Hempel Invest A/S Annual Report 2022

Amaliegade 8,
DK-1256 København K
CVR No. 32 05 82 05

The Annual Report was presented and adopted at the Annual General Meeting of the company.

Ulrik Thougaard Jensen
Chair of the general meeting

Contents

	Page
Management’s Statement and Auditor’s Report	
Management's statement	1
Independent Auditor's report	2
Management’s Review	
Company information	5
Financial Highlights	6
Management's review	7
Financial Statements	
Income statement 1 January - 31 December	20
Balance sheet 31 December	21
Statement of changes in equity	25
Cash Flow Statement 1 January - 31 December	26
Notes to the Financial Statements	27

Management's statement

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

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

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

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

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

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

Copenhagen, 27 April 2023

Executive Board

Anders Holm
Executive Director, Administration

Board of Directors

Richard Sand Chairman	Leif Jensen Vice chairman	Kim Dam-Johansen
Birgitte Hagemann Snabe	Lars Aaen	Britt Meelby Jensen
Morten Schaarup Employee representative	Henrik Bach Falkenberg Employee representative	Claus Juul Petersen Employee representative

Independent Auditor's report

To the shareholder of Hempel Invest A/S

Opinion

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

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Hempel Invest A/S for the financial year 1 January - 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("the Financial Statements").

Basis for Opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

Management's responsibilities for the Financial Statements

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

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

Independent Auditor's report

Auditor’s responsibilities for the audit of the Financial Statements

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

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

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

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

Independent Auditor's report

Hellerup, 27 April 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Anders Stig Lauritsen	Kristian Pedersen
State Authorised Public Accountant	State Authorised Public Accountant
mne32800	mne35412

Company information

The Company	Hempel Invest A/S Amaliegade 8 DK-1256 København K
	CVR No: 32 05 82 05
	Financial period: 1 January - 31 December
	Incorporated: 29 January 2009
	Financial year: 14th financial year
	Municipality of reg. office: Copenhagen
Board of Directors	Richard Sand, chairman Leif Jensen, vice chairman Kim Dam-Johansen Birgitte Hagemann Snabe Lars Aaen Britt Meelby Jensen Morten Schaarup, employee representative Henrik Bach Falkenberg, employee representative Claus Juul Petersen, employee representative
Executive board	Anders Holm
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup

Financial Highlights

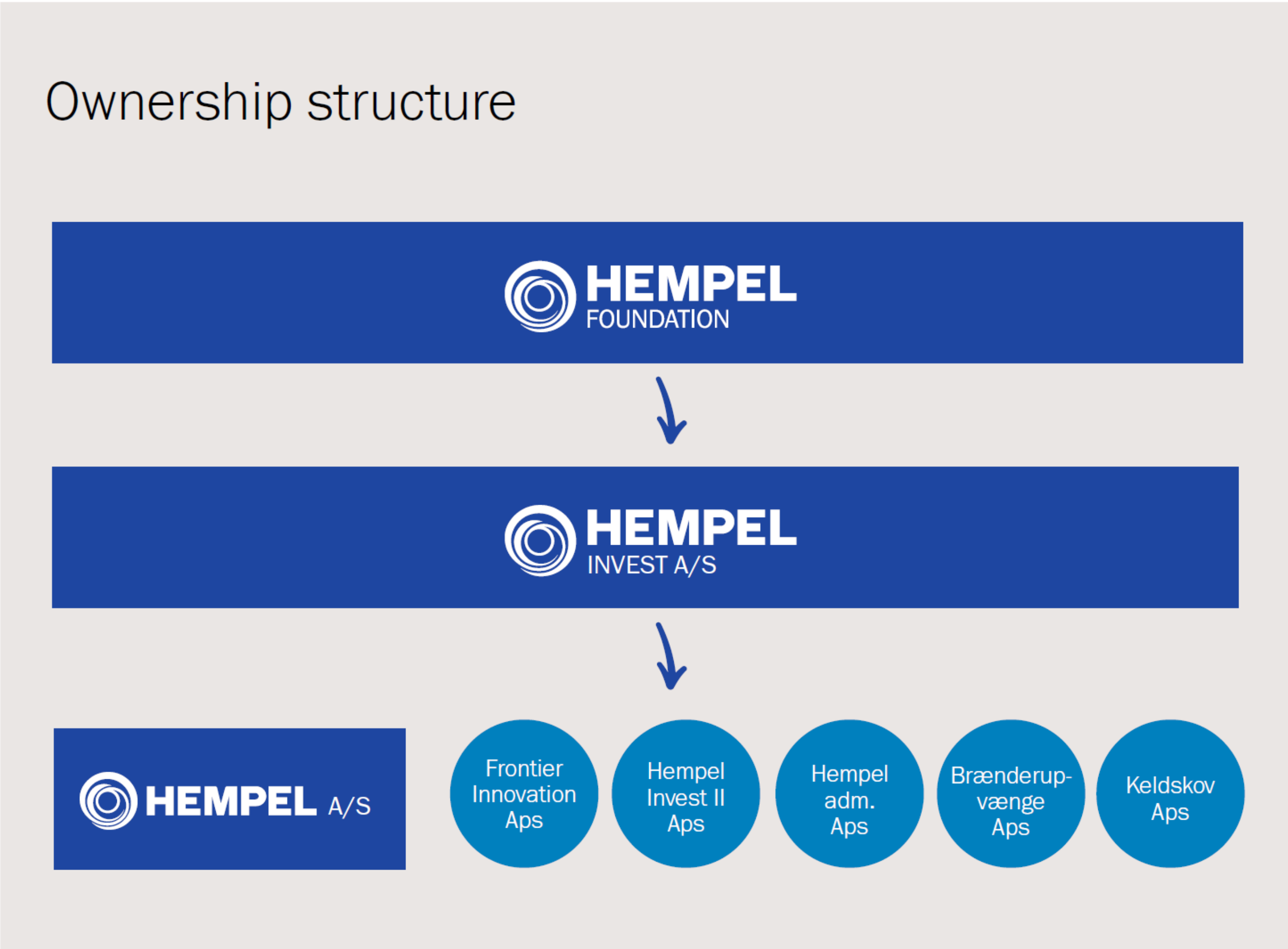
Seen over a 5-year period, the development of the Group is described by the following financial highlights:

	Group				
	2022	2021	2020	2019	2018
	Mil. EUR	Mil. EUR	Mil. EUR	Mil. EUR	Mil. EUR
Key figures					
Profit/loss					
Revenue	2,159	1,773	1,542	1,534	1,346
EBITDA	184	142	150	155	135
Amortisation, depreciation and impairment	136	82	62	65	55
Profit/loss of ordinary primary operations	44	60	88	90	80
Profit/loss before financial income and expenses	47	80	89	91	77
Net financials	-61	1	-24	0	4
Profit/loss before tax	-14	81	65	91	81
Net profit/loss	-27	53	47	59	55
Balance sheet					
Balance sheet total	2,509	2,398	1,531	1,390	1,353
Investment in property, plant and equipment	78	101	92	42	48
Shareholders Equity	550	663	581	566	492
Number of employees	7,344	6,748	6,099	6,219	5,882
Ratios					
Gross margin	36.7%	35.6%	39.2%	39.0%	38.1%
EBITDA margin	8.5%	8.0%	8.0%	10.1%	10.0%
Return on assets	1.9%	3.3%	5.8%	6.5%	5.7%
Solvency ratio	23.0%	29.4%	37.9%	40.7%	36.4%
Return on equity	-4.5%	8.2%	8.1%	10.4%	11.2%

Management's review

Main Activity

Hempel Invest A/S is 100% owned by the Hempel Foundation. Hempel Invest A/S' main activity is the ownership of Hempel A/S. Furthermore, the activities include investments including acquisition and management of real estate, financial investments as well as other activities, which the Board of Directors assesses to be relevant.



Hempel Invest A/S' activities include investments in shares, private equity and impact investments as well as properties including the ownership of Hempel HQ in Lyngby, forests etc

Keldskov ApS and Brænderupvænge ApS main activity is investment in and operation of real estate, including forestry, and related business.

Frontier Innovation ApS main activities are research and development of innovative solutions within industrial products, applications, tools and business development related to this.

Management's review

Hempel Invest II ApS main activity is to invest in Private Equity and Impact Investment Funds with impact targets supporting eductional and biodiversity strategy.

Hempel Administration ApS main activity is to deliver administrative services to Hempel's Kulturfond and Hempel's 2 employee funds.

Financial Development - Parent
Income Statement

Rental income for Hempel Invest amounted to EUR 2 million in 2022 compared to EUR 2 million in 2021.

Income from investments in subsidiaries amounted to EUR -10 million in 2022 compared to EUR 37 million in 2021.

Net financial income amounted to EUR -8 million in 2022 compared to EUR 15 million in 2021. The development can be explained by a decreased return from financial investments.

The parent company's net profit before tax was EUR -18 million in 2022 compared to EUR 52 million in 2021.

Balance sheet - Assets

The carrying amount of property, plant and equipment was EUR 53 million as of 31 December 2022 compared to EUR 54 million as of 31 December 2021.

Investments in subsidiaries amounted to EUR 424 million as of 31 December 2022 compared to EUR 503 million as of 31 December 2021. Other investments, which comprise investments in listed shares and alternative investments, amounted to EUR 89 million as of 31 December 2022 compared to EUR 84 million as of 31 December 2021. The development can be explained by additional investments.

Total assets for the parent company amounted to EUR 635 million as of 31 December 2022 compared to EUR 712 million as of 31 December 2021.

Financial Development - Group

2022 marked the second year of the Double Impact strategy. Hempel Invest A/S closed the year with organic revenue growth of 12.7 per cent and revenue of EUR 2,159 million, an increase of EUR 386 million compared to 2021.Despite unforeseen and challenging conditions, the expectations of mid to high single digit organic revenue growth, as outlined in the 2021 outlook, were exceeded.

Price increase and product mix grew revenue by 21.3 per cent from activities in Hempel A/S, which was partly offset by 6.6 per cent impact from lower volumes. The revenue result translated into an EBITDA of EUR 184 million (8.5 per cent margin). Last year, EBITDA was at EUR 142 million, entailing a margin of 8.0 per cent.

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

Management's review

Navigating a challenging year across customer segments

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

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

The Marine customer segment closed the year with revenue of EUR 626 million, an increase of EUR 160 million, corresponding to an organic revenue growth of 34.3 per cent. This is not only an impressive result in a challenging year; it is the highest ever for this customer segment. The silicone hull coatings were increasingly chosen by customers throughout the year to decrease fuel consumption and reduce their environmental impact. The market for silicone coatings is a low-volume business, which partly explains the lower volumes in 2022 compared to 2021. However, the Group's strategic commitment to focus on sustainability performance established a trend that is here to stay.

In the Energy customer segment, the group has earned trust and a better market position throughout geographies, especially in the wind industry. Despite this, the Group still experienced shrinking margins as the wind market became increasingly commoditised, challenging profitability. However, the launch of Hempablade Edge signalled a new competitive advantage that will enable the group work towards a continued leadership position in a high-volume market. Overall, the Energy customer segment's revenue grew EUR 32 million, from EUR 281 million in 2021 to EUR 313 million in 2022, entailing organic revenue growth of 11.4 per cent.

Through a new globalised structure in the Infrastructure customer segment, the Group is taking learnings from across geographies to become even more present in every step of the customers' value chain. In 2022, the Group bid on and won projects utilising its expertise in approaching all stakeholders, ranging from governments to applicators. This helped the Group to return organic revenue growth of 19.9 per cent. Revenue in 2022 totalled EUR 445 million, compared to EUR 371 million last year.

Increased earnings despite tough external conditions

The group closed the year with an EBITDA from continuing business of EUR 184 million. This was an increase of EUR 42 million versus last year, when the group closed at EUR 142 million. Although the group experienced high cost inflation and materially increasing raw material prices, EBITDA margin increased by 0.5 percentage points, from 8.0 per cent in 2021 to 8.5 per cent in 2022. The result is below the 2021 outlook of an EBITDA between EUR 220-240 million, and an EBITDA margin between 11 and 12 per cent. This is mainly due to EUR 30 million in special items related to restructuring and M&A costs. Excluding these items, adjusted EBITDA closed at EUR 214 million in 2022.

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

The group finished the year with operational costs of EUR 748 million, EUR 176 million higher than 2021. The cost breaks down as: EUR 568 million in sales and distribution costs (EUR 106 million higher than 2021) and EUR 180 million in administration costs, EUR 70 million higher than 2021. The higher cost levels incurred in 2022 were mitigated by restructuring the cost baseline and through multiple cost saving initiatives resulting in a close to flat cost development compared to 2021, when adjusting for the full year impact of the acquisitions performed in 2021 and special items. Special items amounted to EUR 30 million in 2022 compared to EUR 8 million in 2021 and comprises internal restructuring and consequent one-off costs as well as M&A related cost.

Result of continuing activities amounted to EUR -25 million compared to EUR 53 million in 2021. The decrease is due to the decrease in EBITDA, increased amortization and interest expenses due to the business acquisitions in 2021as well as the decreased return from financial investments compared to 2021.

The net result is lower in Hempel Invest A/S compared to Hempel A/S as the financial statements of Hempel A/S is prepared in accordance with IFRS according to which goodwill is not amortized (most significant difference on net result). Furthermore the result of Hempel Invest A/S is negative effected from the result of financial investments.

2023 outlook

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

Strategy

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

The Group's purpose is to shape a brighter future with sustainable coating solutions. This is extremely relevant today.

2022 saw rapidly rising raw material prices, supply chain challenges and geopolitical unrest – challenging factors affecting all companies across industries. These were testing times, but the Double Impact strategy stood up well. During the year, the Group unfortunately had to let a number of good colleagues go to keep cost levels in line with the global operating environment and enable the Group to continue the growth journey, which will ensure the Group remains a relevant and trusted partner to its customers.

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

Segment leadership: The Group continues to build segment leadership positions in selected geographies within Marine, Decorative, Energy and Infrastructure.

At the beginning of 2022, the Group changed Hempel's organisational structure and way of working together to align better with the strategic intent. The Group organised the business to be even closer to the customers and introduced a globalised supply chain and global support functions. The front end of the business is now fully organised around the customer segments, including a globally aligned Decorative segment. This change represents a milestone in the strategy roadmap. It enables the Group to release operational synergies, hereby lowering costs, and deliver even more specialised products and services to customers in the Group's chosen segments. This is core to the continuous development of the Group's segment leadership positions.

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

Sustainability leader: The Group strives to become sustainability leaders in the industry and core customer segments.

In volatile times, the world's commitment to sustainability quickly comes under pressure as companies concentrate spend on core activities. The Group is very proud to report that it continued to progress well on the sustainability agenda, as laid out in the Futureproof sustainability framework and demonstrated by strong development in the sustainability KPIs.

The Group believes that sustainability is not just good business and what the customers want; it is simply the right thing to do. The Group will continue to pursue the sustainability agenda with great commitment.

Trusted partner: The Group works to continuously earn customers' trust by being reliable and transparent, and by providing products and services that protect their assets and beautify homes and buildings.

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

Corporate governance

The Group's strong corporate governance structure supports long-term value creation for the Group, customers, suppliers, employees and the communities in which the Group operates, and promotes responsible sustainable business behaviour.

Data Ethics Policy Statement, cf. section §99 d of the Danish Financial Statements Act

The Hempel Group is committed to the protection of personal data, ethical data processing and data security.

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

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

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

Management's review

Sustainability

Increased focus on material issues to accelerate the sustainability journey.

2022 was a year with an emerging energy crisis, high inflation and continued supply chain disruptions. In this context, the Group focused its sustainability efforts on the areas where Hempel can have the biggest impact. The business model of the group is described on page 7.

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

Sustainability governance

The Group recognises sustainability governance as a key enabler for accelerating progress on sustainability KPIs. The Group organises its work according to the sustainability governance model implemented in 2021.

Validated science-based targets

In March, the science-based targets for Scope 1, 2 and 3 CO2e emissions were validated by the Science Based Targets initiative (SBTi).

To accelerate action on Scope 3 emission reductions, the Group implemented a clear governance setup and prioritisation tool. These will enable the Group to focus on the areas with the highest CO2e reduction potential and to mobilise its own operations and value chain to reach the targets.

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

Circularity Roadmap

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

The Group identified the four areas with the biggest circularity opportunities for Hempel:

- Operations
- Packaging
- Paint
- Services

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

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

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

Reducing CO2e emissions in the Groups own operations

In 2022, the Group reduced the Scope 1 & 2 CO2 emissions by 56 per cent compared to 2019, exceeding the target of 40 per cent for the year. When looking At the comparative baseline (excl. acquisitions, warehouses and stand-alone R&D facilities), the Group achieved a reduction of 68 per cent in 2022 compared to 2019. This performance is in line with validated science- based target for Scope 1 & 2.

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

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

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

Eliminating landfill waste at production sites

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

- In the Americas, the Group diverted some waste streams from landfill by re-characterizing them as hazardous secondary materials and sending them to a specialist facility for substance recovery.

- In the Middle East operations, the Group started a collaboration with industries that use waste oils as raw materials.

- In some of the European operations, the Group sent scrap paint to a secondary paint manufacturer that reprocesses and sells it as recycled paint.

Halving scrap at production sites

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

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

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

Looking ahead

The Group will continue to work on delivering the science-based targets for Scope 1 & 2 CO2 emissions.

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

The targets for 2023 include:

- Reduce Scope 1 & 2 CO2 emissions by 60 per cent compared to 2019 while becoming more energy efficient throughout global operations.
- Reduce waste sent to landfill from the production sites by 90 per cent compared to 2019 while expanding the efforts on waste reduction in all facilities, including warehouses, distribution centres, retail stores and offices.

Reducing the value chain CO2e emissions

In 2022, the Group began creating the foundation and governance for the Scope 3 reduction ambitions. To allow objective evaluation of potential Scope 3 reduction activities and make implementation easier, the Group created a prioritisation tool that enables the Group to analyse and rank projects in terms of expected CO2e savings. From this detailed and systemic evaluation, three key themes emerged.

- Use less by providing longer-lasting coating solutions and through Services.
- Sell different products by optimising the product assortment and providing coatings that deliver the same technical performance with a lower CO2e footprint.
- Improve existing products by working with product formulations to phase out raw materials with the greatest CO2e footprint.

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

For Scope 3 CO2e emissions, the Group achieved a reduction of 14 per cent in 2022 compared to 2021.

Reducing hazardous substances in products

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

In 2021, the Group broadened the scope of raw materials included in the programme, created a strategic five-year plan addressing these raw materials, and linked the efforts related to substitutions with the terms of the Group's bank loans. 2022 was the first full year with the expanded scope and five-year plan. This also led to an increase in the intensity of raw materials from

26.67 kg/1,000L paint produced in 2021, representing a half year with the expanded criteria, to 50.65 kg/1,000L in 2022, representing a full year with expanded criteria.

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

Recycled plastic in packaging

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

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

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

Looking ahead

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

The Group's targets for 2023 include:

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

PEOPLE

Driving diversity and inclusion

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

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

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

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

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

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

As the company only has 1 employee, no politics have been made for the gender composition of other management.

Development for everyone

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

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

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

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

Hempel Heartbeat – measuring engagement and motivation

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

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

Increased safety awareness

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

Looking ahead

The Group has a strong roadmap in place for building a safer and more diverse, inclusive and successful workplace.

The targets for 2023 include:

- Zero accidents.

- On gender diversity in general workforce and leadership positions, the Group reached its targets for 2022 and will set new and more ambitious targets for 2023 and beyond.

- Inclusive leadership training integrated into the High 5 leadership programme.

Partnering for impact

To support the ambitions set out in the Futureproof framework, the Group has programmes and tools that are used when collaborating and working with suppliers and other partners.

Sustainable Procurement Programme

The Group's Sustainable Procurement Programme ensures that suppliers meet Hempel's high standards, but also that the Group continuously strive to build capabilities, create engagement and foster collaboration on sustainability with its suppliers. The Sustainable Procurement Programme is based on three pillars.

Business Partner Code of Conduct

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

Mitigating risk with sustainability performance assessments

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

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

Driving impact with Hempel Procurement Sustainability Screening

In 2021, the Grouplaunched Hempel Procurement Sustainability Screening to ensure supplier dialogue and development around key sustainability topics such as carbon footprint, energy and waste management. This screening requires a high degree of engagement from both the Group and its suppliers. By 2025, the Group will have engaged suppliers representing 70 per cent of the total spend.

In 2022, the Group continued implementation of the screening and introduced new categories.

These categories range from steel packaging and key logistics to raw materials such as binders, extenders and flatteners. In 2022, the Group screened 77 suppliers, bringing the Group up to a total of 118 suppliers since the start in 2021. The Group also started follow-up screening of 8 low-performing suppliers from the previous year. 40 per cent of the total spend is now covered by Procurement Sustainability Screening.

The Group is preparing to implement sustainability screening as a commercial factor in tender processes and in 2022, a pilot for one of the major raw material categories was run.

Focus on due diligence of forced labour

The Human Rights Policy clearly states Hempel's commitment to human rights, and this commitment is extended to business partners in the Business Partner Code of Conduct. The EcoVadis sustainability assessment also focuses on human and labour rights. It remains a priority in Hempel that suppliers comply with all labour and Human rights and the Group engages with suppliers to improve human and labour rights in Hempel's entire value chain.

Conflict minerals

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

Bussines ethics & data protection

Hempel's zero tolerance for bribery and corruption is clearly described in the Business Ethics Policy, which outlines procedures to counter corruption, bribery and other unethical behaviour.

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

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

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

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

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

Income statement 1 January - 31 December

		Group		Parent company	
	Note	2022	2021	2022	2021
		Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Revenue	1	2,159	1,773	2	2
Production expenses	2	-1,367	-1,141	0	0
Gross profit		**792**	**632**	**2**	**2**
Distribution expenses	2	-568	-462	0	0
Administrative expenses	2	-180	-110	-2	-2
Operating profit/loss		**44**	**60**	**0**	**0**
Other operating income	3	4	20	0	0
Other operating expenses		-1	0	0	0
Profit/loss before financial income and expenses		**47**	**80**	**0**	**0**
Income from investments in subsidiaries	4	0	0	-10	37
Financial income	5	6	19	3	16
Financial expenses	6	-67	-18	-11	-1
Profit/loss before tax		**-14**	**81**	**-18**	**52**
Tax on profit/loss for the year	7	-11	-28	2	0
Result of continuing activities		**-25**	**53**	**-16**	**52**
Discontinuing activities		-2	0	0	0
Net profit/loss for the year	8	**-27**	**53**	**-16**	**52**

Balance sheet 31 December

Assets

	Note	Group 2022	Group 2021	Parent company 2022	Parent company 2021
		Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Acquired concessions		28	27	0	0
Acquired licenses		10	8	0	0
Acquired trademarks		119	141	0	0
Acquired other similar rights		30	38	0	0
Goodwill		440	496	0	0
Development projects in progress		26	18	0	0
Intangible assets	9	**653**	**728**	**0**	**0**
Land and buildings		275	286	52	53
Plant and machinery		103	94	0	0
Other fixtures and fittings, tools and equipment		51	41	1	1
Property, plant and equipment in progress		135	111	0	0
Property, plant and equipment	10	**564**	**532**	**53**	**54**
Investments in subsidiaries	11	0	0	424	503
Other investments	12	90	84	89	84
Deposits	12	13	11	0	0
Fixed asset investments		**103**	**95**	**513**	**587**
Fixed assets		**1,320**	**1,355**	**566**	**641**
Inventories	13	**366**	**334**	**0**	**0**

Balance sheet 31 December

Assets

		Group		Parent company	
	Note	2022	2021	2022	2021
		Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Trade receivables		476	397	0	0
Receivables from group enterprises		0	0	66	70
Other receivables		71	48	0	0
Deferred tax asset	15	72	62	2	0
Corporation tax		4	4	0	0
Prepayments	16	17	20	0	0
Receivables		**640**	**531**	**68**	**70**
Cash at bank and in hand		**183**	**178**	**1**	**1**
Current assets		**1,189**	**1,043**	**69**	**71**
Assets		**2,509**	**2,398**	**635**	**712**

Balance sheet 31 December

Liabilities and equity

	Note	Group 2022	Group 2021	Parent company 2022	Parent company 2021
		Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Share capital		15	15	15	15
Reserve for net revaluation under the equity method		0	0	206	285
Reserve for exchange rate conversion		-36	0	0	0
Retained earnings		571	635	331	359
Proposed dividend for the year		0	13	0	13
Equity attributable to shareholders of the Parent Company		**550**	**663**	**552**	**672**
Minority interests		28	41	0	0
Equity		**578**	**704**	**552**	**672**
Provision for deferred tax	15	72	102	0	0
Provisions for pensions and similar obligations		16	21	0	0
Other provisions	17	47	52	0	0
Provisions		**135**	**175**	**0**	**0**
Credit institutions		931	802	30	32
Convertible and profit-yielding instruments of debt		50	6	50	6
Long-term debt	18	**981**	**808**	**80**	**38**

Balance sheet 31 December

Liabilities and equity

	Note	Group 2022	Group 2021	Parent company 2022	Parent company 2021
		Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Credit institutions	18	101	68	1	1
Trade payables		362	344	0	0
Corporation tax		26	7	0	0
Other payables		308	284	2	1
Deferred income	19	18	8	0	0
Short-term debt		**815**	**711**	**3**	**2**
Debt		**1,796**	**1,519**	**83**	**40**
Liabilities and equity		**2,509**	**2,398**	**635**	**712**

	Note
Contingent assets, liabilities and other financial obligations	23
Related parties	24
Fee to auditors appointed at the general meeting	25
Accounting Policies	26

Statement of changes in equity

Group

	Share capital	Reserve for exchange rate conversion	Retained earnings	Proposed dividend for the year	Equity excl. minority interests	Minority interests	Total
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Equity at 1 January	15	0	635	13	663	41	704
Exchange adjustments	0	-36	0	0	-36	0	-36
Ordinary dividend paid	0	0	0	-13	-13	0	-13
Extraordinary dividend paid	0	0	-54	0	-54	0	-54
Other equity movements	0	0	8	0	8	-5	3
Tax on other equity movements	0	0	1	0	1	0	1
Net profit/loss for the year	0	0	-19	0	-19	-8	-27
Equity at 31 December	**15**	**-36**	**571**	**0**	**550**	**28**	**578**

Parent company

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Proposed dividend for the year	Equity excl. minority interests	Minority interests	Total
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Equity at 1 January	15	285	359	13	672	0	672
Exchange adjustments	0	-36	-1	0	-37	0	-37
Ordinary dividend paid	0	0	0	-13	-13	0	-13
Extraordinary dividend paid	0	0	-54	0	-54	0	-54
Dividend from group enterprises	0	-33	33	0	0	0	0
Net profit/loss for the year	0	-10	-6	0	-16	0	-16
Equity at 31 December	**15**	**206**	**331**	**0**	**552**	**0**	**552**

Cash flow statement 1 January - 31 December

	Note	Group 2022 Mio. EUR	Group 2021 Mio. EUR
Result of the year		-27	53
Adjustments	20	201	112
Change in working capital	21	-73	-100
Cash flow from operations before financial items		**101**	**65**
Financial income		6	19
Financial expenses		-46	-35
Cash flows from ordinary activities		**61**	**49**
Corporation tax paid		-27	-31
Cash flows from operating activities, discontinued activities		-5	0
Cash flows from operating activities		**29**	**18**
Purchase of intangible assets		-25	-14
Purchase of property, plant and equipment		-84	-95
Fixed asset investments made etc		-16	-6
Sale of property, plant and equipment		5	10
Business acquisition	22	-26	-511
Cash flows from investing activities		**-146**	**-616**
Repayment of loans from credit institutions		-96	-772
Raising of loans from credit institutions		254	1,282
Raising of other long-term debt		44	0
Dividend paid		-67	0
Minority interests		-5	-5
Cash flows from financing activities		**130**	**505**
Change in cash and cash equivalents		**13**	**-93**
Cash and cash equivalents at 1 January		178	267
Exchange adjustment of current asset investments		-8	4
Cash and cash equivalents at 31 December		**183**	**178**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		183	178
Cash and cash equivalents at 31 December		**183**	**178**

Notes to the Financial Statements

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
1. Revenue				
Geographical segments				
EMEA	1,240	1,072	2	2
Asia-Pacific	653	537	0	0
Americas	266	164	0	0
	2,159	**1,773**	**2**	**2**
Customer segments				
Decorative	775	655	0	0
Marine	626	466	0	0
Infrastructure	445	371	0	0
Energy	313	281	0	0
Other	0	0	2	2
	2,159	**1,773**	**2**	**2**

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

Notes to the Financial Statements

2. Staff

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Wages and salaries	381	326	0	0
Pensions	23	19	0	0
Other social security expenses	28	25	0	0
Other staff expenses	23	20	0	0
	455	**390**	**0**	**0**

	Group		Parent company	
Wages and salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:				
Production expenses	131	117	0	0
Distribution expenses	258	200	0	0
Administrative expenses	66	73	0	0
	455	**390**	**0**	**0**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act. The combined remuneration to the Board of Directors and the Executive Board amounted to EUR 228 thousand (2021: EUR 202 thousand).

	Group 2022	Group 2021	Parent company 2022	Parent company 2021
Average number of employees	**7,344**	**6,748**	**0**	**1**

3. Other operating income

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Gain on sale of property, plant and equipment	4	3	0	0
Government grants	0	17	0	0
	4	**20**	**0**	**0**

Notes to the Financial Statements

4. Income from investments in subsidiaries

	Parent company 2022 Mio. EUR	Parent company 2021 Mio. EUR
Share of profits of subsidiaries	-10	37
	-10	**37**

5. Financial income

	Group		Parent company	
	2022 Mio. EUR	2021 Mio. EUR	2022 Mio. EUR	2021 Mio. EUR
Interest received from group enterprises	0	0	2	1
Other financial income	6	1	1	1
Value adjustments	0	14	0	14
Realised and unrealised capital/exchange gains	0	4	0	0
	6	**19**	**3**	**16**

6. Financial expenses

	Group		Parent company	
	2022 Mio. EUR	2021 Mio. EUR	2022 Mio. EUR	2021 Mio. EUR
Interest paid to group enterprises	1	1	1	1
Other financial expenses	45	17	0	0
Exchange adjustments, expenses	21	0	10	0
	67	**18**	**11**	**1**

Notes to the Financial Statements

7. Income tax expense

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Current tax for the year	50	23	0	0
Deferred tax for the year	-41	6	-2	0
Adjustment of deferred tax concerning previous years	1	3	0	0
	10	**32**	**-2**	**0**
thus distributed:				
Income tax expense	11	28	-2	0
Tax on equity movements	-1	4	0	0
	10	**32**	**-2**	**0**

8. Profit allocation

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Extraordinary dividend paid	54	0	54	0
Proposed dividend for the year	0	13	0	13
Reserve for net revaluation under the equity method	0	0	-10	37
Minority interests' share of net profit/loss of subsidiaries	-8	0	0	0
Retained earnings	-73	40	-60	2
	-27	**53**	**-16**	**52**

Notes to the Financial Statements

9. Intangible fixed assets

Group

	Acquired concessions	Acquired licenses	Acquired trademarks	Acquired other similar rights	Goodwill	Development projects in progress
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Cost at 1 January	84	50	145	140	621	18
Exchange adjustment	2	0	-7	3	-20	-3
Net effect from merger and acquisition	1	0	0	0	0	0
Additions for the year	0	0	0	0	22	22
Disposals for the year	0	-2	0	0	0	0
Transfers for the year	4	7	0	0	0	-11
Cost at 31 December	91	55	138	143	623	26
Impairment losses and amortisation at 1 January	57	42	4	102	127	0
Exchange adjustment	-1	0	1	2	-4	0
Amortisation for the year	7	5	14	9	60	0
Impairment and amortisation of sold assets for the year	0	-2	0	0	0	0
Impairment losses and amortisation at 31 December	63	45	19	113	183	0
Carrying amount at 31 December	**28**	**10**	**119**	**30**	**440**	**26**

Notes to the Financial Statements

10. Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Cost at 1 January	377	277	114	111
Exchange adjustment	4	1	-1	-3
Net effect from merger and acquisition	0	1	0	0
Additions for the year	-13	2	6	83
Disposals for the year	-1	-17	-7	0
Transfers for the year	10	28	18	-56
Cost at 31 December	377	292	130	135
Impairment losses and depreciation at 1 January	91	183	73	0
Exchange adjustment	3	1	-1	0
Depreciation for the year	11	20	11	0
Impairment and depreciation of sold assets for the year	-2	-15	-5	0
Transfers for the year	-1	0	1	0
Impairment losses and depreciation at 31 December	102	189	79	0
Carrying amount at 31 December	**275**	**103**	**51**	**135**

Parent company

	Land and buildings	Other fixtures and fittings, tools and equipment
	Mio. EUR	Mio. EUR
Cost at 1 January	54	1
Cost at 31 December	54	1
Impairment losses and depreciation at 1 January	1	0
Depreciation for the year	1	0
Impairment losses and depreciation at 31 December	2	0
Carrying amount at 31 December	**52**	**1**

Notes to the Financial Statements

	Parent company	
	2022	2021
	Mio. EUR	Mio. EUR
11. Investments in subsidiaries		
Cost at 1 January	218	218
Cost at 31 December	218	218
Value adjustments at 1 January	285	243
Exchange adjustment	-36	33
Net profit/loss for the year	-10	37
Dividend to the Parent Company	-33	-25
Other equity movements, net	0	-3
Value adjustments at 31 December	206	285
Carrying amount at 31 December	**424**	**503**

Investments in subsidiaries are specified as follows:

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

Notes to the Financial Statements

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

Notes to the Financial Statements

Hempel (Norway) AS	Norway	100%
Hempel (Oman) L.L.C	Hempel (Oman) L.L.C	25%
Hempel Pinturas Del Perú S.A.C.	Peru	100%
Hempel Paints (Poland) S.p. z o.o.	Poland	100%
Hempel (Portugal) S.A.	Portugal	100%
Hempel Paints (Qatar) W.L.L.	Qatar	28%
JSC Hempel	Russia	100%
Hempel Paints (Saudi Arabia) W.L.L.	Saudi Arabia	51%
Painting Materials and Equipment Centre Co. LTD	Saudi Arabia	26%
Hempel (Singapore) Pte. Ltd.	Singapore	100%
Hempel Paints South Africa (Pty) Ltd	South Africa	100%
Hempel (Sweden) AB	Sweden	100%
Hempel Schweiz AG	Switzerland	100%
J.W. Ostendorf (Schweiz) AG	Switzerland	65%
Hempel Paints (Syria) W.L.L.	Syria	43%
Hempel (Taiwan) Co., Ltd.	Taiwan	100%
Hempel (Thailand) Ltd.	Thailand	100%
Hempel (The Netherlands) B.V.	The Netherlands	100%
Hempel Industrial B.V	The Netherlands	100%
Hempel Coatings San. ve Tic. Ltd. Sti.	Turkey	100%
Crown Brands Limited	UK	100%
Crown Paints Limited	UK	100%
Crown Paints Group Limited	UK	100%
Crown Paints Holdings Limited	UK	100%
FB Ammonite Limited	UK	100%
FB Brassica Limited	UK	100%
FB Brinjal Limited	UK	100%
FB Calluna Limited	UK	100%
Farrow & Ball Holding Ltd	UK	100%
Farrow & Ball Limited	UK	100%
Hempel UK Ltd.	UK	100%
Hempel Decorative Paints Limited	UK	100%
Reebor Limited	UK	1%
Ostendorf U.K. Ltd.	UK	65%
Hempel Ukraine LLC	Ukraine	100%
Hempel Paints (Abu Dhabi) L.L.C.	UAE	24%
Hempel Paints (Emirates) L.L.C.	UAE	49%
Hempel (USA), Inc.	USA	100%
Farrow & Ball Inc	USA	100%
Jones-Blair Company, LLC	USA	100%
Hempel Vietnam Company Limited	Vietnam	100%

Notes to the Financial Statements

Pinturas Hempel SAU	Spain	100%
Hempel Manufacturing LLC	Oman	25%
Capcouleurs SAS	France	65%
Cap Couleurs Brignoles SAS	France	65%
Cap Couleurs Distribution SAS	France	65%
Cap Couleurs Est SAS	France	65%
Cap Couleurs Gestion SAS	France	65%

12. Other fixed asset investments

Group

	Other investments	Deposits
	Mio. EUR	Mio. EUR
Cost at 1 January	48	11
Additions for the year	16	2
Cost at 31 December	64	13
Revalutations at 1 January	36	0
Revaluations for the year	-10	0
Revaluations at 31 December	26	0
Carrying amount at 31 December	**90**	**13**

Parent company

	Other investments
	Mio. EUR
Cost at 1 January	48
Additions for the year	15
Cost at 31 December	63
Revalutations at 1 January	36
Revaluations for the year	-10
Revaluations at 31 December	26
Carrying amount at 31 December	**89**

Other investments are classified in accordance with the fair value hierarchy:
Level 1 - Fair Value can be measured using quoted market prices in an active market for identical assets and liabilities.
Level 2 - Fair Value can be measured using observable inputs other than quoted market prices.
Level 3 - Fair Value is measured using unobservable inputs.

13. Inventories

	Group 2022 Mio. EUR	Group 2021 Mio. EUR	Parent company 2022 Mio. EUR	Parent company 2021 Mio. EUR
Raw materials and consumables	111	127	0	0
Work in progress	7	6	0	0
Finished goods and goods for resale	248	201	0	0
	366	**334**	**0**	**0**

14. Receivables

	Group 2022 Mio. EUR	Group 2021 Mio. EUR	Parent company 2022 Mio. EUR	Parent company 2021 Mio. EUR
The following receivables fall due for payment more than 1 year after year end:	**0**	**0**	**0**	**0**

15. Provision for deferred tax

	Group 2022 Mio. EUR	Group 2021 Mio. EUR	Parent company 2022 Mio. EUR	Parent company 2021 Mio. EUR
Deferred tax liabilities at 1 January	40	1	0	0
Amounts recognised in the income statement for the year	-41	6	-2	0
Amounts recognised in equity for the year	1	33	0	0
Deferred tax liabilities at 31 December	**0**	**40**	**-2**	**0**
Recognised in the balance sheet as follows:				
Assets	72	62	2	0
Provisions	72	102	0	0
	0	**40**	**-2**	**0**

16. Prepayments

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

17. Other provisions

The Company provides warranties of on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of Mio. EUR 0 (2021: Mio. EUR 0) have been recognised for expected warranty claims.

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Environmental obligations	20	20	0	0
Warranty commitments	15	20	0	0
Other provisions	12	12	0	0
	47	**52**	**0**	**0**

The provisions are expected to mature as follows:

Within 1 year	11	8	0	0
Between 1 and 5 years	28	36	0	0
After 5 years	8	8	0	0
	47	**52**	**0**	**0**

18. Long-term debt

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

The debt falls due for payment as specified below:

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR
Credit institutions				
After 5 years	1	29	1	3
Between 1 and 5 years	930	773	29	29
Long-term part	931	802	30	32
Within 1 year	1	1	1	1
Other short-term debt to credit institutions	100	67	0	0
Short-term part	101	68	1	1
	1,032	**870**	**31**	**33**
Convertible and profit-yielding instruments of debt				
After 5 years	0	0	0	0
Between 1 and 5 years	50	6	50	6
Long-term part	50	6	50	6
Within 1 year	0	0	0	0
	50	**6**	**50**	**6**

Hempel Invest A/S has during 2020 raised a loan against the issuance of a convertible bond with an outstanding payable as of 31 December 2020 of EUR 30 million. At 31 December 2022 the outstanding amount was EUR 50 mio (31 December 2021 was EUR 6 mio). The loan, which is exempt from repayment in installments, falls due and payable on 9 December 2030. The lender is at any time in the period up to the due date entitled to convert the loan (partly or in full) into shares in Hempel Invest A/S at a conversion rate of 5.000 per share at nominal value of DKK 25,000 corresponding to DKK 1,250,000 per share.

Hempel Group's capital management aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. The covenants terms relate to the Hempel Group's leverage, the ratio between an EBITDA and net interest-bearing debt. At the end of 2022 the leverage ratio was 4.2 (2020: 3.7). The Group aims to maintain a leverage ratio below 2 in the long term while a higher leverage ratio is accepted when acquiring strategic businesses. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches, nor otherwise close to default, of the financial covenants of any interest-bearing loans or borrowings in the current period or in the previous period. No changes were made in the objectives, policies or processes for managing capital during 2022 and 2021.

The development in 2022 is attributable to the extraordinary dividend in December 2022

19. Deferred income

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

20. Cash flow statement - Adjustments

	Group	
	2022	2021
	Mio. EUR	Mio. EUR
Financial income	-6	-19
Financial expenses	67	18
Depreciation, amortisation and impairment losses, including losses and gains on sales	136	82
Tax on profit/loss for the year	11	28
Other adjustments	-7	3
	201	**112**

21. Cash flow statement - Change in working capital

	Group 2022	Group 2021
	Mio. EUR	Mio. EUR
Change in inventories	-10	-27
Change in receivables	-97	-45
Change in other provisions	8	4
Change in trade payables, etc	26	-32
	-73	**-100**

22. Cash flow statement - Business acquisition

	Group 2022	Group 2021
	Mio. EUR	Mio. EUR
Fair value	0	0
Brands	0	142
Customer relationships	0	4
Other intangibles	3	4
Property, plant and equipment	1	111
Inventories	4	50
Receivables	2	57
Cash and cash equivalents	4	59
Provision	0	-3
Deferred tax liability	0	-50
Bank loans	0	-158
Trade payables	-1	-20
Other payables	-1	-75
Lease liabilities	-3	0
Pensions	-1	0
	8	121
Goodwill	22	449
Less: Cash acquired	-4	-59
	26	**511**

Notes to the Financial Statements

	Group		Parent company	
	2022	2021	2022	2021
	Mio. EUR	Mio. EUR	Mio. EUR	Mio. EUR

23. Contingent assets, liabilities and other financial obligations

Charges and security				
The following assets have been placed as security with mortgage credit institutes:				
The following assets have been placed as security for lease obligations:				
Within 1 year	39	39	0	0
Between 1 and 5 years	95	93	0	0
After 5 years	42	51	0	0
Other guarantees	0	8	0	0

Other contingent liabilities

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

Hempel Invest A/S has committed a total investment in other securities of EUR 28 million (2021: EUR 45million). As of December 31, 2022 the remaining commitment is EUR 34 million (2021: EUR 28 million).

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

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

Notes to the Financial Statements

24. Related parties

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

Transactions

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

25. Fee to auditors appointed at the general meeting

	Group	
	2022	2021
	Mio. EUR	Mio. EUR
PricewaterhouseCoopers		
Audit fee	2	2
Tax advisory services	1	1
Non-audit services	1	1
	4	**4**

Notes to the Financial Statements

26. Accounting policies

The Annual Report of Hempel Invest A/S for 2022 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

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

The Consolidated Financial Statements and the Parent Company Financial Statements for 2022 are presented in mEUR.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

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

Basis of consolidation

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

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

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

Business combinations

Business acquisitions carried through on or after 1 July 2018

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

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

Notes to the Financial Statements

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

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

Transaction costs are recognised in the income statement when incurred.

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

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

Minority interests

Minority interests form part of the Group's total equity. Upon distribution of net profit, net profit is broken down on the share attributable to minority interests and the share attributable to the shareholders of the Parent Company. Minority interests are recognised on the basis of a remeasurement of acquired assets and liabilities to fair value at the time of acquistition of subsidiaries.

Minority interests are initially measured at their proportionate share of the fair value of the acquired entity's identifiable net assets. In this way, only goodwill related to the Parent Company's share of the entity acquired is recognised.

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

Leases

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

The lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement; however, see the section on hedge accounting.

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

Hedge accounting

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

Segment information on revenue

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

Income statement

Net sales

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

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

Production expenses

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

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

Distribution expenses

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

Administrative expenses

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

Other operating income and expenses

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

Notes to the Financial Statements

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

Income from investments in subsidiaries

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

Financial income and expenses

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

Tax on profit/loss for the year

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

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

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

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

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

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

Notes to the Financial Statements

Balance sheet

Intangible fixed assets

Goodwill

Goodwill and brands acquired is measured at cost less accumulated amortisation. Goodwill and brands is amortised on a straight-line basis over its useful life, which is assessed at 10 years.

Development projects

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 project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

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

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

Customer relations

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

Other intangible fixed assets

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

Property, plant and equipment

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

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

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

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

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

Depreciation period and residual value are reassessed annually.

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

Notes to the Financial Statements

Impairment of fixed assets

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

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

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

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

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

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

Fixed asset investments

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

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

Other fixed asset investments

Other fixed asset investments consist of deposits.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

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

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

Receivables

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

Prepayments

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

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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

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

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

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

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

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

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

Pension and similar assets and obligations

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

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

Deferred income

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

Cash Flow Statement

The cash flow statement shows the Group´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group´s cash and cash equivalents at the beginning and end of the year.

Accounting policies are consistent with those applies last year.

Cash flows from operating activities

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

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

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

Cash and cash equivalents

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

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

Notes to the Financial Statements

Financial Highlights

Explanation of financial ratios

Gross margin	Gross profit x 100 / Revenue
EBITDA margin	EBITDA / Revenue
Return on assets	Profit before financials x 100 / Total assets at year end
Solvency ratio	Equity at year end x 100 / Total assets at year end
Return on equity	Net profit for the year x 100 / Average equity