Hempel Tax Policy

Introduction

Hempel is a world leading coatings supplier for Decorative, Marine, Energy and Infrastructure markets headquartered in Denmark and present in more than 50 countries. Our history dates back to 1915 where our founder, JC Hempel, as a 21 year old pioneer founded Hempel.

Our owner

Hempel's sole owner is the Hempel Foundation.

As the sole owner the Hempel Foundation is the only recipient of dividends from Hempel. As a commercial foundation, the Hempel Foundation's primary purpose is to provide and maintain a solid economic base for the Hempel Group. The Foundation's secondary purpose is a social and charitable one: to support cultural, social, humanitarian, scientific and artistic purposes around the globe, with special focus on the education of children in need and research into environmentally sustainable solutions within the coatings industry. For more information about the Hempel Foundation please refer to www.hempelfonden.dk

Our sustainability agenda

Our goal is to be the most trusted global coatings supplier in the world.

We work to earn this trust every day. From how we deal with each other through to the products and services we provide, we're committed to conducting business ethically, respectfully and honestly at all times.

The United Nations has identified 17 Sustainable Development Goals to help address the global challenges of poverty, inequality, climate change, environmental degradation, prosperity, peace and injustice.

We believe that as a global company, we have a responsibility to drive sustainable business practices around the globe and at Hempel sustainability is embedded in our business strategy. We report according to recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), Carbon Disclosure Project (CDP) and EcoVadis.to plan a path towards a sustainable and responsible business in line with the UN Sustainable Development Goals. We use those frameworks to define where our company has the biggest impact on the environment and society, and to establish how we can make most progress on the Sustainable Development Goals – within the field of how we conduct our tax affairs, especially 9, 10 and 16. Based on this work, we will continue to implement activities that have a positive impact on society and the environment.

Our approach to tax

Earning trust when it comes to our tax affairs is in our opinion about acting responsibly.

Acting responsibly means that we are committed to ensuring a high level of compliance with laws and regulations in every country where we operate, and that we are open about the way we conduct our tax affairs.

In this Tax Policy we set-out the overall guiding principles in terms of our tax approach. The objective of the policy is to address and clearly describe the basis for our behaviour in tax matters to both internal and external stakeholders.

The Hempel Tax Policy is approved by the Hempel Board of Directors and applies to all companies within the Hempel Group in which Hempel has a majority shareholding. The Tax

Policy is reviewed by the Board of Directors annually.

Accountability and Governance

The Board of Directors is accountable for the tax policy and the responsibility of the tax risk management lies with the CFO and is overseen by the Audit Committee.

The daily management of taxes are primarily handled and monitored by a designated team of tax professionals (Hempel Tax Team) in corporation with finance teams.

The Hempel Tax Team is responsible for ensuring policies and procedures are in place, maintained and used consistently around the world to support the implementation of the Tax Policy.

The Hempel Tax Team monitors updates and changes to the global tax legislation as well as international tax policy developments to assess the impact and drive required changes to the Hempel Group internal processes.

The Hempel Tax Team is involved in all material business developments to assess the potential tax consequences of the decisions we make.

This Policy applies to the entire Hempel Group, including all directors, managers and employees who are involved in or whose actions impact the management of taxes within the Hempel Group. Within the Hempel Group an "Ethics Hotline" is available should anyone internal or external feel the need to report potential breaches or concerns relating to our Business Ethics Policy or Code of Conduct.

Compliance

Being a global tax payer we need to be able to manage many different types of taxes, various tax systems and expectations from local tax authorities and other stakeholders.

We have established global policies and procedures to ensure that our taxes are correct and paid on time.

As part of our wider risk management system we proactively identify, evaluate, manage and monitor tax risks from internal processes, business transactions, and external changes such as new legislation, to account for them appropriately and implement and monitor controls over them.

It is our policy to apply best practice and continuously work to reduce tax risks that inevitable will emerge, in particular because of the everchanging global tax legislation In addition, areas of the tax regulation may not be fully developed and thereby lead to differences in interpretation by the tax payers and the tax authorities which leaves tax risks or disputes on tax matters.

We aim to prevent unnecessary tax risks and disputes to materialise, through:

- having substantiated technical tax positions;
- secure sufficient documentation of facts and analysis;
- seeking advice with independent tax advisors for complex matters;
- appropriate compliance procedures in order to ensure accurate and complete tax filings including involvement of independent tax advisors in tax return processes, when relevant;

Business Structures and Tax Planning

Our commercial strategy and goals set out the basis for our tax approach. We believe that the choices we make must be in accordance with the business structures and the business strategies.

We accept the responsibility we have as a global tax payer and we seek to pay taxes in the countries in which value is created. In doing so we apply the arm's length principle to intercompany transactions as applicable by international tax standards, such as the OECD, unless local legislation prescribes otherwise..

We refrain from the use of aggressive tax planning. In line with international definitions we understand aggressive tax planning as deliberate exploitation of technicalities in a tax regime or as deliberate exploitation of inconsistencies between tax regimes in order to reduce tax liability.

Further, we do not engage in structures or transactions with the purpose to create a tax benefit that is disproportionate to what is commonly understood as being the intention of the tax laws, e.g. we are not using marketed or abusive tax avoidance schemes.

We are only present in countries in which we have commercial substance and we do not set up companies in low or no-tax jurisdictions for the purpose of minimizing taxes. Countries in which we do business may offer tax incentives or preferential tax reliefs. In the acceptance of such incentives or reliefs these must be specified by the law and generally available.

Relationship with Tax Authorities

A key part of earning trust is to continuously maintain a proactive and transparent relationship with tax authorities around the world. We believe that this will reduce the risk of challenges, disputes or damages to Hempel's credibility or reliability when uncertainties exist in the tax regulations or when tax matters inadvertently are incorrect.

In our relationship with the tax authorities we act in a professional, courteous and timely manner to ensure that we are a reliable and respected taxpayer. We respond to the tax authorities 'inquiries in a timely and transparent manner. Where appropriate and possible, we will engage in early dialogue with the tax authorities where significant uncertainties related to tax matters apply to our business operations. This also include using formalized frameworks such as Advanced Pricing Agreements etc.

The Hempel Tax team manages the relationship with local tax authorities around the world.

Transparency

We're committed to being one of the world's most trusted coatings suppliers. To this end we provide regular information to our external stakeholders about our approach to taxes and our taxes paid. In our annual report we provide insight on our group structure and the countries in which Hempel Group is established.

Where appropriate we will disclose information about our tax position and the choices we make to the extent that such disclosures do not damage the Hempel business or the business of our partners. Disclosures may be available through our annual financial statements or other relevant information channels.

This is what we mean by "acting responsibly" and this is how we want to earn trust in the field of taxes.

Latest approved by the Board of Directors in Hempel A/S on 4 March 2024

DEFINITIONS

"Hempel"/"Hempel Group" in this document refers to Hempel A/S and its subsidiaries.

"Tax"/"taxes" in this document refers to all taxes, such as corporate income taxes, withholding taxes, VAT, duties and other indirect taxes as applicable for the Hempel Group

Our transfer pricing setup is aligned with our business model

The way we operate our business and our transfer pricing model is the foundation for Hempel's global tax footprint. In Hempel we apply internationally accepted standards, such as the OECD Transfer Pricing Guidelines ("TPG"), and allocate profits to where economic value creation takes place.

According to the OECD TPG, the specific allocation of profits within a Group, and hence the value creation, requires an in-depth analysis of the functions, assets and risks of every entity and how they relate to the wider generation of value by the Hempel Group.

Together with external advisors we are analysing the allocation of profits within the global Hempel Group on a regular basis to ensure that transfer pricing outcomes align to the value creation.

As a consequence of the strategic direction in the Hempel business over the past 5-10 years with "One Hempel – One Ambition" followed by "Journey to Excellence" and derived changes to the organisational structure the entire Hempel Group and how it operates has changed. This strategic direction is expected to continue under the current strategy, Double Impact, and therefore changes to the transfer pricing model is implemented from 2021 and onwards in the majority of our group companies.

In transfer pricing terms, we are transitioning to a profit allocation based on the so-called principal model. This model is aligned with OECD TPG and recognizes that our most valuable intangible assets (e.g. patents, know-how, trademarks and formulations) are centrally owned and controlled by Hempel A/S in Denmark and consequently should be taxed in Denmark. In addition Hempel A/S also provides management services to the majority of the entities in the Group.

In a principal structure our sales companies and our production companies operates as so-called "limited risk distributors" and "toll manufacturers", respectively.

The nature of the Principal model entails that Group companies operating under this model will experience a stable profit year on year. However, special extraordinary circumstances may entail that either party is entitled to provide/receive subsidies in any way found necessary, if extraordinary circumstances arise out of causes beyond the reasonable control and without the fault or negligence of either party. Extraordinary circumstances may include, but are not limited to, pandemics, financial and/or economic crisis etc.

The remuneration of the limited risk distributors and toll manufacturers will be aligned with the actual conduct of the parties and their functional, asset and risk profile according to the OECD Transfer Pricing guidelines. This means that all intercompany transactions are valued on an arm's length basis which is benchmarked against comparable transactions.

In some countries we are required by law to comply with local transfer pricing regulations which are not comparable with the OECD arms-length principle.

Further, as all entities within the Hempel Group have a varying and continuous need for advice and assistance in the area of general administration Hempel A/S in Denmark is central to globally provide and co-ordinate a variety of useful and value added functions including technical services, legal services, IT services, central procurement services, treasury services etc. In addition certain services are centralized on a regional level from where services are provided. For these efforts the service provider receive an arm's length remuneration in the form of a service fee from all recipients of the services.

The above constitutes the foundation of Hempel Group's transfer pricing model for inter-company transactions and we prepare our transfer pricing documentation accordingly.

We document all transactions in order for us to meet the various local transfer pricing documentation requirements where these apply to the Hempel business. The overall responsibility for the transfer pricing documentation in the Hempel Group lies with Hempel Group Tax.

Hempel Group effective corporate tax rate

The consolidated effective corporate income tax rate in the Group accounts is based on the reported taxable profits from the Hempel Group entities which again is based on the statutory tax level in each country. In most countries the effective tax rate of the profits earned will vary from the statutory tax rate as a consequence of specific adjustments to the profits. These are governed by local tax legislation as well as accounting standards. Hempel Group applies the IFRS accounting standard.

The average statutory corporate income tax rate for the Hempel Group is approximately 22% whereas the effective tax rate for the Hempel Group is higher. The effective tax rate takes into account tax accounting differences that can have either an upwards or a downwards effect compared to the statutory tax rates. Upwards effects are currently driven mainly by double taxation and unrecognised tax assets. Downwards effects are mainly comprised by R&D incentive schemes utilized in our extensive R&D efforts. One-offs – for example provisions in connection with tax audits, recognition of previously non-recognised tax assets etc. can impact the effective tax rate in both upwards and downwards directions.

For details on the effective tax rate for the Hempel Group please see the annual report

Hempel aims to report and pay taxes where value is created and thus reflect the corporate tax rate of these countries.

Taxes paid vary in many companies from the taxes booked under the IFRS accounting standard and this also applies to the Hempel Group. This relates mainly to the adjustment of deferred tax - for example a loss making company in a country where the loss can be carried forward and offset against profits in later income years, the taxes booked will differ from the tax paid.

Our potential presence in so-called tax heavens

The Hempel Group is present in more than 80 countries and through the nature of the Hempel business and our heritage within marine all countries across the globe could be of interest for the Hempel business. This could also include countries on the EU list of non-corporative jurisdictions for tax purpose. Through acquisitions and costumer needs, Hempel could establish presence in these countries.

However, we aim to only establish or acquire presence in countries where there are genuine commercial reasons to be present. Namely through acquisitions or partnerships Hempel could be engaged in businesses with presence in tax heavens or non-corporative countries. These structures will be diligently reviewed and if no commercial background can be established we will seek to unwind such structures.

If Hempel is present in countries on the EU List of non-corporative jurisdictions the presence are for commercial reason alone1.

Tax risk management

Tax risk management is about understanding where risks arise and having clear guidelines as to how they are dealt with.

Risks can occur due to a changing political landscape, business changes, unintended errors in internal processes, disagreement of facts etc.

In Hempel we constantly monitor risks associated with our business. A certain level of risk is both necessary and accepted. It is important for the business to continuously balance the identified risks with the risk appetite.

As part of our tax risk management framework risks are identified, mapped and monitored.

In order to manage our risks we work with 4 types of tax risks:

- **Strategic risks** arise from or impact the way we conduct our business and could be legislative changes or new transactions in the group
- **Compliance risks** relates to both the timing and quality of our filings and for example includes filing positions taken which are judgemental in nature and relate to interpretation and understanding of tax law and best practices within tax management,
- **Operational risks** ; which are risks that are connected to potential failures to our processes, people and systems
- **Financial reporting risks**; could be material misstatements in our tax reporting or provisions in the annual report.

We assess and prioritize our risks based on a impact/likelihood scale, where we include the below considerations in determining impact;

- The risk of incurring a loss due to additional tax costs, interests and/or penalties,
- The risk of missing an opportunity to structure the business in a more efficient way, and
- Loss of ability to pursue or achieve the goals of Hempel due to damaged reputation and/or relationship with stakeholders.

For tax purposes we aim for certainty on our tax positions. We aim to achieve certainty through having strong technical tax positions and to secure sufficient documentation of facts and analysis.

Where tax law is complex, unclear or subject to interpretation, external advice from reputable tax advisors or confirmation from tax authorities will be sought as appropriate to ensure that the position adopted would more likely than not, be settled in our favour.

This means that the tax treatment of a transaction is only applied if it is more likely than not, that it would be accepted by the tax authorities.

[1] The EU list of non-cooperative jurisdictions for tax purposes as of 061020 (2020/C 331/03)

Risks are reported to the relevant stakeholders on an ongoing basis.

Tax control framework

In order to monitor the adherence to the tax policies and principles and secure a high degree of trust in our tax affairs we aim to constantly operate an efficient and effective tax control framework. The purpose of the tax control framework is to ensure that the Hempel Group is in control of all of our tax compliance and reporting obligations and that risks are managed so that we do not incur any unexpected material tax charges or reputational damage.

Risks embedded in our processes and systems have been mapped as part of our tax control framework and appropriate controls have been implemented in order to ensure accurate and complete tax filings including involvement of independent tax advisors in tax return processes, when relevant.

The tax control framework is managed through a Compliance Process Management system and is monitored on an ongoing basis.