

Summary of  
Annual Report 2019/20

# Flügger



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# Letter to the shareholders

The strategic initiatives implemented in recent years and the accelerated efficiency programme are now really beginning to bear fruit. Despite sharp competition and global uncertainty, we have prospered in the past year. In 2019/20, revenue was DKK 1,895 million, and earnings doubled to DKK 83 million. We have met our targets for the planned measures earlier than expected, and we are therefore bringing forward the updating of our strategy.

In the past year, we have still faced challenges on a number of our important markets, and we have intensified our efficiency programme to counter this. We have therefore succeeded in both generating growth and boosting our earnings significantly. Our original target for the efficiency programme, which was launched in the previous financial year, was to reduce consolidated costs by more than DKK 60 million p.a., once cost-cutting measures were fully implemented in 2020/21. But we met this target already in 2019/20.

### We have created a more sustainable platform for growth

Since the efficiency programme was launched, we have worked hard to consolidate our network of stores by reducing the number of own stores, optimising the remaining stores and strengthening our network of franchise stores. Since 2016/17, we have closed approx. 21% of our own stores across markets. In the past financial year, we have reduced the number of own stores by 16%, with some being converted to franchise stores. In the same period, the number of franchise stores has increased from 143 to 153, equal to a 7% increase. With the consolidation of our network of stores, we now have an adjusted and sustainable portfolio of stores and a stronger platform for generating profitable growth. We are also working intensively to optimise our production and distribution. For example, we are in the process of gathering all our production of water-based paints at our factory in Kolding, which is undergoing extensive modernisation. In addition, we are continuously optimising our formulas and purchases, and adjusting administrative functions. The sum total of these initiatives has had a positive effect on our earnings.

### We are expanding our activities in Poland

In November 2019, we acquired the majority shareholding in the Polish paint manufacturer Unicell. So far, we have sold our

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 13 August 2020 at 11.00 at the company's address:

Flügger group A/S  
Islevdalvej 151  
2610 Rødovre  
Tlf. 70 15 15 05  
flugger@flugger.com  
CVR-nr. 32788718





products via our own stores on the Polish market, but following the acquisition of Unicell, our presence in Poland has been expanded to include sales to independent resellers and builders' merchants (DIY), in line with our model in the Nordic region. Sales of private label products to other resellers and builders' merchants account for approx. 20 % of Flügger's total revenue, and we still see a great potential in this segment. With the acquisition of Unicell, Flügger is among the largest players in building paints and accessories on the main markets of Denmark, Sweden, Norway and Poland.

#### **We are changing our strategy in China**

As part of the reorganisation of our business, we have evaluated our presence on the Chinese market. Our current activities in China are significantly more limited than previously, and customers are increasingly demanding total solutions. In March 2020, we closed our factory in Shanghai, and we have reduced our network of resellers in China by approx. 30 % in the past financial year. We are considering how to continue with our remaining activities strategically, and we are, for example, trying to identify possible distributors with in-depth knowledge of the culture, customer behaviour and needs.

#### **COVID-19 has impacted our markets in various ways**

The rapid spread of COVID-19 in spring 2020 has wreaked havoc with the usual market forces, creating great uncertainty for us as management, our employees, customers and suppliers. Our markets and the individual links in the value chain have so far been impacted in different ways. In China, we saw an early shutdown of large parts of our distribution network, and although several stores have reopened, our revenue is significantly below pre-pandemic levels. Conversely, in Denmark we have experienced a positive sales effect, as many Danes have been on hiatus from their jobs and have had time for DIY projects. We have also seen a positive effect in Sweden, while Norway has been negatively affected due to the sharp devaluation of the Norwegian krone. In Poland, the authorities carried out a relatively consistent lockdown, leading to reduced activity, especially in March and April. As the revenue on the Danish market represents about 30 % of our total revenue, we have not been so hard hit in the short term. The longer-term consequences for the global economy and the impact on our business remain uncertain.

#### **New strategy – Going Green**

We have succeeded in establishing good momentum in our business and, to maintain this, we have chosen to update our strategy already now, rather than in 2020/21 as planned. The updated strategy, *Going Green*, will bring Flügger further along in the transformation from manufacturer to supplier of sustainable solutions for the painting profession.

Several of the current strategic priorities will be continued in the updated strategy, and our focus will remain on improving efficiency and ensuring profitable growth. *Going Green* focuses greatly on creating a more sustainable approach to the way we run and develop our business. Through the strategy initiatives, we will increase our resource and financial investments in a more sustainable business model. Our long-term milestone is to generate revenue of DKK 2.5 billion and to maintain an EBIT margin of +6 % in 2023/24. To meet these targets, we will intensify our focus on creating growth outside the stagnant Scandinavian market. The intention is that most of our growth is to be generated through acquisitions aimed at strengthening our position in Central and Eastern Europe.

#### **Thank you to employees, customers and shareholders**

The year has brought many changes, both externally and internally. A big thank you to all our employees for their great commitment, which has been an essential factor in us having come so far on our journey. Also a big thank you to our customers for good cooperation, input and requirements which continuously help develop and improve Flügger and our product range. Last, but not least, a big thank you to all our shareholders who have shown us confidence by investing in Flügger, and in our passion for paint and good craftsmanship. In 2020/21, we will work to achieve continued positive results, strengthen our position and create long-term value.

Carl F. S. Trock  
Chairman

Jimmi Mortensen,  
CEO

# Our DNA

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.



Ulf Schnack, Chief DNA Officer, has more than 60 years experience in Flügger.

# 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 have strengthened our position in Poland in 2019.

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. We see our key task as being 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 builders' merchants and the like. DAY-System sells paints and fillers under the Yunik brand, painting and cleaning tools under the Stiwx brand and Fiona design wallpaper. Flügger also owns and runs the Danish wholesale chain PP professional paint A/S.

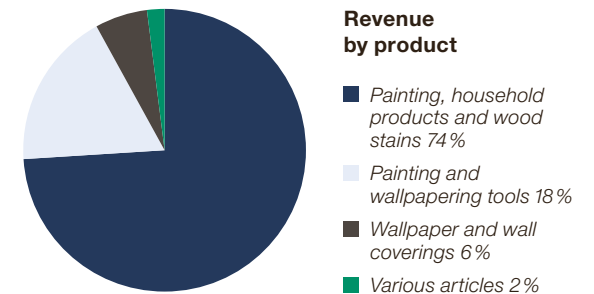
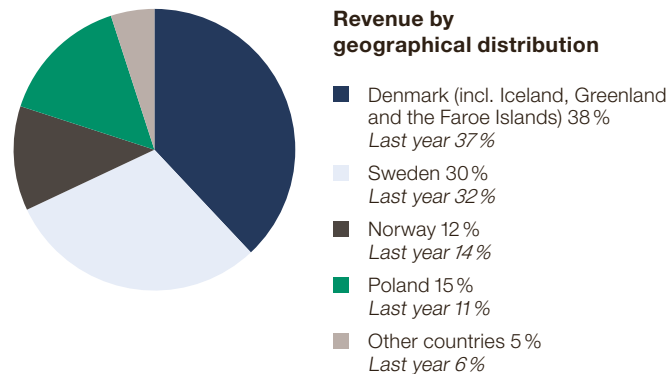
In 2019, we added DETALE CPH to the Flügger family. DETALE CPH produces coloured filler products that give a raw and modern look to walls, floors and furniture. The products are distributed through Flügger's stores in Denmark, Sweden, Norway

and Iceland. In 2019, Flügger also bought a majority stake in the paint manufacturer Unicell Poland Sp. z o.o., which is headquartered in Wasilków, Poland. The majority of Unicell's products are sold to dealers, builders' merchants and other retailers. Unicell has approx. 200 employees and generates an annual revenue of approx. DKK 145 million.

Our products are distributed through the retail chain Flügger farver, which consists of nearly 400 stores across markets. About two-thirds of these stores are owned by Flügger, with the last third being owned by franchisees, who are typically professional painters. On other export markets, the products are sold through independent resellers. The largest concentration of stores is in Denmark and Sweden, where we have a total of 269 stores. About half of our just over 1,700 employees work in the stores. Our main markets are Denmark (including sales to Iceland, Greenland and the Faroe Islands), Sweden, Norway and Poland. In addition, we have activities in China and exports to other countries such as France, Germany, the Baltics and Russia.

Flügger has a total of five factories in three countries, which produce tools, paints, fillers 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.



# Geographical overview

- Office/administration
- Headquarter
- Production

## Denmark – revenue 718 mio. DKK

Number of employees*	Own stores	Franchise stores
<b>475</b>	<b>64</b>	<b>91</b>

Inkl. Island, Grønland og Færøerne

## Sweden – revenue 564 mio. DKK

Number of employees*	Own stores	Franchise stores
<b>493</b>	<b>67</b>	<b>47</b>

## Norway – revenue 235 mio. DKK

Number of employees*	Own stores	Franchise stores
<b>171</b>	<b>34</b>	<b>15</b>

## Poland – revenue - 280 mio. DKK

Number of employees Flügger*	Number of employees Unicell*	Own stores
<b>285</b>	<b>193</b>	<b>54</b>

## China – revenue 44 mio. DKK

Number of employees*	Own stores	Resellers
<b>106</b>	<b>18</b>	<b>66</b>

## Export – revenue 54 mio. DKK

\* Number of fulltime employees per April 30 2020.



# Financial year 2019/20

Financial year 2019/20 = 1 May 2019 to 30 April 2020

## Revenue DKK million

1,895

2018/19: 1,824 mio. DKK

## Gross margin %

52.7

2018/19: 54.4 %

## EBIT mio. DKK

83

2018/19: 41 mio. DKK

## EBIT margin %

4.4

2018/19: 2.2 %

## Number of own stores

237

2018/19: 282

## Number of franchise stores\*

153

2018/19: 143

\*Excl. Flügger resellers in China as well Export countries

# Outlook 2020/21

In the 2020/21 financial year, revenue is expected to be around DKK 2 billion and with an EBIT margin of around 6%.

## Background

COVID-19 is impacting all the Group's markets in different ways. Denmark and Sweden are expected to be positively affected, while Norway and Poland and Other countries, including China, are adversely affected. In addition, Unicell will be included in the full 2020/21 financial year and will thus make a positive contribution to both revenue and earnings. Exchange rates have also contributed to the uncertainty under the COVID-19 crisis and they may still affect the revenue in both an upward and a downward direction in the coming financial year.

Overall, increased sales to consumers are expected on all main markets in Q1 2020/21, as experience has shown that many persons perform maintenance work in their homes during the COVID-19 lockdown. However, this situation is expected to normalise in line with consumers returning to work. Especially for Q3 and Q4 2020/21, we expect lower activity driven by fewer building projects for the professional segment.

The EBIT margin is expected to develop positively as a result of the implemented efficiency programme as well as reduced one-off costs in the coming year.



# Flügger 10 years' development

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
<b>Income statement</b>										
Revenue	1,591	1,760	1,874	1,924	1,833	1,850	1,849	1,818	1,824	1,895
Gross profit/loss	877	940	1,001	1,036	1,015	998	1,025	1,011	992	998
EBITDA	139	98	128	152	122	82	119	119	88	212
Adjusted EBIT	-	-	-	-	-	-	-	-	66	116
EBIT	85	40	68	88	65	21	44	58	41	83
Net financials	5	-4	-4	-2	1	2	-2	-1	1	-7
Profit/loss before tax	91	36	64	87	66	23	41	56	41	76
Net profit/loss for the year	64	22	49	76	54	13	29	33	32	60
Profit/loss after tax and minority interests	64	22	49	76	54	13	29	33	32	58
<b>Balance sheet</b>										
Balance sheet, year-end	1,152	1,253	1,226	1,183	1,250	1,243	1,189	1,139	1,095	1,691
Equity, year-end	798	774	824	838	859	811	797	760	742	787
Interest-bearing debt, (-)/cash and cash equivalents (+)	79	-71	-17	78	55	28	124	154	145	-301
Interest-bearing debt, excl. leasing (-)/cash and cash equivalents (+)	79	-71	-17	78	55	28	124	154	145	105
Working capital	254	336	336	296	322	324	270	255	281	217
<b>Cash flows</b>										
Cash flow before financing and tax	112	31	145	183	78	74	172	107	59	287
Cash flow from operating activities	80	6	120	172	85	67	158	96	51	272
Cash flow to investing activities	-57	-66	-13	-44	-67	-41	-24	-21	-15	-159
Cash flow to financing activities	-45	72	-99	-108	-12	-12	-97	-54	-34	-126
Investments in property, plant and equipment	53	68	29	19	40	39	22	17	16	59
<b>Financial ratios*</b>										
Gross margin %	55.1	53.4	53.4	53.8	55.4	53.9	55.4	55.6	54.4	52.7
EBITDA margin %	8.7	5.6	6.8	7.9	6.7	4.4	6.4	6.6	4.8	11.2
EBIT margin %	5.4	2.3	3.6	4.6	3.5	1.1	2.4	3.2	2.2	4.4
Return on equity %	8.1	2.8	6.1	9.1	6.3	1.6	3.6	4.3	4.3	7.6
Equity ratio %	69.3	61.8	67.2	70.8	68.7	65.2	67.1	66.7	67.8	46.5
Full-time employees, average	1,540	1,650	1,625	1,572	1,575	1,550	1,533	1,486	1,481	1,624

## Definitions

### Gross margin %

Gross profit as a percentage of revenue

### EBITDA margin %

Operating profit before depreciation, amortization and writedowns as a percentage of revenue

### EBIT margin %

Operating profit as a percentage of revenue

### Return on equity %

Income or loss from ordinary activities after tax as a percentage of average equity

### Equity ratio %

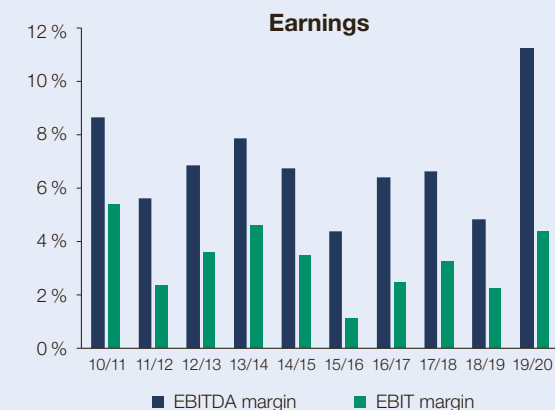
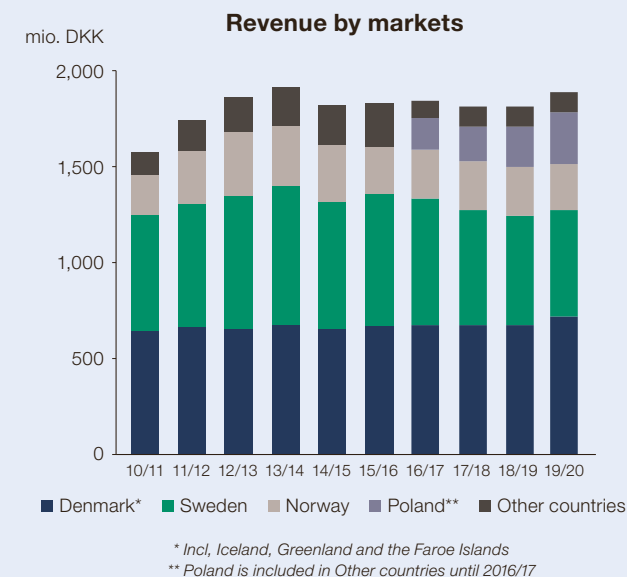
Equity at year-end as a percentage of liabilities at year-end

### Adjusted EBIT

EBIT adjusted for one-off costs related to restructuring and acquisitions/divestments of activities.

Equity-related ratios p. 27

\* Financial ratios have been calculated based on the Danish Society of Financial Analysts- recommendations.



# Financial review 2019/20

The Group's operating profit, EBIT, was DKK 83 million against DKK 41 million in the previous year. The positive development in profitability is primarily attributable to the Group's efficiency improvements with reductions in administrative expenses, fewer own stores and production efficiency improvements. Adjusted for one-off costs paid, EBIT amounted to DKK 116 million against DKK 66 million in the previous year.

## Sales development

### Sales Denmark, incl. Iceland, Greenland and the Faroe Islands:

#### **DKK 718 million (+5%)**

Sales on the Danish market increased by 5%. This sales growth is satisfactory, given that seven of our own stores were closed during the year. Organic growth was primarily driven by rising sales to professional customers as well as to consumers and franchisees. The number of franchise stores increased by four during the year.

Sales in Denmark were positively affected by the COVID-19 pandemic, as consumer sales and DIY sales increased significantly in Q4, which saw organic growth of 28%.

Our competitors on 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 just over 30%.

### **Sales Sweden: DKK 564 million (-2%) – local currency SEK 808 million (-1%)**

Sales on the Swedish market were negatively impacted by the declining Swedish krone, combined with a decrease of 12 own stores. As expected, parts of the sales from the closed stores could be moved to existing stores, and the existing stores have thus seen a solid increase in sales.

The Swedish Government chose to keep the Swedish society open in connection with COVID-19, and sales in Sweden were not affected by COVID-19 to the same extent as in Denmark.

Our competitors in building paints and natural accessories in Sweden are primarily Finnish Tikkurila, Dutch AkzoNobel, Norwegian Jotun and German Caparol. Flügger has an estimated market share of just under 20%.

Sales development mio. DKK	4. quarter		Nominal growth	Organic growth**	Full year		Nominal growth	Organic growth**
	2018/19	2019/20			2018/19	2019/20		
Sales Denmark*	165	211	28%	28%	682	718	5%	5%
Sales Sweden	140	148	6%	7%	573	564	-2%	-1%
Sales Norway	62	56	-9%	3%	257	235	-9%	-4%
Sales Poland	52	96	84%	6%	203	280	38%	9%
Sales Other countries	27	11	-59%	-59%	109	98	-10%	-9%
<b>Revenue</b>	<b>446</b>	<b>522</b>	<b>17%</b>	<b>10%</b>	<b>1,824</b>	<b>1,895</b>	<b>4%</b>	<b>1%</b>

\* Incl. Iceland, Greenland and the Faroe Islands

\*\* Organic growth is calculated as the development in revenue adjusted for currency impact and acquisitions/divestment of companies

## Efficiency programme

In autumn 2018, Flügger launched an efficiency programme comprising administration, product formulas, network of stores as well as direct and indirect purchasing. A number of one-off costs are incurred in connection with the programme for severance pay to dismissed employees, rent for vacant premises, consultants' fees, company acquisition and production conversions. During the year, the initiatives were implemented more quickly than originally planned and are estimated to have a positive effect on earnings of around DKK 60 million compared with last year.

### Effect of efficiency programme on EBIT in 2019/20

DKK million	2019/20
Administration	13
Formulas	16
Stores	9
Purchasing	22
<b>Total</b>	<b>60</b>

## One-off costs

In addition to the strategic measures, a number of one-off costs are incurred.

DKK million	2019/20
Factory adaptations	10
Stores, adm.	15
Company acquisitions	8
<b>Total</b>	<b>33</b>



**Sales Norway DKK 235 million (-9%)  
– local currency NOK 319 million (-4%)**

The Group has faced major challenges on the Norwegian market, which has been hit hard by a declining Norwegian krone in connection with the COVID-19 pandemic. The Group reduced the number of own stores from 40 to 34 and increased the number of franchise stores from 10 to 15 in the financial year.

The market is dominated by local player Jotun with a market share of approximately 70% and Gjøco with a significantly lower market share. The international suppliers present in Denmark and Sweden are also present in Norway, but with a low market share. Flügger's market share is approximately 15%.

**Sales Poland : DKK 280 million (+38%)  
– local currency PLN 163 million (+39%)**

The positive trend of the current activities in Poland continued along the lines of previous years, with a 9% increase in revenue denominated in local currency and before acquisitions. COVID-19 impacted organic growth negatively in Q4. The Group succeeded in keeping virtually all stores open during the pandemic, but activity volumes were greatly reduced as a result of a general curfew.

The number of own stores was reduced from 57 to 54 and the Group succeeded in moving customers to other Flügger stores or to e-commerce.

On 25 November 2019, the Group acquired 60% of Unicell, which produces and sells paint products to DIY chains, primarily in Poland. The company is recognised 100% in the consolidated financial statements as from the acquisition date. Unicell generated revenue of approximately DKK 62 million from the acquisition date to the end of the financial year.

With the acquisition of Unicell, the Group is strengthening its presence in Poland and gains important competences in relation to the DIY segment, which can be used in the Nordic region.

**Sales – Other countries: DKK 98 million (-10%)**

The largest export market is China, where the Group has been active for more than 20 years with its own small factory located in Shanghai. The factory has been closed in spring 2020, as the customers prefer to buy imported goods from Scandinavia. Sales in China have been hit hard by the COVID-19 pandemic, not least in Q4 2019/20. In addition to China, the Group has significant sales to the Baltics, Russia, France and Germany.

**Cost and profit development**

In 2019/20, production costs amounted to DKK 897 million against DKK 831 million for the same period in the previous year, equal to a gross margin of 53% in the past year, against 54% in the previous year. The slight decrease is due to changes in product mix with higher sales of private label products, high one-off production costs and a gross margin reduction resulting from production in Polish Unicell.

Sales and distribution costs amounted to DKK 732 million against DKK 766 million in the previous year. The decrease, including recognition of costs from Unicell since 25 November 2019, is due to fewer stores and to the Group's efficiency programme.

Administrative expenses decreased by DKK 1 million, from DKK 179 million to DKK 178 million, and constitute approx. 9% of the revenue. The increase is largely due to one-off costs and recognition of Unicell.

The Group's EBIT amounted to DKK 83 million, more than a doubling of last year's DKK 41 million. Adjusted EBIT, i.e. after one-off costs, amounted to DKK 116 million, against DKK 66 million last year.

The Group's financial items resulted in costs of DKK 7 million against income of DKK 1 million last year, which is primarily due to the implementation of IFRS 16, which has had a negative

**IFRS 16**

The Group implemented IFRS 16 at the start of the financial year on 1 May 2019. IFRS 16 has been implemented in accordance with the relaxation rule, with no correction of comparative figures. The Group's affected leasing assets are primarily leases and vehicles.

The financial effect of IFRS 16 can be itemised as follows:

DKK million	2019/20
<b>Income statement</b>	
EBITDA	86.4
EBIT	1.4
Net financial items	-8.2
Profit/loss for the period	-6.8
<b>Balance sheet</b>	
Fixed assets	401.2
Long-term liabilities	-320.9
Short-term liabilities	-85.1
<b>Cash flows</b>	
Cash flows from operations before financing and tax	86.4
Cash flows for financial items	-8.2
Cash flows to financing activities	-78.2

**Cost development**

DKK million	2018/19	2019/20	Change
Production costs	-831	-897	8%
<b>Gross profit/loss</b>	<b>992</b>	<b>998</b>	<b>1%</b>
Sales and distribution costs	-766	-732	-5%
Administrative expenses	-179	-178	-1%
Impairment goodwill	0	0	
Other income/costs	-6	-5	-9%
<b>Operating profit, EBIT</b>	<b>41</b>	<b>83</b>	<b>104%</b>

effect of DKK 8 million on financial items. Corporation tax amounted to DKK 15 million, equal to a tax rate of 20% against a tax rate of 22% for the previous year. Profit after tax for the year was DKK 60 million against DKK 32 million last year. After deduction of minority interests of DKK 2.5 million, the net profit for the year was DKK 58 million.

### Balance sheet

The consolidated balance sheet total amounted to DKK 1,691 million as at the end of the 2019/20 financial year against DKK 1,095 million last year. The increase of DKK 596 million in assets comes primarily from the recognition of leasing assets of DKK 401 million as a result of the implementation of IFRS 16. Added to this is DKK 106 million from acquired Unicell. Modernisation of the factory in Kolding and the filler production in Bollebygd in Sweden contributed DKK 54 million.

The working capital of DKK 217 million is DKK 64 million down on last year. The decrease is due to reduced stocks and extended payment deadlines on VAT and tax payments.

On the liabilities side, the equity increased by DKK 45 million to DKK 787 million before deduction of minority interests of DKK 33 million. Net interest-bearing debt, which was positive at DKK 145 million, amounted to net debt of DKK 301 million. The change totalling DKK 446 million comes from Unicell as well as

from short-term and long-term leasing obligations of DKK 406 million recognised in accordance with IFRS 16.

Bank debt, trade debtors and other payables amounted to DKK 447 million against DKK 332 million last year.

### Cash flows

Cash flows from operating activities after financial items and paid tax were DKK 272 million against DKK 51 million in the previous year, which is due to increased earnings, reduced working capital and DKK 86 million from the implementation of IFRS 16. Cash flows to investments are composed of DKK 86 million for company acquisition and DKK 73 million for purchases of fixed assets. Cash flows to financing activities amounted to DKK 126 million, of which DKK 10 million was used for increased bank debt, DKK 87 million for leasing costs and DKK 29 million for distributed dividends.

Cash and cash equivalents amounted to DKK 137 million against DKK 156 million last year.

### Events occurring after the end of the financial year

No events have occurred after the end of the financial year which materially affect the contents of this annual report for 2019/20.

### Balance

mio. DKK	30.04.19	30.04.20	Change
Intangible assets	101	183	81 %
Property, plant and equipment	215	687	219 %
Deferred tax asset	5	18	283 %
Inventories	324	299	-8 %
Receivables	293	366	25 %
Securities, cash and cash equivalents	157	138	-12 %
<b>Total assets</b>	<b>1,095</b>	<b>1,691</b>	<b>54 %</b>
Equity	742	787	6 %
Deferred tax	7	21	184 %
Leasing liability	0	406	
Bank debt etc.	12	32	169 %
Suppliers	151	189	25 %
Income tax	14	20	41 %
Other payables	169	236	40 %
<b>Total liabilities</b>	<b>1,095</b>	<b>1,691</b>	<b>54 %</b>

### Cash flow statement

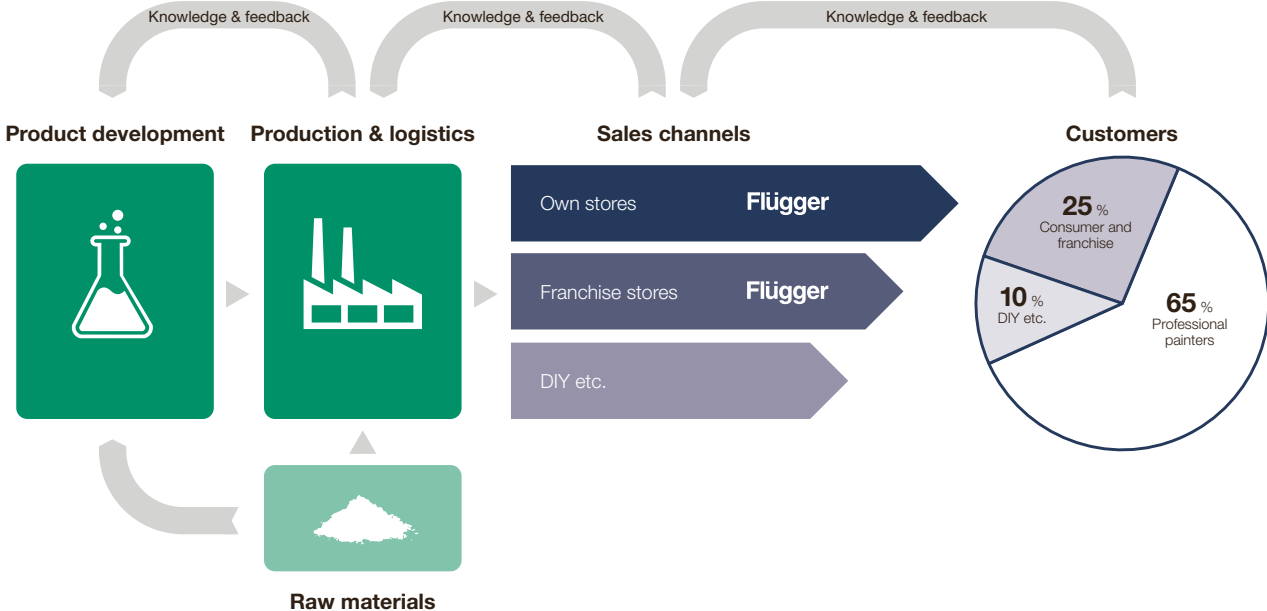
mio. DKK	30.04.19	30.04.20	Change
Cash flows from operating activities	51	272	432 %
Cash flows to investing activities	-15	-159	959 %
Cash flows to financing activities	-34	-126	273 %
Cash and cash equivalents, year-end	156	137	-12 %

# 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.



# A strong and healthy store network

The physical meeting with the customers has always been an important part of Flügger's business model. Rising e-commerce and sharp competition have made conditions more difficult for the physical stores in recent years. To accommodate this trend, Flügger has consolidated and adjusted its own network of stores in the past few years.

The ambition has been to close approximately 5% of Flügger's own stores annually on the Group's main markets. Compared with the same period last year, Flügger has reduced the number of its own stores across markets from 282 to 237, equal to a 16% reduction, at the end of the 2019/20 financial year. In the same period, the number of franchise stores has increased from 143 to 153, equal to a 7% increase. The biggest reduction in stores has been in China, where the number of own stores has been halved from 35 to 18\* in just one year. We will continuously evaluate and adjust the overall network of stores to ensure that it is healthy and profitable, but we do not expect significant reductions in the number of stores in the future.

## Focus on the professional painter

Flügger's own stores have the professional painter as their primary focus. We are therefore continuously working to optimise

*\* Incl. 11 planned closures, which are expected to have been completed at the beginning of the 2020/21 financial year.*

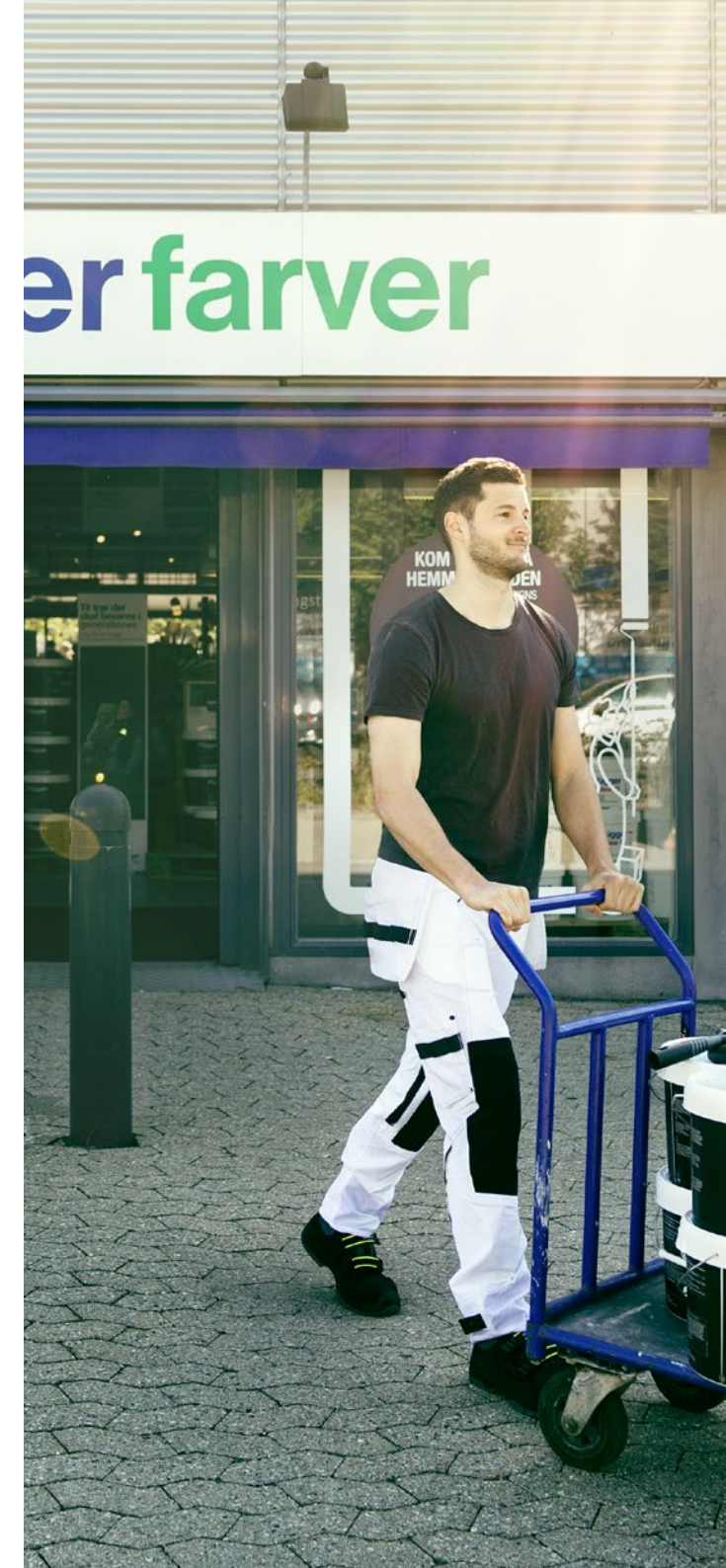
Store network		2016/17	2017/18	2018/19	2019/20	Development 3 years		Development last year	
Sweden	Own	82	80	79	67	-15	-18%	-12	-15%
	Franchise	54	52	46	47	-7	-13%	1	2%
Norway	Own	50	45	40	34	-16	-32%	-6	-15%
	Franchise	12	9	10	15	3	25%	5	50%
Denmark**	Own	80	76	71	64	-16	-20%	-7	-10%
	Franchise	113	92	87	91	-22	-19%	4	5%
Poland	Own	64	57	57	54	-10	-16%	-3	-5%
China	Own	24	31	35	18	-6	-25%	-17	-49%
Flügger group	Own	300	289	282	237	-63	-21%	-45	-16%
	Franchise	179	153	143	153	-26	-15%	10	7%

\*\* Including Iceland, Greenland and the Faroe Islands

accessibility for this customer group – in terms of store locations close to major access roads and good parking facilities, and by offering the customers efficient digital solutions and services that can help them save time. Flügger is continuously establishing large stores that act as professional painter centres and optimising selected existing stores.

## Franchise of the future: Flügger farver +

Flügger collaborates with franchisees in Denmark, Sweden and Norway and wants to increase the number of franchise stores in the Nordic region – both by welcoming new franchisees and through existing franchisees who want to add more stores to their portfolio. The role of franchise stores in Flügger is evolving as customers increasingly want to buy the overall package, i.e. both the product and the performance of the actual work. In the franchise stores, the customers most often meet a professional painter behind the counter, and we therefore believe that our portfolio of franchise stores will play an increasing role in Flügger in the future. To strengthen the franchise concept in Flügger, we will gather the franchise chains in the Nordic region under one inter-Nordic concept with a joint strategy, digital platform, increased accessibility and a wider, coordinated joint product range. The stores will be named 'Flügger farver +', where the addition of the plus indicates that customers can get something extra in these stores, i.e. a total solution for their project. We expect to launch the concept by the end of 2020.







## Going Green: Updated strategy

In 2017, Flügger launched the 'Securing the Legacy' strategy, which focuses on stabilising the core business and creating a platform for profitable growth through increased efficiency. In autumn 2018, we also launched an efficiency programme aimed at accelerating the ongoing transformation of Flügger. In this programme, we have focused on cutting costs and streamlining processes across the Group, including through consolidation of our network of stores and production. The target for the efficiency programme was an EBIT improvement of DKK +60 million in 2020/21 from the level in 2016/17. We have already met these targets in 2019/20.

We want to maintain the good momentum we have created in our business. Therefore, we have decided to update our strategy already this year, rather than in 2020/21 as planned. The strategy – *Going Green* – aims to ensure continued momentum and the development of Flügger in a sustainable direction, both as a business and environmentally.

### Supplier of solutions

In recent years, we have worked hard to transform Flügger from a manufacturer of paint products to a supplier of customer-oriented solutions. Our core business is still to manufacture and supply quality products at the right price. However, our customers' needs are constantly changing and we must develop in step with – and preferably at the forefront of – this trend. Our professional customers increasingly demand digital solutions and services that help improve the efficiency of and facilitate their workday. Our private consumers want increased digital presence, inspiration and guidance – both online and in our physical stores. We will focus on solutions that go beyond product quality and price and that create maximum value for all our customers.

*The packaging for Flügger's Woodtex series, which are products for outdoor wood protection, contains 50% recycled plastic.*

### Increasing international focus

Over the years, Flügger has developed from a Scandinavian to an international player. Most recently, we have strengthened our position on the Polish market with the acquisition of a majority stake in the Polish paint manufacturer Unicell, and we now regard Poland, Denmark, Sweden and Norway as our main markets. We want to build on our international presence and create continued growth both inside and outside the Nordic region.

### Six focus areas

The strategy comprises six focus areas that are critical to whether we succeed in generating further growth, so that we can continue investing in new value-creating measures to the benefit of our customers and shareholders. Our financial milestone is to generate revenue of DKK 2.5 billion and achieve an EBIT margin of +6% in 2023/24.

As part of our strategy, we have also set both short-term and long-term sustainability targets. By 2030, Flügger will work towards CO<sub>2</sub>-neutral production, to use 75% recycled plastic in our packaging and to produce 100% sustainable paints labelled with either international or Nordic ecolabel. You can read more about our climate and environmental objectives on pages 16-23.

### Execution and follow-up of the strategy

*Going Green* sets the framework for the initiatives and activities in the coming years aimed at taking Flügger to a new level of momentum and sustainability. We are already implementing a large number of initiatives in the individual focus areas, and we expect to see positive results from this in the coming financial year. We will report systematically on these initiatives and results, and we will continuously assess the value of the strategic initiatives to ensure continued momentum in the development of Flügger.

# Our strategic focus areas

## DIGITALISATION



### Closer to our customers and their needs

Our customers' buying process increasingly begins online, where they search for inspiration, advice and guidance on how to use our products. To Flügger, accessibility has historically meant being physically available in closely interspersed stores. Going forward, this will largely mean that Flügger must be available whenever the customer needs it. We must be capable of offering a combination of digital solutions, e-commerce and physical stores. Accordingly, we will continuously develop our digital BtB platform across our European markets and expand our digital BtC platform for our private customers, which is focused on instilling customer loyalty and generating traffic to our physical stores.

## STORE PORTFOLIO



### Top priority to serving our customers

We will maintain focus on ensuring ideal geographical location of our stores, the right product range and expert guidance. We are increasingly establishing bigger stores/professional painter centres targeting the needs of professional customers. We want to continue to strengthen our franchisee portfolio, where serving private customers is paramount and where customers can also buy help for painting tasks.

## COMPOUND GROWTH



### Striking the right balance between organic growth and growth through acquisitions

Recent years have seen markets stagnate and the intensification of competition for market share in the Nordic region. Our ambition for the Nordic region is to retain our position and market share. We must achieve this by strengthening our BtB sales platform through our own Flügger stores and BtC sales through franchises, builders' merchants and our own stores.

In Central and Eastern Europe, we will continue to develop our business and consolidate our presence through value-adding acquisitions. We want to evaluate our business opportunities in emerging markets, including exports. At the same time, we are focused on adapting and strengthening our business relationships for activities in China, such as by identifying the possibility of using distributors with in-depth knowledge of local culture, customer behaviour and needs.

## FOCUS IN 2020/21

- Developing and implementing our BtB e-commerce platform in all countries
- Offering activities and initiatives that support the BtB platform, including loyalty programme, competence building etc.
- Further developing our BtC platform, including Click & Collect, as well as measures aimed at creating customer loyalty and traffic to the stores

## FOCUS IN 2020/21

- Launching a new, joint Nordic franchise setup under the name Flügger farver +, where the focus is on streamlining and strengthening offers to private consumers
- Expanding the number of franchise stores – both by welcoming new franchisees and by increasing the involvement of existing franchisees in Flügger
- Optimising Flügger's own network of stores

## FOCUS IN 2020/21

- Establishing a joint DIY platform that can form the basis for further growth in Europe
- Creating organic and acquisitive growth in Central and Eastern Europe, including Poland
- Customising our setup in China, including mapping the use of distributors

## ASSORTMENT AND STOCK

### Optimising product lines and stock management



To keep our product range relevant and simple, it is essential that we continuously streamline our range and improve our stock management across markets. This optimisation will help us focus on generating higher turnover rates of inventoried goods and reducing waste.

## FOCUS IN 2020/21

- Optimising and standardising our product range through a single product range model, so that we ensure a consistent offer of products across markets. As part of this process, we will integrate and make Unicell's products available in the joint product portfolio
- Improving our stock management, thus increasing the rate of turnover of stocked items
- Increasing the agility of processes for phasing products in and out more quickly, thus boosting sales and reducing wastage

## OPERATIONAL FOOTPRINT

### Consolidation of production and distribution



By harmonising our product range across markets, we maximise the use of our production capacity. This will enable us to consolidate our production and distribution processes further, thus reducing costs, CO<sub>2</sub> emissions, water consumption and wastewater discharge. Improving our logistics setup will enable us to make our products more accessible across markets.

## FOCUS IN 2020/21

- Developing and implementing delivery solutions that support and meet customers' current and future needs and requirements
- Focusing on sustainable solutions in production, packaging and products. Flügger has set a target towards 2030 to work towards a CO<sub>2</sub>-neutral production, to use 75 % recycled plastic in our packaging and to produce 100 % sustainable paints.
- Increasing production efficiency, safety and capacity through continued consolidation of production in connection with the Group's local markets

## VALUE-BASED PRICING

### Fair prices for our services



We will strengthen competitiveness through a pricing structure that is fair, simple and transparent and which is easy for us and our customers to navigate across channels and customer segments. Flügger provides a wide range of services that facilitate our customers' workflows and processes, including technical service, delivery and payment service. Production and purchasing costs must be reduced by consolidating our production processes and improving our procurement agreements. The value-based pricing structure aims to ensure that the cost-cutting measures benefit both Flügger and its customers.

## FOCUS IN 2020/21

- Establishing and rooting a transparent, fair and simple price structure in which all services are priced
- Increasing our gross margin through lower production costs, improved formulas and purchasing agreements

# Toward a greener Flügger

Flügger has been on a long journey towards becoming an increasingly sustainable manufacturer of paint products and accessories. From the establishment of a factory in Kolding that produced water-based and eco-friendly building paints as early as in 1970, to dedicated work with environmental management and the achievement of a large number of sustainability certifications of paints in the past decade. In Flügger, corporate social responsibility forms an integral part of our DNA, and, in the past year, we have made tangible our ambitions to create an even more sustainable Flügger by 2030.

In *Going Green*, our strategy for the overall business for the period 2020/21 to 2023/24, a greater degree of sustainability is an essential criterion for success.

In connection with the drafting of the strategy, we have, for example, interviewed customers, employees and experts. We have also performed a materiality analysis and a systematic review of our entire value chain. We have chosen to use the UN

Sustainable Development Goals, which were adopted at the General Assembly of the United Nations in 2015, as a framework for the development and setting of focus areas, objectives, targets, initiatives and actions. Among the Sustainable Development Goals, we have chosen to focus especially on the following three goals:

- Goal 12: Responsible Consumption and Production
- Goal 14: Life Below Water
- Goal 3: Good Health and Well-Being

Flügger has also chosen to focus on two supplementary Sustainable Development Goals to support the strategy for employees (Goal 8: Decent Work and Economic Growth) and partnerships (Goal 11: Sustainable Cities and Communities), respectively.

We have set an ambitious and tangible ambition for 2030 for three focus areas in which we have a special obligation and an

opportunity to make a noticeable difference – and concurrently to help push the market for paints and accessories in a more sustainable direction.

### Our three focus areas towards 2030 are:

- ReColor Production: CO<sub>2</sub>-neutral production
- ReColor Packaging: 75 % recycled plastic
- ReColor Paint: 100 % sustainable paints

In accordance with the Sustainable Development Goals, 2015 is the base year for our initiatives and actions. As part of our strategy, we have set sub-targets for our initiatives and actions towards 2023/24.

### A solid foundation

We have established a solid foundation and well-defined framework for our future work to make sustainability an even more integral part of Flügger's strategy.

Flügger's values are an expression of our corporate culture and the expectations we have for each other, our employees and partners. They are also an expression of a strong desire to create sustainable development. The object of our Code of Conduct is to ensure that the Group's activities are carried out in accordance with our set of values and it constitutes the foundation of our CSR and sustainability work. It is based on the OECD Guidelines for Multinational Enterprises and the UN Global Compact's 10 principles for corporate social responsibility.

Flügger's Code of Conduct also serves as a central tool to support that all our employees know the Group's rules and guidelines for relations with customers, suppliers and authorities as well as the handling of sensitive information and personal data. Our Code of Conduct is available on [www.flugger.com](http://www.flugger.com).

### Materiality analysis

In the past year, we have conducted a materiality analysis aimed at identifying key focus areas and trends for our primary

## Focus on Sustainable Development Goals





stakeholders. We have used this insight to prioritise our sustainability initiatives and actions.

Based on the analysis results, there is special focus on climate, recycling, packaging and green products. The analysis also contributes to the mapping of our risks, including to the contents of our Code of Conduct and policies.

### Risks

Mapping the main risks connected with our activities is an important part of our corporate social responsibility, both for the surrounding society and for Flügger and our employees. The most significant environmental and climate risks relate to emissions, discharges and waste fractions. This applies to those caused by our own production and our products as well as to emissions from purchases of raw materials from suppliers. Regarding labour conditions, safety is a risk factor for our employees. In terms of human rights, the protection of personal data is a continuous focus area to ensure and respect the rights of our employees, customers and partners. In addition, the continuous development and strengthening of anti-corruption and anti-bribery legislation requires ongoing focus on proactive compliance in this area, particularly in high-risk countries.

### Guidelines

Our Code of Conduct contains guidelines for the areas covered by the UN Global Compact and Section 99a of the Danish Financial Statements Act (Årsregnskabsloven). Our actions and results in relation to risk conditions are presented for each area.

**The guidelines for environment and climate** stipulate that Flügger is committed to protecting the environment and works to reduce the environmental impact of its activities, products and processes. Flügger is constantly looking for methods for reducing consumption of resources, and we focus in particular on reducing energy and water consumption and increasing transport efficiency. In addition, Flügger is working to reduce its climate impact based on rules or agreements on the reduction

of all emissions, greenhouse gases and discharges to air, soil or water. Our objectives, targets, actions and results in the environment and climate are set out in the ReColor Production section on page 18.

Our **guidelines on human rights** stipulate that Flügger supports and respects international human rights conventions. Anyone who works directly or indirectly for Flügger is entitled to have their fundamental rights respected as described in the UN Universal Declaration of Human Rights. We perform ongoing evaluations of our suppliers to ensure that there are no violations of human rights.

All our suppliers and partners are generally covered by our Code of Conduct. Flügger's suppliers are evaluated based on their ability to meet the requirements, and we perform ongoing supplier evaluations.

### Personal data

The General Data Protection Regulation is about handling the security of the personal data to which Flügger has access and processes. In Flügger, virtually all employees who handle personal data as part of their function have taken and completed our GDPR e-learning programme in the past financial year. The training equips our employees to understand and comply with the rules and to show extra consideration. In Denmark and in Iceland, 100% of our employees have completed the training, and the objective is that all employees for whom this is relevant must complete the programme.

Our **guidelines on workers' rights** are based on Flügger's support and respect for local labour law. The working environment must comply with national legislation, regulations and industry standards. Flügger gives high priority to the safety of employees, customers and guests, and continually works to optimise the working environment in factories, offices and stores.

Flügger works actively with risk assessment and the elimination of potential sources of incidents, accidents or conditions that affect human health and well-being. At the beginning of 2020, Flügger has employed a Group Health and Safety Coordinator to increase the safety work and initiatives further. Our objective is to be able to make standardised safety reports across the Flügger Group in the coming financial year. Objectives, actions and results for employee satisfaction are presented in the section Great Place to Work under 'Employees' on page 23.

Flügger's **guidelines for anti-corruption and anti-bribery** make it clear that employees and partners must not participate in any kind of fraud. Gifts, rewards and benefits, including hidden commission or kickbacks, which may unduly influence the recipient's behaviour are regarded as bribery, and employees must not accept, offer or give bribes in any form.

It is mandatory for the majority of our employees to complete the e-learning programme in our Code of Conduct once a year. At the same time, this e-learning is a permanent part of our onboarding programme for new employees, and it must be completed within the first 14 days of employment. A total of 90% of Flügger's employees have completed the training in our Code of Conduct in 2019/20 with the exception of factory and warehouse staff. Our objective is to increase the proportion of employees who complete e-learning in our Code of Conduct.

Our whistleblower scheme is available to all employees and partners. We have not received reports of corruption or bribery in 2019/20.

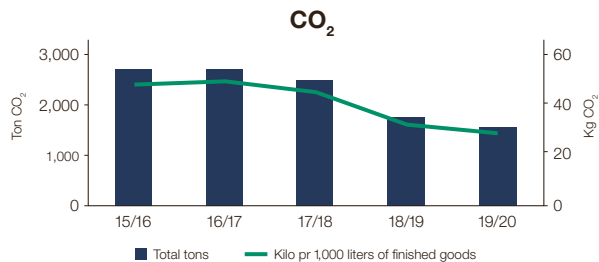
# ReColor Production

As a manufacturer of paints, wallpaper, accessories etc., we have a high consumption of raw materials and materials, and we generate emissions and discharges, waste and wastewater. Our long-term focus area under ReColor Production is to become CO<sub>2</sub> neutral in our production in 2030. In addition, we have three focus areas in the current strategy period, which runs up to and including the 2023/24 financial year. The objective has been set in relation to our 2015/16 baseline, as seen in the graph for energy and CO<sub>2</sub> emissions.

## CO<sub>2</sub>

**We will reduce CO<sub>2</sub> emissions per litre of paint produced by 50% by the end of 2023/24**

The reduction in CO<sub>2</sub> emissions to date can be attributed to systematic work on energy efficiency improvements and to an improvement in the energy mix of utility companies, which is constantly being converted to more sustainable forms of energy.

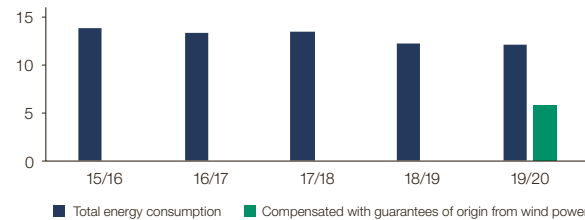


The reductions in energy consumption since our base year have thus primarily been achieved through systematic optimisation of production equipment and processes, and lighting projects with conversion to LED sources. At the factory in Bodafors, Sweden, we have replaced old plastic moulding machines with new, energy-efficient machines, and we have changed the heating form from oil firing to district heating. In Bollebygd, Sweden, we have switched from heating with fuel oil to heating with biofuel in the form of wood pellets.

Data from our stores is not included in our CO<sub>2</sub> target figures, as we have many small leasehold premises where we do not have

an influence on energy consumption and form. We have chosen to CO<sub>2</sub> compensate the entire electricity consumption from our own activities in Denmark, Sweden and Norway – with guarantees of origin from wind power from Scandinavian wind turbines.

## Energy consumption in production in million kwh



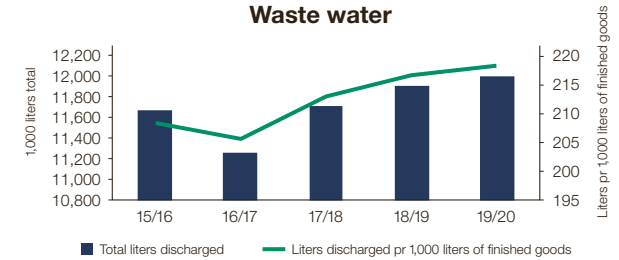
Our energy consumption in production has been stated as the total energy consumption for our four largest factories located in Kolding, Gdansk, Bollebygd and Bodafors. Energy consumption comprises electricity, district heating, gas, wood pellets and fuel oil. In the conversion to CO<sub>2</sub> emissions, we use local emission factors and country-specific factors from the International Energy Agency (IEA), where local factors are not available. We use the most recently published emission factors from the IEA in relation to our financial year.

## Wastewater

**We will reduce the amount of wastewater by 25% per litre of produced paint in 2023/24**

In line with the content of biocides in our paints being decreased as a result of statutory requirements, there is an increasing need for much more extensive washing of machinery and equipment, pipes, tanks, etc. to ensure as clean a production as possible. This has resulted in increased consumption of washing water and a derived increase in the quantity of wastewater in recent years. At our factory in Kolding, we are working to be able to recycle our wastewater, including by recycling the wastewater from washing of production equipment. This means that we both reduce the amount of water we tap from the main cock, and discharge significantly less wastewater. As part of this, we will assess whether we can implement similar measures in our factories in Bollebygd and Gdansk.

## Waste water

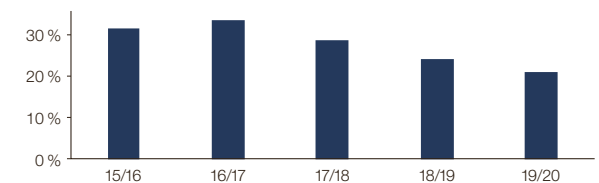


## Waste

**We will increase the proportion of recycled waste from our production by 25%**

To achieve an increase in the percentage of recycled waste from our production in relation to 2015/16 we must ensure a higher degree of waste sorting and to enter into new waste management agreements and partnerships. We are already now exploring new waste management options that can both provide more accurate data for our waste fractions and increase the proportion of recycling of specific types of waste.

## Recycling percentage production waste



## Environmental management

We work with the ISO 14001 environmental management system to achieve continuous improvements in our environmental performance and to ensure that we constantly comply with the applicable environmental protection legislation. Our factories in Kolding, Bollebygd and Gdansk are ISO 14001 certified. With our ISO 9001 certification, we ensure our customers of a consistent high quality. Our factories in Kolding, Bollebygd and Gdansk as well as parts of our headquarters in Rødovre are all ISO 9001 certified.

## Investing in a modern production

Flügger invests a total of DKK 200 million in creating a state-of-the-art and future-proof production setup that meets our customers' increasing demand for eco-friendly products and the ever-increasing regulatory requirements from public authorities.

approximately DKK 70 million in a new filler plant in Sweden. We have great know-how in filler production at the factory in Sweden, and it's therefore a natural choice for us to keep the production of this in Sweden," says Jimmi Mortensen, CEO in Flügger.

In autumn 2019, Flügger began a production consolidation, including a relocation of all production of water-based paints from Bollebygd, Sweden, to the Group's production plant in Kolding. The plant in Kolding is being modernised to create a production that is as state-of-the-art and as clean as possible, and the investment amounts to approximately DKK 130 million. The conversion is expected to be completed in 2021. Flügger expects that the Swedish production of water-based paints will be fully relocated to Kolding from 2022 and that all paint production will be 100% water-based in the course of 2020.

### Production close to local markets

The investments are made as part of the consolidation of the Group's production, where the geographical proximity to Flügger's main markets is prioritised. The planned closure of the Group's production facilities in Shanghai, China, in spring 2020 should also be seen in this context.

### New filler plant in Sweden

In the summer of 2019, Flügger also cut the first sod for a new filler plant, which is being established in connection with the existing warehouse in Bollebygd. The plant, which is to meet the increasing demand for filler, is expected to be completed during 2021.

"The demand for filler continues to grow, and we therefore need more production capacity. We are investing



*Flügger's factory in Kolding is undergoing a radical modernisation process, one of the objectives of which is to create as clean a production as possible.*



**ReColor  
Production**

**12** RESPONSIBLE  
CONSUMPTION  
AND PRODUCTION



**CO<sub>2</sub> neutral in 2030**

Focus	Year	Target
CO <sub>2</sub>	23/24	50% reduction in CO <sub>2</sub> per litre of paint we produce
Wastewater	23/24	25% reduction in wastewater per litre of paint we produce
Waste	23/24	Increase the proportion of recycled waste from our production by 25%

# ReColor Packaging

In the coming years, we will have great focus on the use of packaging, especially plastic. We have chosen UN Sustainable Development Goal 14 (Life Below Water) as an umbrella for our work with packaging and with special focus on plastic. We are working to become much better at both recycling plastic and using recycled plastic in our products, including buckets, brushes, paint rollers, paint trays, etc. In addition, our work with packaging fits directly into UN Sustainable Development Goal 12 (Responsible Consumption and Production), where we work actively to promote sustainable resource use across our entire value chain.

## Recycled plastic

### Our overall goal is to use 75% recycled plastic by 2030

Already in 2023/24, the target is that all our products for resale that contain plastic, such as paint trays, brushes etc., must consist of minimum 50% recycled plastic. The same applies to 25% of our buckets.

As a manufacturer, we will work with circular solutions, both nationally and internationally, so that plastic is not incinerated or ends up in the seas and nature, but is instead collected, sorted, reused and recycled. By increasing the proportion of recycled plastic in our products, we reduce our climate footprint, as almost all virgin plastic is produced using fossil fuels.

We are in a constant dialogue with our suppliers on increasing the proportion of recycled plastic in our products. For example, we use 100% recycled plastic in our paint trays, and our Wood Tex buckets contain 50% recycled plastic.

### Take-back and sustainable recycling of plastic packaging

As part of our activities in the field of ReColor Packaging, we want to proactively comply with EU's Packaging Waste Directive on extended manufacturer's liability for plastic packaging,

which will enter into force on 31 December 2024. Therefore, towards 2023/24, we will seek partners from the private sector, research institutions and public authorities to establish even more efficient solutions for take-back and sustainable recycling of our packaging. In the first phase, towards summer 2021, we will focus on identifying existing and possible waste management solutions and infrastructure in the capitals of our production countries. This will primarily be done through dialogue and collaboration with the authorities in Copenhagen, Stockholm and Warsaw, respectively. The focus will initially be on our Flügger plastic buckets, including on the local environmental and handling advantages and disadvantages of using recycled and virgin plastics, respectively.

## Innovative packaging

### We will launch a product line with a maximum proportion of recycled plastic

As part of our activities under ReColor Packaging, we will develop packaging for a series of paints containing the maximum proportion of recycled plastic, which will also act as the frontrunner for the rest of our product range. We are in constant dialogue with suppliers on the development of new packaging types.

We have already launched 50% recycled plastic in our Woodtex series, which are products for outdoor wood protection.

## Loading optimisation

### We will increase the weight of goods on the pallets we transport by 40%

In this way, we will reduce the climate impact of transport in 2023/24 relative to 2018, which is the most recent year for which we have valid data. This measure reduces packaging consumption as well as the climate impact of transport, as it takes fewer drives to bring the goods to our stores and customers.



ReColor  
Packaging



75% recycled plastic in 2030

Focus	Year	Target
Recycled plastic	23/24	All our products for resale and minimum 25% of our buckets must consist of minimum 50% recycled plastic
Innovative packaging	23/24	Launching a new line in which the buckets contain the maximum proportion of recycled plastic
Loading optimisation	23/24	Increasing the weight of goods on the pallets we transport by 40%



# ReColor Paint

In Flügger, we made an active choice long ago to move away from oil and solvent-based paints with mineral turpentine and instead focus on water-based production. We had therefore already come far in the process in 2015/16, and we are continuing to work to reduce the last percentages of the content of these substances towards 2023/24. Turpentine-based products today constitute a very small share of the total production in Flügger. In autumn 2019, the Group decided that all production of solvent-based products and household chemicals, which is today located in Bollebygd, Sweden, is to be shut down and outsourced over the next two years. By 2030, we will exclusively produce 100 % water-based paints, but we want to set the bar for sustainable paints even higher. As an umbrella for our work with ReColor Paint, we have chosen Sustainable Development Goal 3 (Good Health and Well-Being), including target 3.9 to substantially reduce the number of illnesses from hazardous chemicals and air pollution. In addition, Sustainable Development Goal 11 (Sustainable Cities and Communities), in particular target 11.6 to reduce the adverse per capital environmental impact of cities, plays a role for our ReColor Paint activities.

## Sustainable paints

**We will increase the share of our sustainability-certified Flügger paints to 80 %**

We have an overall objective exclusively to produce sustainable paints by 2030. For us, sustainable paints must bear an international or a Nordic eco-label. In 2015/16, 11 % of our paints within the Flügger, DAY-System and PP professional paint A/S brands were environmentally labelled. In 2019/20, the figure had increased to 68 %, and our target is that 80 % of our paints are to eco-labelled by 2023/24.

	Indoor climate	Eco-labels	Water-based
Base year 15/16	No products	11 %	97.2 %
Target 23/24	Launch of new series of paints with the ability to reduce harmful emissions after application	80 %	99 %

*The table shows the percentage distribution of paints produced for our Flügger, DAY-System and PP professional paint A/S brands.*

## Indoor climate

**We will launch a series of paints with the ability to reduce harmful emissions after application**

We aim to develop functional paints with the ability to reduce, for example, noise, dust, harmful substances in indoor climate and the like after application. Our objective is to launch functional paints by 2023/24 at the latest.

## Sustainable innovation

**We will develop paints with other sustainable properties and we will launch a series by 2023/24 at the latest**

We can do a lot ourselves, but even more together. Partnerships are essential to meeting our ambitious objectives in sustainable innovation.

Flügger collaborates with, among other partners, the Danish Institute of Technology, the University of Copenhagen and several foreign partners on the creation of a more robust wood stain that is more durable and environmentally friendly. Another exciting project is our research collaboration with the Danish Environmental Protection Agency, in which we are working to develop new technologies for the preservation of paints, to minimise the quantity of biocides (preservatives) in paints.

We will continuously explore relevant partnership opportunities. We have selected Sustainable Development Goal 11 (Sustainable Cities and Communities), including specifically target 11.6, as the leading Sustainable Development Goal for the way in which we want to work with and form partnerships. Through partnerships and innovation, we will work determinedly in the coming years to reduce the adverse per capita environmental impact, develop products that contribute positively to a better indoor climate, and ensure the least possible environmental impact from our packaging – also after the products have been used.

**ReColor Paint**

**100% sustainable paints in 2030**

Focus	Year	Target
Sustainable paints	23/24	Increasing the proportion of our sustainability-certified Flügger paints to 80%*
Indoor climate	23/24	Launching a new line of paints with the ability to reduce harmful emissions after application
Sustainable innovation	23/24	Launching a line of paints with other sustainable properties

*\*International or Nordic eco-labelling*

## Flügger conducts research into removing biocides from paints

In a research project supported by the Danish Ministry of the Environment, the Danish Institute of Technology and Flügger will find ways to produce paints containing significantly fewer preservatives that can be allergenic and environmentally hazardous.

In line with the standard practice in the food industry, producers of cosmetics, household chemicals and water-based paints also use preservatives to prevent the unopened products from being spoiled by fungi and bacteria. These bactericides are commonly known as biocides and have been used for years, but Flügger is now taking action to reduce the amount of these substances, which may, in some cases, cause skin eczema and be harmful to nature.

“If we were to drop the use of biocides overnight, the shelf life of our paints would go from several years to perhaps one week. We’re therefore trying to find out how we can change the composition of our paints and how we produce them without being dependent on these biocides,” explains Søren Poulsen, Senior Advisor in Flügger’s Development Department.

Due to the environmental and health challenges of biocides, the EU authorities are constantly introducing more stringent requirements for the use of these substances. This means that Flügger now only has very few biocides to choose from, and the sparse selection increases the risk that the bacteria will develop resistance to the agents available and that the paint will rot.

### Paint that inhibits bacterial growth

In a partnership with the Danish Institute of Technology, Flügger has initiated two research tracks aimed at reducing and eventually completely remove biocides in water-based paints. One track involves replacing some of the raw materials of the paint, so that it in itself becomes resistant to bacteria – that is to create a paint in which microorganisms find it difficult to thrive.

“We don’t add biocides to outdoor wall paint, so-called silicate paint, as the paint is alkaline and the high pH value inhibits the growth of microorganisms. However, we can only produce matted paints with silicate, but, based on the learning we’ve acquired, we’re now looking at other raw materials to make a more glossy alkaline paint,” explains Søren Poulsen.

### Production with intense focus on hygiene

The second track in the research project is about making the production itself as clean as possible. In this track, the expertise of Jan Lorenzen, Product Manager Biotechnology, from the Danish Institute of Technology, who categorises himself as an expert in killing bacteria, played a major role.

“We knew that the bacteria existed somewhere in the production system, but none of our inspections of pipes and tanks showed signs of bacteria. So we planned a production stop, dismantled pipes and filters and found otherwise inaccessible hot spots with a high concentration of *Pseudomonas* – a bacterial type that is notoriously extremely difficult to kill,” says Jan Lorenzen and continues:

“Together with Flügger’s experts, we prepared a plan for what it takes to ensure efficient cleaning of even the most inaccessible corners of the production line. It quickly became clear to us that this involved a complete conversion and that all pipes, filters and tanks must be equipped with automated cleaning systems that mechanically and chemically clean and disinfect the components after each production.”

After the large-scale conversion, Flügger will be able to produce paints with much less risk of transferring bacteria to the product itself, which makes production more efficient. The conversion of Flügger’s factory in Kolding is expected to be completed in 2021 and involves an investment of approximately DKK 130 million.



*Søren Poulsen, Senior Advisor in Flügger, is working to change the composition of the paint so that the use of preservatives can be reduced or completely eliminated*

# A responsible workplace

Our employees are our most important asset, and they play a key role in meeting our sustainability targets, objectives and ambitions. In 2020/21, we will have increased focus on involving and engaging our employees in our strategy, so that we ensure a good start towards a greener future.

In relation to our employees, we have chosen to base our activities on Sustainable Development Goal 8 (Decent Work and Economic Growth). We have particular focus on target 8.4 to improve progressively global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation. In line with target 8.8, we will also focus on protecting labour rights and promoting a safe and secure working environment.

## Great Place to Work

At Flügger, we work systematically with employee commitment in cooperation with Great Place to Work. We conduct an employee satisfaction survey once a year for the purpose of having our employees' assessment of confidence, pride and sense of community in the workplace. Based on the answers in the latest survey, we have chosen to launch initiatives in two overall focus areas in 2020/21: Interdisciplinary cooperation as well as leadership and communication. In interdisciplinary cooperation, we will focus on the customer journey as a cross-organisational responsibility, clear roles and responsibilities as well as working environment. Within management and communication, we will focus on change management, management training, internal communication and CSR.

In Flügger, we have a defined objective to be among the top 10 in the category of medium-sized enterprises on Great Place to Work's list of the best Danish companies to work for in 2023/24.

## Diversity

At Flügger, we believe that a diverse workplace produces the best results. We therefore work to ensure diversity in both our management teams and all other employee groups. We focus

on equal opportunities and on identifying candidates of both genders when recruiting new managers. We thus strive to ensure that both sexes are represented by more than 40%. Read more about the gender composition of the Board of Directors and other management levels on page 41.

## Working environment

In Flügger, it is a natural part of our business to take responsibility for our employees' well-being. We focus our efforts on ensuring that our employees thrive and feel both motivated and committed. We also give high priority to the safety of employees, customers and guests, and continually work to optimise the working environment in factories, offices and stores. We work actively with risk assessment and the elimination of potential sources of incidents, accidents or conditions that affect human health and well-being.

The overall occupational health and safety work is rooted in the Department for Quality, Health, Safety & Environment, which is also responsible for ISO certifications in quality management (ISO9001) and environmental management (ISO14001).

## Donations

In Flügger, we want to support initiatives and donations which, in line with our strategy, focus on people and the climate. In June 2019, we also stopped handing out free plastic bags in our own stores, and we donate the profits from the sale of bags to charity and climate initiatives.

In the 2019/20 financial year, we donated DKK 250,000 to Danmarks Indsamling, which is the united Danish appeal for funds in which humanitarian organisations and DR (the Danish Broadcasting Corporation) join forces to collect donations to help people in some of the world's poorest countries achieve some of the UN's Sustainable Development Goals. On top of this amount, Flügger's employees collected DKK 34,532 for this fundraising campaign.

We donated DKK 50,000 to the tree planting fundraiser 'Danmark planter træer' for a collaboration between the Danish Society for Nature Conservation and the Danish TV channel TV2, which focused on engaging Danes in the joint project of planting trees and paving the way for new forests to the benefit of people, nature and animals. In addition, a share of the funds also goes to preserving endangered forests in Denmark and abroad.

## Local initiatives and contributions

In addition to cash donations for large fundraisers, we support local initiatives such as urban beautification in the form of murals in Aalborg, where, for several years, we have donated paint and guidance for the just over 40 murals created by internationally renowned artists under the WEAArt project. We have also donated paint and materials for renovation of the Karen Blixen Museum, with due consideration for the history of the building, and paint for Brdr. Krüger's showroom in Copenhagen, to name some selected examples.

Two years ago, Flügger launched the Flügger loyalty programme Flügger Andelen in Norway. The programme was launched in Sweden on 1 June 2019 and in Denmark on 1 May 2020. Flügger Andelen is a loyalty programme for sports clubs, associations and voluntary organisations, in which the members receive discounts in Flügger's stores, and the club receives a disbursement of 5% of its total purchases as support in the following year. Through Flügger Andelen, Flügger Norway disbursed NOK 540,000 in support to associations and sports clubs throughout Norway in January 2020, while Flügger Sweden has disbursed just over SEK 10,000 under the programme.

You can read more about many of these initiatives on [www.flugger.com](http://www.flugger.com).

# Risks

Flügger group A/S is exposed to a number of different risks, which vary according to customer segment, market and product area. The Board of Directors and Executive Board regularly consider the Group’s overall risk profile and significant single 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 the risk development and handling day-to-day risks.

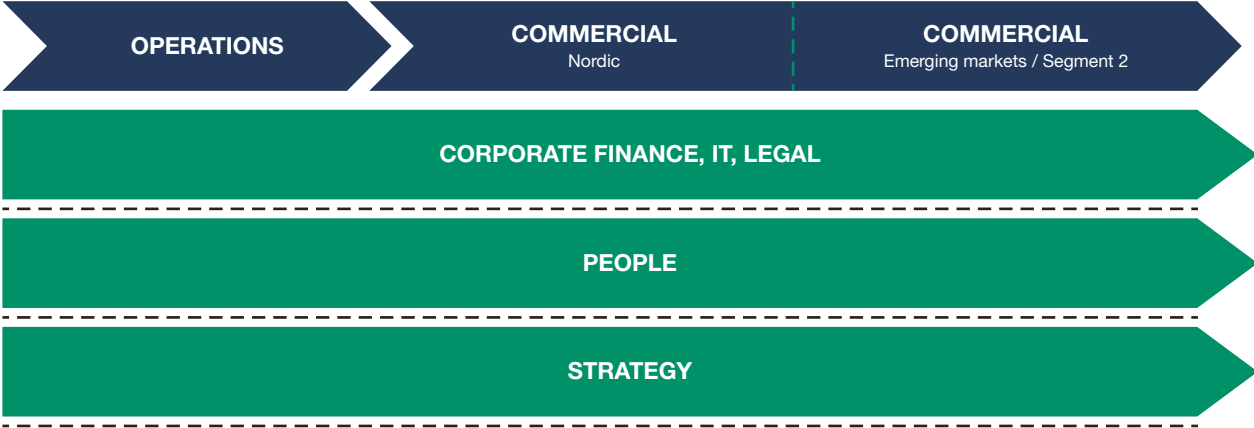
### Risk management and reporting

Flügger’s risk management model is divided into production (Operations), sales (Commercial) and cross-group functions. This ensures that all functions in the organisation focus on identification and management of the relevant risks on an ongoing basis.

### Flügger’s risk matrix

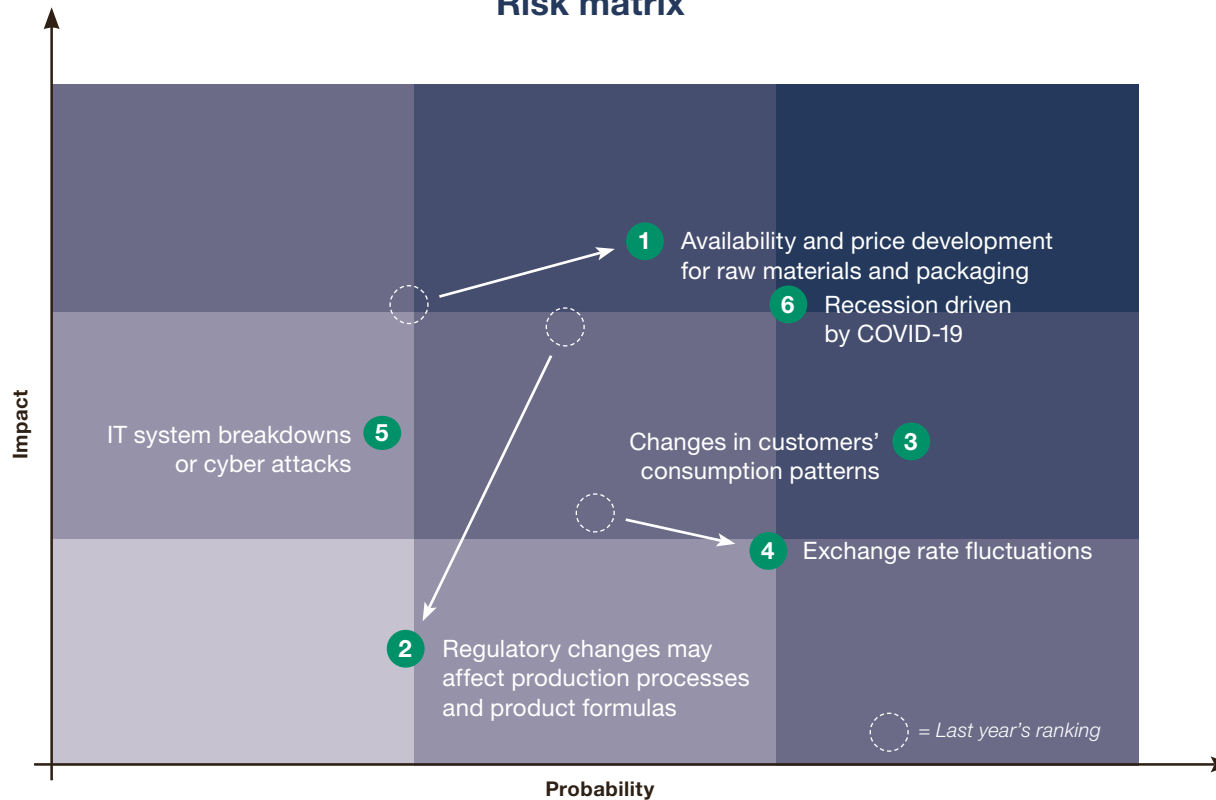
Flügger’s risks have been categorised in the risk matrix based on the probability of their occurrence and their impact on the financial results if they occur. The risk scenario has deteriorated relative to the 2018/19 financial year as a result of the uncertainty of the effect of the COVID-19 pandemic on society in general. Internally, we have strengthened our purchasing and production processes, which has helped reduce risks.

### Flügger’s risk management model





## Risk matrix



### 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 network of stores in recent years, by approx. 5-15 % per year. In connection with this, Flügger implemented e-commerce in 2019/20, with direct deliveries to customers. This is expected to compensate for the sales which will presumably be lost due to consolidation of the network of stores.

### 4 Exchange rate fluctuations

Flügger is naturally hedged in Denmark and Sweden, as both sales and production are in the same countries. 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. The COVID-19 pandemic results in increased fluctuations in exchange rates, and the overall risk exposure is therefore assessed as increasing. Exchange rate fluctuations can be mitigated through price increases, but it typically takes 1-3 months to implement price increases, depending on the customer segment.

### 5 IT system breakdowns or cyber attacks

Flügger's operations are dependent on stable IT systems to ensure that production is continuously geared to demand. Extended downtime for IT systems – whether caused by internal factors or external attacks – may 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 hosted by external partners. We have also taken out basic insurance cover to reduce cyber crime risks.

### 6 Recession driven by COVID-19

In the 2019/20 financial year, we have seen a significant impact on our business as a result of the outbreak of COVID-19, in terms of increased sales to consumers as well as reduced sales due to closed stores and weak demand from professional painters. For the 2020/21 financial year, Flügger expects to continue to be exposed in both positive and negative directions. In the medium term, there is a risk of increased losses on receivables and declining demand, especially from the professional segment.

### 1 Availability and price development for raw materials and packaging

Flügger is dependent on the availability and price development of raw materials. This applies, in particular, to titanium dioxide and fly ash, which are key ingredients in the production of paints and fillers. Rising prices of raw materials are difficult to pass on directly to sales prices in the short term, and the opposite is the case in connection with falling prices of raw materials. 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 that we can react quickly in the event of significant changes. The COVID-19 pandemic increases the risk of availability and may result in greater fluctuations in prices of raw materials.

### 2 Regulatory changes may affect production processes and product formulas

Requirements in relation to product contents, CO<sub>2</sub> footprint, environmental impact and labelling are constantly changing, and we must therefore always stay one step ahead of new requirements – regardless of whether they are introduced directly through legislation, or as requirements from customers. We are continually working to update product formulas and improve production facilities, so that they can meet more rigorous future regulatory requirements. As expected, dust titanium dioxide was classified as potentially carcinogenic in February 2020, but the derived requirements for production conditions and labelling were less stringent than initially assessed, which means that the overall risk of regulatory changes is regarded as having been reduced.

# 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.

For the 2019/20 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 2019/20 financial year, 1,428 shareholders were registered by name in the company's register of shareholders, which together accounted for 95.9% of the share capital and 98.5% 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 2020

Amount	shares	%	votes	%
A shares	590,625	19.7	5,906,250	72.0
B shares	2,296,647	76.6	2,296,647	28.0
B shares in the company <sup>1</sup>	112,728	3.8	-	-
Total	3,000,000	100.0	8,202,897	100.0

### Ownership structure – 30 April 2020

Main shareholders (>5%)	shares	%	votes	%
Susan Schnack	150,069	5.0	150,069	1.8
Karin Hamilton Jakobsen	167,374	5.6	167,374	2.0
Bo Hamilton	167,075	5.6	167,075	2.0
Thomas Hamilton	167,075	5.6	167,075	2.0
Ejendomsselskabet CASA A/S	300,590	10.0	300,590	3.6
Ulf & Sune Schnack <sup>2</sup>	1,358,231	45.3	6,673,856	80.3
Total	2,310,414	77.0	7,626,039	91.7

<sup>1</sup> B shares in the company (the company's own shares) are not included in the number of votes, as voting rights cannot be exercised for these.

<sup>2</sup> Ulf and Sune Schnack (father and son) together own a total of 1,358,231 Flügger shares, of which 590,625 class A shares and 720,610 class B shares are held by SUS 2013 ApS (Flügger Holding).

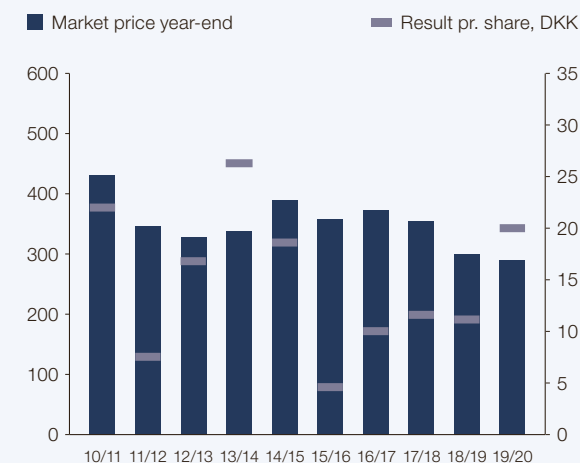
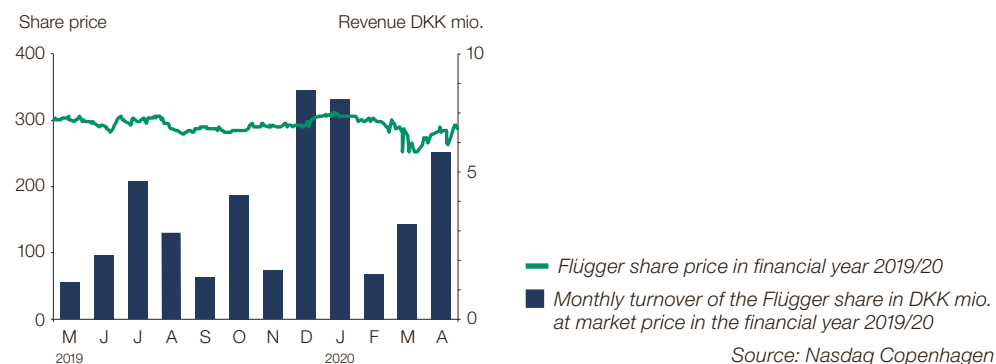
## Communication with investors

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](http://www.flugger.com) under 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](http://www.flugger.com) under investor.

## Price fluctuations and monthly trading volume for Flügger shares during the 2019/20 financial year



mio. DKK 2010/11 2011/12 2012/13 2013/14 2014/15 2015/16 2016/17 2017/18 2018/19 2019/20

### Share data ultimo\*

Outstanding shares of DKK 20, 1,000 shares.	2,904	2,904	2,902	2,878	2,877	2,877	2,877	2,881	2,887	2,887
Diluted earnings per share, DKK (EPS, avg.)	22	8	17	26	19	5	10	12	11	20
Book value per share, DKK	275	267	284	291	299	282	277	264	257	261
Proposed dividend per share of DKK 20	15	6	9	13	15	15	15	15	10	10
Flügger market price	431	345	327	340	390	359	372	352	300	290
Price/earnings ratio (P/E), DKK	20	45	19	13	21	78	37	30	27	14
Price/book value, (P/B)	1.6	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.2	1.1
Flügger market value, DKK million	1,251	1,002	949	979	1,122	1,077	1,116	1,056	900	869
OMX PI index	430	420	494	643	860	854	876	886	924	1,038

## 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

\* Financial ratios have been calculated based on the Danish Society of Financial Analysts- recommendations.

