

Summary of  
Annual Report 2017/18

# Flügger



Pursuant to section 149(2) of the Danish Financial Statements Act (Årsregnskabsloven), the consolidated annual report is an extract of Flügger A/S's full annual report. The full annual report, including the annual report of the parent company, Flügger A/S and the statutory statement of corporate governance, can be downloaded in Danish 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).

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 9 August 2018 at 11.00 at the company's address:  
Flügger A/S  
Islevdalvej 151, DK-2610 Rødovre  
Tel. + 45 70 15 15 05  
[flugger@flugger.com](mailto:flugger@flugger.com)  
CVR no. 32788718

## Dividend for the year

The Board of Directors recommends to the next general meeting that dividend of DKK 15 per share of DKK 20 be distributed. Dividend is expected to be distributable from 14 August 2018.

## Board of Directors

### Carl F.S. Trock, Chairman – independent

Born in 1954, joined the Board of Directors in 2014. Member of the Audit Committee.  
Qualifications: Solid leadership experience from large international groups in the DIY sector as Country Manager and CEO, including in Schneider Electric, Lauritz Knudsen A/S and Ruko A/S, and as a member of the Group Management of ASSA ABLOY AB.  
Holding of Flügger shares: 0 shares

### Michael Mortensen, Vice Chairman – independent

Born in 1972, joined the Board of Directors in 2015.  
Qualifications: Knows Flügger's market in Denmark. Possesses entrepreneurial skills; named EY Entrepreneur Of The Year 2015 as part of CASA A/S. Built up and sold HusCompagniet (FM-Søkjær) A/S.  
Holding of Flügger shares: 300,590 shares held by the property company Ejendomsselskabet CASA A/S.

### Charlotte Strand, independent

Born in 1961, member of the Board of Directors since 2017. Chair of the Audit Committee.  
Qualifications: Several years' experience as CFO in DONG Energy Wind Power, including experience as officer responsible for governance and compliance.  
Holding of Flügger shares: 0 shares

### Mie Krog, independent

Born 1968, joined the Board of Directors in 2015.  
Qualifications: Solid insight into the retail market for lifestyle products as well as branding and e-commerce. Previously employed as Brand Director at LEGO, Marketing Director in JYSK and Retail and Marketing Director in IDdesign.  
Holding of Flügger shares: 0 shares

### Martin Johansen, employee representative

Born 1973, joined the Board of Directors in 2017.  
Maintenance Technician.  
Holding of Flügger shares: 0 shares

### Villy Jessen, employee representative

Born 1956, joined the Board of Directors in 2015.  
Store Manager in Charlottenlund.  
Holding of Flügger shares: 215 shares

## Executive Management

### Jimmi Mortensen, Chief Executive Officer

Born in 1974. Joined Flügger in 2015.  
Education: Harvard, Stanford & INSEAD Executive Programme, MBA Henley Business School, Graduate Diploma (HD-A) in Marketing Management Aarhus University.  
Qualifications: Experience from Nobia Denmark A/S, Bygma Gruppen A/S, Saint-Gobain Distribution Denmark A/S.  
Holding of Flügger shares: 1,066 shares  
Options: 2,723

### Ulf Schnack, Chief DNA Officer, main shareholder

Born in 1936. Joined Flügger in 1958.  
Education: Chemical Engineer from Krefeld, Graduate Diploma (HD-A) in Marketing Management from CBS  
Qualifications: Experience as CEO in Flügger from 1970 to 2007.  
Holding of Flügger shares: 1,348,226 shares of which 1,211,235 shares are held together with Sune Schnack through the company SUS 2013 ApS.

### Keld Sørensen, Chief Financial Officer

Born in 1956. Joined Flügger in 2015.  
Education: MSc in Political Science (cand.scient.pol.) from Aarhus University, Graduate Diploma (HD-IØ) in Informatics and Management Accounting from CBS Copenhagen, and Diploma in Innovation and Development from Scandinavian International Management Institute.  
Qualifications: Experience from, among other companies, COWI A/S, H. Lundbeck A/S, Unisys Nordic Group, Unisys Denmark and Danske Bank.  
Holding of Flügger shares: 534 shares

### Michael Larsen, Chief Operations Officer

Born in 1971. Joined Flügger in 2015.  
Education: MBA, Graduate Diploma (HD-A) in Marketing Management and Production Engineer from Odense Teknikum (Odense University College of Engineering).  
Qualifications: Experience from, among other companies, Bodilsen A/S, Arriva, Dandy/Gumlink A/S and Nobia AB.  
Holding of Flügger shares: 529 shares

### Thomas Bendixen, Chief Commercial Officer

Born in 1973. Joined Flügger in 2017.  
Education: BSc in Finance & Multinational Business from Florida State University, Tallahassee, Graduate Diploma (HD-A) in Marketing Management from the University of Southern Denmark (SDU).  
Qualifications: Experience from, among other companies, fischerwerke GmbH & Co., Loxam A/S, Sto Scandinavia AB as well as VELFAC A/S.  
Holding of Flügger shares: 28 shares

### Annika Jacobsen, Chief People Officer

Born in 1968. Joined Flügger in 2017.  
Education: MSc in Sociology (Cand.scient.soc.), Roskilde University (RUC).  
Qualifications: Experience from, among other enterprises. PA Consulting, Horten Advokatpartnerselskab and DSB (Danish State Railways).  
Holding of Flügger shares: 0 shares

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# We are boosting our earnings and continue the execution of our strategy

Dear Shareholders,

**Increased business focus on the professional market and efficient implementation of strategic initiatives are producing results already in the first year after the launch of our new strategy. This confirms the value of our work with the strategic focus areas and provides an incentive for accelerating our targeted initiatives. Based on our strategy, we wish to create a solid platform for profitable growth and improved competitiveness on constantly changing markets.**

With EBIT of DKK 58 million, Flügger A/S has improved earnings by 32% relative to the previous financial year. In autumn 2017, the Flügger management launched the strategy towards 2020/21, and it is positive to note that several of the strategic initiatives implemented are already bearing fruit, and that the results are reflected on the bottom line. Revenue was DKK 1,818 million, equal to -2%. One negative impact on revenue was the bad weather in summer 2017 and spring of 2018, which is primarily reflected in declining sales of outdoor products to private customers. We were also affected by significant price increases for several of our most important raw materials – price increases that we were unable to pass on to our sales prices to a sufficient degree. We experienced an increase in sales to professionals. In the coming years, we will further accelerate the execution of our strategy, and we maintain our forecast of an EBIT margin of 6-8% and revenue of DKK 2 billion in 2020/21.

## Changing Nordic market

The Nordic market is changing and is currently characterised by a high degree of urbanisation, which undermines the profitability of our stores in sparsely populated areas. In addition, the sector for building paint and accessories is characterised by excess capacity and increasing consolidation. The general boom in the construction industry has not prompted rising demand for paint or accessories, which is due, among other factors, to changes to construction processes and the building elements used. The construction industry is increasingly pressured for time, and housing and property are being built much faster today than previously, which imposes higher demands on both materials and builders. To optimise the construction process, the use of preprocessed and prefabricated materials is increasing, and elements of the overall process have been eliminated.

Especially on the Danish market, the DIY segment is shrinking, as private individuals are increasingly entrusting professional builders with these tasks to save time. In recent years, we have experienced declining sales to private customers and increasing sales to professionals. We will therefore continue to invest in initiatives and develop products that meet the professional painters' needs, and we will still focus on offering private customers high-quality products and guidance. In line with the generally increased focus on sustainable solutions, we will continue to develop products that meet or exceed the environmental standards faced by our industry.

## Positive development outside Scandinavia

We continue to experience positive trends and good revenue growth in Poland (where we run 58 own stores) and on selected export markets. Based on an expectation of a further increase in prosperity, Flügger will continue to work actively to expand our position on the Polish market in the future.

In China, Flügger has had limited own production and large imports of goods for the Chinese market since 2009, and Chinese demand for goods produced in Scandinavia has been increasing for a number of years. The Chinese market is growing, and Flügger therefore sees a potential in further expanding our presence on this market. Within the past year, we have increased the number of our own stores and dealers from 93 to 118, and we expect to increase this number further in the coming year.

## Effective anchoring of the strategy paves the way for growth

In autumn 2017, we launched the strategy *Securing the Legacy*, which meets the trends we are seeing on the market, and sets our direction towards 2020/21. Since the strategy launch, we have worked determinedly to anchor these initiatives in our organisation. Flügger must develop as a company without abandoning our DNA – our longstanding close cooperation with professional painters. We believe that close relations, high professional standards and respect for craftsmanship are essential – particularly on a constantly changing market. We will protect the trust and reputation we have built up, and constantly do our best to develop innovative solutions and services which help painters perform the best possible work under all given conditions and circumstances.

## Reduced complexity

With the implementation of the strategic initiatives, we aim to create an effective platform for profitable growth and greater competitiveness. We focus on consolidating our own network of stores and our product range, streamlining the value chain as well as digitalising and implementing a fair and transparent pricing structure. The complexity of the value chain, with one factor being an extensive product range, affects the way we run our business and the total cost level. We are working determinedly with initiatives aimed at reducing our total cost level and ensuring that great cost awareness is an integral part of our culture.

Flügger is looking back on a financial year characterised by market challenges, but also on a year in which we have anchored our strategy and seen good progress in the implementation of the strategy. The Group's approximately 1,500 employees have handled the changes faced by the organisation with a dedication which has been appreciated and which is necessary for us to succeed in our selected initiatives.

As part of the anchoring of the strategy, we launched three new values in the autumn: Team, Time and Trust. The values emanate directly from our DNA and express how we want to run our business and achieve our goals together. It is positive to see how our employees have embraced these values by shouldering this shared responsibility and have managed to translate the values into action and behaviour. We are looking forward to a new financial year in which we will continue to implement our strategy and provide Flügger with a good starting point for achieving the expected objectives.

Carl F. S. Trock  
Formand

Jimmi Mortensen,  
CEO

# Flügger at a brushstroke

**Flügger is an international group in building paints, wood stains and accessories for the painting profession. We are based in Scandinavia, and we have further strengthened our position in Poland and China in recent years.**

Flügger develops, manufactures and markets a wide 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 strength is in-depth knowledge of and longstanding cooperation with professional painters.

Our roots go back to 1783, when Johan Daniel Flügger founded the business with its head office in Hamburg, Germany. In 1948, Michael Schnack acquired the business in collaboration with four major house painters, and, in 1970, Flügger was converted into a limited liability company with Michael Schnack's son Ulf Schnack as CEO. Ulf Schnack and his son Sune Schnack hold a total of approximately 45% of the shares and approximately 80% of the votes at the general meeting. Both are employed in the Group.

## Our strength is in-depth knowledge of and longstanding cooperation with professional painters.

Globally, Flügger A/S has around 1,500 employees, who work every day to deliver what is in our DNA – to develop products and solutions that help our customers deliver a good and durable result as efficiently as possible.

Flügger A/S operates a total of six factories in four countries. The oldest of our factories is located in Kolding, Denmark, where we have been producing 20 million litres of water-based paints, wood stains and wallpaper adhesives a year since 1970. Our largest factory is located in Sweden, where we produce just over 30 million litres of water and turpentine-based paints, wood stains, cleaning products

and fillers a year. In Sweden, we have also developed paint tools, i.e. brushes, roller covers etc., in the past 30 years. Several of our brushes are still assembled manually to ensure the right quality. In 2009, we built one of Europe's most modern wallpaper factories in Gdansk, Poland, where we produce wallpaper, glass tissue and felt as well building paints adapted to local conditions. Our design wallpaper, sold under the Fiona brand, is developed and produced by our own designers.

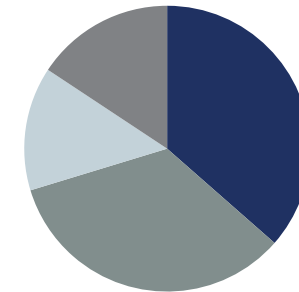
Our main markets are Denmark, including Iceland, Greenland and the Faroe Islands, Sweden and Norway. Since the turn of the millennium, we have had activities in Poland and China as well as exports to France, Russia and Germany, among other countries.

We sell our products to both professional painters and private consumers through the retail chain Flügger farver, which consists of approximately 500 stores across the markets. About half of the stores are owned by Flügger A/S; the other half of the stores are owned by franchisees, with the owners typically being master painters, as well as by dealers. The largest concentration of stores is in Denmark and Sweden, where we have a total of approximately 300 stores.

Our product portfolio consists of several brands. Our primary brand is Flügger, and we also own and operate the Danish wholesale chain PP professional paint A/S. In addition, we develop, manufacture and distribute private-label products sold through DIY stores through our sales unit DAY-System.

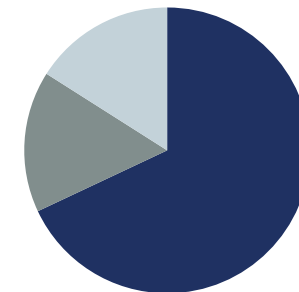
Our day-to-day management is handled by CEO Jimmi Mortensen, who took up the position in August 2016. Ulf Schnack handles the role of Chief DNA Officer with primary focus on branding and product range.

Read more about the Group's long history on <http://www.flugger.com/da/about/history>



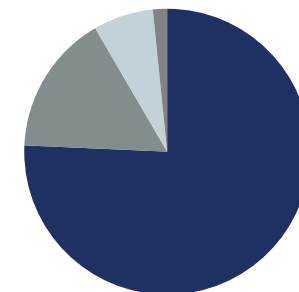
Revenue by geographical distribution

- Denmark (incl. Iceland, Greenland and the Faroe Islands) 37% Last year 37%
- Sweden 34% Last year 35%
- Norway 14% Last year 14%
- Other countries 15% Last year 14%



Revenue by segment

- Segment 1: (Flügger-branded products) Flügger in the Nordic region 68% Last year 69%
- Segment 1: (Flügger-branded products) Flügger in other countries 16% Last year 13%
- Segment 2: (non-Flügger-branded products) DAY-System and PP professional paint A/S 16% Last year 18%



Revenue by product

- Paints, chemical products and wood stains 76% Last year 76%
- Painting and wallpapering tools 16% Last year 15%
- Wallpaper and wall coverings 7% Last year 7%
- Various articles 1% Last year 2%

# Financial year 2017/18

Financial year 2017/18 = 1 May 2017 to 30 April 2018

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# 1,818

**Revenue DKK million**

2016/17: DKK 1,849 million

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# 55.6

**Gross margin %**

2016/17: 55.4%

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# 119

**EBITDA DKK million**

2016/17: DKK 119 million

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# 6.6

**EBITDA margin %**

2016/17: 6.4%

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# 58

**EBIT DKK million**

2016/17: DKK 44 million

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# 3.2

**EBIT margin %**

2016/17: 2.4%

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# 530

**Number of stores**

2016/17: 530

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# 1,486

**Average number of full-time employees**

2016/17: 1,533

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# Outlook 2018/19

In the new financial year 2018/19, we expect a development in revenue of 0-2%. A continued low activity level, particularly in consumer sales, is expected on the Scandinavian markets. Sound growth rates are expected on the other markets, primarily Poland.

Operating profit (EBIT) is expected to be at a level corresponding to an EBIT margin of 3-4%. Insignificant net financials are expected. Income tax is expected to constitute approx. 24% of profit before tax, which is significantly down on the previous financial year.

We are maintaining our target of revenue of DKK 2 billion with an EBIT margin of 6-8% in 2010/21.



# Flügger 10 years' development

Mio. DKK	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Income statement</b>										
Revenue	1,504.2	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
Gross profit/loss	822.3	812.4	876.5	939.9	1,001.3	1,036.1	1,015.3	997.6	1,024.6	1,010.6
EBITDA	124.1	153.3	139.1	97.9	128.1	152.1	122.0	82.1	119.0	119.2
EBIT	56.1	106.1	85.4	40.1	68.2	88.1	65.0	20.9	43.7	57.5
Net financials	-5.0	27.6	5.2	-4.3	-4.2	-1.5	1.0	2.2	-2.5	-1.1
Profit/loss before tax	51.1	133.7	90.6	35.8	64.0	86.6	66.0	23.1	41.2	56.4
Net profit/loss for the year	27.7	94.2	63.5	22.4	49.0	75.7	53.5	13.3	28.9	33.5
<b>Balance sheet</b>										
Balance sheet, year-end	1,019.8	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
Equity, year-end	689.9	760.2	798.4	774.2	823.7	837.6	859.2	810.7	797.2	760.1
Interest-bearing debt, year-end	78.1	43.7	49.5	165.4	84.2	10.3	36.0	67.7	14.1	3.0
<b>Cash flows</b>										
Cash flow before financing and tax	106.0	240.2	111.8	30.9	145.4	183.4	78.0	73.9	171.5	107.3
Cash flow from operating activities	86.1	214.5	79.6	6.3	119.5	172.2	84.7	66.5	158.3	96.3
Cash flow to investing activities	-99.5	-153.4	-57.3	-66.2	-13.1	-43.9	-66.6	-40.6	-24.1	-20.9
Cash flow to financing activities	-24.9	-74.3	-45.2	72.3	-99.4	-108.2	-11.9	-11.5	-96.8	-54.2
Investments in property, plant and equipment	79.0	136.0	52.8	67.8	28.9	18.9	40.1	38.8	21.5	16.7
Securities and cash and cash equivalents, year-end	102.8	161.5	128.5	94.6	66.8	88.4	90.8	95.9	137.6	156.8
<b>Financial ratios</b>										
Gross margin %	54.7	56.2	55.1	53.4	53.4	53.8	55.4	53.9	55.4	55.6
EBITDA margin %	8.3	10.6	8.7	5.6	6.8	7.9	6.7	4.4	6.4	6.6
EBIT margin %	3.7	7.3	5.4	2.3	3.6	4.6	3.5	1.1	2.4	3.2
Return on equity %	3.8	13.0	8.1	2.8	6.1	9.1	6.3	1.6	3.6	4.3
Equity ratio %	67.7	70.7	69.3	61.8	67.2	70.8	68.7	65.2	67.1	66.7
Full-time employees, average	1,467	1,444	1,540	1,650	1,625	1,572	1,575	1,550	1,533	1,486

## Definitions

### Gross margin %

Gross profit as a percentage of revenue

### EBITDA margin %

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

### EBIT margin %

Operating profit as a percentage of revenue

### Return on equity %

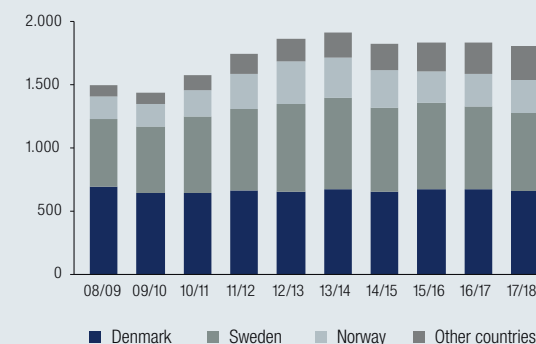
Income or loss from ordinary activities after tax as a percentage of average equity

### Equity ratio %

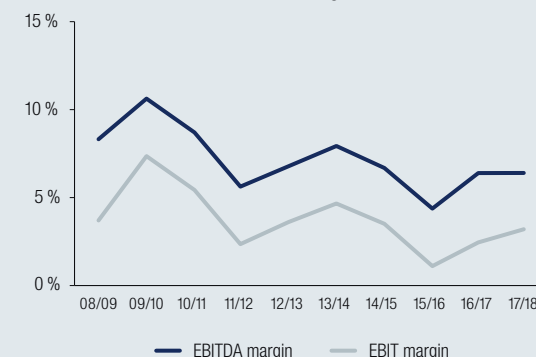
Equity at year-end as a percentage of liabilities at year-end

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

Revenue by markets



Earnings

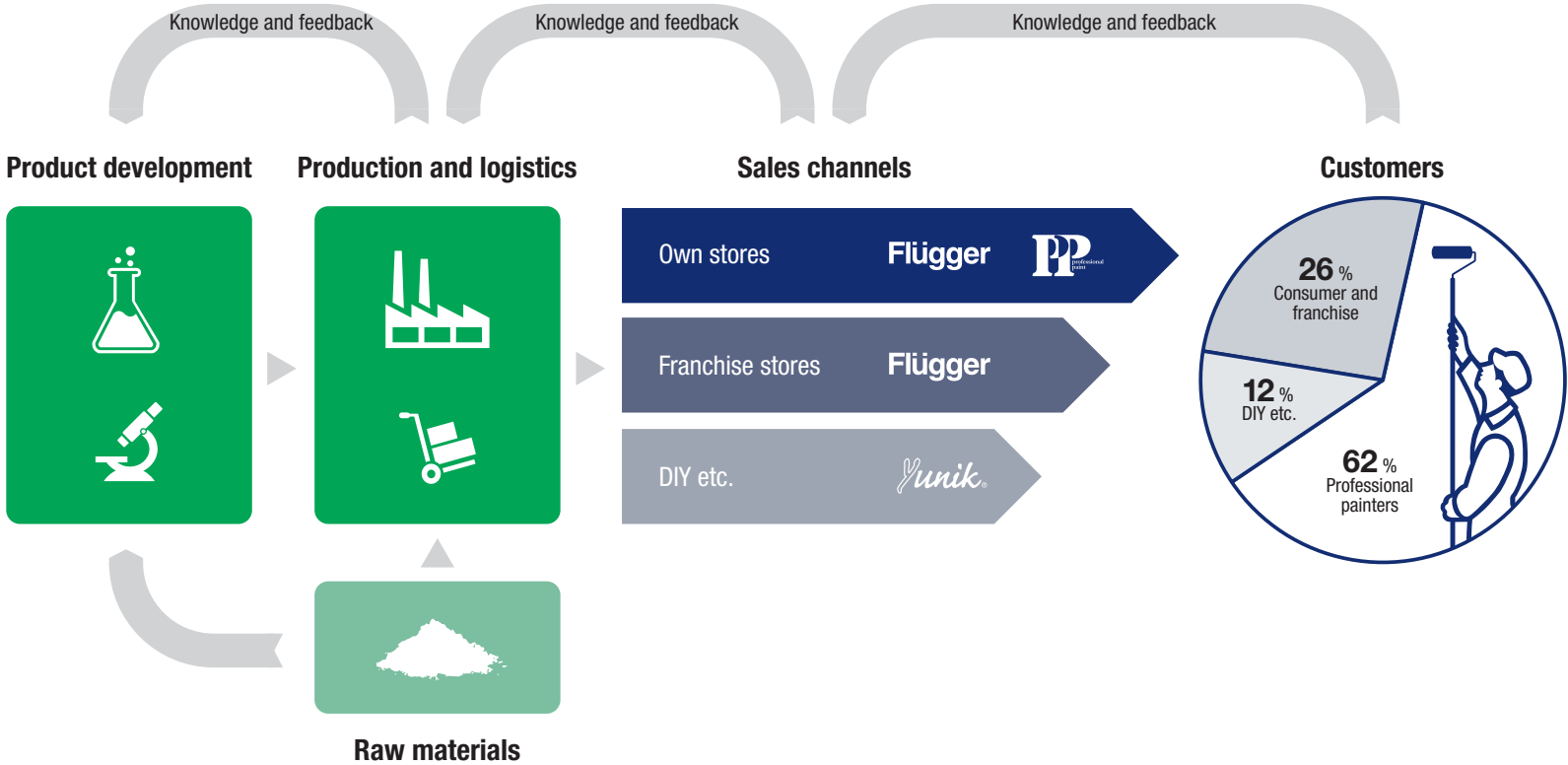


# Business model

The business model in Flügger is built on the basic notion 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 overall 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

In autumn 2017, the Flügger management launched the strategy *Securing the Legacy*, which aims to ensure that the Group expands its position as preferred supplier to painters and decorators at a time when their working conditions and the paint market are changing.

We have defined a number of strategic initiatives, which the Group focuses on implementing towards 2020/21. One of the focus areas is to develop modern and efficient solutions for professional painters in order to provide them with the best conditions for delivering good results. We will work to expand the role as our customers' value-adding partner.

At the same time, we will work intensively to optimise operations, create profitable growth and improve efficiency – without compromising our DNA and the quality, passion and creativity we have built up through generations.

## Profitable growth

### Focus on accessibility

**We will consolidate our network of own stores and differentiate Flügger through value-adding innovation.**

The physical stores and personal professional guidance are the cornerstones of the Flügger business model. To meet the increasing degree of urbanisation and increased time pressure in the construction industry, we prioritise accessibility of our stores above the current high store density.

In recent years, we have consolidated our store network and reduced the number of stores by approximately 4%. We expect to adjust our store network further in the coming years, including by combining small stores and relocating them to locations with better access conditions and a larger customer base. Our global store network consists of approximately 500 stores, with 289 being own stores. The remainder are primarily franchise stores, which, with their great focus on private customers, will continue to be an important part of our business model.

We also want to harmonise and strengthen our product range, so that the total range is trimmed across markets and segments. The range must be uniform and up to date in relation to our customers' day-to-day needs. The adjustment will be made both in relation to the width of the range and the components of the individual products. We expect that this will reduce the complexity of our value chain and have a positive effect on our stock levels and time-to-market.

#### Results in 2017/18

- The number of own stores has been reduced by approx. 4% across markets.
- The number of stocked products has been reduced by approx. 4%.
- The number of raw materials has been reduced by approx. 6%.

#### Focus areas in 2018/19

- Continued consolidation and reduction in the number of own stores – on a par with 2017/18.
- Further minimisation of the complexity of our product range, including through fewer active recipes, raw materials, product numbers and stocked products.



### Pricing structure

**We aim to create a fair and transparent pricing structure.**

Over the past few years, the building paint market has been characterised by significantly increasing prices of raw materials, especially for two important components: titanium dioxide and fly ash. The industry as a whole is increasingly met by more stringent environmental requirements in the form of labelling schemes and requirements for reduction of the use of additives. It is important for Flügger to be able to offer customers products that meet the applicable environmental requirements without compromising on product properties, and we therefore continuously develop our products further.

Our pricing structure must reflect the variation in our customers' purchase needs and the potential for additional sales to the individual customer. It must also create transparency in relation to the price customers pay for our products and services.

#### Results in 2017/18

- Clear product positioning vis-à-vis customers, including positioning of product properties.
- Vocational training of sales staff to enable them to provide the best possible customer guidance.

#### Focus areas in 2018/19

- Establishment of new pricing structure which will create the basis for e-commerce and a reduction in the number of manually fixed prices.
- Re-segmentation of all customer groups and markets.





## Efficiency

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 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 through own stores, franchises and dealers. This has a number of advantages, but it also creates a high degree of complexity.

One of our focus areas is to reduce this complexity, including by optimising production processes and ensuring maximum utilisation of our capacity. The objective is to reduce the Group's break-even sales, and thus reduce the effect of the loss-making months in the off-season.

### Results in 2017/18

- The factory in Poland has been certified and included in the joint certificates in Flügger for both ISO 14001 (environmental management) and ISO 9001 (quality management).
- Implementation of processes and tools to support harmonisation of the range across markets.

### Focus areas in 2018/19

- Further productivity improvements in the factories and in the administration via targeted LEAN activities.
- Instruction and training of employees in LEAN with focus on identifying and achieving efficiency improvements.
- Reduction of the total stock levels by >5% – based on the current price level of raw materials.

Increased value creation through digitalisation



**We will actively exploit the opportunities that increased digitalisation entails – and ensure visible value creation in our contact with customers.**

Time costs amount to approximately 80% of the painter's total costs in connection with a project, including for planning, ordering and delivery as well as for performing the actual painting. Flügger therefore sees a great potential in developing services and tools which can improve the efficiency of the painter's workflows and processes.

Through increased automation and digitalisation, we will reduce time costs both internally and for the painters – including by offering customers solutions for better planning of their projects and the possibility of direct delivery of products to their workplace.

In order to run Flügger as efficiently as possible, we need reliable IT platforms and a valid data basis for making decisions. We therefore focus on the continued implementation of our existing ERP solution and our recently launched HR system.

### Results in 2017/18

- Implementation of HR system.
- Launch of the development of a Product Information Management system.
- Further implementation of Electronic Direct Invoice.

### Focus areas in 2018/19

- Implementation of a new payroll system.
- Implementation of Product Information Management system.
- Development of an e-commerce platform for purchases/orders for collection (click & collect) as well as increased focus on direct deliveries.

## Our values – Team, Time and Trust

Three values help us move forward

Three new values saw the light of day in Flügger concurrently with the strategy launch. The values define the behaviour and the rules of conduct which we all follow in Flügger, and which are essential to the cohesiveness and culture in our organisation – and thus for Flügger as a whole.

### Team

- Take initiative and volunteer yourself
- Act as a team - listen and learn from others
- Ensure that responsibilities and expectations are clarified and communicated

### Time

- Respect other people's time: a deadline is a deadline, and a budget is a budget
- Seek simple solutions and get the job done
- Invest time to save time: follow processes and policies, or craft them if they don't exist

### Trust

- We say what we do, and we do what we say
- Share relevant information with your colleagues and customers
- Be dependable and deliver on promises

# Financial review 2017/18

**Despite a decrease in revenue of 2% to DKK 1,818 million in 2017/18, EBIT increased by 32% to DKK 58 million. The increase in earnings can be attributed to the Group's focus on reducing costs and increasing efficiency.**

The development in revenue was affected by several challenges in the financial year 2017/18. Bad weather in summer 2017 and spring 2018 reduced demand on the Scandinavian market, leading to declining sales to private customers as well as a drop in demand for outdoor products.

The industry has also been affected by rising prices of raw materials, which the Group has had difficulty passing on to customers in the short term. Measured in local currencies, consolidated revenue was essentially on a par with the previous year.

**Sales Denmark (incl. Iceland, Greenland and the Faroe Islands): DKK 675 million (-1%)**

Sales of Flügger-branded products (Segment 1) through own stores and franchise stores were DKK 511 million, corresponding to a reduction of 1%. Sales to professional painters were stable, whereas sales to consumers were significantly affected by the impact of bad weather on sales of outdoor products. The number of stores in the Flügger farver chain was reduced from 163 to 159.

Sales of non-Flügger-branded products (Segment 2) totalled DKK 164 million – a reduction of 2% relative to the previous year.

Our competitors in the Danish market are primarily: PPG with Dyrup and Gori, Akzo Nobel with Sadolin and Nordsjö, Tikkurila with AlcroBecker, Jotun as well as the local Beck & Jørgensen. Flügger has an estimated market share of around 30%.

**Sales Sweden: DKK 615 million (-6%)  
Sales in local currency: SEK 809 million (-3%)**

Sales of Flügger-branded products (Segment 1) through own stores and franchise stores accounted for about 80% of the revenue in conformity with last year. At the end of the financial year, the Flügger färg chain had 132 stores, 80 of which are owned by the Group, which is a reduction of 12 stores relative to last year.

Sales of non-Flügger-branded products (Segment 2) amounted to approx. 20% of the revenue on the Swedish market in conformity with last year.

Our competitors in Sweden are primarily Tikkurila with AlcroBecker and Akzo Nobel with Nordsjö as well as Jotun from Norway and Caparol from Germany. Flügger has an estimated market share of just under 20%.

**Sales Norway 2017/18: DKK 255 million (-4%)  
Sales in local currency: NOK 325 million (-1%)**

Sales of Flügger-branded products (Segment 1) constitute 96% of the revenue. Sales of non-Flügger-branded products (Segment 2) constitute approximately 4% of the sales. The Group's activities in Norway have not developed satisfactorily. At the end of the financial year, the Flügger farve chain consisted of 54 stores against 61 last year – 45 of which are owned by the Group against 50 last year.

## Consolidated income statement DKK million

	2016/17	2017/18	Ændring
Sales Denmark	681	675	-1%
Sales Sweden	655	615	-6%
Sales Norway	266	255	-4%
Sale other countries	248	273	10%
<b>Revenue</b>	<b>1,849</b>	<b>1,818</b>	<b>-2%</b>
Production costs	-824	-807	-2%
<b>Gross profit/loss</b>	<b>1,025</b>	<b>1,011</b>	<b>-1%</b>
Sales and distribution costs	-805	-778	-3%
Administrative expenses	-172	-182	5%
Amortisation of goodwill	-7	0	
Other income/costs	3	7	107%
<b>Operating profit, EBIT</b>	<b>44</b>	<b>58</b>	<b>32%</b>
Finance net	-2	-2	
<b>Profit/loss before tax</b>	<b>41</b>	<b>56</b>	<b>37%</b>
Tax	-12	-23	86%
<b>Profit/loss after tax</b>	<b>29</b>	<b>33</b>	<b>16%</b>
Translation adjustment, subsidiaries etc.	0	-28	
<b>Total comprehensive income</b>	<b>29</b>	<b>5</b>	<b>-81%</b>

The dominant competitor on the Norwegian market is Jotun with an estimated market share of 70%. Gjøco, a minor Norwegian manufacturer, as well as the major international players are also present. Flügger has an estimated market share of 10-15%.

**Sales other countries: DKK 273 million (+10%)  
Poland PLN 108 million, China CNY 65 million,  
exports DKK 21 million.**

Flügger entered the Polish market around 20 years ago, and the Flügger chain today has 58

Group-owned stores against 63 last year, primarily with sales to professionals. Revenue and earnings in the Group's Polish subsidiary are growing.

Flügger entered the Chinese market around 15 years ago. In 2009, the Group established a small factory in Shanghai for the production of paint, glue etc. Like many other foreign companies, Flügger has faced challenges with the establishment, as Chinese customers have a preference for imported products. Today, the Group runs a Flügger-branded retail chain with 118 stores, which is an increase of

Balance sheet total, DKK million	30.04.2017	30.04.2018	Ændring
Intangible assets	124	108	- 13 %
Property, plant and equipment	279	243	- 13 %
Deferred tax asset	13	8	- 42 %
Inventories	326	330	1 %
Receivables	309	293	- 5 %
Securities, cash and cash equivalents	138	157	14 %
<b>Total assets</b>	<b>1,189</b>	<b>1,139</b>	<b>- 4 %</b>
Equity	797	760	- 5 %
Deferred tax	20	16	- 17 %
Bank debt etc.	14	3	- 78 %
Suppliers	171	188	10 %
Income tax	23	18	- 20 %
Other payables	164	153	- 7 %
<b>Total liabilities</b>	<b>1,189</b>	<b>1,139</b>	<b>- 4 %</b>

Cash flow statement	30.04.2017	30.04.2018	Ændring
Cash flows from operating activities	158	97	- 39 %
Cash flows to investing activities	- 24	- 21	- 13 %
Cash flows to financing activities	- 97	- 54	- 44 %
Cash and cash equivalents, year-end	137	156	14 %

25 relative to last year. Of these stores, 30 are owned by the Group, and the remainder are dealers.

The export department in Flügger has been established in connection with the head office in Copenhagen. The primary export markets are France, Russia, Germany and Lithuania, and revenue was DKK 21 million.

#### Cost and profit development

In financial year 2017/18, production costs amounted to DKK 807 million against DKK 824 million last year, but the Group's gross profit

decreased by DKK 14 million, from DKK 1,025 million to DKK 1,011 million, due to lower revenue/production.

Sales and distribution costs were reduced by DKK 27 million in 2017/18. The cost reductions were achieved through consolidation of the store network and reduced marketing costs. Administrative expenses plus other operating income and other operating expenses were on a par with 2016/17, which was impacted by extraordinary amortisation of goodwill of just over DKK 7 million.

The Group's operating profit, EBIT, was DKK 58 million in 2017/18 against DKK 44 million in 2016/17. Net financials amounted to a loss of DKK 1 million against a loss of just over DKK 2 million last year, resulting in profit before tax of DKK 56 million against DKK 41 million last year. After provision for future taxes payable of DKK 23 million, net profit for the year after tax was DKK 33 million. The extraordinarily high tax rate of just over 40% is due primarily to impairment of deferred tax assets in the Group's Norwegian subsidiary.

Total comprehensive income for the year, stated after adjustment of foreign subsidiaries' revenues and opening balance sheet values at closing rate, amounted to DKK 5 million against DKK 29 million last year. The negative exchange rate development for the Swedish krona (SEK) and the Norwegian krone (NOK) is a major reason for this.

#### Balance sheet

The consolidated balance sheet total as at the end of the financial year amounted to DKK 1,139 million against DKK 1,189 million last year. The sum total of intangible assets and property, plant and equipment amounted to DKK 351 million against DKK 403 million last year. The development is due to fewer investments. Deferred tax assets decreased from DKK 13 million to DKK 8 million.

The Group's inventories increased by DKK 4 million to DKK 330 million, which is attributable to increased prices of raw materials and thus higher cost prices. Receivables were reduced by DKK 16 million relative to last year, and thus amounted to DKK 293 million. On the basis of the above conditions, the Group's holdings of securities and cash and cash equivalents increased by DKK 19 million to DKK 157 million at the end of the financial year.

Consolidated equity, which amounted to DKK 797 million at the beginning of the financial year, amounted to DKK 760 million at the end of the financial year. The difference is primarily attributable to recognised comprehensive income of DKK 5 million less DKK 45 million used for the distribution of dividend.

The Group's non-current liabilities (deferred tax) amounted to DKK 16 million against DKK 20 million last year, and current liabilities amounted to DKK 362 million against DKK 372 million last year.

#### Cash flows

Cash flow from operating activities amounted to DKK 97 million against DKK 158 million last year. The reduced cash flow is primarily due to the development in exchange rates and rising commodity prices.

Cash flow to investing activities amounted to DKK 21 million against DKK 24 million last year. Cash flow to financing activities amounted to DKK 54 million, consisting of DKK 11 million for reduction of bank debt and DKK 43 million used for dividends. Interest-bearing debt amounted to DKK 3 million, which was DKK 11 million down on last year. The Group's interest-bearing net cash and cash equivalents amounted to DKK 154 million against DKK 124 million last year.

#### Significant events

No events have occurred after the end of the financial year which materially affect the assessment of the annual report.

# Geographical overview



Revenue  
DKK mio.



Employees



Own  
stores

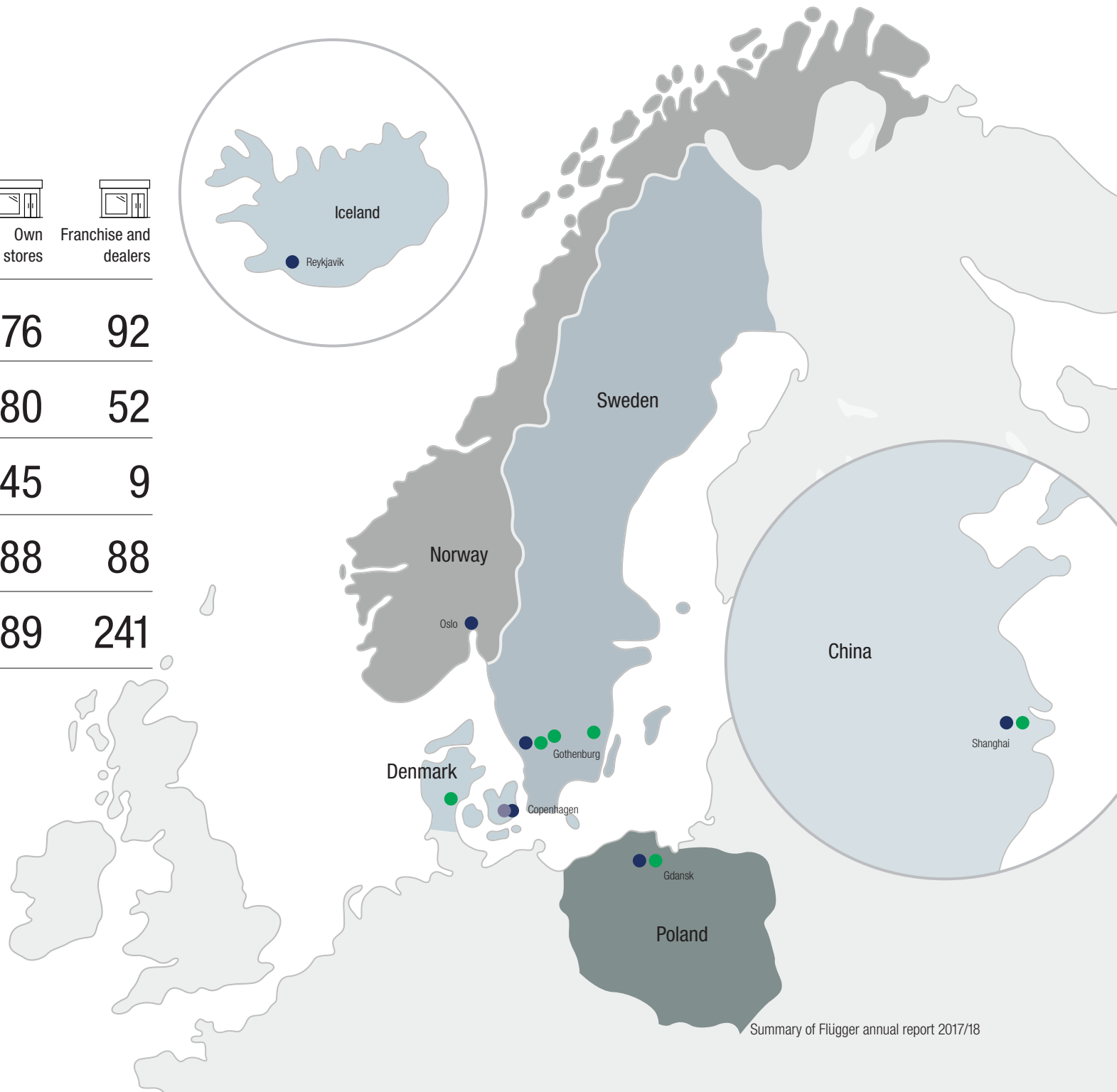


Franchise and  
dealers

	Revenue DKK mio.	Employees	Own stores	Franchise and dealers
Denmark including Iceland, Greenland and the Faroe Islands	675	486	76	92
Sweden	615	491	80	52
Norway	255	197	45	9
Outside of Scandinavia	273	440	88	88
<b>Total</b>	<b>1,818</b>	<b>1,614</b>	<b>289</b>	<b>241</b>

- Office/administration
- Headquarter
- Production

\* Number of employees per 30 April 2018  
 \*\* Flügger and PP professional paint products



# Corporate social responsibility

**Flügger wishes to run a responsible business in which the focus on social responsibility towards employees and the surrounding society is a natural element, and where our company's continued development takes place on a sustainable basis.**

Responsibility for the day-to-day development and focus on corporate social responsibility in the Flügger Group is rooted in the executive management team and the Group has drawn up policies that address corporate social responsibility issues, including anti-corruption and bribery, whistleblower scheme, environment and working environment.

We also work actively with the way in which we allocate sponsorship support, as we seek to enter into partnerships in which the focus is on contributing to the surrounding society. We prioritise projects within architecture, art, beautification of urban spaces, education and training as well as the creation of joint results through unconventional approaches.

We have chosen to structure our CSR and environmental initiatives within four main areas:

- Employees
- Business partners
- Environment and climate
- Flügger in society

## Employees

Competent employees are a prerequisite for our ability to meet the business objectives and targets we set ourselves, and only by constantly focusing on attracting, developing and holding on to the best employees can we ensure that Flügger is an attractive workplace which evolves as an organisation and continues to create good results.

## Launch of new values

Flügger has been and is still characterised by change. In recent years, the Group has experienced various challenges and management changes, which has challenged the cohesive structure of Flügger. In autumn 2017, the management therefore formulated the Group's DNA and the values Team, Time and Trust. Both were launched

concurrently with the strategy, and the individual manager has subsequently been responsible for ensuring local anchoring.

## Talent management and succession planning

We want to create development opportunities for our talented employees, and we therefore work systematically with talent management and succession planning. We are maintaining our ambition of ensuring that 80% of all appointments to managerial positions – particularly at store level – are to be made through inhouse promotions. This is to be achieved through a structured approach to learning and development. All employees must know what is expected of them, while we ensure as a company that we are able to develop the individual employee's potential optimally, hold on to our employees and maintain their commitment and motivation.

## Development of our managers

Good managers create good employees. We train and support our managers so that they develop their managerial competencies, leadership skills and business acumen. In autumn 2017, 30 managers completed an internal management programme on which the final exam involved the examinee facing a panel consisting of the executive management. The focus during the one-year training programme was on communication, dissemination of knowledge and information, innovativeness, development of employees, feedback, praise as well as the ability to drive and create changes.

In spring 2018, we also defined three leadership principles based on our values and DNA. The leadership principles will help support a strong and visible management culture and create a clear alignment of expectations in relation to what we expect of our managers across functions, departments and markets.

In the past year, we have worked to implement a new HR system which can support our managers by ensuring valid data, transparency and efficiency. The new HR system will contribute to ensuring that we can both run and change our company at the same time. Moreover,

we can support our managers to enable them to deliver on the strategy and develop both their personal performance and their ability to drive changes.

## Onboarding of new employees

One of our focus areas is to ensure that new employees feel welcome and quickly acquire a good understanding of Flügger as an organisation. This entails knowing our strategy and values, but also having a clear picture of what is expected of them in their new roles, and knowing when they are a success, so that they succeed more quickly at a personal level and in creating value for the company.

In the past year, we have worked determinedly and very successfully with onboarding, both before and after the employee's first day of work. After the first three months of employment, 90% of the new employees respond that they have received the necessary information and tools to perform their tasks, and as many as 99.7% respond that they feel welcome at Flügger.

The onboarding success means that, in the coming years, we will continue with the existing programme with an introduction to and training in the competencies which we find that the individual functions should have.

## Gender quotas, other management levels

When it comes to recruitment, we focus on our employees' competencies – not on their religion, nationality or gender. We are, however, committed to a policy of diversity at management level, which means we seek to ensure that both genders enjoy a minimum of 40% representation at the management level immediately below the Executive Board. Flügger employs a total of 361 employees at other management levels, defined as employees with staff responsibility.

Statement of Corporate Social Responsibility pursuant to section 99a of the Danish Financial Statements Act + statement of the management's gender composition pursuant to section 99b of the Danish Financial Statements Act.

The percentage gender distribution is 58% men and 42% women, which means that the requirement for at least 40% of the underrepresented gender at other management levels has been met, and the Group has therefore decided not to formulate a separate policy for the area.

### Working environment

It is important for Flügger to offer good working conditions to be able to continue to attract and hold on to the best employees. Our employees' welfare and the conditions that we offer our employees are therefore a priority area.

The rate of absence due to illness is at a consistently low level, and we pay particular attention to identifying signs of stress, so that we can prevent our employees from becoming ill. In 2017, we therefore held stress management workshops for selected managers across the organisation with the focus being on prevention of stress and strengthening of employee welfare in the workplace.

### Business partners

Flügger has both close and longstanding relations with many of our business partners in the supply chain, and we have established a process for selecting future business partners.

Flügger wishes to cooperate with companies that comply with human rights, ensure decent working conditions and are not involved in corruption or other anti-competitive activities.

Our key tool for compliance with this is our Code of Conduct. From 2016/17, we obligate our business partners contractually to comply with our Code of Conduct in connection with the conclusion of all new significant agreements. Flügger only wishes to cooperate with suppliers which are willing to comply with our Code of Conduct.

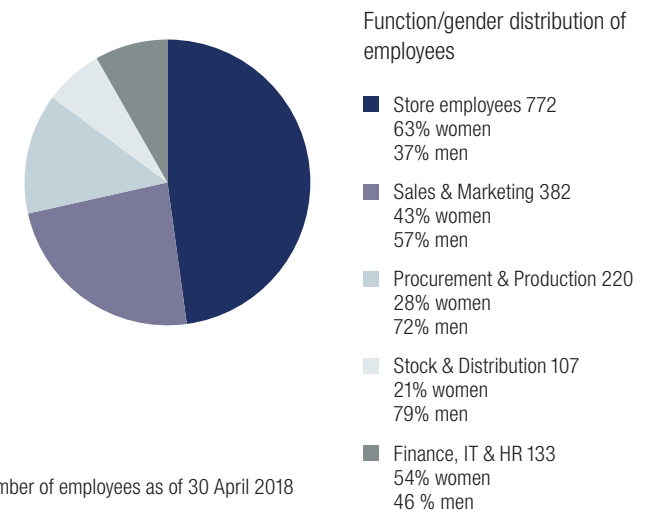
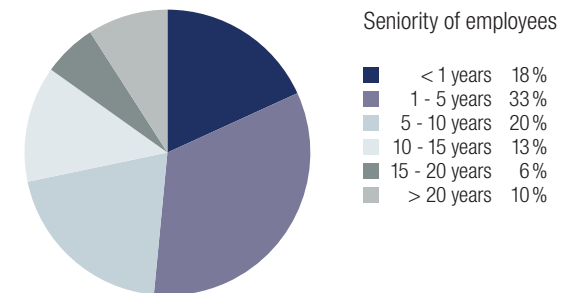
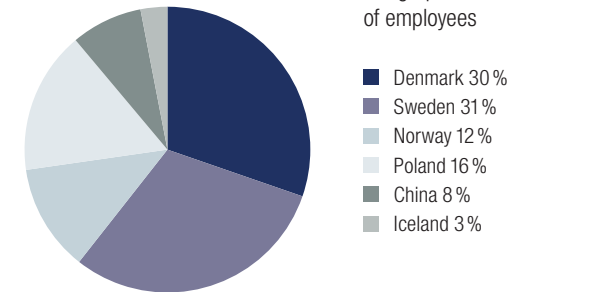
To ensure that all our employees are familiar with our Code of Conduct, we have prepared e-learning and test materials, which are available in the local languages in the countries in which Flügger has activities. The Code of Conduct course is a mandatory element in connection with onboarding of new employees.

### Whistleblower

Flügger has established a whistleblower scheme, which is available for both business partners and Flügger employees, including for reporting possible breaches of our Code of Conduct.

### Protection of personal data

The Group works systematically with the protection of personal data and has focused on this in the past year, including with a view to being able to meet the more stringent requirements laid down in the EU's General Data Protection Regulation (GDPR). In future, Flügger will continue to work to keep all employees informed about GDPR and train selected employee groups in this field.



Number of employees as of 30 April 2018

# Environment and climate

**In Flügger, we focus on minimising the environmental impact of our production and distribution as well as our products, which our customers expect are environmentally sound.**

## Our products

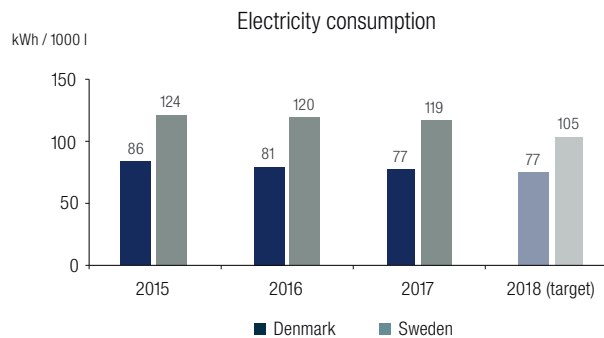
Flügger is on a continuous journey towards becoming a more environmentally-friendly and energy-friendly manufacturer of paint products, and our customers are increasingly demanding eco-labelled products and solutions. With the customer in focus, we have therefore intensified the development of eco-labelled products, where optimisation of function and minimisation of environmental impact are given equal priority.

Life cycle considerations are an integral part of this product development, which also includes an assessment of where we can most effectively reduce the environmental impact of our products. Most of our products for indoor use have been awarded the Ecolabel, which is the end-users' objective indicator of whether there may be a health hazard associated with using the product. Ecolabel assesses the life cycle of a product and the environmental problems that arise along the way from cradle to grave. In addition, a number of our outdoor wood products are labelled with the Nordic Eco-label Svanen, which makes more stringent requirements for product performance and durability, and all products are registered in Nordic Eco-label's building material database for building products which can be used in Svanen-labelled construction projects.

In 2016, Flügger decided to gather product development at the Group's head office. The central location, close to the Group management and the staff responsible for the product range, branding and, not least, the environment has resulted in a more coordinated development and has strengthened our ability to deliver new solutions even faster. This means that only control of raw materials and control of finished products are allocated to the production units.

## Environment and climate targets

In addition to our products, Flügger's primary environmental and climate impacts come from our production and distribution. In 2015, we therefore set a target of reducing our electricity consumption per produced quantity at our factories in Denmark and Sweden, respectively, by 10% over a three-year period.



We are pleased to announce that we have already met our target of reducing electricity consumption by 10% at our factory in Kolding, and we expect that replacing the warehouse lighting with LED will enable us to further reduce electricity consumption. The graph of electricity consumption in our production shows that the paint factory in Sweden had a less satisfactory development in 2017.

This is due to a decrease in production volume, a cold winter and 'idling consumption' for operation of ventilation systems, compressed air and heating, which are partly unaffected by the production volume. In 2018, biofuel-based heating will be installed to replace oil and electric heating. The replacement will have a positive effect on the factory's electricity consumption and total CO<sub>2</sub> load. In addition, we have, in the same way as in Kolding, launched the replacement of lighting with LED, which is expected to have a positive effect on electricity consumption while also providing an overall financial gain. The same measures have been initiated at our factory in Poland.

CO<sub>2</sub> emissions during transport of our products is another environmental focus area at Flügger. We therefore make a requirement in all new transport agreements that the carrier must regularly supply data on CO<sub>2</sub> emissions and ensure continuous reduction of emissions throughout the term of the agreement.

## Environmental management

All our paint factories are environmentally certified in accordance with ISO 14001. In 2017, three of our factories were gathered in a general certificate, which was upgraded to the latest ISO 14001:2015 standard in spring 2018. In the coming years, the focus will be on gathering all our European factories under this certificate. The work with gathering the factories under a general certificate also includes the collection of all environmental data in a new 'environmental dashboard'.

The environmental dashboard will give us:

- a better opportunity to monitor Flügger's total environmental impact from production and logistics.
- a tool for setting new environmental targets.
- an opportunity to monitor the effect of initiated activities and investments.

Certification of the remaining two factories and the introduction of the new environmental dashboard are expected to be completed in 2019.

## Quality management

Flügger is renowned for providing high-quality services and products, and it is important for us to maintain a high standard. We have formalised our quality assurance work in accordance with the ISO 9001 standard, and our factories in Kolding, Denmark, Bollebygd, Sweden, and Gdansk, Poland, achieved this certification in 2017 together with the operations management in Rødovre, Denmark. The next step is that our two small factories in Sweden must be included in the environmental and quality assurance certificates in spring 2019.

Our factory in China is environmentally and quality assurance certified under its own ISO certificates and was upgraded to the new 2015 version in spring 2018.

The quality certification and the targeted work with preventive activities make themselves positively felt in our business. In financial year 2017/18, the initiatives thus contributed to a more than 50% reduction of costs for complaints relative to financial year 2016/17.

MainCoat:

## The innovative wood stains of tomorrow

**A new major research project between Flügger, the Danish Technological Institute and several raw material producers and partners is aimed at developing wood stains which, in addition to being more sustainable, require significantly less maintenance than is currently the case.**

Maintenance of wood facades is a time-consuming process, and, in many cases, the inconvenience means that the building and construction industry refrains from using sustainable material. Flügger is now trying to change this through a large research project together with the Danish Technological Institute and the University of Copenhagen as well as several foreign business partners. The aim is to create a more robust paint that lasts longer and requires less preparatory work, and is thus more environmentally friendly.

“The building and construction industry has increased focus on more environmentally-friendly solutions for wood constructions. And it’s essential in this connection to protect the wood stain for longer to keep costs down. Any improvement of outdoor wood paint will be positive and will mean extended use of wood. But the maintenance-free periods must obviously be extended by years and not months,” says Jonas Stenbæk, consultant and wood expert at the Danish Technological Institute.

Wood is less expensive and weighs significantly less than concrete, which facilitates transport and reduces the duration of the construction process by up to 20%. Wood also has the ability to embed CO<sub>2</sub>, which will only be released when the wood is burnt. Seen over the life of a building, it is, however, more expensive to use wood than concrete as a building material – solely due to maintenance.

### Reality-based project

The research project is called MainCoat and has a total budget of more than DKK 18 million. Flügger’s specialists contribute with in-depth knowledge of the components and properties of the paint. They are to develop new techniques for how paint can



penetrate further into the wood, bind better regardless of the base and achieve far greater flexibility and thus longer durability.

“Normally, we recommend that a holiday home which has not been maintained for ten years must be ground down to the healthy wood before treatment. But few do so, and this is the reality which the research project is based on. Maintenance costs need to be reduced by reducing cumbersome preparations and extending maintenance intervals. This is important if we want more wood-based buildings,” says Søren Poulsen from the innovation department in Flügger.

He and his colleagues use Flügger products as a basis and try to optimise several components, so that the overall end result will be a more robust, efficient and environmentally-friendly wood stain.

“So far, it’s been standard practice to use so-called biocides as a wood stain preservative, as they’re an effective protective agent against algae and mould in the wood. However, environmental organisations are warning that biocides are washed out by precipitation and thus impact the environment. At Flügger, we’ve already taken the first steps to embed biocides better in the paint. With MainCoat, we’re now taking the next step and trying to create wood stain completely without biocides,” says Søren Poulsen.

The MainCoat research project is funded by Innovation Fund Denmark and runs until the end of 2019.



# Risks

**In recent years, Flügger has strengthened risk management initiatives, so that risk management is today an active management tool for the Board of Directors and the Executive Board, which constantly monitor the Group's overall risk profile and significant individual risks.**

The object of the Group's risk management is to identify and assess relevant risks and, if possible, reduce them and, not least, allocate responsibility for follow-up. The Group's risk management is performed in accordance with the recommendations for corporate governance.

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.

## Significant commercial, operational and CSR-related risks

As the Flügger business model on page 7 shows, the company is exposed to both production and marketing-related risks.

### IT-related risks

Based on the number and extent of external events, Flügger assesses that IT crime constitutes an increased risk. Combined with high and increasing dependence on IT support, this makes IT crime a highly significant risk. We have therefore incorporated a number of preventive measures of a technical and behavioural nature, and we are reviewing our emergency procedure, and we have also taken out a cyber insurance policy. Several supplementary initiatives in IT security have been commenced, and our focus in this area will continue over the coming years.

### Raw material risks

As Flügger produces many products itself, the Group is directly exposed to fluctuations in raw material prices. This includes, in particular, titanium dioxide, which is a key ingredient in paint production and which cannot be hedged due to the lack of a derivatives market. Increased prices of raw materials are difficult to pass on directly to sales prices in the short term and therefore constitute a risk to earnings. The opposite is the case in connection with a decrease in prices of raw materials. During the financial year, the Group saw a steady increase in the price of titanium dioxide due to low supply, and the Group therefore implemented a number of mitigating measures. This includes both price adjustments and an increasing number of suppliers, so that Flügger is better equipped now and in the future.

### Changing consumer habits and digital trends

The Group's commercial risks primarily concern changed requirements and wishes from both professional and private customers. Painters will increasingly be met by requirements for use of eco-labelled products, in particular in connection with public procurement bids. This means that Flügger is required to have an increasing share of our product range eco-labelled in accordance with, in particular, Ecolabel and Svanemærket. In line with Flügger's wish to be a responsible manufacturer, the majority of our products for indoor use now bear the Ecolabel. Our Group Regulatory Affairs handles the processes concerning eco-labelling, and the management believes that Flügger is at the cutting edge of the development and is well equipped to face the future.

### Environmental risks

Environmental conditions are also a significant risk for the Group. Legislation in this field is constantly becoming stricter and requires significant adjustments. Requirements for reduced quantities of added

fungicides mean that there is an increasing risk of rot problems in water-based paints. In order to reduce this risk, it is necessary to change the production equipment on a continuous basis. As part of the overall strategy, the Flügger management works determinedly to future-proof the Group's production facilities.

### Production stoppages

With direct ownership and operation of own factories, Flügger is exposed to the risk of stoppages caused by, for example, fire or disasters. To hedge this risk, continuous work is done to implement preventive measures based on the highest standards, and the Group has also taken out insurance against significant business interruption losses.

## Financial risks

Flügger has DKK as the functional and reporting currency, which means that production and sales in Denmark entail relatively low currency exposure as most transactions are made in DKK or EUR. Production and sales in Sweden entail limited risk as there is an approximate balance in the transactions. In turn, the Group's sales in Norway, Poland and China entail currency exposure. The significant risk in NOK is hedged.

The Group generally has positive interest-bearing net cash and cash equivalents as stated in the quarterly analysis, and we therefore believe that the cash reserves are satisfactory for the coming financial year.

# Shareholders

## 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 OMX Copenhagen A/S under ID code DK0010218189 with the short name of FLUG B. Danske Bank is market maker for the share.

At the end of the 2017/18 financial year, 1,315 shareholders were registered by name in the company's register of shareholders, which together accounted for 93.7% of the share capital and 99.2% of the votes. The company's holding of treasury shares amounted to 4.0% of the share capital. The shares are non-voting shares in accordance with the Danish Companies Act (Selskabsloven) and are valued at DKK 0.

## Regarding share buy-backs

Since the stock exchange listing, the company has occasionally used excess liquidity to buy back treasury shares. The holding of treasury shares has been used for capital reduction: 10% at the end of 2001/02, 10% at the end of 2002/03 and 5.66% at the end of 2005/06.

There is a tradition that the general meeting authorises the Board of Directors to acquire treasury shares under special conditions. It is expected that, also this year, the Board of Directors will request that the general meeting authorise the Board of Directors to acquire treasury shares, and that such authorisation will be granted. In recent years, the company has been reluctant to use this option of acquiring treasury shares as the liquidity of the share is low, and the company already has a not insignificant holding of treasury shares.

## Dividend policy

The company's policy is to distribute a relatively high dividend in relation to the market price and market rate with due consideration being had for the company's capital structure.

## Ownership structure 30 April 2018

Amount	shares	%	votes	%
A shares	590,625	19.7	5,906,250	72.1
B shares	2,290,046	76.3	2,290,046	27.9
B shares in the company	119,329	4.0	-	0
<b>Total</b>	<b>3,000,000</b>	<b>100</b>	<b>8,196,296</b>	<b>100</b>

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*	1,348,226	44.9	6,663,851	81.3
<b>Total</b>	<b>2,300,110</b>	<b>76.7</b>	<b>7,615,735</b>	<b>92.9</b>

\* Ulf and Sune Schnack (father and son) together own a total of 1,348,226 Flügger shares, of which 590,625 class A shares and 620,610 class B shares are held by SUS 2013 ApS (Flügger Holding).

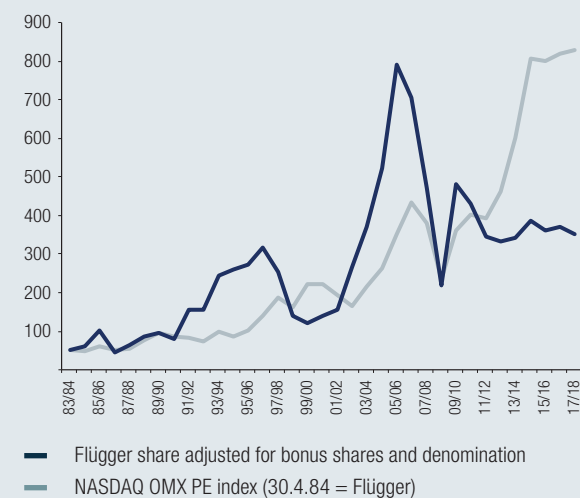
## Communication with investors (IR)

Flügger aims to ensure a high and credible level of information. The company submits quarterly reports to the Copenhagen Stock Exchange on its latest financial development and any revised forecasts for the future. The publication dates of these quarterly reports, including interim and annual reports, are shown in the financial calendar, which, including all stock exchange announcements, can be found on the company's website [www.flugger.com/investor](http://www.flugger.com/investor).

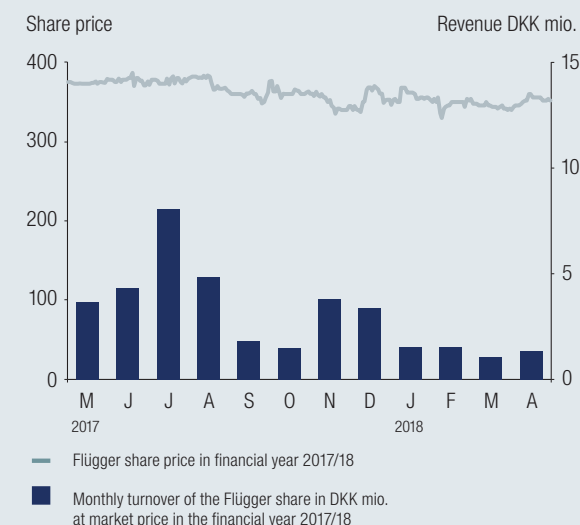
The company seeks to participate in an open and active dialogue with investors, analysts and the press in order to provide the share market with the best possible basis for the pricing of the Flügger share. However, the company refrains from participating in in-depth interviews, including commenting on questions relating to financial results or expectations, in the last four weeks prior to the publication of financial reports.

Any questions can continuously be directed at CEO Jimmi Mortensen, CFO Keld Sørensen or CDO Ulf Schnack.

Development in share price for the Flügger share since the company's listing on the stock exchange in the fall of 1983.



Development in share price and monthly turnover of the Flügger share in the financial year 2017/18



Mio. DKK	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Share data ultimo</b>										
Outstanding shares of DKK 20, 1,000 shares.	2,998	2,942	2,904	2,904	2,902	2,878	2,877	2,877	2,877	2,881
Income or loss from ordinary activities after tax, per share, DKK	9.2	32.0	21.9	7.7	16.8	26.3	18.6	4.6	10.0	11.6
Diluted earnings per share, DKK (EPS, avg.)	9.2	32.0	21.9	7.7	16.8	26.3	18.6	4.6	10.0	11.6
Book value per share, DKK	231.3	258.4	274.9	266.6	283.8	291.1	298.6	281.8	277.1	263.9
Proposed dividend per share of DKK 20	6	12	15	6	9	13	15	15	15	15
Flügger market price	218	478	431	345	327	340	390	359	372	352
Price/earnings ratio (P/E), DKK	23.6	14.9	19.7	44.7	19.4	12.9	21.0	77.6	37.0	30.3
Price/book value, (P/B)	0.9	1.8	1.6	1.3	1.2	1.2	1.3	1.3	1.3	1.3
Flügger market value, DKK million	654	1,434	1,293	1,035	981	1,020	1,170	1,077	1,116	1,056
OMX PI index	253	385	430	420	494	643	860	854	876	886

## Definitions

### Outstanding shares

The number of total shares less the company's own portfolio at year-end is used for the calculation of share data

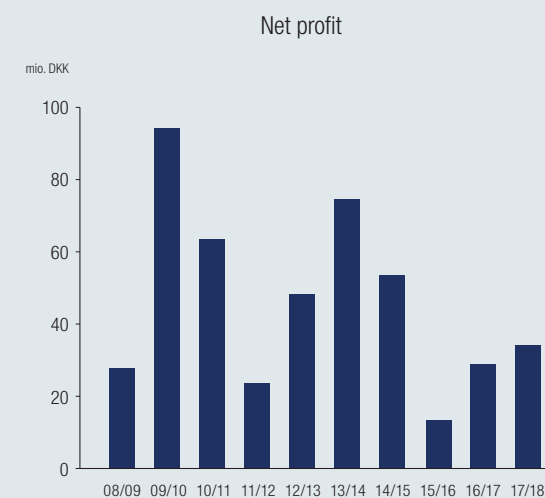
### The company's market capitalisation

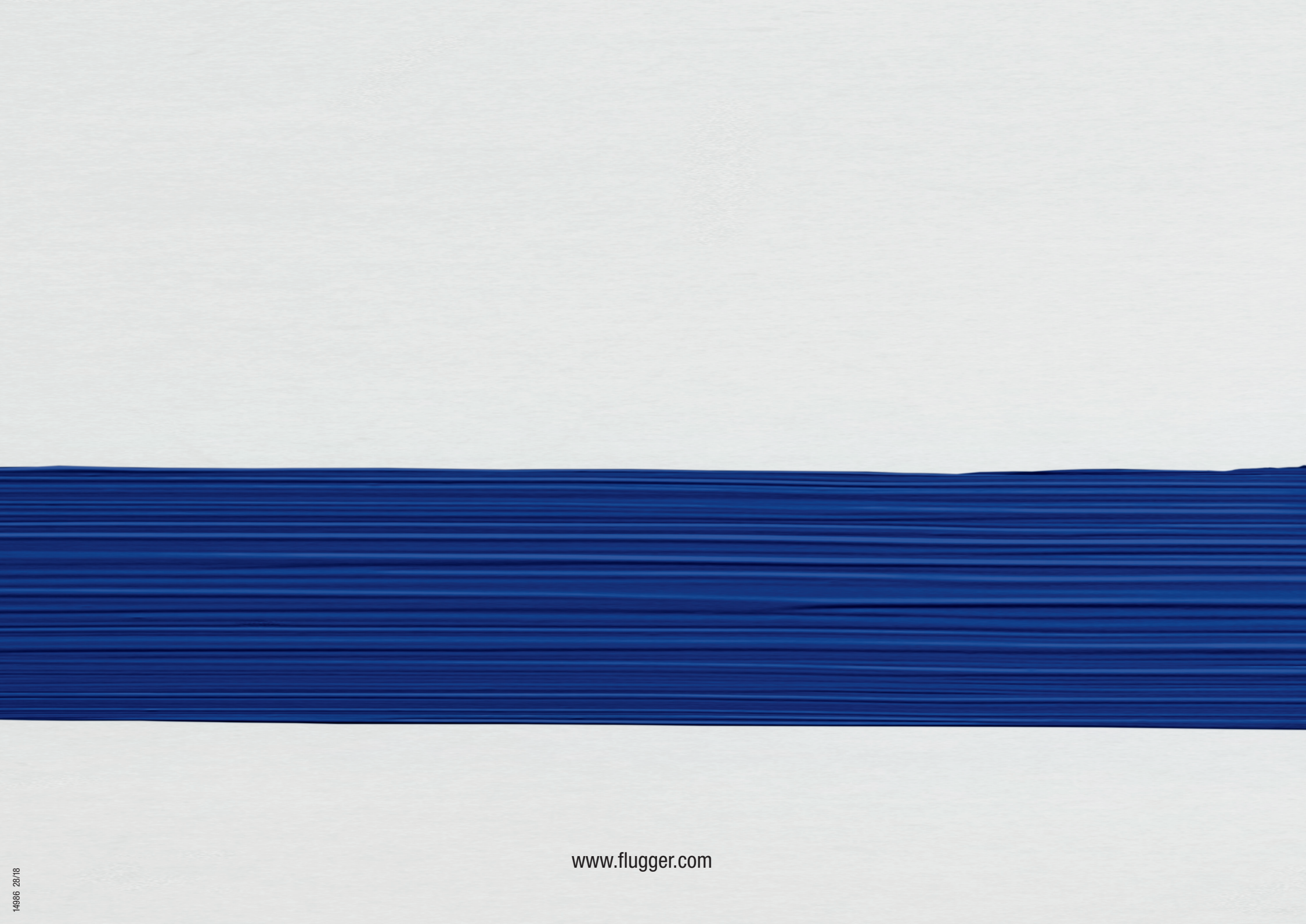
Number of shares (incl. class A shares) x market price

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

Net profit for the year as a percentage of outstanding shares

Share data is calculated on the basis of the number of outstanding shares at year-end.





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