

Procurement Principles

1 Purpose

The Flügger Procurement Principles set the foundation and direction for procurement & collaboration with suppliers. The Procurement Principles are approved by the executive management team, communicated to managers in Flügger, and publicly available at the Flügger website.

With the Procurement Principles, Flügger want to ensure that sourced products are fit for purpose and match Flügger long term strategic ambitions and are compliant to regulatory and legal requirements as well as health & safety standards. Furthermore, Flügger want to ensure that suppliers are a match to Flügger, e.g. on quality and sustainability, and commit to Flügger Sustainability Principles for Suppliers. Lastly, Flügger want to make sure employees are aware of and comply to the procurement principles and governance, and when compliant to the Procurement Principles, relevant functions conduct appropriate qualification and due diligence of suppliers.

2 Validity

The Procurement Principles cover all countries, sites, and employees within Flügger group A/S and its 100% owned subsidiaries (Flügger).

The Procurement Principles cover all area of sourcing and purchasing of raw materials and packaging for Flügger own production sites, goods for resale, outsourced products from contract manufacturers, warehouse and store rentals, logistics, consumables, operational and professional services, MRO & investments, IT software, - hardware, -services, & -systems etc. The only exemption follows the Flügger Authorization Guidelines on one-off, insignificant, indirect product and -services.

3 Governance

Procurement at Flügger is done in close collaboration between the Procurement department (responsible for suppliers and the strategic sourcing- and commercial part of the procurement) & functional business owners (responsible for the functional and specification part of the procurement).

All raw materials, IT, or goods-for-resale may only be sourced by the Procurement department. Similarly, the functional business owner of, for example raw materials is the R&D department, of IT the IT department, and of goods for resale the Product Management department.

Roles of strategic sourcing and operational purchasing are separated to secure segregation of duties.

Four-eyes principles apply to purchasing and contracting.

4 Procurement focus & principles

For long term value creation, procurement at Flügger focuses on innovation, sustainability, cost, and resilience (secure supply & quality). Procurement supports the Flügger financial top- and bottom-line, as well as mitigation of revenue at risk. Additionally, procurement supports Flügger value proposition, brand, and strategy execution – as a high quality, sustainable & innovative company and -brand.

Five overall principles apply to procurement at Flügger:

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Overview 1. Procurement principles

1. Ensure that suppliers are robust & solid prior to engagement	
<ul style="list-style-type: none"> • Due diligence on financials, quality, environment, health & safety, regulatory, & sustainability to secure responsible value chain and purchasing practices • Compliance with all applicable local, national- and international laws and regulations, amongst other on environment and health & safety • Compliance to Flügger Sustainability Principles for Supplier & commitment to secure code of conduct in own supply chain 	
2. Ensure that suppliers are a good match and future proof	
<ul style="list-style-type: none"> • Innovation & sustainability profile, strategy match, capacity, and capabilities evaluation 	
3. Ensure that products and services are fit for purpose	
<ul style="list-style-type: none"> • Compliance to Flügger requirements & specifications, and fit to other Flügger products, product solutions, and recipes • Compliance to regulatory requirements, laws, and regulations • Security of supply by backup recipes, pre-approved alternative suppliers or other strategic risk mitigation measures where possible and strategically important 	
4. Ensure fair and equal treatment of suppliers	
<ul style="list-style-type: none"> • Fair competition and equal treatment where suppliers have the possibility to qualify for delivering to Flügger • Supply contracts set the terms for collaboration and are treated with agreed confidentiality • Follow up on non-performance and non-compliance for remedy and in worst case termination of collaboration • We act with fairness, honesty, and integrity in our supplier dialogue and relations 	
5. Develop selected strategic suppliers	
<ul style="list-style-type: none"> • Development of supplier relations with selected, qualified, contracted suppliers who adhere to the Flügger Sustainability Principles for Suppliers • Development of strategic collaboration and partnerships with selected suppliers to drive sustainability, innovation & cost-out in a win-win perspective 	

5 Procurement key processes

To apply the procurement principles, procurement is conducted via structured processes documented in the Flügger Management System. All relevant employees are trained in the processes.

Overview 2. Procurement key processes

	Process	Key activities
1	Analytics & sourcing strategy	Spend-, cost-, & market analysis as foundation of sourcing strategic plans for how best to secure innovation, sustainability, resilience, and cost in different sourcing categories.
2	Portfolio management	Project pipeline planning with stakeholders, standard cost planning, sourcing project scoping, & -project management.
3	Search & selection	Qualification of products & suppliers on QHSE, regulatory, financial solidity, code-of-conduct, anti-sanctions and antibribery, ESG risk, fit-for-purpose evaluations (capability, capacity etc.) & functional tests.
4	Tenders and negotiation	Depending on markets & categories, facilitation of competition by tender and negotiations to obtain the best solution at best commercial terms.
5	Contract & contract management	Contract drafting, negotiation, and contract management. Contracts include specifications, legal & commercial terms and conditions, as well as relevant appendixes incl. Flügger Sustainability Principles for Suppliers.
6	Risk management	Strategic secure supply risk assessment, mitigation planning, and plan execution, incl. reviews on safety stock and forecast to suppliers. Sustainability risk mitigation planning & plan execution.

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7	Supplier management	Sourcing strategic plans combined with supply risk- and sustainability risk assessment serve as a foundation for supplier relationship management. Supplier management also includes performance management reviews and audits.
8	Purchase-to-pay	Purchase order placement, -confirmation, -modification, -receipt.
9	Operational procurement	Supplier claims handling, secure supply issue resolution, Buy-to-order price catalogue management, supplier creations, price updates, phase-in-phase-out etc.

Procurement is part of the Flügger ISO certificates on Quality and Environment and hereby required to document adherence to the Procurement principles and processes.

Progress on innovation, sustainability, cost, and resilience are monitored by key performance indicators.

For more information on supply chain due diligence & transparency, please refer to the Flügger Value Chain ESG Due Diligence Principles. For more information on Flügger business conduct and ESG requirements for suppliers, see Flügger Sustainability Principles for Suppliers.