

Value Chain ESG Due Diligence Principles

1 Purpose

The Flügger Value Chain ESG Due Diligence Principles stipulate the foundations, roles & responsibilities, and processes for working with ESG due diligence and transparency in the Flügger upstream and downstream value chain. The Value Chain ESG Due Diligence Principles are approved by the Executive Management team, communicated to managers at Flügger, and publicly available on the Flügger website.

As a fundamental part of Flügger value proposition and strategy, Flügger focus on delivering sustainable, high-quality products and services to our customers. This means that Flügger has a strong focus on sustainability & due diligence in own operation and products produced, hereby also requiring high standards to the sustainability profile and documentation on suppliers & sourced products.

The principles and way of working with ESG due diligence and transparency on suppliers in the upstream and downstream value chain are aligned to the Procurement Principles and includes the Sustainability Principles for Suppliers. Flügger work structured with qualification and management of suppliers, in a risk-based approach, in order to prevent or minimize ESG impact and in order to assess opportunity for sustainable innovation.

2 Validity

The Value chain ESG due diligence principles cover all countries, sites, and employees within Flügger group A/S and its 100% owned subsidiaries (Flügger).

The principles cover suppliers in the upstream and downstream supply chain. Suppliers in the Flügger value chain and their products and services, are raw materials and packaging for Flügger own production sites, goods for resale, outsourced products to contract manufacturers, warehouse and store rentals, logistics, consumables, operational and professional services, maintenance & repair, investments, IT software, - hardware, -services, & -systems etc. Insignificant, indirect suppliers not covered by the Procurement policy are not covered. Other parties in the value chain like customers and end-of-life handling are not covered.

3 Governance

Different functions are involved in ESG due diligence processes like QHSE, Regulatory Affairs, Legal, Sustainability & Procurement. Roles and responsibilities are described in processes and documented in the Flügger Management System. The Procurement department holds the overall responsibility for supplier qualification & supplier management.

4 ESG risk assessment

The ESG risk assessment is based on ESG risk heat maps, based on inherent country- and sector-based ESG risks. The focus is on Tier-1 suppliers where Flügger has the largest possibility to influence. However, in the sustainability risk assessment, data is also gathered on Tier-2 producers where Tier-1 suppliers are distributors.

The country- based ESG risk heatmap is based on several publicly available, country-based E, S, & G indexes from Universities and NGOs, mapped to Flügger supply base country of origin. The total ESG country-based, potential risks are quite low, and with insignificant high risk. The risk profile varies on E, S & G on total supply base and between suppliers.

The vast majority raw materials & packaging used in Flügger own-produced products is sourced in EU and even more so within Europe. The low country risk corresponds well with the fact that Flügger for many

Value Chain ESG Due Diligence Principles

years has driven an agenda of near-sourcing in order to optimize secure supply, sustainability footprint, and cost. For more transparency on risk, see the ESG report.

The sector-based risk heat map is based on sector specific risk profiles as stipulated by the Sustainability Accounting Standards Board (SASB) mapped to Flügger supply base sectors and then to spend. SASB show the potential ESG risk area in different industry sectors. When the sector specific standards are developed by EFRAQ the risk heat map will be updated accordingly.

The sector-based ESG risk heat map shows several areas of potential risk within the Flügger supply chain, focusing on various environmental aspects as well as health and safety of workers in the value chain. The risk heat map indexes and supply base data are updated annually.

5 Due diligence

The ESG due diligence processes are conducted in a **risk-based approach**, considering ESG risks as well as other aspects like strategic importance, supplier-buyer power balance, spend base, product type that add to the overview of risk as well as the assessment of the importance for action and the ability of Flügger to impact.

ESG due diligence processes, focus, thresholds, and responsible are shown in the tables below.

Table 1. ESG-related due diligence as part of supplier qualification processes

Process	ESG focus	Threshold	Responsible
Sustainability principles for suppliers (based on Code of Conduct)	E, S, G	Significant suppliers	Procurement, Legal
Regulatory supplier & product qualification	E, S, G	Suppliers of raw materials, Packaging, CMO & selected GFR	Regulatory, Procurement
QHSE assessment	E, S, G	Supplier of raw materials, Packaging & CMO	QHSE, Procurement
QHSE audit	E, S, G	Selected high risk, strategic raw material, packaging & CMO	QHSE, Procurement
Anti-sanctions and antibribery screening	S, G	High spend or high-risk suppliers	Legal, Procurement
Financial solidity screening	G	All raw material suppliers & other strategic or high-risk suppliers	Finance, Procurement
Sustainability risk assessment	E, S, G	Significant suppliers	Procurement

Table 2. ESG-related due diligence as part of supplier management processes

Process	ESG focus	Threshold	Responsible
Contracts	E, S, G	Strategic, high spend, or high-risk suppliers	Procurement, Legal
Supplier performance management (SPM)	Varies	Strategic, high spend, high-risk or non-performing suppliers	Procurement
Supplier relations management (SRM)	E, S, G	Strategic, high spend, or high-risk suppliers	Procurement
Sustainability risk assessment	E, S, G	Review on significant suppliers, action on critical suppliers	Procurement
QHSE audit	E, S, G	Strategic, high spend, high-risk, or non-performing suppliers	QHSE Procurement
Whistleblower scheme	E, S, G	Any employee, supplier, supplier employee, or other 3. parties	Legal

If suppliers do not live up to the Flügger required standards, Flügger work with the supplier to improve, or the supplier is terminated. Flügger has a zero-tolerance on bribery and corruption.

Whereas many processes focus on risk mitigation, suppliers are also evaluated on their innovation history and -roadmap, capabilities, capacity, and strategy, to assess their **opportunity** to deliver on sustainable

Value Chain ESG Due Diligence Principles

innovation and thereby support the Flügger strategy - both as part of category strategies and as part of ongoing supplier relations management.

6 Supply chain transparency

The Flügger Sustainability Principles for Suppliers, the Procurement principles, and the Value chain ESG due diligence principles are publicly available on the Flügger website.

Several ESG KPIs on supply chain are reported internally in management reviews and externally in the ESG report/annual report, e.g. signed sustainability principles for suppliers, number of audits, number of whistleblower cases. Also, changes to the due diligence processes are elaborated in the ESG report.