

Summary of  
Annual Report 2018/19

# Flügger





Pursuant to section 149(2) of the Danish Financial Statements Act (Årsregnskabsloven), the consolidated annual report is an extract of Flügger group A/S's full annual report. The full annual report, including the annual report of the parent company, Flügger group A/S and the statutory statement of corporate governance, can be downloaded at [www.flugger.com/investor](http://www.flugger.com/investor). After approval by the general meeting, the full annual report will also be available on [www.cvr.dk](http://www.cvr.dk), however in Danish only.

This is an English summary of the consolidated annual report, and parts of the consolidated report have been intentionally omitted. In case of any matter of dispute or other divergences between the Danish and English text, the Danish text will prevail.

#### Outlook statements

The stated outlook for the Group's future financial development is connected with uncertainty and risks which may result in deviations from the expected future development. These statements on the Group's future prospects are no guarantees of the future development. The results realised may differ significantly from those expressed in the outlook statements.

#### General meeting

The company's annual general meeting will be held on Thursday 8 August 2019 at 11.00 at the company's address:

Flügger group A/S  
Islevdalvej 151  
2610 Rødovre  
Tlf. 70 15 15 05  
[flugger@flugger.com](mailto:flugger@flugger.com)  
CVR-nr. 32788718

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**Carl Trock**  
Chairman

**Jimmi Mortensen**  
CEO

## Letter to shareholders:

The 2018/19 financial year has been challenging on several fronts, yet has seen progress within a number of strategic initiatives. We have posted a 3% growth in revenue in local currencies. Earnings were DKK 41 million, and were negatively impacted by the decision in the multiyear legal proceedings between Flügger and Datacon, and by a number of one-time expenses associated with implementing the efficiency programme.

We launched a number of strategic initiatives two years ago, focusing on efficiency and profitable growth. These aimed to ensure that Flügger maintains and strengthens its strong position in the building paint and accessories sector, particularly in the Northern European market. We have focused on these initiatives and have achieved a number of positive results. At the same time, the Nordic market for building paint and accessories is being challenged to an increasing extent by overcapacity, negative foreign exchange developments and rising raw materials prices, which is why we have intensified our focus on sales to Poland and the Baltic States.

Changeable market conditions are more the rule than the exception, and due to our unique business model under which we operate the entire value chain, we are affected by these changes on several fronts. We see it as a strength that we operate the entire value chain, but in order to adapt to changing market conditions and ensure that our business model is profitable, we must continually focus on streamlining all links in the value chain.

#### Launch of the efficiency programme

To accelerate the execution of selected strategic focus areas, we have launched an efficiency programme. The purpose of the programme is to reduce fixed and



## Consolidation is essential to achieving financially sustainable development

variable costs. This is to be achieved through the continued consolidation of our network of stores, fewer production units, optimising administration, greater coherence between services and price, renegotiating purchasing contracts, harmonising product range and supplier agreements. Once the cuts are fully phased in by the end of 2020/21, we expect to be able to raise the Group's EBIT by more than DKK 60m a year. The efficiency programme entails a number of one-time costs during the coming years that will impact earnings.

### Greater digitalisation throughout the entire value chain

Digitalisation and automation are crucial to efficiency throughout our value chain, and are key elements of our business strategy. This financial year, we established a department that focuses on developing digital solutions that can optimise and automate our workflows and processes, and those of our customers.

In the past year, focus has been on the development of a new e-commerce platform, initially for private customers in Denmark. The plan is to launch e-commerce platforms for private customers in Sweden and Norway in autumn 2019, and for professional customers in Poland in winter 2019/20. The aim is to create a uniform and smooth customer experience, which enables us to ensure that our customers' online shopping experience is similar to that they receive in our stores.

### Investing in production

Flügger operates a total of six factories in Denmark, Sweden, Poland and China. We have launched a comprehensive modernisation programme for our production units in Kolding and Bollebygd, where the majority of our paint and filler is produced. We aim to create a more efficient production where we - In addition to focusing on the production of 100% water-based products - also aim to improve our capacity utilisation and competitiveness. In autumn 2018, we started outsourcing the Group's production of turpentine-based paint products, in order to prioritise the production and development of more environmentally

friendly products. Turpentine-based products account for less than 5% of Flügger's total production, and we aim to phase out this part of the range completely.

In spring 2019, we also initiated the establishment of a new and modern filler factory close to our current storage facility in Bollebygd, Sweden. Once the modern factory is up and running, we will be able to expand production capacity significantly and meet the growing demand for filler.

### Stores are an important part of our business model

Physically meeting the customer has always been an important part of Flügger's business model. But demographics and purchasing patterns have changed since we opened our first store. The customer base in many smaller towns has diminished, and availability is now more about easy access, parking, an extensive range and flexible opening hours than a local town presence. In response to these changes, we are continuing to consolidate our own network of stores. We are also adapting our range and establishing larger stores, which serve as professional centres.

In recent years, we have closed about 5% of our stores each year on our primary markets. At the same time, we have expanded and improved selected existing stores and opened stores in new and better locations. Despite fewer stores and currency headwinds, we have nevertheless managed to maintain revenue and grow our market share in several markets. We will therefore continue to support this development in the coming years.

The franchise stores will increasingly be an important part of our business model. These are primarily operated by professional painters, who can offer customers professional advice and assistance in doing the painting, in addition to the sale of products. Franchise stores are therefore an important supplement to our own stores, which focus on services and solutions for professional painters. We expect to expand the number of franchise stores in the coming years, and are therefore actively looking for new franchisees.

### We will consolidate our position on existing markets

In recent years, the market for building paint in Scandinavia has been stagnant, and the intensifying competition for market shares has put prices under pressure and impacted earnings. This has led to a challenging environment for organic growth. Our ambition is to strengthen our platform, and consolidate Flügger's position even more solidly in Scandinavia, Poland and other near markets. We are therefore looking at the possibility of acquisitions within the building paint segment, as well as related products and services on our existing markets.

### 'Thank you' to our employees

The results we attained in 2018/19 were achieved by our employees. On behalf of the Board of Directors and Executive Board, a big 'thank you' to our employees for all their hard work. We strive to be a company within which our employees thrive and develop. In order to take visible action towards this end, we have partnered with Great Place to Work.

We are facing a new financial year with challenging market conditions - but it is our clear expectation that the strategic initiatives we are working on will contribute to new and positive results, while further strengthening our position - in close co-operation with our customers and partners. We therefore expect to be able to improve earnings and maintain our full focus on creating long-term value, to the benefit of our shareholders and other stakeholders.

Carl F. S. Trock  
Chairman

Jimmi Mortensen,  
CEO

## The Flügger philosophy

The philosophy of Flügger is to make products and solutions that enable skilled painters and consumers to deliver sustainable, beautiful and high-quality painting results in an efficient way. A professional result requires professional products and competent guidance. This is a key driver for us.

Our passion for paint and great craftsmanship is deeply rooted in our history which dates as far back as 1783. Flügger became Danish when Michael Schnack in 1948 acquired Flügger, and since 1958 his son, Ulf Schnack, has devoted his heart, mind and time to creating great products and developing Flügger into a company where quality, passion and creativity thrive.

It is the vision of Flügger to continue this dedication in everything we do.



## Flügger - in brief

Flügger is an international group that operates in the sector for building paints and accessories for the painting profession. We have a solid base in Scandinavia, are a market leader in Denmark, and are gradually strengthening our position in Poland.

Flügger develops, manufactures, markets and sells a wide and coordinated range of building paints, wood stains, fillers, wallpaper and accessories.

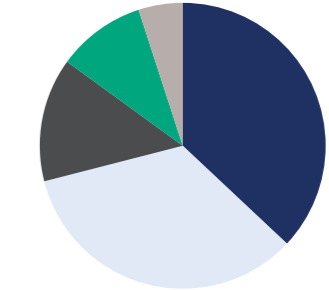
Our target group is professional painters and private consumers looking for good quality craftsmanship and professional guidance. Our key task is to develop and deliver products and solutions that enable our customers to get high quality results, as efficiently as possible.

Flügger is our primary brand, but we also develop, manufacture and sell products through our DAY System sales unit - to DIY stores and the like. DAY System sells paint and filler under the Yunik brand, painting and cleaning tools under the Stiwex brand, and Fiona design wallpapers. Flügger also owns and operates the PP professional paint A/S Danish wholesale chain.

We sell our products through the Flügger paint retail chain, comprising over 400 stores in Scandinavia, Poland and China. About half of these stores are owned by Flügger, and the other half are owned by franchisees, who are typically house painters. The products are also sold through dealers in China and in other export markets. The largest concentration of stores is in Denmark and Sweden, where we have almost 300 stores. About half of our employees work in the stores. Our main markets are Denmark (including sales to Iceland, Greenland and the Faroe Islands), Sweden and Norway. We also have activities in Poland and China, and export to other countries such as France and Russia.

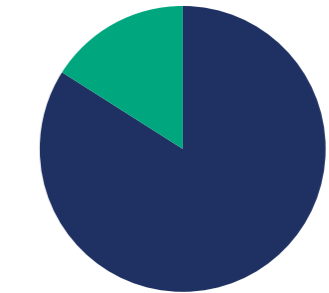
Flügger has six factories in four countries, which produce tools, paint and design wallpaper. The oldest of our factories is in Kolding, Denmark, where we have been producing water-based products since 1970.

Flügger has been a listed company since 1983.



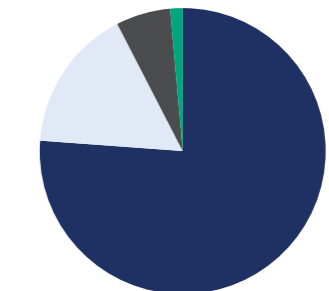
### Revenue by geographical distribution

- Denmark (incl. Iceland, Greenland and the Faroe Islands) 37% Last year 37%
- Sweden 32% Last year 34%
- Norway 14% Last year 14%
- Poland 11% Last year 10%
- Other countries 6% Last year 5%



### Revenue by segment

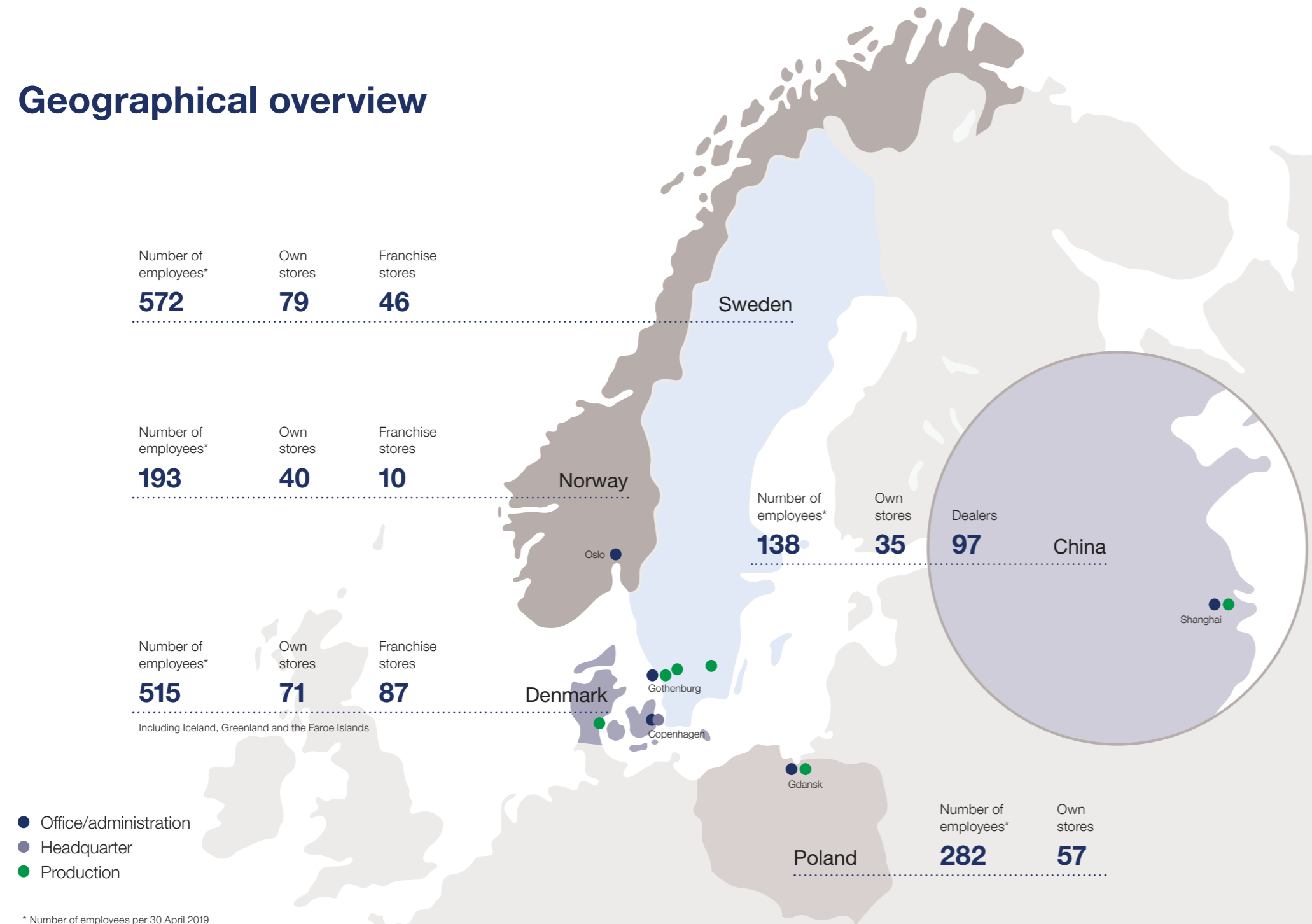
- Segment 1: (Flügger-branded products) Flügger 84%
- Segment 2: (non-Flügger-branded products) DAY-System and PP professional paint A/S 16%



### Revenue by product

- Paints, chemical products and wood stains 76%
- Painting and wallpapering tools 16%
- Wallpaper and wall coverings 7%
- Various articles 1%

## Geographical overview



## Financial year 2018/19

Financial year 2018/19 = 1 May 2018 to 30 April 2019

Revenue DKK million

**1.824**

2017/18: 1.818 mio. DKK

Gross margin %

**54,4**

2017/18: 55,6 %

EBITDA DKK million

**88**

2017/18: 119 mio. DKK

EBITDA margin %

**4,8**

2017/18: 6,6 %

EBIT DKK million

**41**

2017/18: 58 mio. DKK

EBIT margin %

**2,2**

2017/18: 3,2 %

Number of own stores

**282**

2017/18: 289

Number of franchise stores\*

**143**

2017/18: 153

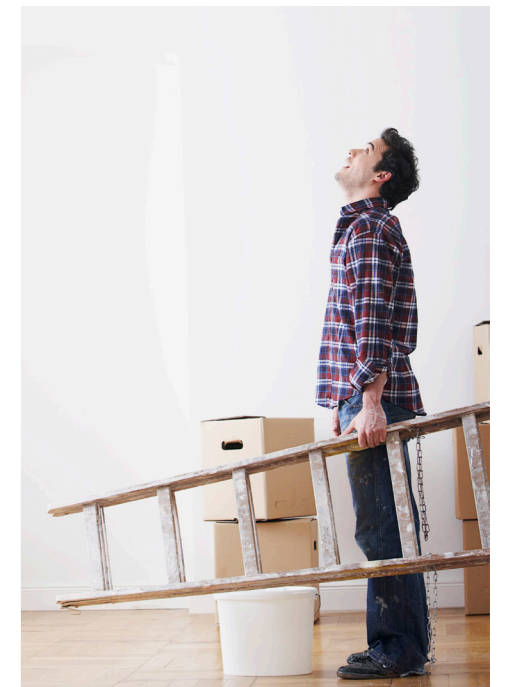
\*Excl. Flügger dealers in China and export countries

## Outlook 2019/20

Revenue is expected to be a flat in the coming financial year. The Scandinavian markets are expected to remain flat, combined with further consolidation of the store network. Good growth rates are expected in the other markets, primarily Poland.

The EBIT margin is expected to improve to approx. 4%, driven primarily by the efficiency programme launched in 2018/19. A number of one-time costs, of the order of DKK 15 million, for organisational restructuring and consolidation of the store network, have been included in the outlook for the EBIT margin.

The strategic goal of at least 2 billion in revenue in 2020/21 is being retained. We have previously had a target EBIT margin of 6-8%, which we are now adjusting to a target EBIT margin of at least 6%.



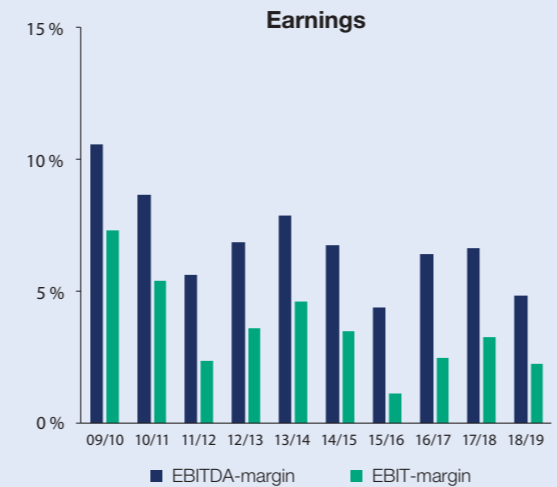
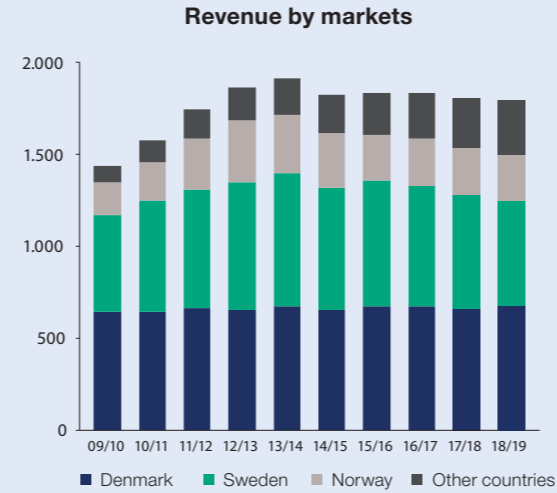
# Flügger 10 years' development

Mio. DKK	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Income statement</b>										
Revenue	1.446,6	1.591,0	1.759,5	1.873,6	1.924,3	1.832,8	1.850,2	1.849,0	1.817,5	1.823,5
Gross profit/loss	812,4	876,5	939,9	1.001,3	1.036,1	1.015,3	997,6	1.024,6	1.010,6	992,4
EBITDA	153,3	139,1	97,9	128,1	152,1	122,0	82,1	119,0	119,2	88,3
EBIT	106,1	85,4	40,1	68,2	88,1	65,0	20,9	43,7	57,5	40,7
Net financials	27,6	5,2	-4,3	-4,2	-1,5	1,0	2,2	-2,5	-1,1	0,7
Profit/loss before tax	133,7	90,6	35,8	64,0	86,6	66,0	23,1	41,2	56,4	41,4
Net profit/loss for the year	94,2	63,5	22,4	49,0	75,7	53,5	13,3	28,9	33,5	32,2
<b>Balance sheet</b>										
Balance sheet, year-end	1.074,7	1.151,7	1.253,4	1.225,8	1.182,7	1.249,8	1.242,9	1.188,8	1.138,8	1.095,4
Equity, year-end	760,2	798,4	774,2	823,7	837,6	859,2	810,7	797,2	760,1	742,2
Interest-bearing debt, year-end	43,7	49,5	165,4	84,2	10,3	36,0	67,7	14,1	3,0	12,0
<b>Cash flows</b>										
Cash flow before financing and tax	240,2	111,8	30,9	145,4	183,4	78,0	73,9	171,5	107,3	59,2
Cash flow from operating activities	214,5	79,6	6,3	119,5	172,2	84,7	66,5	158,3	96,3	51,4
Cash flow to investing activities	-153,4	-57,3	-66,2	-13,1	-43,9	-66,6	-40,6	-24,1	-20,9	-15,1
Cash flow to financing activities	-74,3	-45,2	72,3	-99,4	-108,2	-11,9	-11,5	-96,8	-54,2	-34,3
Investments in property, plant and equipment	136,0	52,8	67,8	28,9	18,9	40,1	38,8	21,5	16,7	15,6
Securities and cash and cash equivalents, year-end	161,5	128,5	94,6	66,8	88,4	90,8	95,9	137,6	156,8	156,9
<b>Financial ratios*</b>										
Gross margin %	56,2	55,1	53,4	53,4	53,8	55,4	53,9	55,4	55,6	54,4
EBITDA margin %	10,6	8,7	5,6	6,8	7,9	6,7	4,4	6,4	6,6	4,8
EBIT margin %	7,3	5,4	2,3	3,6	4,6	3,5	1,1	2,4	3,2	2,2
Return on equity %	13,0	8,1	2,8	6,1	9,1	6,3	1,6	3,6	4,3	4,3
Equity ratio %	70,7	69,3	61,8	67,2	70,8	68,7	65,2	67,1	66,7	67,8
Full-time employees, average	1.444	1.540	1.650	1.625	1.572	1.575	1.550	1.533	1.486	1.481

## Definitions

<b>Gross margin %</b> Gross profit as a percentage of revenue	<b>EBITDA margin %</b> Operating profit before depreciation, amortization and writedowns as a percentage of revenue	<b>EBIT margin %</b> Operating profit as a percentage of revenue	<b>Return on equity %</b> Income or loss from ordinary activities after tax as a percentage of average equity	<b>Equity ratio %</b> Equity at ear-end as a percentage of liabilities at year-end
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\* Financial ratios have been calculated based on the Danish Society of Financial Analysts' recommendations.

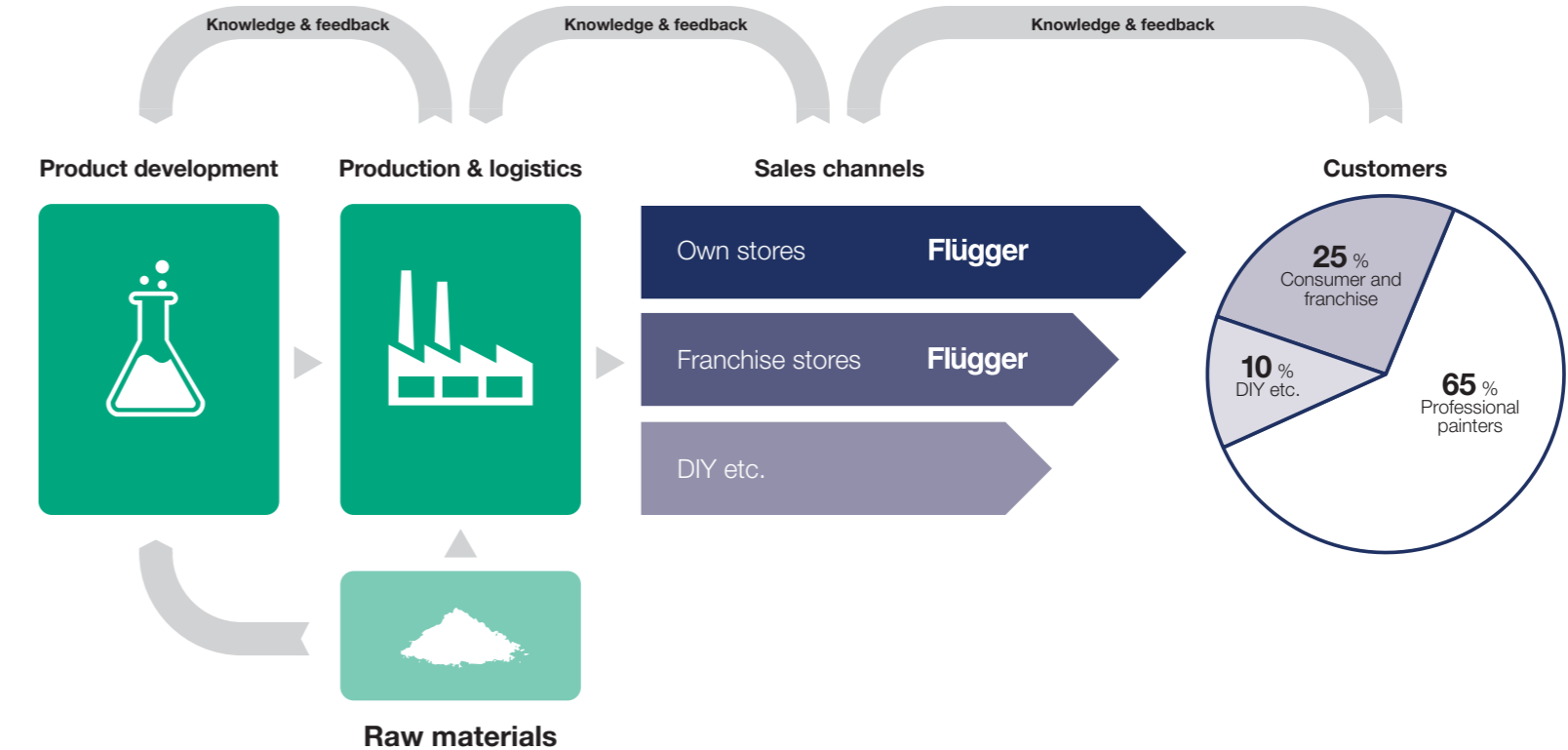


# Business model

Flügger's business model is built on the basic premise that good quality requires management and ownership throughout the value chain. We therefore design and improve our products in a central development department, manufacture our products in our own factories and follow the products all the way to the stores, where our employees supervise and assist the customer in achieving an optimal end result.

But the flow is not only from production to end-user. Our wide network of stores means that we quickly acquire valuable knowledge about our customers' needs and consumption. We use this feedback to develop and produce new products. Our total value chain is rare in a Danish and European context, where

most of our competitors focus specifically on either sales or production. We believe that our business model contributes to our ability to maintain high-quality products and services, to meet our customers' requirements and to protect the Flügger brand.





## Our strategy – Securing the Legacy

Flügger launched the ‘Securing the Legacy’ strategy two years ago, which defines our primary focus areas towards 2020/21. The strategic initiatives are centred around two key aims – to create profitable growth, and to improve efficiency throughout our total value chain.

We have now completed the first part of the strategy period. We have come a long way during the past two years with the implementation of a number of initiatives that have had a positive impact on our operations. Internally, we have improved efficiency, initiated modernisation of our production facilities and optimised processes across the company. On the customer side, we have been working to improve our digital solutions, offer more environmentally friendly products, and optimise our total product and service palette.

However, due to current market trends, including overcapacity and rising raw material prices, we have decided it is necessary to accelerate development in selected areas, so that the results materialise faster. We initiated an efficiency programme during the past financial year which is expected to reduce our total costs by DKK 60 million annually, once the savings are fully phased in by the end of 2020/21. The programme involves the ongoing consolidation of our own store network, fewer and larger distribution centres, more franchise stores and the establishment of a seamless customer journey with a focus on online sales and service. Another focus area is the optimisation of production, inventory and distribution, which will require harmonisation of the product range and a focus on optimising purchasing. In the 2018/19 financial year, the efficiency programme has resulted in savings of around DKK 10 million.

## Profitable growth

### Focus on greater availability

– consolidation of our own store network will continue. We are focusing on greater availability for our customers, through optimal geographic locations, good access and parking facilities, and the right product range and quantities.

To meet the growing urbanisation and ensure that our business model remains financially sustainable, we will continue the ongoing consolidation of our own store network. It is no longer as important to us and our customers to have a high density store network. Our focus now is to ensure that our stores have the right geographic location, are easily accessible, and have a targeted product range and an attractive service palette. In the 2018/19 financial year we have thus reduced the number of our own stores by about 5% across our main markets.

The franchise stores, which primarily service private customers, will be an increasingly important part of our business model. The franchise stores are mostly operated by house painters, and can therefore offer private customers professional guidance and assistance in performing a given paint job, in addition to the sale of materials. We expect to expand the number of franchise stores in the Nordic region in the coming years, and are therefore actively seeking new franchisees.

We will further harmonise our product range and ensure we have a total product programme with a high degree of accessibility in all our core markets. We will continuously adapt our range based on our customers’ needs and wishes, to ensure it has an optimum breadth. The overall complexity of the range and stock levels are thus expected to be further reduced during the current strategy period.

### Results in 2018/19

- The number of our own stores has been reduced by approx. 5% across markets
- The number of active recipes has been reduced by approx. 9%
- The number of raw materials used in our production has been reduced by approx. 6%
- The number of stocked products has been reduced by approx. 2%

### Focus areas in 2019/20

- Ongoing consolidation and reduction in the number of our own stores, similar to in 2018/19 (i.e. approx. 5%)
- Further reduction in active recipes
- Further reduction in active raw materials



### Pricing structure

We will ensure transparency in relation to our price structure and the services we offer our customers.

Over the past few years, the building paint market has seen higher prices for raw materials – particularly for two key components in paint production: titanium dioxide and fly ash. We do not see prices rising at similar rates for all raw materials, but the increases are impacting on our overall cost levels, and we have been unable to fully pass on these costs to customers. The industry as a whole is increasingly seeing more stringent environmental requirements in the form of labelling schemes and requirements to reduce the use of additives, and there is an ever-increasing customer demand for more environmentally friendly products. It is important for Flügger to be able to offer customers products that meet the applicable environmental requirements, and the demand for products that are more gentle on the environment – without compromising on quality. We are therefore continuously developing our products.

Our price structure has to be simple and transparent, so that our customers can easily navigate online or in our stores. In addition to paint and tools, Flügger offers a wide range of services that make our customers’ workflows and processes easier. We are working to ensure adequate transparency, so that our customers know the value of these services – whether they are simply elements that enhance our total offerings, or are optional extras (such as express delivery directly to the work site). These services play an important role in positioning Flügger more broadly.

### Results in 2018/19

- Established a transparent new price structure in Denmark, with uniform price levels depending on the customers’ total volume
- Re-segmented all our product and customer groups in relation to the various markets, based on customer size and the service they require

### Focus areas in 2019/20

- Increase visibility of the Group’s total portfolio of services. The aim is to ensure that it is simple and easy for customers to choose precisely the solutions that add value in their business, such as internal training for employees
- Continue to fine tune price structures, so that our market offerings constantly remain attractive and earnings are optimised



## Efficiency

### Increased value creation through digitalisation

The aim of greater digitalisation is to move closer to our customers and to create solutions that make their daily activities more efficient.

In addition to helping our customers achieve an excellent end result when they perform a paint job, we see it as one of our key tasks to help them reduce the time spent. Labour accounts for approximately 80% of painters’ total project costs. We therefore see great potential in developing services and solutions that can streamline their workflows and processes, including solutions for better project planning and direct delivery of products to the work site.

Digitalisation also plays an important role in our internal processes and procedures, to ensure they are as seamless and efficient as possible.

### Results in 2018/19

- Implemented a new payroll system in Denmark, building on the implementation of a new HR system which has created transparency and uniform processes across the Group
- A new Product Information Management (PIM) system was launched in spring 2019. This has resulted in further automation and streamlining of internal procedures and processes
- We relaunched our webshop for private customers in Denmark in spring 2019, and switched to new and more up-to-date platforms that will serve as the foundation for our ongoing digitalisation.

### Focus areas in 2019/20

- Implement new payroll systems in Sweden and Norway
- Launch an e-commerce platform for private customers in Sweden and Norway
- Roll-out a B2B webshop for the professional market, first in Poland and then in Denmark, Norway and Sweden
- Extend our Product Information Management system to achieve further improvements to efficiency and the customer experience
- Adjustment of our organisation, including about a 20% reduction in administrative positions (effected in May 2019) compared to the same period last year.



### Utilisation of synergies across the value chain

We will exploit synergies across our value chain, optimise our production facilities and ensure better capacity utilisation.

Flügger is one of the few players in the industry which has a fully integrated value chain – from product development to production and sales to a global mix of customer segments via its own stores, franchises, e-commerce, export and dealers. We see it as a strength that we operate the entire value chain, but it requires us to constantly adapt to market conditions in order to take full advantage of our business model.

One of our focus areas is to optimise production processes and ensure maximum utilisation of our capacity. One of the objectives is to reduce the Group’s break-even sales, and thus reduce the effect of the loss-making months during the off-season. To meet the ever-increasing demand for filler, we began building a modern new factory for the production of filler in Bollebygd, Sweden, in spring 2019. In addition to significantly expanding production capacity, modernising the plant will also rationalise the production process, as transport from the existing plant to the warehouse will be eliminated. The factory is expected to be completed before the end of the 2020/21 financial year. We have also begun outsourcing the production of all turpentine-based products, so the Group will exclusively be producing water-based products within the next two years.

### Results in 2018/19

- Introduced KPI boards with the aim of ensuring transparency and a visible connection to the overall strategy
- Trained many of the company’s operations staff in LEAN
- Reduced total stock levels by 5%, corresponding to approx. DKK 18 million.

### Focus areas in 2019/20

- Optimise space utilisation in our transportation and increase our drop size for customer deliveries, leading to fewer ‘empty kilometres’
- Reduce the Group’s total energy consumption through initiatives targeting standby power consumption in factories and warehouses, and LED lighting in stores
- Continue to implement the Group’s LEAN programme, with a view to ensuring uniform and efficient execution in the value chain
- Reduce the total inventory value by a further 5%, corresponding to DKK 15 million.





# Financial review

The Group's net revenue was DKK 1,824 million in the 2018/19 financial year – on par with sales of DKK 1,818 million the year before. The stagnating revenue is primarily due to exchange rate trends. Measured in local currencies, consolidated revenue rose 3%.

The Group's primary operating profit (EBIT) was DKK 41 million, compared to DKK 58 million the previous year. This corresponds to an EBIT margin of 2.2%, compared to 3.2% the year before. The lower earnings were due to one-time costs totalling approx. DKK 25 million. The one-time costs cover approx. DKK 10 million in costs associated with the dispute between Datacon and Flügger, and about DKK 15 million for the efficiency programme initiated. The programme expenses include severance payments for dismissed employees, rent for vacant buildings due to store closures and consultant costs.

The underlying earnings thus showed solid growth in relation to the previous financial year, after adjusting for the above one-time costs. The growth in earnings was particularly apparent in Q4 2018/19. A growth that is expected to continue in the coming financial year, although still impacted by the restructuring costs of optimising our store network and product range, and organisational adjustments.

The revenue result was in line with the forecast stated in connection with publication of the 2017/18 annual report, while the EBIT margin was in line with the company announcement on 14 May 2019, where the margin was revised downwards from 3-4% to 2.2-2.4% as a result of the decision in the Datacon legal case.

## Sales growth

### Sales in Denmark: DKK 682 million (+1%)

#### Sales in local currencies (+2%)

*Including Iceland, Greenland and the Faroe Islands*

Sales in the Danish market rose by 2% measured in local currencies. This growth in sales is satisfactory, given that five of our own stores were closed during the year. The organic growth was primarily driven by rising sales to professional customers

and sales to consumers, while sales to the franchise segment were slightly below last year. The number of franchise stores dropped during the year, but a number of new agreements have been established, which will take effect from Q2 2019/20. At the end of the financial year, the number of Flügger paint stores, including franchisees, was 158, compared to 168 last year.

Our competitors in the Danish market are primarily international players – PPG (Dyrup and Gori), Jotun, Akzo Nobel (Sadolin and Nordsjö), as well as local player, Beck & Jørgensen. Flügger has an estimated market share of around 30%.

### Sales Sweden: DKK 573 million (-5%)

#### Sales in local currency: SEK 798 million (0%)

Sales in the Swedish market were negatively impacted by the declining Swedish currency, combined with a reduction in both our own and franchise stores. Measured in local currencies, revenue was on par with the previous financial year. During the year, one of our own stores and six franchise stores were closed, reducing the Swedish store network. This is affecting consumer sales, which fell by around 2% in local currency during the past financial year. Sales to the franchise segment rose slightly, despite the reduction in franchise stores. Sales to professional customers were also slightly higher than last year (also in local currency). The Flügger färg chain had 125 stores at the end of the financial year, 79 of which are owned by the group. Work is still being done on consolidating our own store network, and on expanding the number of franchise stores.

Our competitors in Sweden in the building paint and natural accessories sector are primarily Tikkurila (AlcroBecker), AkzoNobel (Nordsjö), Jotun from Norway and Caparol from Germany. Flügger has an estimated market share of just under 20%.

### Sales Norway: DKK 257 million (+1%)

#### Sales in local currency: NOK 331 million (+2%)

Sales in the Norwegian market were impacted by falling exchange rates and a reduction in the number of stores. The Group reduced the number of stores by four in the past financial year, leading to a 7% reduction in consumer sales. Sales to the

## Consolidated income statement

mio. DKK.	2017/18	2018/19	Change
Sales Denmark*	675	682	1 %
Sales Sweden	605	573	-5 %
Sales Norway	255	257	1 %
Sales Poland	178	203	14 %
Sales other countries	105	109	4 %
<b>Revenue</b>	<b>1.818</b>	<b>1.824</b>	<b>0 %</b>
<b>Production costs</b>	<b>-807</b>	<b>-831</b>	<b>3 %</b>
Gross profit/loss	1.011	992	-2 %
Sales and distribution costs	-778	-766	-1 %
Administrative expenses	-182	-179	-1 %
Other income/costs	7	-6	-192 %
<b>Operating profit, EBIT</b>	<b>58</b>	<b>41</b>	<b>-30 %</b>
Finance net	-2	-0	
<b>Profit/loss before tax</b>	<b>56</b>	<b>41</b>	<b>-27 %</b>
Tax	-23	-9	-60 %
<b>Profit/loss after tax</b>	<b>33</b>	<b>32</b>	<b>-4 %</b>
Translation adjustment, subsidiaries etc.	-28	-8	
<b>Total comprehensive income</b>	<b>5</b>	<b>24</b>	<b>377 %</b>

\* Incl. Iceland, Greenland and the Faroe Islands

## Balance

mio. DKK	30.04.18	30.04.19	Change
Intangible assets	108	101	-7 %
Property, plant and equipment	243	215	-11 %
Deferred tax asset	8	5	-31 %
Inventories	330	324	-2 %
Receivables	293	293	-0 %
Securities, cash and cash equivalents	157	157	0 %
<b>Total assets</b>	<b>1.139</b>	<b>1.095</b>	<b>-4 %</b>
Equity	760	742	-2 %
Deferred tax	16	7	-55 %
Bank debt etc.	3	12	296 %
Suppliers	188	151	-20 %
Income tax	18	14	-24 %
Other payables	153	169	11 %
<b>Total liabilities</b>	<b>1.139</b>	<b>1.095</b>	<b>-4 %</b>

## Cash flow statement

mio. DKK	30.04.18	30.04.19	Change
Cash flows from operating activities	97	51	-47 %
Cash flows to investing activities	-21	-15	-28 %
Cash flows to financing activities	-54	-34	-37 %
Cash and cash equivalents, year-end	156	156	-

franchise segment dropped by 14%, impacted by a number of changeovers in the stores during the year. Sales to professional customers rose by 6%, compensating for the fall in sales to consumers and franchisees. Various initiatives were launched in Norway during the past year to create a base for growth. These included optimising our store portfolio, training employees, and the launch of 'Flügger Andelen' – a partnership with Norwegian sports clubs whereby members get a discount at Flügger and their clubs earn a bonus. The results in Norway have created positive expectations for the future. Growth in the remaining active stores has been more than 9%.

At the end of the financial year, the Flügger farve chain consisted of 50 stores, compared to 54 last year – 40 of which are owned by the Group, compared to 45 last year.

The dominant competitor in the Norwegian market is Jotun, with a market share of approx. 70%. Gjøco, a small Norwegian manufacturer in the DIY segment, and international players who are active in Denmark and Sweden, are also present in the market. Flügger has an estimated market share of around 15%.

### Sales Poland: DKK 203 million (+14%)

#### Sales in local currency: PLN 117 million (+16%)

The positive trend of previous years continued in Poland, with revenue rising 16% in local currency. The growth is spread fairly evenly between consumers and professionals. The number of stores was reduced from 58 to 57. About 75% of sales are to professional painters and tradesmen, while 25% are to consumers.

### Sales – other countries: DKK 109 million

#### (5% organic growth)

The largest export market is China, where Flügger has established a Flügger brand retail chain, comprising 35 of our own stores and 97 affiliated, independent dealers. The Group has a small production facility in Shanghai. This is expected to be closed down, as Chinese customers primarily want to buy paint products made in Scandinavia. Sales in China were approx. DKK 60 million.

In recent years, the Group has established sales of almost DKK 30 million to the Baltic States and Russia. Other exports amount to just under DKK 19 million. Export sales are typically made through independent dealers.

## Cost and profit developments

Production costs were DKK 831 million in 2018/19, compared to DKK 807 million the previous year. Combined with additional sales of DKK 6 million, the result was a DKK 19 million reduction in the Group's gross profit. This was due in part to rising raw material prices, the weaker Swedish and Norwegian kroner, and a change in the sales mix, with more sales to professionals where the gross margin is lower.

Sales and distribution costs were reduced by DKK 12 million, from DKK 778 to 766 million. The costs of distribution increased during the year, while sales costs fell due to consolidation of the Group's network of stores. Sales and distribution costs were also impacted by a number of one-time costs associated with closing stores.

Administrative expenses plus other operating income/expenses were DKK 185 million, compared to DKK 175 million the year before. This change was positively impacted by currency developments, but negatively impacted by one-time costs for lay-offs and consultant costs related to the efficiency programme. 2018/19 was further impacted by the costs of legal proceedings between Flügger and Datacon. These amounted to just over DKK 8 million in compensation and legal costs for the opposing party, and around DKK 2 million for Flügger's own advisers.

The declining Norwegian and Swedish kroner generally reduced the cost level, and thus reduced the negative impact on gross profit.

The Group's operating profit (EBIT) was DKK 41 million, compared to DKK 58 million the previous year. The financial year has been negatively impacted by a number of one-time costs, including the costs of legal proceedings and an efficiency

programme. After adjusting for these costs, the Group would have had an operating profit of DKK 66 million. Changes in exchange rates have had an overall negative effect on EBIT of approx. DKK 5 million, compared to the previous year.

After a net financial income of DKK 0 million and tax of DKK 9 million, a net profit of DKK 32 million is posted, compared to DKK 33 million the year before, which was extraordinarily impacted by income tax of more than 40% and the impairment of tax assets in the Group's Norwegian subsidiary. The total earnings for the year, calculated after adjustments to exchange rate adjustments for foreign investments and currency hedging, were DKK 23 million, compared to DKK 5 million the previous year.

### Balance sheet

The Group's year-end balance sheet total was DKK 1,095 million, compared to DKK 1,139 million the year before. This reduction consists of the following: DKK 7 million in intangible assets, DKK 27 million in property, plant and equipment, DKK 3 million in deferred tax assets and DKK 6 million in inventory. On the liabilities side, the Group's equity was reduced by DKK 18 million, primarily due to changes in exchange rates, which reduced the value of the Group's foreign subsidiaries during the year. The Group's long-term and short-term liabilities had been reduced by DKK 26 million at year-end.

### Cash flows

Cash flow from operations after tax was DKK 51 million, compared to DKK 97 million the previous year. The reduction is primarily due to declining earnings, combined with an increase in working capital as of 30 April 2019.

Cash flow for investments was DKK 15 million in the last financial year, significantly lower than depreciation of DKK 48 million. Cash flow for financing was DKK 34 million (DKK 43 million for dividends and a DKK 9 million increase in bank debt), compared to DKK 54 million the previous year. The Group's cash and cash equivalents were DKK 156 million, identical to the previous year.

### Subsequent events

On 16 May 2019, the Group entered into a conditional agreement to purchase 100% of the shares in the company DETALE CPH ApS, which manufactures and markets coloured filler, among other products, under the name DETALE CPH. The agreement is expected to take effect within a few months, once the conditions have been met. The acquisition does not significantly affect the Group's revenue or profit.

Apart from the above, no events have occurred after the end of the financial year which materially affect the assessment of the annual report.



Summary of Flügger annual report 2018/19

## Environment and climate

At Flügger we strive to actively protect the environment and support the transition towards a greener society by continually working to reduce the environmental impact of our activities and products. It is integrated into our Code of Conduct that we must comply with all applicable environmental laws, regulations and standards at all times, and we are constantly on the lookout for sustainable methods to conserve natural resources, with a special focus on reducing our energy consumption and improving transport efficiency.

We work systematically with the ISO 14001 eco-management system and similar systems.

### Our products

Environmental considerations are playing an increasing role in construction, and we are seeing increasing demand for more sustainable and environmentally friendly products. We want to contribute to this trend, and during the past year we continued our work on eco-labelling selected products and optimising more of our current products. As part of this effort, we have a strong focus on improving and replacing materials in our production, to create products with less and less impact on the environment.

### Eco-labelling for our products

During the past year, a number of our wood stain products were granted the Nordic Swan Ecolabel, while many of our products for indoor use were awarded the EU Ecolabel, which indicates that the products are among those with the least environmental impact in the relevant product groups. Both labels aim to reduce the total environmental impact, and are awarded based on a product's life cycle and the environmental problems that can arise along the way, from cradle to grave. All building materials that may be used in Swan-labelled construction can be found in this database.

In September 2018, the tinting system in our stores was approved for tinting Nordic Swan eco-labelled products. This is our customer's guarantee that the tinted paint fulfils the Swan label regulations and requirements.

### Towards 100% water-based production

Flügger will focus on 100% water-based paint over the next few years. Turpentine-based products currently account for less than 5% of our total production volume, and we are now taking the next step to fully phase out these products. The first phase

will be to outsource turpentine-based products and chemicals in tinting colourant, so that our production becomes 100% water-based. Our aim is to completely stop the production of products containing solvents within a two-year period.

### No more free plastic bags

In addition to our ongoing efforts to reduce the environmental impact of our products, we will also focus in future on minimising the number of plastic bags handed out in our stores. Flügger hands out around 1.7 million plastic bags to customers every year, corresponding to 37 tonnes of plastic. To minimise the use of plastic and thereby reduce the environmental impact, customers will have to pay for bags in future when shopping in one of our stores. Under this initiative, we hope with the help of our customers to reduce the consumption of bags by 10-20 tonnes per year. Profit from the sale of the bags will be donated to charity, with the first donation going to 'Danmark planter træer' (a Danish tree-planting organisation).

We have also just initiated an investigation into more environmentally friendly alternatives to our traditional packaging, including the possibility of using recycled plastic.

### Environment and climate targets

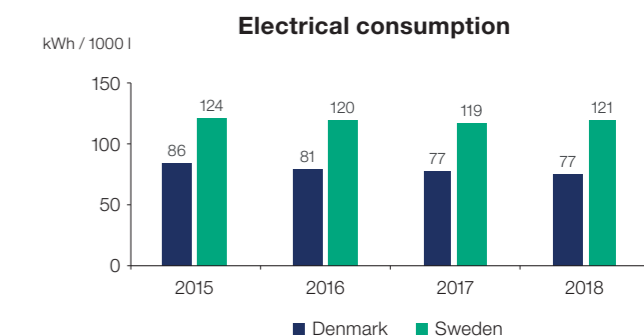
The biggest environmental and climate impacts at Flügger stem from the production and transportation of our products. We operate six factories in Denmark, Sweden, Poland and China, and as one of the leading paint manufacturers in the Nordic region, we want to run our production as efficiently and cleanly as possible. The cleaner our production, the fewer preservatives it is necessary to add to the products.

We have successfully reduced the quantity of preservatives and solvents in our paints over the years. This process is continuing as we modernise our production units in Kolding and Bollebygd, where the majority of our products are produced. The modernisations are driven by the desire to create more sustainable production, where in addition to focusing on 100% water-based products, we also improve our capacity utilisation and competitiveness.

In spring 2019, we also initiated the construction of a modern new filler factory close to our current warehouse in Bollebygd, Sweden. Following the construction and modernisation of the plant, we will be able to expand production capacity significantly and thereby meet the steadily growing demand for filler. The new

plant will also be able to produce more efficiently, with a positive effect on both the environment and quality.

We have worked hard in recent years to reduce electricity consumption per litre of paint produced. The goal from 2016 to the end of 2018 has been to reduce electricity consumption by 10% at the factories in Kolding and Bollebygd. In 2017, we found that we had already reached this goal in Denmark, and now only use 75 kWh/1000 litres of product produced. In Sweden, the factory in Bollebygd uses 116 kWh/1000 litres, which corresponds to a 2% reduction in electricity consumption. Overall, there has been a 6% reduction over two years.



### Energy-saving initiatives

One of the factors aiding the reduction in electricity consumption is that production in Bollebygd has changed over from electricity and oil heating to wood-pellet-fired central heating. This transition took place in autumn 2018, and while we are seeing a positive impact, we do not expect to reap the full energy savings before some time in 2020. The change to wood-pellet-fired central heating has had a major impact on our CO<sub>2</sub> emissions, which have been reduced by up to 630 tonnes a year.

During the past year we also invested in replacing lighting with LEDs. This has had a positive impact on energy consumption, particularly in our warehouses. We will continue to roll out LED lighting in our stores.

We continually analyse and select new areas for environmental optimisation. In relation to energy, Flügger has invested in a system using multiple secondary meters that allows detailed monitoring of energy consumption – down to the hour and



process level. One application the system will be used for is to analyse and reduce the factories' standby consumption in the coming years.

### Eco and quality management

Flügger's wallpaper and paint factories now have environment and quality certification under ISO 14001 and ISO 9001 on joint certificates. The environmental certification was re-certified in spring 2019.

As a result of our work with ISO 9001 quality certification and analysis of market feedback in recent years, we have optimised several of our products, and have also seen a significant reduction in costs associated with product complaints.

In order to continually keep ahead of and ensure that we comply with applicable laws and voluntary eco-labels such as Ecolabel and the Swan, we are continually reducing the types and quantities of biocides that are used to preserve our products. Over the past year we have optimised our production equipment and cleaning routines to ensure our production is as clean as possible, and are now investing further in our production equipment.

## Greener wood stain becoming increasingly popular



Flügger is on a continual journey to develop more environment-friendly products. Most of our products for indoor use have been awarded the Ecolabel label, and over the past year we have worked intensively to get our wood stain labelled with the Nordic Swan Ecolabel.

Spring and summer are the peak season for painting outdoor woodwork, and Flügger has seen increasing demand in recent years for more environmentally friendly products to protect wooden walls and railings from wind and weather.

Flügger has therefore worked hard to get the majority of its wood stain products labelled with the Nordic Swan Ecolabel. Specifically, this means that five of the Wood Tex products – Flügger's wood stain series – now carry the green label, which is the consumer's guarantee that the product has a high environmental profile.

### More eco-friendly and durable products

To be allowed to use the Nordic Swan Ecolabel on outdoor wood stains, the products must fulfil a number of strict requirements in relation to production and the content of special chemicals, so the environmental impact is minimised. There are also requirements regarding the durability of the products:

"One of the reasons we chose the Nordic Swan Ecolabel for Flügger Wood Tex is because it places high demands on documentation of the wood stain's resistance and durability. The Swan label is the customer's guarantee that there has been no compromise on product quality, and the labelled wood stain has therefore also been thoroughly tested and documented in relation to being able to withstand the sun's UV rays, rain and moisture over a long period of time," says Lene Heitmann, Product Manager at Flügger.

### The green wave is growing

It is not only among private customers that greener wood stain is becoming more popular. According

to statistics from Nordisk Miljømærkning, there has been a marked increase in the number of Swan-labelled buildings in the Nordic region. This means that there are now 8,000 completed apartments, houses and daycare centres that carry the Nordic Swan ecolabel, and a further 18,000 under construction. This represents a fourfold increase in just three years (March 2016 to January 2019). Nordic Swan-labelled buildings place strict demands on substances that are harmful to the environment or health in building materials, including paint.

According to Lene Heitmann, Flügger is therefore continuing to focus on eco-labelled products:

"Consumers are paving the way for paint and wood stain to be as environmentally friendly as possible, and we must naturally be able to deliver. When we improve existing products and develop new ones, it is our objective to ensure that they can receive the Nordic Swan Ecolabel or EU Ecolabel, also known as the EU Flower."



Five of the products in the Flügger wood stain series have been awarded the Nordic Swan Ecolabel

## CASE

## Risks

Flügger is exposed to a number of risks, which vary according to industry, market and product area. The Board of Directors and Executive Board regularly consider the Group's overall risk profile and significant isolated risks.

The object of the Group's risk management is to identify and assess relevant risks and, if possible, to reduce them and minimise or control their impacts.

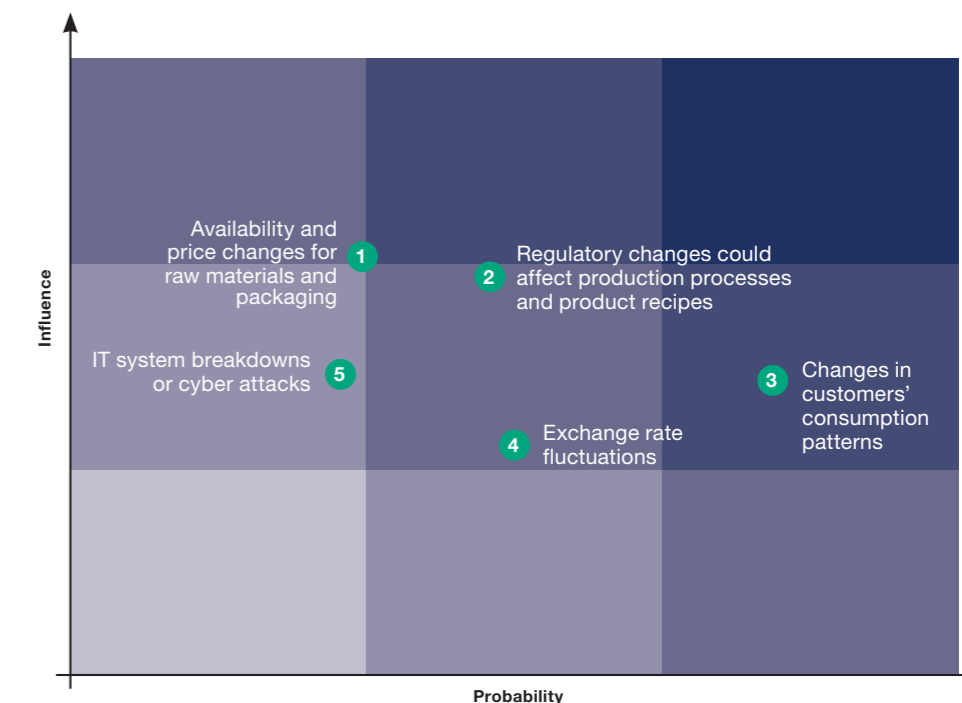
The Board of Directors is responsible for the Group's risk policy and assesses the Group's overall risk profile with the Executive Board on a continuous basis. The Executive Board is responsible for identifying, assessing and quantifying risk developments and handling day-to-day risks.

### Risk management and reporting

Flügger's risk management model is divided into production, sales and cross-group functions. This ensures that all functions in the organisation take care that the relevant risks are identified and managed on an ongoing basis.

### Flügger's risk matrix

Flügger's risks have been entered in the risk matrix based on the probability of them occurring and the impact on the financial statements if they occur. The risk picture is relatively unchanged from 2017/18, but a number of risks have been reduced as a result of establishing stronger production processes.



1

### Availability and price changes for raw materials and packaging

Flügger is dependent on the availability and prices of raw materials. This applies particularly to titanium dioxide, which is a key ingredient in paint production. It is difficult to directly pass higher raw material prices on to sales prices in the short term. Flügger has entered into agreements with at least two suppliers for all key raw materials, to be in the strongest possible position in relation to individual supplier's price increases or inability to deliver. Changes in the prices of raw materials are also closely monitored, so we can react quickly in the event of significant changes.

2

### Regulatory changes could affect production processes and product recipes

Requirements in relation to product contents, carbon footprint, environmental impact and labelling are constantly changing and demand that we always stay one step ahead of new requirements – whether they arise directly through legislation, or as requirements from customers. We are continually working to update product recipes and improve production facilities, so that they can meet future regulatory demands.

3

### Changes in customers' consumption patterns

We are seeing general trends towards urbanisation, digitalisation and fewer, larger stores. In order to remain at the forefront of these trends, Flügger has been consistently consolidating its store network in recent years, by approx. 4-5% per year. At the same time, Flügger has been developing e-commerce, with direct deliveries to customers. This is expected to compensate for the sales which will presumably be lost due to consolidation of the store network.

4

### Exchange rate fluctuations

Flügger is naturally protected in Denmark and Sweden, as sales and production both take place within the national borders. For Norway, Poland, China and the export markets, where there is no major production, there is increased exposure which is partly hedged through financial contracts. In the 2018/19 financial year, exchange rate fluctuations had a negative impact on EBIT of DKK 5 million.

5

### IT system breakdowns or cyber attacks

Flügger is dependent on stable IT systems in order to ensure that production is continuously matched to demand. Extended downtime for IT systems – whether caused by internal or external factors – could have significant financial consequences. We have strengthened the stability and resilience of these systems in recent years. This includes ensuring a solid platform for systems, which are hosted by external partners. We have also taken out the necessary insurance coverage to reduce the risks associated with cyber crime.

# Shareholders

## Why is Flügger listed

Flügger is a family-based limited liability company. Class B shares were listed on the NASDAQ Copenhagen A/S exchange in autumn 1983 at a price of DKK 875, or DKK 52 adjusted for bonus share issues and share splits in subsequent years. The company's class A shares are not listed.

The primary motivation behind the initial IPO was to give the company, which has substantial domestic market sales, the attention and PR value that a listed company receives. A secondary motive was to make it possible for family members who were not active in the company to sell their shares.

The company and the principal shareholder's intend to uphold the listing, as this is deemed to contribute to marketing and professional leadership, and to making the company an attractive workplace.

## Share buy back

Flügger has occasionally used surplus liquidity to buy back its own shares. The company has held over 100,000 shares in recent years, and has been reticent to acquire more, as the share liquidity has been relatively low. The Board of Directors and Executive Board have recently launched bonus and option programmes for executive employees, which could result in a need to buy back further shares. It is therefore expected that the Board of Directors will ask for the authority to buy back shares at the next general meeting, and that this authorisation will be granted.

## Dividend policy

It is the company's policy to distribute a relatively high dividend in relation to the market price and current market interest rate, with due consideration for the company's capital structure. Considerations related to possible share buy backs could result in a slight reduction to the dividend.

For the 2018/19 financial year, the Board of Directors is proposing that a dividend of DKK 10 be paid per DKK 20 share.

## Share capital and ownership structure

The share capital is divided into class A shares with 10 votes per share and class B shares with 1 vote per share. Only the company's class B shares are listed on Nasdaq Copenhagen A/S under ID code DK0010218189 with the abbreviation FLUG B. Danske Bank is the market maker for the shares.

At the end of the 2018/19 financial year, 1,339 shareholders were registered by name in the company's register of shareholders, which together accounted for 97.6% of the share capital and 99.1% of the votes. The company's holding of treasury shares amounted to 3.8% of the share capital. These shares are non-voting shares in accordance with the Danish Companies Act (Selskabsloven) and are valued at DKK 0.

### Composition of share capital – 30 April 2019

Amount	shares	%	votes	%
A shares	590.625	19,7	5.906.250	72,0
B shares	2.295.982	76,5	2.295.982	28,0
B shares in the company	113.393	3,8	-	-
<b>Total</b>	<b>3.000.000</b>	<b>100,0</b>	<b>8.202.232</b>	<b>100,0</b>

### Ownership structure – 30 April 2019

Main shareholders (>5%)	shares	%	votes	%
Susan Schnack	150.069	5,0	150.069	1,8
Ejendomsselskabet CASA A/S	300.590	10,0	300.590	3,7
Lisel Jakobsen	501.225	16,7	501.225	6,1
Ulf & Sune Schnack*	1.358.226	45,3	6.673.851	81,4
<b>Total</b>	<b>2.310.110</b>	<b>77,0</b>	<b>7.625.735</b>	<b>93,0</b>

\* Ulf and Sune Schnack (father and son) together own a total of 1,358,226 Flügger shares, of which 590,625 class A shares and 620,610 class B shares are held by SUS 2013 ApS (Flügger Holding).

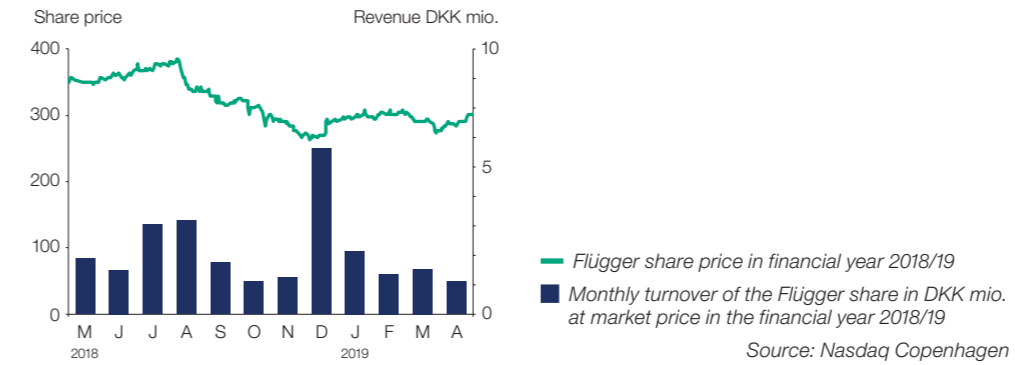
## Communication with investors

The company issues regular quarterly reports and statements to the market containing accounting figures and revised forecasts for the future, where necessary. These can be viewed on the company's website at [www.flugger.com/investor](http://www.flugger.com/investor).

The company seeks to maintain a high and reliable level of information, and is keen to participate in open and active dialogue with investors, analysts and the press in order to provide the share market with the best possible basis for pricing Flügger shares. However, the company refrains from conducting any detailed interviews during the last four weeks prior to the publication of financial reports.

Any questions can be addressed to Ulla Matthiesen, Head of Communication, on +45 4064 7587 or [ulma@flugger.com](mailto:ulma@flugger.com). We also refer interested parties to the Group's stakeholder and IR policy at [www.flugger.com/investor](http://www.flugger.com/investor).

## Price fluctuations and monthly trading volume for Flügger shares during the 2018/19 financial year



## Mio. DKK

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Share data ultimo</b>										
Outstanding shares of DKK 20, 1,000 shares.	2.942	2.904	2.904	2.902	2.878	2.877	2.877	2.877	2.881	2.887
Income or loss from ordinary activities after tax, per share, DKK	32,0	21,9	7,7	16,8	26,3	18,6	4,6	10,0	11,6	11,2
Diluted earnings per share, DKK (EPS, avg.)	32,0	21,9	7,7	16,8	26,3	18,6	4,6	10,0	11,6	11,2
Book value per share, DKK	258,4	274,9	266,6	283,8	291,1	298,6	281,8	277,1	263,9	257,1
Proposed dividend per share of DKK 20	12	15	6	9	13	15	15	15	15	10
Flügger market price	478	431	345	327	340	390	359	372	352	300
Price/earnings ratio (P/E), DKK	14,9	19,7	44,7	19,4	12,9	21,0	77,6	37,0	30,3	26,9
Price/book value, (P/B)	1,8	1,6	1,3	1,2	1,2	1,3	1,3	1,3	1,3	1,2
Flügger market value, DKK million	1.434	1.293	1.035	981	1.020	1.170	1.077	1.116	1.056	900
OMX PI index	385	430	420	494	643	860	854	876	886	924

## Definitions

### Outstanding shares

The total number of shares, less the company's own holdings, are used when calculating share data

### The company's market capitalisation

Number of outstanding shares (including class A shares) x share price

### Income or loss from ordinary activities after tax, per share, DKK

Net profit for the year per number of shares outstanding

### Book value per share, DKK

Net asset value for the year per number of outstanding shares

