred tax assets	28.2%	21.8%
Recognised deferred tax assets related to prior years	- 8.1%	- 18.3%
Adjustments in respect of previous years	- 3.7%	1.6%
Other adjustments (mainly changes in uncertain tax position)	- 14.9%	1.9%
Withholding taxes etc.	7.4%	6.5%
Effective tax rate of the Group excluding hyperinflation	**23.6%**	**26.8%**
Hyperinflation	1.8%	7.1%
Effective tax rate of the Group	**25.4%**	**33.9%**

2.5 Income tax, tax assets and liabilities — continued

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. 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 (EUR m)	**2023**	**2022**
Deferred tax, beginning of year	- 5	- 41
Recognised in profit or loss	41	32
Adjustments in respect of previous years	- 1	4
Deferred tax assets and liabilities at 31 December, net	**35**	**- 5**

Specification of deferred tax assets (EUR m)	**2023**	**2022**
Intangible assets	14	17
Property, plant and equipment	5	10
Inventories	2	2
Trade receivables	1	4
Provisions and defined benefit obligations	27	17
Lease liabilities	1	3
Tax loss carryforwards	62	41
Deferred tax assets at 31 December	**112**	**94**

Specification of deferred tax liabilities (EUR m)	**2023**	**2022**
Intangible assets	38	54
Property, plant and equipment	4	3
Provisions and defined benefit obligations	35	42
Deferred tax liabilities at 31 December	**77**	**99**

2.5 Income tax, tax assets and liabilities — continued

The Group recognises deferred tax assets, including the expected value of tax loss carryforwards, based on an assessment of the expected recoverability. At 31 December 2023, Hempel recognised a deferred tax asset related to tax loss carryforwards of EUR 62 million (2022: EUR 41 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 jurisdictions 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, taking into account the general market conditions, recent financial performance of the individual entities and the Group's approved business plan. The projections are based on the Group's five-year forecast, though in certain cases a longer forecast period is applied, 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 forecast is achievable and supports the capitalised deferred tax assets. In making this assessment, business initiatives to improve organic growth and taxable income are considered together with expected allocation of future taxable income based on the transfer pricing policy in place.

Deferred tax not recognised in the balance sheet (EUR m)	**2023**	**2022**
Temporary differences	9	9
Tax loss carryforwards	50	36
Total tax asset not recognised	**59**	**45**

Out of recognised tax loss carry forwards 1% (2022: 0%) expire within 1 year, and 0% (2022: 10-15%) within 5 years from the balance sheet date and 40-45% after five years. The remaining tax loss carry forwards does not have an expiration date.

Implementation of the Pillar Two reform

As a response to the increasing tax challenges arising from Digitalization of the Economy, OECD has worked on a tax avoidance project called BEPS (base erosion and profit shifting). In 2021, Pillar One (not in scope for Hempel) and Pillar Two were introduced as a set of Global Anti-Base Erosion Model Rules (GloBE).

The overall purpose of Pillar Two is to impose a minimum tax of 15% on the local income in each jurisdiction in which a company operates. The GloBE rules are a key component of Pillar Two, providing a coordinated system of taxation that imposes a top-up tax on profits arising in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum effective tax rate.

The Pillar Two tax rules will generally be applicable for the Hempel Group as of 1 January 2024. For some countries, Pillar Two qualifying domestic minimum top up tax legislation will be implemented at a later date.

It is estimated that additional taxes arising from implementing Pillar Two amounts to EUR 0.7-1.7 million in 2024. As the analysis of the Pillar Two impact is not finalised, there is still uncertainty about the final tax impact. The estimated increase in taxes mainly relates to the activities in the following jurisdictions: United Arab Emirates and Cyprus.

Hempel has applied the temporary mandatory exception of not recognising deferred tax assets and liabilities arising from the implementation of the Pillar Two tax legislation. The exception is applied retrospectively.

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

For software as a service (SaaS) 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.

Amortisations and impairment included in profit and loss (EUR m)	**2023**	**2022**
Production costs	6	5
Sales and distribution costs	13	-
Administrative costs	27	16
Total amortisation and impairment	**46**	**21**

3.1 Intangible assets — continued

Research and development costs expensed
Research and development costs not eligible for capitalisation are expensed in the period incurred and included in the statement of profit and loss within production costs. In 2023, this amounted to EUR 34 million (2022: EUR 29 million).

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.

Goodwill is monitored based on four commercial business units (Marine, Energy, Infrastructure and Decorative) and one internal business unit (Technology & Operations). Goodwill is allocated to the groups of CGUs as follows:

(EUR m)	2023	2022
Marine	4	4
Energy	3	3
Infrastructure	3	3
Decorative	180	160
T&O	345	341
Unallocated	-	18
Total goodwill	**535**	**529**

In 2022, EUR 18 million of goodwill recognised from acquisitions of Paint World, Cap Couleurs and two smaller acquisitions was not allocated to the respective groups of CGUs. The goodwill allocation was finalised in 2023 with EUR 18 million allocated to Decorative.

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 systems to protect the metal structure of the vessels.

Energy customers are owners of energy assets, which are 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, companies that own 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.

Impairment test goodwill
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 2024-2028. 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 on the next page). Cash flows beyond the five-year forecast period are extrapolated using the estimated growth rates stated in the table on the next page.

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.

3.1 Intangible assets — continued

Key assumption	Description
Revenue growth and EBITDA margin	Revenue for all commercial business units is 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 past performance and assumptions about the general market development in the different commercial business areas, taking into consideration the maturity of the market and the current challenges with valatile 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 long-term inflation. The estimated revenue growth in Decorative is, in particular, to be achieved through our strong market position, brand awareness and companies and stores acquired in 2021 and 2022 that increase Decorative's accessibility in selected markets. For Marine, the estimated revenue growth is to be achieved through our highly, competitive products, e.g. 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 CO_2 emissions. For Energy and Infrastructure, the estimated revenue growth is based on an increased demand for sustainable solutions in the renewable energy and infrastructure sectors and higher sales prices through a more value-based price setting model. 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 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 businesses acquired 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 forecast period.
Long-term growth	The terminal growth rates do not exceed expected long-term inflation.
Pre-tax discount rate	The pre-tax discount rate reflects the specific risks to the CGUs.

(EUR m)	Long-term growth rate 2023	Long-term growth rate 2022	Pre-tax discount rate 2023	Pre-tax discount rate 2022
Marine	2.00%	2.00%	17.35%	15.26%
Energy	2.00%	2.00%	17.36%	15.11%
Infrastructure	2.00%	2.00%	17.36%	15.11%
Decorative	2.00%	2.00%	16.01%	14.30%
Technology & Operations	2.00%	2.00%	16.02%	14.35%

Impairment test of the Farrow & Ball brand

The carrying amount of the Farrow & Ball brand with indefinite useful life of EUR 136 million (2022: 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 5.1% 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 to Farrow & Ball. A royalty rate of 6.15% (2022: 6.15%) and a weighted average cost of capital (WACC) of 9.35% (2022: 8.79%) were applied.

Impairment test of software business applications

One of Group's software business applications systems (ERP) was scrapped and replaced with a more flexible IT-solution to ensure scalable operations and to streamline processes across the Group. Consequently, the software business application was written down, and an impairment of EUR 18 million was included in administrative expenses in the statement of profit and loss. Refer also to note 3.2 Property, plant and equipment for impairment of customer relationships.

3.1 Intangible assets — continued

Intangible assets (EUR m)	Goodwill	Brands (indefinite life)	Software	Software under development	Customer relationships	Other intangible assets	Total
Costs at 1 January 2023	529	138	56	29	142	91	985
Effect of exchange rate adjustment	6	2	- 1	-	- 2	1	6
Additions for the year	-	-	-	32	-	1	33
Transfer and reclassifications	-	-	23	-29	-	6	-
Disposals for the year	-	-	- 2	-	-		- 2
Costs at 31 December 2023	**535**	**140**	**76**	**32**	**140**	**99**	**1,022**
Accumulated amortisation at 1 January 2023	-	-	45	-	112	63	220
Effect of exchange rate adjustment	-	-	- 1	-	- 2	-	- 3
Amortisation for the year	-	-	8	-	8	6	22
Impairment for the year	-	-	18	-	5	1	24
Reversal of amortisation of assets disposed	-	-	- 2	-	-	-	- 2
Accumulated amortisation at 31 December 2023	**-**	**-**	**68**	**-**	**123**	**70**	**261**
Carrying amount at 31 December 2023	**535**	**140**	**8**	**32**	**17**	**29**	**761**
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
Transfer 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**

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.

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.

Impairment test Decorative Germany and France

An impairment test was carried out for the Decorative CGU Germany and France due to challenging market conditions.

The CGU mainly comprises production buildings, customer relationships and current assets such as inventories and trade receivables.

The CGU is measured within level 3 of the fair value hierarchy and the impairment amount was determined based on a fair value less costs of disposal model, i.e. a market specific model using discounted cash flow projections approved by management, covering a five-year period.

The key assumptions used when determining the cash flow projections are development in EBITDA margin, development in net working capital, the long-term growth rate and the discount rate.

Cash flows beyond the five-year forecast period are extrapolated applying a 2.0% growth rate, corresponding to the long-term inflation. A post tax discount rate of 7.5% was applied, reflecting the specific risk of the CGU. Development in EBITDA margin assumes increasing revenue, utilization of idle production capacity and costs adjustments, a market participant would consider when pricing the CGU.

The carrying amount of the CGU was reduced to its recoverable amount, approx. EUR 67 million. An impairment loss of EUR 23 million was recognised, hereof EUR 6 million within intangible assets and the remaining EUR 17 million within property, plant and equipment. The impairment loss is recognised within production cost EUR 18 million and sales and distribution costs EUR 5 million, respectively. The main classes of assets impaired were production buildings and customer relationships.

3.2 Property, plant and equipment — continued

Property, plant and equipment (EUR m)	**Land and buildings**	**Plant and machinery**	**Other fixtures and fittings, tools and equipment**	**Assets under construction**	**Total**
Costs at 1 January 2023	**323**	**292**	**129**	**135**	**879**
Effect of exchange rate adjustment	- 9	- 4	- 1	- 6	- 20
Additions for the year	-	4	5	50	59
Transfer and reclassifications	72	53	8	- 133	-
Disposals for the year	-	- 4	- 7	-	- 11
Costs at 31 December 2023	**386**	**341**	**134**	**46**	**907**
Accumulated depreciations at 1 January 2023	**100**	**189**	**79**	**-**	**368**
Effect of exchange rate adjustment	- 3	- 2	- 1	-	- 6
Depreciation for the year	13	20	12	-	45
Impairment loss for the year	17	-	-	-	17
Transfer and reclassifications	1	-	- 1	-	-
Reversal of depreciations of assets disposed	-	- 3	- 6	-	- 9
Accumulated depreciation at 31 December 2023	**128**	**204**	**83**	**-**	**415**
Carrying amount at 31 December 2023	**258**	**137**	**51**	**46**	**492**
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 the year amounts to EUR 2 million (2022: 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, as shown on the next page.

3.3 Leases — continued

Amounts relating to leases (EUR m)	**Land and buildings**	**Vehicles**	**Other fixed assets**	**Total**
Right-of-use assets				
Costs at 1 January 2023	209	27	1	237
Effect of exchange rate adjustment	- 2	-	-	- 2
Additions for the year	6	6	-	12
Remeasurement	5	-	-	5
Disposals	- 10	- 6	-	- 16
Cost at 31 December 2023	**208**	**27**	**1**	**236**
Depreciation at 1 January 2023	62	14	-	76
Effect of exchange rate adjustment	- 1	-	-	- 1
Depreciation for the year	32	8	-	40
Disposals	- 9	- 6	-	- 15
Accumulated depreciation at 31 December 2023	**84**	**16**	**-**	**100**
Carrying amount at 31 December 2023	**124**	**11**	**1**	**136**
Right-of-use assets				
Cost at 31 January 2022	196	26	1	223
Effects of exchange rate adjustments	- 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**
Depreciation at 1 January 2022	40	11	-	51
Effects of exchange rate adjustments	- 1	-	-	- 1
Depreciation for the year	35	9	-	44
Disposals	- 11	- 6	-	- 17
Reclassification to assets held for sale	- 1	-	-	- 1
Accumulated depreciation at 31 December 2022	**62**	**14**	**-**	**76**
Carrying amount at 31 December 2022	**147**	**13**	**1**	**161**

Lease liabilities (EUR m)	**2023**	**2022**
Current	35	36
Non-current	105	129
Total	**140**	**165**

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

Expenses relating to leases (EUR m)	**2023**	**2022**
Depreciation expense of right-of-use assets	40	44
Interest expense on lease liabilities	4	3
Expense relating to short-term leases, excluding short-term leases of low-value assets	1	1
Total amount recognised in profit or loss	**45**	**48**

Total cash outflow from leases amounts to EUR 43 million, including cash outflow from short-term and low-value leases (2022: EUR 46 million).

The maturity analysis of undiscounted cash flow in 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.

(EUR m)	**2023**	**2022**
Raw materials and consumables	92	109
Work in progress	9	7
Finished goods	231	227
Total inventories	**332**	**343**
Cost of inventories, included under production costs	1,307	1,283
Hereof write-downs to net realisable value during the year	12	11
Reversal of write-downs during the year	-	-

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.

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.

Trade receivables are written off when there is no reasonable expectation of recovery, i.e. typically when customers are undergoing restructuring or bankruptcy proceedings have commenced.

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.

Expected credit loss 2023 (EUR m)	**Carrying amount, gross**	**Expected loss rate (%)**	**Loss allowance**	**Carrying amount, net**
Current	367	0.7%	2.4	364.6
Overdue 1-30 days	63	0.6%	0.4	62.6
Overdue 31-60 days	31	1.5%	0.5	30.5
Overdue 61-120 days	23	1.6%	0.3	22.7
Overdue 121-240 days	16	7.2%	1.2	14.8
Overdue 241-360 days	4	16.8%	0.6	3.4
Overdue > 360 days	39	84.1%	32.7	6.3
Total	**543**		**38.1**	**504.9**

Expected credit loss 2022 (EUR m)	**Carrying amount, gross**	**Expected loss rate (%)**	**Loss allowance**	**Carrying amount, net**
Current	352	0.7%	2.3	349.7
Overdue 1-30 days	61	0.9%	0.6	60.4
Overdue 31-60 days	27	1.5%	0.4	26.6
Overdue 61-120 days	19	1.7%	0.3	18.7
Overdue 121-240 days	12	6.8%	0.8	11.2
Overdue 241-360 days	6	26.1%	1.5	4.5
Overdue > 360 days	31	82.7%	25.7	5.3
Total	**508**		**31.6**	**476.4**

Loss allowance provision (EUR m)	**2023**	**2022**
Provision at 1 January	31	29
Additions for the year	9	2
Losses recognised	- 2	- 2
Currency translation	-	2
Total	**38**	**31**

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 contributions 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 2023, net costs of EUR 25 million relating to Hempel's pension plans were recognised in the statement of profit and loss (2022: EUR 24 million). The figures break down as shown in the table below.

Pension costs (EUR m)	**2023**	**2022**
Costs for defined contribution plans:		
Employee costs	22	21
Costs for defined benefit plans:		
Employee costs	2	2
Interest expense	1	1
Total costs recognised in the profit and loss	**25**	**24**

3.6 Pensions and similar obligations — continued

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, as shown in the table to the right.

Present value of the net obligation at 31 December (EUR m)	**2023**	**2022**
Present value of defined benefit obligation	50	51
Fair value of assets related to the plans	31	35
Pension obligations recognised in the balance sheet, net	**19**	**16**

Of these obligations, EUR 22 million relates to unfunded pension obligations (2022: EUR 19 million) and EUR 28 million relates to partly funded obligations (2022: EUR 32 million). Of the total gross obligation, 48% (2022: 51%) relates collectively to Ireland and the UK.

(EUR m)	**2023**	**2022**
Present value of obligation at 1 January	**51**	**64**
Current service cost	2	2
Interest expense	2	1
Actuarial (gains)/losses arising from changes in financial assumptions	- 3	- 13
Actuarial (gains)/losses arising from experience adjustments	2	1
Exchange differences	-	- 1
Benefit payments from employer	- 1	-
Acquired in business combinations	-	1
Payments from the plans	- 3	- 4
Present value of obligation at 31 December	**50**	**51**

3.6 Pensions and similar obligations — continued

The expected average duration of the obligations is 11 years (2022: 12 years) and the expected contributions to post-employment benefit plans for the year ending 31 December 2024 are EUR 3 million.

The development in the fair value of pension plan assets and the composition of plan assets are shown in the tables below.

(EUR m)	2023	2022
Fair value of pension plan assets at 1 January	**35**	**43**
Calculated interest in plan assets	1	-
Return on plan assets excluding calculated interest	- 2	- 7
Exchange differences	-	- 1
Contributions:		
Employer	1	1
Payments from the plans	- 3	- 1
Effect on asset ceiling	- 1	-
Fair value of pension plan assets at 31 December	**31**	**35**

Defined benefit plans (%)	2023	2022
Specification of plan assets:		
Cash and cash equivalents	2%	1%
Shares and properties	23%	26%
Debt instruments	47%	48%
Real estate	1%	2%
Investment funds	18%	16%
Assets held by insurance company	5%	5%
Other	4%	2%
Total	**100%**	**100%**

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

%	2023	2022
Discount rate	4.57%	4.24%
Future wage / salary increase	3.45%	3.86%

Sensitivity analysis

The following table illustrates the change in the gross obligation relating to defined benefit plans due to a change in the key actuarial assumptions.

The analysis is based on fairly probable changes, provided that the other parameters remain unchanged.

Recognised defined benefit pension obligation (EUR m)	2023	2022
Discount rate		
Increase of 0.5 p.p.	- 2	- 3
Decrease of 0.5 p.p.	2	3
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, in some cases over a period of more than 5 years.

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. Warranty cases are normally resolved within 0 - 5 years, though some complex cases are resolved over an extended period of more than 5 years.

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.

(EUR m)	Environmental obligations	Warranties	Other provisions	Total
Total provisions, beginning of year	**20**	**15**	**12**	**47**
Effect of exchange rate adjustment	- 1	-	-	- 1
Additions for the year	4	7	4	15
Reversed for the year	- 2	-	- 4	- 6
Consumed for the year	- 1	- 7	- 2	- 10
Unwind of discount	1	-	-	1
Total provisions, end of year	**21**	**15**	**10**	**46**
Current liabilities	5	3	2	10
Non-current liabilities	16	12	8	36
Total provisions, end of year	**21**	**15**	**10**	**46**

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.

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.

The cash flow hedge reserve covers cash flow hedging of interest rates associated with loans and borrowings.

Share capital
The two share classes, 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 have been amalgamated into one single share class. The share capital has been fully paid and no shares have special dividend rights.

Dividends
The Group proposes a dividend of EUR 217 thousand per share (2022: EUR 0 thousand per A share and EUR 0 thousand per B share), in total amounting to EUR 25 million (2022: EUR 0 million per A share and EUR 0 million per B share).

During 2023, ordinary dividends related to the year 2022 amounted to EUR 0 thousand per share (2022: EUR 297 thousand per A share and EUR 8 thousand per B share) equal to a total dividend payment of EUR 0 million (2022: EUR 33 million). Extraordinary dividends of EUR 229 thousand per share was paid out in 2023, in total amounting to EUR 26 million (2022: EUR 0 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.

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 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 250 million of free committed credit resources available for the next 12 months.

Share capital, distribution to shareholder	31 December 2023		31 December 2022	
	Number of shares	Nominal value (DKK)	Number of shares	Nominal value (DKK)
The share capital comprise:				
A shares	-	-	111	110,900,000
B shares	-	-	8	4,100,000
Shares in Hempel A/S	115	115,000,000	-	-
Share capital (fully paid)	**115**	**115,000,000**	**119**	**115,000,000**

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 2023, the leverage ratio was 3.1x (2022: 4.2x). 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 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 2023 or 2022.

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 interest 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 mainly on EURIBOR. Further, the interest rate is linked to the Group's leverage ratio and to achievement of the Group's sustainability targets aimed at reducing CO_2 emissions, landfill waste and use of hazardous materials in 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 consists of the following, se table to the right:

2023 (EUR m)	**Average interest rate**	**Maturity**	**Carrying amount**
Bank loans	5.46%	2025-2027	1,034
Overdraft facilities	5.21%	2024	53
Lease liabilities	0.2% - 13.1%	2024-2047	140
Loan to parent company	6.28%	2024	57
Total borrowings			**1,284**
Current			145
Non-current			1,139
Total borrowings			**1,284**

2022 (EUR m)	**Average interest rate**	**Maturity**	**Carrying amount**
Bank loans	3.8%	2024-2026	901
Overdraft facilities	2.8% - 7.9%	2023	100
Lease liabilities	0.2% - 12.0%	2022-2045	165
Loan from parent company	4.4%	2023	66
Total borrowings			**1,232**
Current			202
Non-current			1,030
Total borrowings			**1,232**

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	2023	2022
Foreign exchange risk	Low	Low
Interest rate risk	Medium	Medium
Credit risk	Low	Low
Liquidity risk	Low	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 on 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. Foreign exchange hedges are entered into in order to mitigate foreign exchange 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 and trade payables, arising respectively 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.

Foreign exchange forward contracts are used to hedge the exposure to currency risk. As the vast majority of intercompany loans are hedged, and because changes in the fair value of both the hedged item and the foreign exchange forward is recognised in profit and loss under financial items, the net exposure to foreign currency risk is deemed low, though a higher foreign exchange risk persists in countries with high inflation.

Foreign currency sensitivity

The sensitivity analysis is based on financial assets and liabilities recognised as of 31 December. The table on the next page demonstrates 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 foreign exchange 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 adjusted for fair value movements of interest rate swaps designated as hedging instruments.

4.3 Financial risks — continued

(EUR m)	Change in rate	Nominal value	Effect on profit before tax	Effect on equity
2023				
USD/EUR	5%	- 66.7	- 3.3	- 2.6
USD/EUR	- 5%	- 66.7	3.3	2.6
2023				
GBP/EUR	5%	- 6.8	-0.3	-0.3
GBP/EUR	- 5%	- 6.8	0.3	0.3
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

(EUR m)	Increase/ decrease in bps	Effect on profit before tax	Effect on equity
2023			
Euro	+100 bps	- 2	- 2
Euro	- 100 bps	2	2
2022			
Euro	+100 bps	- 9	- 7
Euro	- 100 bps	9	7

Interest rate risk
Interest-bearing debt increased primarily due to additional 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 falls below 10, the Group assesses whether it is necessary to mitigate the interest rate risk by entering into hedging instruments.

Hempel has fixed the interest rate on EUR 700 million of debt by entering into variable-to-fixed interest rate swaps maturing in December 2025, which reduces the exposure to changes in interest rates in 2024 and 2025. The interests related to the EUR 700 million debt is fixed at an average interest rate of 3.01% until December 2025.

There is an economic relationship between the loans and the hedging instruments as both the nominal 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 above demonstrates sensitivity to reasonable possible changes in interest rates, with all other variables held constant.

The sensitivity analysis is based on financial assets and liabilities recognised as of 31 December and assumes that the interest rate hedges are 100% effective. The sensitivity analysis is based on a change of 100 bps which is considered a reasonable possible change at 31 December 2023.

4.3 Financial risks — continued

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 3.5 for a description of the Group's credit risk in relation to trade receivables.

The carrying amount of EUR 278 million (2022: EUR 253 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 472 million (2022: EUR 565 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.

Contractual undiscounted cashflows (EUR m)	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**
2023			
Non-derivatives:			
Borrowings, current and non-current	88	1,080	-
Loan from parent company	60	-	-
Trade payables	332	-	-
Lease liabilities	36	84	32
Derivatives:			
Derivatives financial instruments	4	4	-
Total contractual undiscounted cash flows at the end of the year	**520**	**1,168**	**32**
Non-current liabilities	1,200		
Current liabilities	520		
2022			
Non-derivatives:			
Borrowings, current and non-current	136	953	-
Loan from parent company	69	-	-
Trade payables	355	-	-
Lease liabilities	39	95	42
Total contractual undiscounted cash flows at the end of the year	**599**	**1,048**	**42**
Non-current liabilities	1,090		
Current liabilities	599		

For borrowings, the contractual payments are based on the variable interest rates at December 2023, except for a total of EUR 700 million in loans for which the fixed interest swap rates are applied until the swap rates mature in December 2025, 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, foreign exchange forwards, currency swaps and interest rate swaps are initially recognised in the balance sheet at fair value and subsequently remeasured at their fair value.

Derivatives are used for economic hedging purposes and not as speculative investments. Where the derivatives do not meet the hedge accounting criteria, they are measured at fair value through profit and loss.

Hedging instruments not qualifying for hedge accounting

For foreing exchange 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 foreign exchange forwards and currency swaps are recognised in the statement of profit and loss under financial income and expenses.

Cash flow hedge accounting

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 equity 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 was negative EUR 4.5 million as of 31 December 2023.

Financial instruments, fair value disclosures

The carrying amount of financial instruments is a reasonable approximation of the fair value, except for loans measured at amortised cost. The carrying amount of loans measured at amortised cost amounts to EUR 1,144 million (2022: 1,067 million) compared to a fair value of EUR 1,147 million (2022: 1,070 million). The fair value is determined based on the present value of expected future cash flows.

The carrying amount of lease liabilities amount to EUR 140 millions (2022: 165 million) compared to a fair value EUR 116 million (2022: 145 million).

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.

Foreign exchange contracts, currency swaps and interest rate swaps are within level 2 of the fair value hierarchy and are calculated based on observable market data, such as foreign exchange rates and yield curves at the end of the reporting period, and generally accepted valuation methods. Loans are with level 3 of the fair value hierarchy.

Reconciliation of liabilities arising from financing activities (EUR m)					Non-cash movements		
	Beginning of the year	Cash flows	Additions	Disposals	Acquisitions	Exchange rates	End of the year
2023							
Lease liabilities	165	- 38	12	-	-	1	140
Borrowings, current and non-current	1,067	83	-	-	-	- 6	1,144
Liabilities arising from financing activities	**1,232**	**38**	**14**	**-**	**-**	**- 1**	**1,284**
2022							
Lease liabilities	176	- 42	30	-	3	- 2	165
Borrowings, current and non-current	907	159	-	-	-	1	1,067
Liabilities arising from financing activities	**1,083**	**117**	**30**	**-**	**3**	**- 1**	**1,232**

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 on transactions denominated in foreign currencies.

Financial income (EUR m)	**2023**	**2022**
Interest income	12	5
Gain on derivative financial instruments at fair value through profit and loss	2	7
Total financial income	**14**	**12**

Financial expenses (EUR m)	**2023**	**2022**
Interest expense on borrowings	- 53	- 23
Interest expense on lease liabilities	- 4	- 3
Interest expenses to parent company	- 3	- 2
Interest expenses on financial liabilities measured at amortised cost	**- 60**	**- 28**
Foreign exchange loss (net)	- 38	- 19
Net monetary loss	- 2	- 3
Other financial expenses	- 21	- 20
Total financial expenses	**- 121**	**- 70**

Gain and losses on foreign exchange derivative financial instruments measured at fair value through profit and loss has been presented separately. Last year, these instruments were presented within the line item foreign exchange gain/loss. As a result of the change in presentation, comparative figures have been restated.

4.6 Discontinued operations, assets and liabilities held for sale

Hempel was established in Russia in 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. The associated operations, assets and liabilities were consequently presented as discontinued operations and assets and liabilities held for sale in the 2022 financial statement.

On 13 July 2023, the divestment of the assets in Russia was completed.

The total impact on the profit and loss statement in 2023 amounts to a loss of EUR 11 million (2022: 2 million), primarily related to reclassification of accumulated foreign currency translation reserve in equity to profit and loss. The loss is attributable to the shareholder of Hempel A/S.

Statement of financial position of business classified as held for sale (EUR m)	**2023**	**2022**
Fixed assets	-	14
Deferred tax asset	-	3
Cash	-	3
Other current assets	-	1
Assets held for sale	**-**	**21**
Deferred tax liabilities	-	4
Current liabilities	-	2
Liabilities held for sale	**-**	**6**

Net loss from discontinued operations (EUR m)	**2023**	**2022**
Revenue	-	10
Expenses	- 1	- 15
Net profit before tax	**- 1**	**- 5**
Income tax	-	3
Loss on sale of Hempel Russia after income tax	- 10	-
Net profit from discontinued operations	**- 11**	**- 2**

Loss on sale of Hempel Russia (EUR m)	**2023**	**2022**
Net cash received	6	-
Net cash receivables	4	-
Total consideration received or receivables	**10**	**-**
Carrying amount of net assets sold	- 13	-
Reclassification of foreign currency translation reserve	- 7	-
Total loss on sale of Hempel Russia	**- 10**	**-**

Cash flow from discontinued operations (EUR m)	**2023**	**2022**
Cash flow from operating activities	- 1	- 6
Cash flow from investing activities (including net cash inflow from sale of Hempel Russia of EUR 6 million)	6	-
Cash flow from financing activities	-	-
Total	**5**	**- 6**

The carrying amounts of assets and liabilities as of the date of sale (13 July 2023) were:

(EUR m)	**2023**
Fixed assets	11
Cash	1
Other current assets	1
Total assets	**13**
Total liabilities	**-**

5 Other disclosures

5.1 Fee to the auditors appointed at the General Meeting

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

(EUR m)	**2023**	**2022**
Audit fee	2	2
Tax advice	1	1
Other fees	-	1
Total	**3**	**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:

(EUR m)	**2023**	**2022**
Amortisation, depreciation and impairment	148	107
Provisions	9	- 7
Gains and losses on the sale of fixed assets	-	- 3
Losses from divestment of discontinued operations	10	-
Hyperinflation adjustment	5	8
Total	**172**	**105**

5.3 Contingent liabilities and other commitments

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 has been finalised. Hence, 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 0 million (2022: 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 Foundation

Hempel A/S paid rent expenses of EUR 3 million (2022: EUR 2 million) to Hempel Foundation.

At 31 December 2023, Hempel A/S had EUR 0 million deposit receivables from Hempel Foundation related to office leases (2022: EUR 1 million).

Hempel Invest A/S

Hempel A/S paid rent expenses of EUR 2 million (2022: EUR 2 million) to Hempel Invest A/S.

At 31 December 2023, Hempel A/S did not have any deposit receivables from Hempel Invest A/S related to office leases (2022: EUR 1 million).

As of 31 December 2023, loan payables to Hempel Invest A/S amounted to EUR 57 million (2022: EUR 66 million). Interest expenses during the year amounted to EUR 3 million (2022: EUR 2 million).

Dividend

Extraordinary dividend of EUR 26 million was paid to Hempel Invest A/S (2022: EUR 0 million). No ordinary dividend was distributed to shareholders of Hempel A/S (2022: EUR 33 million).

Other related parties

At 31 December 2023, Hempel A/S had EUR 1 million deposit receivables from Hempel Ejendomme A/S related to office leases (2022: EUR 0 million). The leased buildings were previously owned by the Hempel Foundation and Hempel Invest A/S, respectively, but ownership transferred to Hempel Ejendomme A/S in December 2023.

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 material unsettled balances with key management personnel at the end of the year.

Related parties and ownership	Basis
Controlling influence:	
Hempel Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Ultimate parent company
Hempel Invest A/S, Amaliegade 8, 1256 Copenhagen K, Denmark	Majority shareholder (100%)
Members of the Executive Board and Board of Directors of Hempel A/S as well as the Board of Directors of the Hempel Foundation and Hempel Holding A/S are also regarded as related parties. The members of the Boards of Directors of the Hempel Foundation and Hempel Holding coincide.	
Other related parties:	
Hempel's Employee Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel's Cultural Foundation, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Brænderupvænge ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Keldskov ApS, Amaliegade 8, 1256 Copenhagen K, Denmark	Related party
Hempel 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
Hempel Ejendomme A/S, 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%
Austria	Ostendorf GmbH	EUR	100%
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	100%
Denmark	HF (Denmark) A/S	DKK	100%
Ecuador	Hempel Ecuador S.A.	USD	100%
Egypt	Hempel Coatings (Egypt) LLC	EGP	100%
Egypt	Hempel Egypt L.L.C.	EGP	100%
Egypt	Hempel Paints Egypt LLC	EGP	99%
Finland	OY Hempel (Finland) AB	EUR	100%
France	Hempel (France) SAS	EUR	100%
France	BB Participations SAS	EUR	100%
France	B.B Fabrications SAS	EUR	100%
France	Bontemps-Bonnarme SAS	EUR	100%
France	Capcouleurs SAS	EUR	100%
France	Cap Couleurs Brignoles SAS	EUR	100%
France	Cap Couleurs Distribution SAS	EUR	100%
France	Cap Couleurs Est SAS	EUR	100%
France	Cap Couleurs Gestion SAS	EUR	100%
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	100%
Germany	Ostendorf-Beteiligungs-GmbH	EUR	100%
Germany	FLT Handel & Service GmbH	EUR	100%
Germany	Brand.IQ GmbH	EUR	100%
Germany	Rottkamp Immoblilien GmbH & Co. KG*	EUR	100%
Germany	Rottkamp Immobilien Verwaltung GmbH	EUR	100%
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%
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%
New Zealand	Hempel (Wattyl) New Zealand Ltd.	NZD	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%
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%

5.6 The Hempel Group — continued

Location	Name	Currency	Ownership
Switzerland	J.W. Ostendorf (Schweiz) AG	CHF	100%
Syria	Hempel Paints (Syria) W.L.L.	SYP	43%
Taiwan	Hempel (Taiwan) Co., Ltd.	TWD	100%
Thailand	Hempel (Thailand) Ltd.	THB	100%
The Netherlands	Hempel (The Netherlands) B.V.	EUR	100%
The Netherlands	Hempel Industrial B.V.	EUR	100%
Turkey	Hempel Coatings San. ve Tic. Ltd. Sti.	TRY	100%
UK	Crown Brands Limited	GBP	100%
UK	Crown Paints Limited	GBP	100%
UK	Crown Paints Group Limited	GBP	100%
UK	Crown Paints Holdings Limited	GBP	100%
UK	FB Ammonite Limited	GBP	100%
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	100%
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 have been 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, amortisation and depreciation
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 (ROIC)	=	$\frac{\text{12 month operating profit less effective tax rate + Special items}}{(\sum_{i=T-12}^{i=T} \text{Invested capital}) / 12}$
Invested capital	=	Intangibles + property, plant and equipment + inventories + receivables – provisions – trade payables – other payables
Equity ratio	=	Shareholders' equity / Total assets
Leverage ratio	=	Net interest-bearing debt / 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 have been 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 (EUR m)		**2023**	**2022**
Operating profit		189	114
Amortisation, depreciation and impairment		148	105
EBITDA	**=**	**337**	**219**
Special items, c.f. note 2.4		7	30
Adjustment for hyperinflation according to IAS 29		5	8
EBITDA, adjusted	**=**	**349**	**257**
The following key figures are calculated as follows:			
Borrowings		1,087	1,001
Payables to parent company		57	66
Lease liabilities		140	165
Cash		- 209	- 180
Net interest-bearing debt	**=**	**1,075**	**1,052**
EBITDA, adjusted		349	257
Adjustment for hyperinflation according to IAS 29		- 5	- 8
EBITDA from 1 January to date of acquisition for acquired companies		-	1
EBITDA before special items	=	344	250
Leverage ratio	**=**	**3.1**	**4.2**

Parent company financial statements

Primary statements

Notes

Statement of profit and loss

Note	(EUR m)	2023	2022
2.1	Revenue	234	220
	Production costs	- 115	- 119
	Gross profit	**119**	**101**
	Sales and distribution costs	- 32	- 28
	Administrative costs	- 90	- 73
	Other operating expenses	- 11	-
2.2	**Operating profit (loss)**	**- 14**	**0**
5.5	Income from investments in subsidiaries	18	- 2
	Profit (loss) before financial income and expenses	**4**	**- 2**
4.3	Net financials	- 32	- 8
	Loss before tax	**- 28**	**- 10**
2.3	Income tax	-	- 2
	Net loss for the year	**- 28**	**- 12**

Statement of financial position

31 December

Note	(EUR m)	2023	2022
	Software	3	6
	Software under development	33	29
	Other intangible assets	9	7
3.1	**Intangible assets**	**45**	**42**
	Plant and machinery	6	7
	Leasehold improvements	19	21
	Other fixed assets	1	1
	Assets under construction	8	8
3.2	**Property, plant and equipment**	**34**	**37**
5.5	Investments in subsidiaries	915	891
	Loans to Group enterprises	159	136
2.3	Deferred tax assets	23	13
	Deposits	2	2
	Other non-current assets	**1,099**	**1,042**
	Total non-current assets	**1,178**	**1,121**
3.3	Inventories	6	7
	Trade receivables	12	17
	Receivables from Group enterprises	673	643
	Other receivables	34	25
	Prepayments	10	14
	Cash	28	35
	Total current assets	**763**	**741**
	Total assets	**1,941**	**1,862**

Note	(EUR m)	2023	2022
4.1	Share capital	15	15
	Reserve for development costs	32	30
	Retained earnings	252	372
	Proposed dividend for the year	25	-
4.1	**Total equity**	**324**	**417**
4.2	Borrowings	970	900
	Provisions	24	6
	Total non-current liabilities	**994**	**906**
	Overdraft facilities	33	10
	Trade payables	11	12
4.2	Payables to parent company	55	66
	Payables to Group enterprises	462	401
	Other liabilities	62	50
	Total current liabilities	**623**	**539**
	Total liabilities	**1,617**	**1,445**
	Total equity and liabilities	**1,941**	**1,862**

Statement of changes in equity

Note	(EUR m)	Share capital	Reserve for development costs	Retained earnings	Proposed dividend	Total equity
	Equity at 1 January 2022	**15**	**16**	**431**	**33**	**495**
	Net profit 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**
	Equity at 1 January 2023	**15**	**30**	**372**	**-**	**417**
	Net profit / (loss) for the year	-	-	- 28	-	- 28
	Exchange adjustment	-	-	- 2	-	- 2
	Remeasurements of defined benefit plans	-	-	- 1	-	- 1
	Cash flow hedging	-	-	- 5	-	-5
	Other adjustments[1]	-	-	- 30	-	- 30
	Tax on equity transactions	-	-	- 1	-	- 1
	Extraordinary dividend distributed	-	-	- 26	-	- 26
	Proposed dividend	-	-	- 25	25	-
	Development projects reserve, additions	-	8	- 8	-	-
	Development projects reserve, amortisation	-	- 6	6	-	-
4.1	**Equity at 31 December 2023**	**15**	**32**	**252**	**25**	**324**

[1] On 28 June 2023, the remaining 35% of shares in the JWO Group. The negative equity reserve, including the transaction price has been transferred to equity.

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 2023 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 cashflows 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 note 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.

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.

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

(EUR m)	2023	2022
Marine	47	46
Infrastructure	5	4
Energy	6	6
Other	176	164
Total revenue	**234**	**220**

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.

Staff costs (EUR m)	2023	2022
Wages and salaries	68	52
Pension costs	4	3
Other social security contributions	1	1
Other employee costs	3	2
Total	**76**	**58**
Average number of employees	382	347

2.3 Income tax, tax assets and liabilities

Income tax **Tax for the year** (EUR m)	2023	2022
Tax for the year is specified as follows:		
Tax on profit for the year	5	- 2
Tax in respect of subsidiaries	- 5	-
Total tax for the year	**-**	**- 2**
Tax on profit for the year is calculated as follows:		
Current tax for the year	10	- 5
Deferred tax for the year	- 10	2
Adjustment in respect of previous years	-	1
Total tax on profit for the year	**-**	**- 2**

Deferred tax **Deferred tax recognised in the balance sheet** (EUR m)	2023	2022
Deferred tax (net):		
Deferred tax, beginning of year	13	6
Recognised in profit and loss	10	2
Adjustment in respect of previous years	-	5
Deferred tax (net), end of year	**23**	**13**

The Danish corporate tax rate was 22% in 2023 (22% in 2022). At 31 December 2023, the company had recognised a deferred tax asset of EUR 23 million (2022: EUR 13 million) which relates to temporary differences.

3 Operating assets and liabilities

3.1 Intangible assets

Intangible assets (EUR m)	Software	Software under development	Other intangible assets	Total
Costs at 1 January 2023	**17**	**29**	**35**	**81**
Additions for the year	-	17	-	17
Disposals for the year	-	- 7	-	- 7
Transfer between categories	-	- 6	6	-
Costs at 31 December 2023	**17**	**33**	**41**	**91**
Accumulated amortisation at 1 January 2023	11	-	28	39
Amortisation for the year	3	-	4	7
Accumulated amortisation at 31 December 2023	**14**	**-**	**32**	**46**
Carrying amount at 31 December 2023	**3**	**33**	**9**	**45**

Other intangible assets comprise mainly brands and formulas.

3.2 Property, plant and equipment

Property, plant and equipment (EUR m)	Plant and machinery	Leasehold improvements	Other fixed assets	Assets under construction	Total
Costs at 1 January 2023	**11**	**26**	**3**	**8**	**48**
Additions for the year	-	-	-	-	-
Transfer and reclassifications	-	- 1	1	-	-
Costs at 31 December 2023	11	25	4	8	48
Accumulated depreciations at 1 January 2023	**4**	**5**	**2**	**-**	**11**
Depreciation for the year	1	1	1	-	3
Accumulated depreciation and impairment at 31 December 2023	**5**	**6**	**3**	**-**	**14**
Carrying amount at 31 December 2023	**6**	**19**	**1**	**8**	**34**

3.3 Inventories

Inventories (EUR m)	2023	2022
Raw materials and consumables	6	7
Finished goods	-	-
Inventories	**6**	**7**

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.

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.

Distribution of profit (EUR m)	**2023**	**2022**
Proposed dividends	25	-
Retained earnings	- 53	- 12
Total	- 28	- 12

4.2 Borrowings

As of 31 December 2023, loans from Hempel Invest A/S amounted to EUR 55 million (2022: EUR 66 million). Overdraft facilities amounted to EUR 33 million (2022: EUR 10 million).

Long-term borrowings etc. including short-term part (EUR m)	**2023**	**2022**
Due within 1 year	88	76
Due within 1 to 5 years	970	900
Total borrowings	1,058	976

4.3 Net financials

(EUR m)	**2023**	**2022**
Interest income from subsidiaries	49	27
External interest expenses	- 49	- 20
Interest income, other	1	-
Other financial expenses	- 8	- 6
Interest paid to Group enterprises	- 14	- 6
Realised and unrealised exchange gains/losses, net	- 11	- 3
Net financial income/expenses	**- 32**	**- 8**

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.

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.

(EUR m)	**2023**	**2022**
Rental and lease obligations:		
Due within 1 year from the balance sheet date	6	6
Due within 1 to 5 years from the balance sheet date	24	22
Due more than 5 years from the balance sheet date	12	16
Total rental and lease obligations	**42**	**44**
Guarantees:		
For local loans and bank credits to subsidiaries	67	49
Total guarantees	**67**	**49**

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.

Impairment of investments in subsidiaries
An impairment of EUR 32 million was made in the parent financial statements recognised within income from investment in subsidiaries. The impairment test was performed based on the principles described in note 3.2 in the consolidated financial statements.

Investments in subsidiaries (EUR m)	**2023**	**2022**
Costs at 1 January	1,049	521
Additions for the year	-	528
Disposals for the year	- 4	-
Costs at 31 December	**1,045**	**1,049**
Net revaluations at 1 January	- 195	- 114
Exchange rate adjustments	- 14	- 44
Remeasurements of defined benefit plans	- 1	4
Net profit for the year	93	69
Amortisation and impairment of goodwill and brands	- 75	- 71
Dividend received	- 47	- 39
Disposal	- 9	-
Other adjustments[1]	- 28	-
Net revaluations at 31 December	**- 274**	**- 195**
Carrying amount at 31 December	**769**	**854**
Recognised in the balance sheet as follows:		
Subsidiaries with negative equity	- 146	- 37
Investments in subsidiaries	915	891
	769	**854**
Subsidiaries with negative equity are recognised in the balance sheet as follows:		
Recognised as provisions	- 24	- 6
Recognised in receivables from subsidiaries	- 122	- 31
Net value at 31 December	**- 146**	**- 37**

1 On 28 June 2023, the remaining 35% shares in the JWO Group were acquired resulting in an adjustment to the carrying amount of the subsidiaries.

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

HEMPEL

Hempel A/S
Lundtoftegardsvej 91
2800 Kgs. Lyngby
Denmark

Tel: +45 4593 3800
Email: hempel@hempel.com
hempel.com

CVR no. 59946013

Financial year:
1 January – 31 December

Auditors
PricewaterhouseCoopers
Statsautoriseret
Revisionspartnerselskab

Strandvejen 44
2900 Hellerup
Denmark