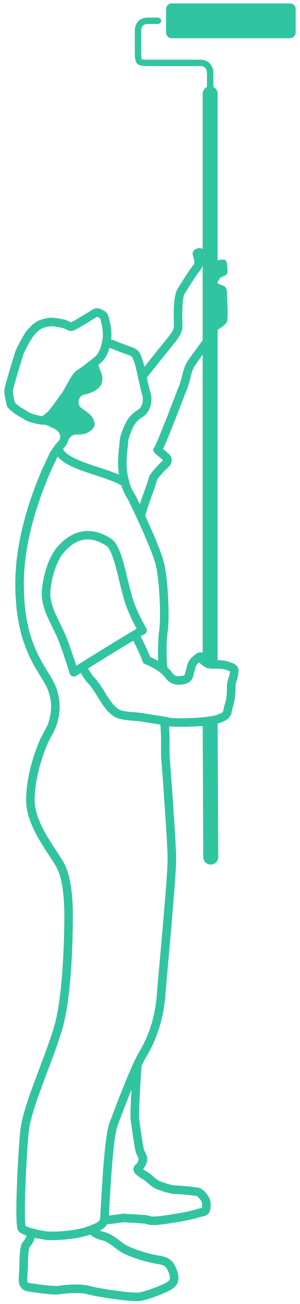
Flügger

Summary of Annual Report 2021/22

Flügger group A/S, Islevdalvej 151, DK-2610 Rødovre, Denmark. CVR no. 32788718. Financial year 1 May 2021 – 30 April 2022



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 is held on Thursday, 11 August 2022 in Copenhagen.

For more information:
Tel. + 45 70 15 15 05

Flügger group A/S
Islevdalvej 151
DK-2610 Rødovre
Tel. +45 70 15 15 05
ir@flugger.com
CVR no. 32788718

Contents

Dear Shareholders

An unpredictable year marked by rising prices of raw materials and war in Ukraine

We look back on a historic year that began with COVID-19 and ended with war in Ukraine. For Flügger, this has meant a normalisation of consumer demand after record sales during the COVID-19 pandemic, a new business situation in segment 3 and continued increasing pressure on raw materials, energy and transport. Thanks to a strong work performance by our employees, we have, despite the challenges, had goods on the shelves and good organic growth in Poland, in our export markets, and among professional customers in the Nordic region. In addition, we are proud to have made two minor acquisitions, started up a new business and driven our online sales to new heights, which is described in further detail on pages 8 and 31.

Relative to last year's record profit, the overall result in 2021/22 is not satisfactory. This year's earnings were initially particularly hit by the rising prices of raw materials. This soon spread to increased transportation and energy costs. This is a general change that is expected to continue for some time. Segment 1 (Flügger main brands) was partially hit by the cost increases, as they can only be passed on to customers to some extent due to the historically high increase. In addition, a shift in customer mix from consumers to professionals has put pressure on margins, with a reduced profit. Consequently, segments 2 and 3, which cater to DIY and builders' merchants markets, are characterised by longer contracts, and thus the cost increases cannot be passed on immediately. We were hit the hardest in segment 3, where, due to the war in Ukraine, we have made a large extraordinary writedown and have prepared ourselves for a situation in which the basic conditions for the segment have changed.

With the many extraordinary external challenges in mind, Flügger has come through the year well and is still in a solid position for the future development.

Russia's invasion of Ukraine

At Flügger, we are deeply concerned about and affected by the war in Ukraine and the tragic consequences it has for our colleagues and the rest of the local population in Ukraine. Our thoughts are with those affected and their relatives. In 2021, Flügger acquired Eskaro Group AB, which has production in Odessa, Ukraine, among other locations, and sales activities across the country. The activity level is obviously highly affected by the situation and has been significantly reduced. Flügger is supporting the company in the best possible way so that it can make a positive contribution to the Ukrainian economy and so that there is a workplace to return to when the terrible situation hopefully comes to an end soon. All investment considerations in Russia and Belarus have been stopped and a sales process has been initiated. Overall, this affects our ambitions in strategic focus area no. 3 for inorganic growth in Eastern and Central Europe.

Heavy price increases

The price of raw materials, energy and transport increased more than expected in 2021/22. For raw materials alone, the Group has experienced increases of more than 20%. The trend appears to be continuing, and this will require further price increases in the market for our products. The many price increases have been passed on to the market to a limited extent.

Flügger strengthens its presence in Lithuania

In early March 2022, Flügger acquired UAB Daniški dažai in Lithuania with an intend to fully integrate in the Group. The company was previously owned by a local distribution partner in Lithuania. All employees of the company will be retained, and both employees and customers in Lithuania now have full access to and benefit from the operational platform of Flügger. Flügger will also benefit from insight and opportunities in the business as well as the full earnings potential. We consider the acquisition to be very attractive, and it is already contributing positively to the Group.

The green agenda

The green agenda is a high priority at Flügger. With our Going Green strategy from 2020, we have embarked on a transformation of Flügger in which we work every day at becoming even more sustainable in production, packaging and paint. In 2021/22, the Group distinguished itself by reaching as much as 76% ecolabelled wetgoods of total wetgoods sold in segments 1 and 2* and increased the share of paint buckets with recycled plastic to 11.3%. At the same time, we are working hard at creating future solutions for both paint and packaging. With our new brand Notes®, we are testing, for the first time, international sales of paint in bags, which means significantly lower consumption of plastic relative to plastic paint buckets – a solution we may very well implement in Flügger and DIY later on.

Thank you to our employees, customers and shareholders

It has been another year marked by major unforeseen events across important areas of great importance to Flügger. It has required very special commitment, adaptability and good colleagueship to get through the period safely and well. We are pleased to see how the organisation stands together and succeeds with things as a team. We are deeply grateful for this. We would also like to extend a warm thank-you to our customers for their good cooperation and ongoing feedback, which helps develop and improve Flügger. We appreciate the loyalty, and we work every day to acknowledge it with high-quality solutions. Last, but not least, a big thank-you is extended to all those who have shown us confidence by believing in Flügger. In 2022/23, we will continue to work to achieve positive results and long-term value creation.

Sune Schnack
Chief Executive Officer

Jimmi Mortensen
Chairman of the Board

excl. Unicell International

At Flügger, we want to deliver on our promise to customers, partners and society to move in an even greener and more digital direction.

Key figures 2021/22 – continuing operations

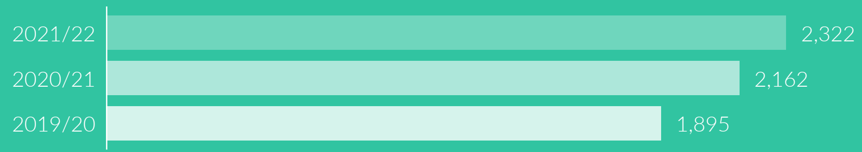
2021/22 financial year = 1 May 2021 – 30 April 2022

Revenue

DKK million

2,322

▲ +7%

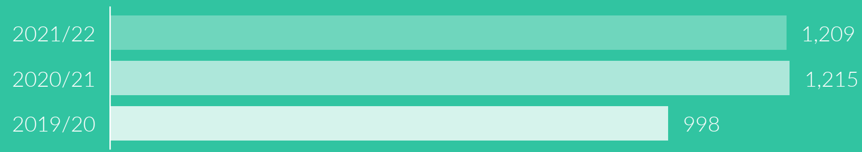


Gross profit/loss

DKK million

1,209

▶ +0%

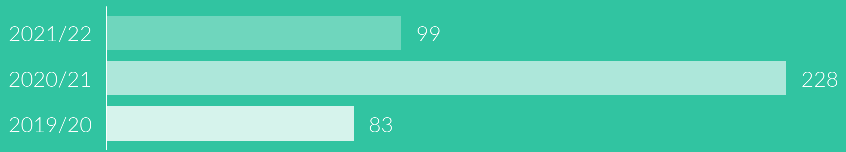


EBIT

DKK million

99

▼ -56%

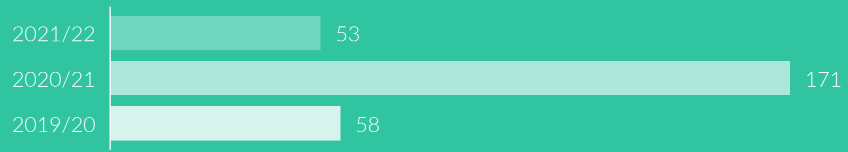


Net profit/loss after tax and minority shares

DKK million

53

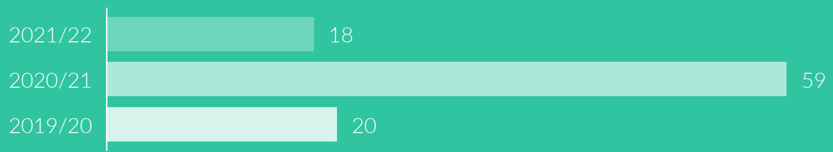
▼ -81%



Earnings per share after tax and minority interests

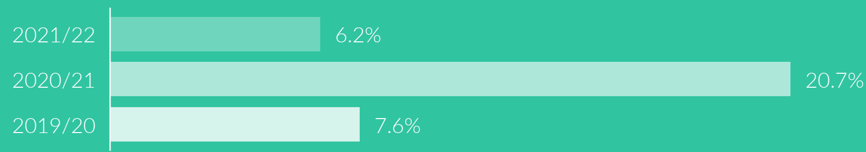
DKK

18



ROCE

6.2%



Flügger 10-year development

DKK million	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Income statement										
Revenue	1,874	1,924	1,833	1,850	1,849	1,818	1,824	1,895	2,162	2,322
Gross profit/loss	1,001	1,036	1,015	998	1,025	1,011	992	998	1,215	1,209
EBITDA	128	152	122	82	119	119	88	212	368	284
EBIT	68	88	65	21	44	58	41	83	228	99
Net financials	-4	-2	1	2	-2	-1	1	-7	-8	-20
Profit/loss before tax	64	87	66	23	41	56	41	76	220	79
Profit for the year, continuing operations	49	76	54	13	29	33	32	60	180	43
Net profit/loss for the year	49	76	54	13	29	33	32	60	180	-8
Net profit/loss for the year after tax and minority shares, continuing operations	49	76	54	13	29	33	32	58	171	53
Net profit/loss for the year, discontinuing operations	-	-	-	-	-	-	-	-	-	-51
Balance sheet										
Balance sheet total, year-end	1,226	1,183	1,250	1,243	1,189	1,139	1,095	1,691	1,842	2,226
Equity, year-end	824	838	859	811	797	760	742	787	951	919
Net interest-bearing debt (-)/cash and cash equivalents (+), continuing operations	-17	78	55	28	124	154	145	-301	-245	-745
Net interest-bearing debt excl. leasing (-)/cash and cash equivalents (+), continuing operations	-17	78	55	28	124	154	145	105	141	-361
Working capital, continuing operations	336	296	322	324	270	255	281	217	236	378
Cash flows										
Cash flows before financing and tax	145	183	78	74	172	107	59	287	337	152
Cash flows from operating activities	120	172	85	67	158	96	51	272	313	97
Cash flows to investing activities	-13	-44	-67	-41	-24	-21	-15	-159	-165	-265
Cash flows to financing activities	-99	-108	-12	-12	-97	-54	-34	-126	-129	39
Investments in property, plant and equipment	29	19	40	39	22	17	16	59	121	186
Financial ratios*										
Gross margin, %	53.4	53.8	55.4	53.9	55.4	55.6	54.4	52.7	56.2	52.0
EBITDA margin, %	6.8	7.9	6.7	4.4	6.4	6.6	4.8	11.2	17.0	12.2
EBIT margin, %	3.6	4.6	3.5	1.1	2.4	3.2	2.2	4.4	10.6	4.3
Return on equity, %	6.1	9.1	6.3	1.6	3.6	4.3	4.3	7.6	20.7	-0.9
Equity ratio, %	67.2	70.8	68.7	65.2	67.1	66.7	67.8	46.5	51.1	41.3
ROCE, %	8.1	11.6	8.1	2.7	6.5	9.5	6.8	7.6	20.7	6.2
Full-time employees, average	1,625	1,572	1,575	1,550	1,533	1,486	1,481	1,624	1,527	1,873

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 of equity, %
Profit or loss from ordinary activities after tax as a percentage of average equity

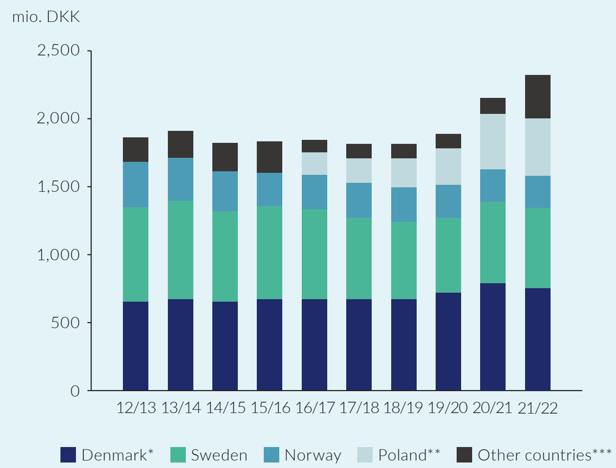
Equity ratio, %
Equity at year-end as a percentage of liabilities at year-end

ROCE, %
EBIT as a percentage of capital employed+net fixed assets

Share ratios, see p. 27

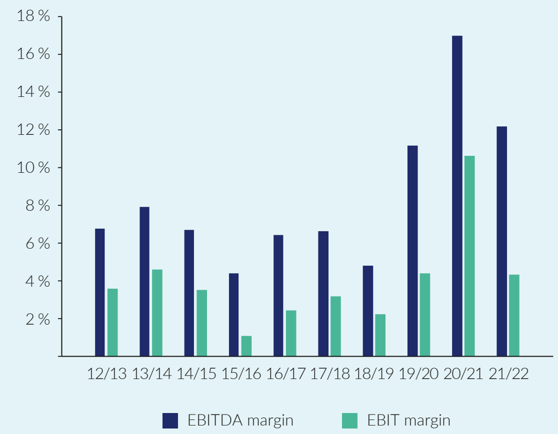
** Financial ratios have been calculated according to the recommendations of CFA Society Denmark.*

Revenue by markets



** Incl, Iceland, Greenland and the Faroe Islands*
*** Poland is included in Other countries until 2016/17*
**** Ukraine, Estonia and Other countries*

Earnings



Highlights 2021/22

- On 1 May 2021, Flügger acquired 70% of Eskaro Group AB for DKK 44 million and invested a further DKK 164 million in a capital increase – a total investment of DKK 208 million. The total revenue in Eskaro for 2021/22 amounted to almost DKK 400 million, which includes both discontinuing and continuing operations.

- As a result of the war between Russia and Ukraine, in April 2022 Flügger decided to explore the possibility of selling Eskaro's companies in Russia and Belarus. As a consequence, the companies concerned were classified as discontinuing operations. The estimated sales price for discontinuing operations includes a writedown of DKK 58 million. In addition, Flügger has made a writedown of DKK 74 million on continuing operations in Eskaro.

- Revenue for the continuing operations was DKK 2,322 million against DKK 2,162 million for the previous year, equal to a growth rate of 7%. Adjusted for additions for the year and exchange rate developments, the revenue was minus 3%. The negative sales development is due to a normalisation of consumer demand following record sales during COVID-19 with only partial compensation of additional sales to professionals.

- Revenue, including discontinuing operations, was DKK 2,520 million against DKK 2,162 million for the previous year, equal to a growth rate of 17%.

- Operating profit (EBIT) for continuing operations was DKK 173 million against DKK 228 million for the previous year –before a writedown of DKK 74 million due to the war in Ukraine. After the writedown, the operating profit (EBIT) was DKK 99 million. In addition to writedowns, the significantly lower earnings are due to rising prices of raw materials, energy and transport, which have only been partially passed on to the market.

- Prices of raw materials, energy and transportation skyrocketed during the year. For raw materials alone, the Group has experienced increases of more than 20%. Price developments appear to be continuing upwards, driven by the uncertainty surrounding the war in Ukraine.

- On 1 July 2021, Flügger acquired Malgodt.dk for DKK 30 million. Malgodt.dk is the dominant online channel for sales of painting products in Denmark and generated revenue of approx. DKK 30 million in the past calendar year.

- On 28 February 2022, Flügger House opened at the headquarters in Rødovre. Flügger House is the largest paint store in the Nordic region, with advice, showroom, meeting place, warehouse and distribution centre.

- On 1 March 2022, Flügger acquired its distributor in Lithuania for approx. DKK 16 million. The distributor has four own stores as well as 21 dealers. In 2021, the total revenue was approx. DKK 32 million.

- The financial year was characterised by a high level of activity in the Group's production, distribution and administration. The latex production at the Group's main factory in Kolding was modernised. At the factory in Bollebygd, Sweden, the establishment of a new advanced filler production facility was initiated. At the same time, the production of paint was closed down in Sweden and moved to the factory at Kolding. Finally, major refurbishment and architectural improvement of office facilities were carried out at the Group's headquarters in Rødovre.

Outlook for 2022/23

Outlook for revenue DKK 2,200–2,400 million (excl. segment 3, Eskaro)
From March 2022, Flügger has also been hit by the general trend of significantly declining sales to consumers, as has been the case for several industries as well as for paints and other building materials across Europe. The trend is expected to continue. Sales to professionals are expected to be on a par with the previous year.

Outlook for operating profit (EBIT): DKK 80–130 million (excl. segment 3, Eskaro)
Earnings will be put under pressure by the effects of high inflation, which cannot be fully passed on to sales prices, as well as a slowdown in sales to consumers, which usually contribute to higher margins. 2022/23 is therefore expected to be a transitional year. An improvement in earnings is expected at the end of the financial year, on the assumption that prices of raw materials will find a more natural level.

Outlook for segment 3, continuing operations EBIT: minus DKK 10 million to plus DKK 10 million
The segment consists of activities in Estonia, Finland, Latvia and Ukraine, with the latter being the largest market. As a result of the war, there is much uncertainty connected with the outlook, as the primary factory in segment 3 (Odessa, Ukraine) may be affected by the situation. Previously, segment 3 also consisted of Russian and Belarusian companies for which a sales process has begun as a consequence of the invasion of Ukraine. In Flügger, we operate based on the assumption that the war will continue in the 2022/23 financial year and that the factory will remain intact. EBIT for segment 3 is projected to be in the range of minus DKK 10 million to plus DKK 10 million.


Flügger
04 Wood Tex Opaque

Financial review 2021/22

Flügger has had an extraordinary financial year with a number of large acquisitions, steep increases in prices of raw materials, energy and transportation, loss of our Chairman of the Board, war in Ukraine and a decision to divest our activities in Russia and Belarus. The two latter conditions have resulted in a total writedown of just over DKK 132 million, consisting of DKK 58 million for discontinuing operations and DKK 74 million for continuing operations.

The financial statements have obviously been shaped by the many dramatic events that have occurred during the year. The management's review is based on the continuing operations included in the income statement. For a description of the discontinuing operations (Eskaro Russia and Belarus), see the description on page 21 and note 12.

Sales development

Revenue amounted to DKK 2,322 million, equal to growth of 7%. Revenue increased 9% as a result of the acquisitions of Eskaro, Malgodt.dk and Flügger Lithuania. Foreign exchange gains contributed 1% and there was negative organic growth of 3%, affected by the expected normalisation of sales to consumers in the Nordic region.

Sales – Denmark, incl. Iceland, Greenland and the Faroe Islands:
DKK 754 million (-5%)
Sales increased by 11% in the previous year, which was driven by sales to consumers, who had extra time for painting as a result of the COVID-19 lockdowns. Adjusted for acquisitions and exchange rate effects, growth was -8% in the 2021/22 financial year, driven by normalised revenue from consumers, while sales to professionals developed positively. The acquisition of Malgodt.dk contributed 2% to the revenue.

The network of stores in Denmark consists of 63 own stores and 70 franchise stores. Flügger is the market leader with a market share of approx. 30%.

Sales – Sweden:
DKK 586 million (-3%) – local currency SEK 807 million (-4%)
Like in Denmark, revenue in Sweden was affected by a normalisation of sales to consumers, while sales to professionals developed positively.

Flügger is one of the leading brands on the Swedish market with a market share of just under 20%. There are 68 own stores and 41 franchise stores.

Sales – Norway:
DKK 242 million (+1%) – local currency NOK 327 million (-4%)
Sales in Norway developed roughly as in Sweden and Denmark, with reduced sales to consumers relative to the previous year. In addition, the previous year was negatively affected by the exchange rate development, which, in turn, improved in the 2021/22 financial year, which was affected by 5% from a rising NOK exchange rate.

The number of stores in Norway is 30 own stores and 20 franchise stores. The Norwegian market is dominated by Jotun, a local company which has a market share of more than 70%, while, in comparison, Flügger has a market share of just under 15%.

Sales – Poland:
DKK 421 million (+2%) – local currency PLN 260 million (+5%)
The Group has had another good year in Poland with revenue growth of 5% in local currency. The activities in Poland consist of 52 own Flügger stores with a growth rate of 9% in local currency (segment 1) and Unicell International with a growth rate of -1% in local currency. Unicell sells products to builders' merchants and forms part of segment 2.

Sales – Ukraine, Estonia and other countries:
DKK 319 million (+184%)
Sales to other countries consist partly of subsidiaries in Ukraine, China, Lithuania, Estonia and Finland and partly of a number of exporting countries such as France, Germany, the Czech Republic, etc. The large increase in sales was driven by the acquisition of Eskaro (Ukraine, Estonia, Finland and Latvia).

Sales to exporting countries developed positively by approx. 10% overall, but cover some countries with high growth rates and some countries with decline such as China, where the store network was shut down due to COVID-19 during the last two months of the financial year.

Sales development DKK million	2020/21	2021/22	Organic growth**	Company acquisitions	Currency	Total growth
Sales – Denmark*	795	754	-8%	2%	1%	-5%
Sales – Sweden	604	586	-4%	0%	1%	-3%
Sales – Norway	239	242	-4%	0%	5%	1%
Sales – Poland	412	421	5%	0%	-2%	2%
Sales – Ukraine	4	121	0%	100%	0%	100%
Sales – Estonia	1	42	0%	100%	1%	100%
Sales – Other countries	107	156	10%	33%	2%	45%
Total revenue	2,162	2,322	-3%	9%	1%	7%

* Incl. Iceland, Greenland and the Faroe Islands
** Organic growth has been calculated as the development in revenue, adjusted for the effect of foreign currency and company acquisitions/divestments

Cost and profit development

The development in costs has generally been affected by the acquisitions of Eskaro, Malgodt.dk and Flügger Lithuania. The year also had +20% increases in prices of raw materials as well as rising costs for transportation and energy. The Group has partly succeeded in passing on the price increases to sales prices, but, especially in segments 2 and 3, which are characterised by few, but large, customers, it has not been possible to increase sales prices in line with the increase in costs due to the term of the contracts.

In 2021/22, production costs amounted to DKK 1,112 million, 17% up on the same period in the previous year. Revenue only increased by 7% in the same period. The reason for the unfavourable development is twofold: sales prices could not be increased in line with the rising costs and the acquired Eskaro has a lower gross margin, but also lower sales costs and administrative expenses. The Group's gross profit decreased by DKK 6 million to DKK 1,209 million despite acquired activities.

Sales and distribution costs increased from DKK 808 million to DKK 851 million in 2021/22, representing a 5% increase. The development has been affected by the acquisition of Eskaro and Malgodt.dk as well as increased distribution costs for the existing activities.

Other income/expenses, which increased from DKK +6 million in the previous year to DKK +10 million in 2021/22, were positively affected by the sale of land.

The Group's EBIT for continuing operations was DKK 173 million before writedowns, against DKK 228 million in the previous year, which was positively affected by increased sales to consumers. As a consequence of the war in Ukraine, the assets of the continuing part of Eskaro (Ukraine, Estonia, Latvia and Finland) were written down by DKK 74 million. EBIT for continuing operations was DKK 99 million after writedowns.

Financials were DKK -20 million against DKK -8 million in the previous year. The development has been affected by increased interest charges and foreign exchange adjustments in acquired Eskaro as well as increased borrowing as a result of acquisitions and investments in factories. In addition, financials consist of interest charged in accordance with IFRS16 Leasing.

Tax costs for the year amounted to DKK 36 million. Adjusted for the writedown on Eskaro, tax costs amounted to 24%. One reason for the relatively high income tax is the tax loss in Ukraine, which has not been activated as a result of the uncertainty about the future operations. Profit after tax for the year for the continuing operations was DKK 43 million against DKK 180 million for the previous year. The discontinuing operations in Eskaro Russia and Belarus posted a loss of DKK -51 million.

The loss for the year, including discontinuing operations, was DKK -8 million, of which DKK -16 million is attributable to minority shareholders and DKK 8 million is attributable to shareholders in Flügger.

Cost development

DKK million	20/21	21/22	Change
Production costs	-947	-1,112	17%
Gross profit/loss	**1,215**	**1,209**	**0%**
Sales and distribution costs	-808	-851	5%
Administrative expenses	-185	-195	6%
Other income/costs	6	10	82%
Operating profit, EBIT, before writedowns	**228**	**173**	**-24%**
Writedown Eskaro	-	-74	
Operating profit, EBIT	**228**	**99**	**-56%**

Investments in e-commerce and digitalisation

During the financial year, a number of investments have been made in improved e-commerce platforms, new brands and distribution models. DKK 18.6 million has been added to the assets, while DKK 12.0 million has been charged to costs for establishment and operation of an organisation responsible for running digitalisation and e-commerce. The initiative contributes negatively to the bottom line at the present time, but it is expected to provide a decisive competitive edge in the longer term.

In the 2021/22 financial year, e-commerce accounted for 2.5% of the Group's revenue – approx. 1.5 percentage points up on the previous year.

Initiatives in 2021/22:
- Preparation of new BtC platform in Denmark, which is expected to be launched in June 2022
- Acquisition of Malgodt.dk and implementation of new platform in March 2022
- Preparation for BtB e-commerce platform for Flügger in Denmark
- Launch of Notes® in Denmark – new brand and new platform

Planned initiatives in 2022/23:
- BtB e-commerce platform for Poland, Sweden and Norway
- New platforms for BtC in Sweden, Norway and Poland

The platforms are scalable, so they can be rolled out relatively easily with other brands or in other countries.

Balance sheet

The consolidated balance sheet total amounted to DKK 2,226 million as at the end of the 2021/22 financial year, against DKK 1,842 million last year. The increase of DKK 384 million in assets stems primarily from the acquisition of Eskaro, Malgodt.dk and a Lithuanian distributor. In addition, investments were made in the refurbishment of the factories in Denmark and Sweden. Finally, inventories have increased as a result of rising prices of raw materials.

The working capital of DKK 378 million was DKK 142 million up compared to the previous year, driven by acquisitions and higher prices of raw materials.

All assets in Eskaro Russia and Belarus are included in the line 'Assets intended for sale' at DKK 131 million.

On the liabilities side, equity decreased by DKK 41 million to DKK 910 million before deduction of minority interests of DKK 12 million.

Net interest-bearing debt was DKK 745 million against DKK 245 million last year.

Cash flows

Cash flows from operating activities were DKK 97 million against DKK 313 million in the previous year. The decrease in cash flows is primarily attributable to earnings being DKK 83 million down on last year, combined with significant increases in working capital against a decrease in working capital in the previous year. The working capital came from a very low level last year, when production had difficulty keeping up with sales. For the 2021/22 financial year, the working capital has been affected by prices of raw materials, which increased by more than 20%, combined with a need for larger contingency inventories due to an uncertain supply situation for raw materials.

Cash flows to investing activities amounted to DKK 265 million against DKK 165 million for the previous year. Both years have been affected by high investment activity, including investment in a new filler factory in Sweden as well as expansion of capacity and automation of the paint factory in Kolding. In addition, 2021/22 has been affected by company acquisitions (Eskaro, Malgodt.dk and Flügger Lithuania).

Cash flows to financing activities are affected by the raising of loans to finance acquisitions and capital expenditures.

Cash and cash equivalents amounted to DKK 29 million against DKK 157 million last year.

Events 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.

Balance sheet

DKK million	20/21	21/22	Change
Intangible assets	175	273	56%
Property, plant and equipment	757	935	24%
Financial assets	28	0	-100%
Deferred tax asset	13	13	0%
Inventories	344	462	34%
Receivables	368	384	4%
Securities, cash and cash equivalents	157	29	-82%
Assets intended for sale	-	131	-
Total assets	**1,842**	**2,226**	**21%**
Equity	951	919	-3%
Deferred tax	9	23	156%
Leasing obligation	386	384	-1%
Bank debt etc.	16	353	2106%
Suppliers	220	259	18%
Income tax	39	23	-41%
Other payables	221	213	-4%
Liabilities relating to assets intended for sale	-	52	-
Total liabilities	**1,842**	**2,226**	**21%**

Cash flow statement

DKK million	20/21	21/22	Change
Cash flows from operation	313	97	-70%
Cash flows to investing activities	-165	-265	61%
Cash flows to financing activities	-129	39	-130%
Cash and cash equivalents, year-end	157	29	-82%

Quarterly analysis – Q4 2021/22

A seasonal business

Flügger runs a seasonal business with large fluctuations in customer intake as well as which products have the primary interest. Flügger has a non-calendar financial year, in which Q1 – May, June and July – is characterised by customers especially demanding outdoor products.

Q1 is normally the most profitable quarter of the year due to a better customer and product mix. In Q2 – August, September and October – demand decreases, which is weather dependent.

Q3 – November, December and January – represents the off-season and is normally a loss-making period. During COVID-19 in 2020/21, Flügger succeeded in achieving a positive EBIT in Q3 for the first time.

Q4 – February, March and April – is highly dependent on the weather, not least during Easter week. The period is most often a profitable period with sales of both indoor and outdoor products.

Inventories are typically highest in early May and lowest in early September. Correspondingly, liquidity is highest in September and lowest in May.

Q4 2021/2022

Sales development

Consolidated revenue was DKK 567 million in Q4 against DKK 550 million in the same period in the previous year, equal to a growth rate of 3%. Growth in local currency was -3%, exchange rates had a negative effect of -1% and acquisitions had a positive effect of 7%.

Revenue in Denmark fell by 13%, with sales to consumers especially slowing down from the high levels of previous years. In local currency, both Sweden and Norway were on a par with the previous year, but were affected by lower sales to consumers, which was compensated for by higher sales to the professional segment.

Sales in Poland increased by 4% measured in local currency and with a positive development for both consumers and professionals. Poland did not see an increase in sales during COVID-19 to the same extent and has thus not been affected by the normalisation in the same way either.

Export sales to Lithuania, Ukraine and Russia developed positively in the first three quarters, but Ukraine was negatively affected by the war in Q4. From April, exports to Russia likewise stopped as a result of the war. Sales to Lithuania continued the positive development, now with Flügger as owner of the local distributor. Sales in China were highly negatively affected by COVID-19 lockdown in the Shanghai region in Q4; most of Flügger's own stores are located there, along with our administration and warehouse, preventing distribution of goods.

Development in profit

Consolidated gross profit decreased by DKK 21 million in Q4, with a positive effect from acquisitions, but with negative effects from lower sales to consumers and higher prices of raw materials, transportation and energy.

EBIT was affected by the significant writedowns related to the war in Ukraine.

	2020/21				2021/22			
Group, DKK million	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue*	629	549	434	550	678	603	474	567
Gross profit/loss*	361	310	239	303	391	325	211	282
EBITDA*	160	102	32	73	161	104	0	19
EBIT before writedown on Eskaro*	124	76	0	28	125	67	-36	17
Writedown on Eskaro*	-	-	-	-	-	-	-	-74
EBIT*	124	76	0	28	125	67	-36	-57
Profit/loss before tax*	124	74	-2	25	119	62	-39	-63
Profit/loss after tax*	98	59	-3	27	94	47	-31	-67
Net cash and cash equivalents*	213	225	195	141	-27	-39	-271	-361
Equity	895	915	923	951	1,054	1,080	1,019	919
Year-end exchange rate, SEK 100	72	72	74	74	73	75	71	72
Year-end exchange rate, NOK 100	69	67	72	75	71	76	74	76
Year-end exchange rate, ISK 100	5	5	5	5	5	5	5	5
Year-end exchange rate, PLN 100	169	161	164	163	163	161	162	159
Year-end exchange rate, CNY 100	90	95	95	95	97	100	105	107
Year-end exchange rate, EUR 100	744	745	744	744	744	744	744	744
Year-end exchange rate, UAH 100	24	22	22	22	23	24	23	24

** Continuing operations*

The Flügger share

Why is Flügger listed?

Flügger is a family-based company whose class B shares were listed on the NASDAQ Copenhagen A/S exchange in autumn 1983 at a price of DKK 875 per share (DKK 52 per share adjusted for bonus shares and share splits). The company's class A shares are not listed on the stock exchange, but are owned by the original owner family.

The primary reason for the listing 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's ambition is to remain a listed company, as this is regarded as contributing to marketing, to professional leadership and to making the company a credible and attractive workplace.
As the company is again pursuing relevant acquisitions, the listing also offers more financial opportunities.

Share buy-back

The company has previously used excess liquidity to make share buy-backs, but in recent years it has refrained from making further share buy-backs, as the liquidity in the Flügger share has been low. In the future, the company's own shareholding of more than 100,000 shares is expected to be used for allocation among employees as well as for option programmes for senior executives.

Dividend policy

The company's policy has been to distribute a relatively high dividend seen in relation to the market price and market rate, with due consideration to the company's capital structure.

For the 2021/22 financial year, the Board of Directors recommends to the General Meeting that a dividend of DKK 10 per share of DKK 20 is distributed.

Share capital and ownership structure

Composition of share capital – 30 April 2022

No. of shares	Shares	%	Votes	%
Class A shares	590,625	19.7	5,906,250	71.0
Class B shares	2,352,217	78.4	2,352,217	28.3
Class B shares in the company[1]	57,158	1.9	57,158	0.7
Total	3,000,000	100.0	8,315,625	100,0

Ownership structure – 30 April 2022

Major shareholders (>5%)	No. of shares	%	Votes	%
Susan Schnack	150,069	5.0	150,069	1.8
M+ Invest A/S	845,745	28.2	845,745	10.2
Ulf & Sune Schnack[2]	1,358,919	45.3	6,674,544	80.2
Total	2,354,733	78.5	7,670,358	92.2

[1] *Class B shares in the company (treasury shares) are not included in the number of votes, as voting rights cannot be exercised for these shares.*

[2] *Ulf and Sune Schnack (father and son) together own a total of 1,358,919 Flügger shares, of which 590,625 are class A shares, and 720,610 class B shares are held by SUS 2013 ApS (Flügger Holding).*

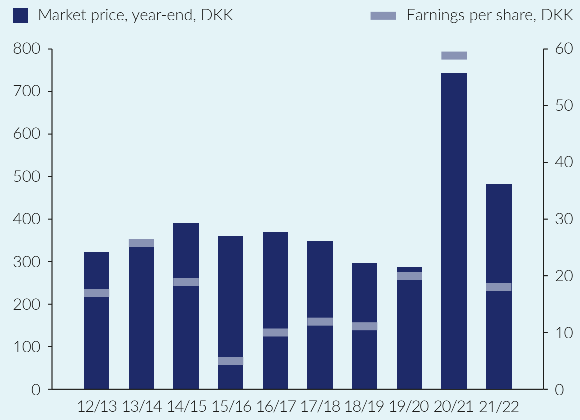
At the end of the 2021/22 financial year, 1,998 shareholders were registered by name in the company's register of shareholders; together they owned 97.3% of the share capital and held 99.0% of the votes.

Communication with investors

The company publishes regular quarterly reports and financial statements for 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 under the item 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. However, the company refrains from giving any detailed interviews or announcements during the last four weeks prior to the publication of financial reports.

DKK million	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Share data, year-end*										
Market price, DKK	327	340	390	359	372	352	300	290	749	485
Number of outstanding shares, 1,000 shares	2,902	2,878	2,877	2,877	2,877	2,881	2,887	2,887	2,891	2,943
Market capitalisation, DKK million	949	979	1,122	1,033	1,070	1,014	866	836	2,167	1,427
Equity value, DKK million	824	838	859	811	797	760	742	754	911	906
Net profit/loss after tax and minority interests, DKK million	49	76	54	13	29	33	32	58	171	9
Proposed dividend per share of DKK 20	9	13	15	15	15	15	10	10	15	10
Earnings per share (EPS) after tax, DKK**	17	26	19	5	10	12	11	20	59	18
Price/book value (P/BV), DKK	1.2	1.2	1.3	1.3	1.3	1.3	1.2	1.1	2.3	1.6
Price/earnings ratio (P/E), DKK**	19	13	21	78	37	30	27	14	13	27



Definitions

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

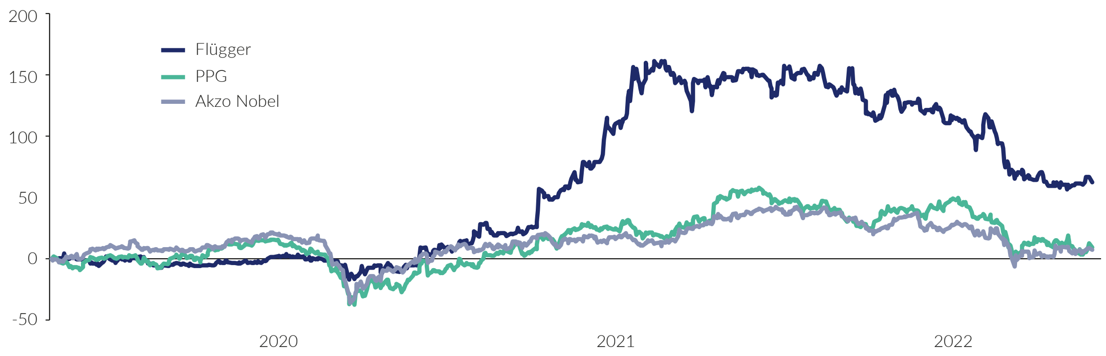
The company's market capitalisation
Number of outstanding shares (including class A shares) x share price

Net profit/loss for the year after tax and minority interests per share, DKK
Net profit/loss for the year after tax and minority interests, distributed on outstanding shares

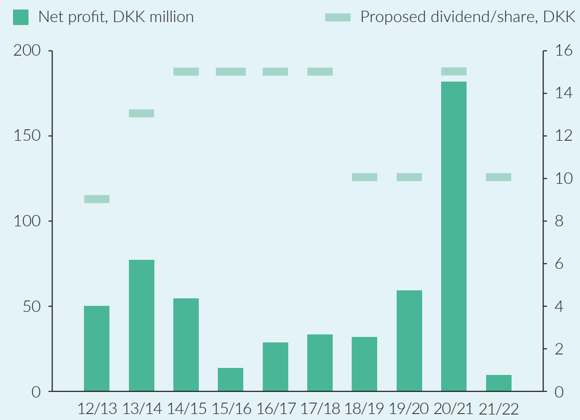
Equity value, DKK
Equity excl. minorities

** Financial ratios have been calculated according to the recommendations of CFA Society Denmark.*
*** Continuing operations*

Flügger share price compared to selected competitors



Source: FactSet



Eskaro continuing operations
Ukraine, Estonia, Latvia and Finland

The acquisition of Eskaro was approved by the competition authorities in May 2021, and Eskaro was thus part of Flügger for less than a year before the outbreak of the war in Ukraine. In the 2021/22 financial year, the companies were also affected by lower earnings due to the dramatically rising prices of raw materials.

At the outbreak of the war between Russia and Ukraine on 24 February 2022, Flügger immediately stopped production and sales in Ukraine. The focus was on protecting our employees optimally and then securing our assets. Sales and production have subsequently slowly recommenced in Ukraine, which keeps a permanent staff of employees occupied. Estonia and Finland are negatively affected by the lack of exports of goods to Russia, Belarus and Ukraine.

Since the outbreak of the war, Flügger has been assessing various scenarios on an ongoing basis. The initial conviction was that the conflict would quickly be settled. By 8 April, the war had become so advanced and extensive that the most likely scenario was assessed to be that the war would drag on for more than a year, which resulted in a significant writedown. It has been assumed that the factory in Odessa is not affected. If the factory in Odessa is destroyed, or if the war spreads to the whole of Ukraine, there is a risk of further writedowns.

Status as of 30 April 2022	**Ukraine**	**Estonia/Finland/Latvia**
Revenue	DKK 117 million	DKK 70 million
Writedowns	DKK 70 million	DKK 4 million
Non-current assets and working capital after writedowns	DKK 57 million	DKK 64 million
Employees	185	91
Production	Very limited	Normal
Sales	Very limited	Normal, however, no exports to Russia, Belarus and Ukraine
Basic assumptions for writedown test:		
WACC	20%	8%
Assumption about development in the next 1–2 years	Limited sales and production, but factory remains undamaged	Normal domestic sales, but no export sales
Assumed time for normalised operations and earnings	2025/26	2025/26

Eskaro discontinuing operations

Russia and Belarus

We are shocked by the war in Ukraine and the terrible consequences suffered by the population. We clearly distance ourselves from Russia's invasion of Ukraine, which is a human disaster in any and all respects.

On 8 April 2022, Flügger decided to explore the possibilities of a divestment of our companies in Russia and Belarus as a result of careful consideration of the future presence of Flügger in Russia and Belarus. We have chosen to continue the operation of the companies in Russia and Belarus, as they are otherwise at risk of being nationalised. The local management also risk being sentenced to imprisonment if the operations are shut down.

As a consequence of the above decision, the companies concerned have been classified as discontinuing operations. The values of the companies must be measured at fair value less sales costs. The companies' revenue and costs are not included in the consolidated income statement, but are classified in a separate line called 'Profit/loss after tax for discontinuing operations'. Assets and liabilities are also classified in a separate line. For clarification of the income statement and balance sheet, see Note 12.

On 13 April 2022, paint and raw materials for paint production were covered by the sanctions against Russia, while Belarus is currently not covered. The sanctions have made it difficult and more expensive to obtain raw materials for production in Russia and Belarus, but, so far, the local management has managed to secure most of the raw materials until August. Sales and earnings were positively affected in March and April as imported goods are no longer sold in the markets.

Status as of 30 April 2022	Russia	Belarus
Revenue	DKK 146 million	DKK 52 million
Writedowns	DKK 46 million	DKK 12 million
Non-current assets and working capital after writedowns	DKK 66 million	DKK 22 million
Employees	349	152
Production	Normal	Normal
Raw materials	Covered by sanctions	Normal
Sales	Normal	Normal

Risks

Flügger 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 isolated risks.

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

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

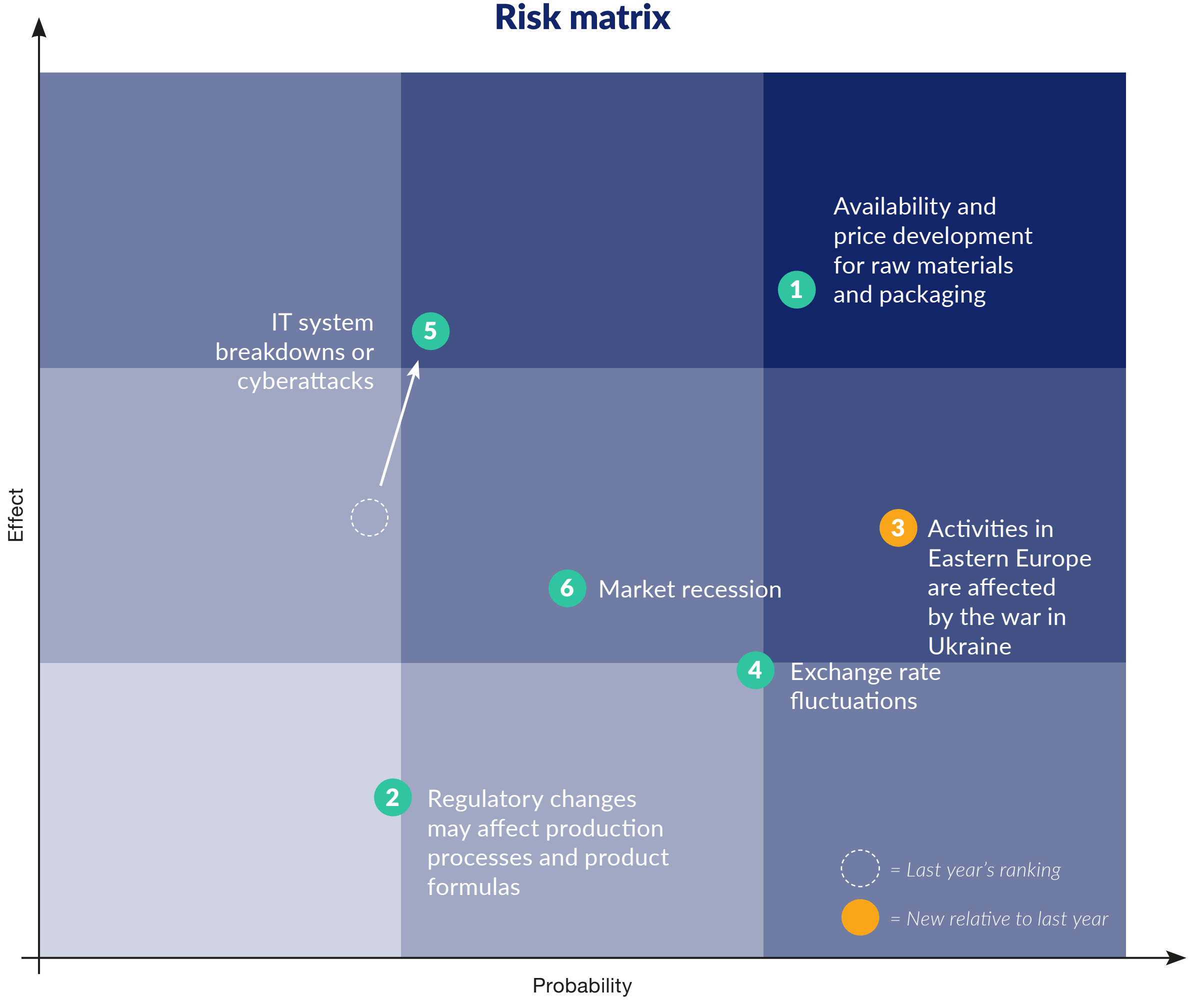
Risk management and reporting

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

Flügger's risk matrix

Flügger's risks have been entered in the risk matrix based on the probability of their occurrence and their impact on the financial results if they occur. The risk picture has changed relative to 2020/21 as a result of the war in Ukraine. Risk no. 3 'Activities in Eastern Europe are affected by the war in Ukraine' has been added. Last year's risk regarding 'Changes in customers' consumption patterns' has been removed from the risk reporting, as Flügger has now established itself successfully on several digital platforms and is thus much better equipped in relation to new consumption patterns.

Risk matrix



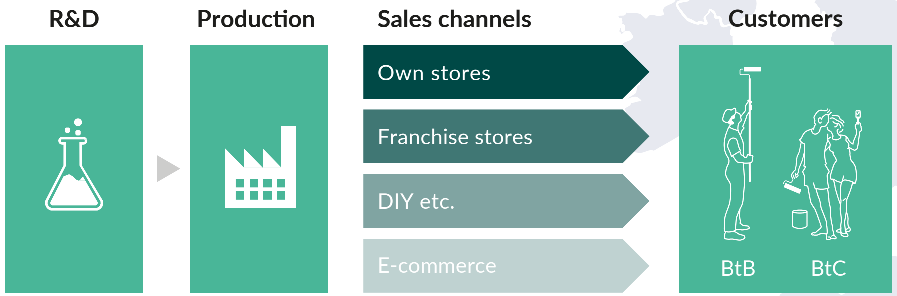
RISK	DESCRIPTION	POSSIBLE EFFECT	ACTION
1 Availability and price development for raw materials and packaging	Flügger is dependent on the availability and price development of raw materials. This applies, in particular, to titanium dioxide and binders, which are key ingredients in the production of paints and fillers. Since spring 2020, there has been great uncertainty about the security of supply, first as a result of COVID-19 and then because of the war in Ukraine. Prices of raw materials have skyrocketed over the past year, and there is still a significant risk of continued increases in prices of raw materials.	The rising prices of raw materials are difficult to pass on directly as selling prices in the short term, and the converse applies in connection with decreasing prices of raw materials. A shortage of key raw materials may lead to inexpedient production flow, backorders and lost revenue. Cessation of Russian gas supplies to the EU may also have a significant impact on several key 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 price increases or inability to deliver. Changes in the prices of raw materials are also closely monitored, so we can react quickly in the event of significant changes. Price developments in the market are closely monitored, and Flügger intends to continue to raise sales prices if they can be realised without losing competitiveness.
2 Regulatory changes may affect production processes and product formulas	Requirements in relation to product contents, carbon footprint, environmental impact and labelling are constantly changing. Therefore, we must always keep one step ahead of new requirements – regardless of whether they are introduced directly through legislation, or as requirements from customers.	Changes to product formulas, labels etc. may affect production costs. If alternative products are not developed in time, there may also be a risk of loss of revenue.	We are continually working to update product formulas and improve production facilities, so they can meet more rigorous future regulatory requirements.
3 Activities in Eastern Europe are affected by the war in Ukraine	In spring 2022, war and sanctions have severely affected our activities in Eastern Europe. Escalation/de-escalation of the war in Ukraine will have a significant effect on the possibilities of carrying on business activities in these countries.	In spring 2022, significant writedowns were implemented on the assets in segment 3 as a result of the war. In the event of escalation, there is a risk that the majority of the assets in segment 3 will be lost. Conversely, parts of the writedowns can be reversed if a lasting peace is achieved within the coming year.	Activities in Ukraine have been greatly reduced. If deemed responsible in terms of safety, the factory and sales department will be staffed with a core of employees who will be able to carry on the activities after the war. Work is being done to divest the activities in Russia and Belarus.
4 Exchange rate fluctuations	Flügger's revenue, earnings and net investments in foreign subsidiaries are constantly affected by exchange rate fluctuations.	Flügger is naturally hedged against exchange rate fluctuations in countries in which Flügger has both sales and production. This applies to the vast majority of markets. With the acquisition of Eskaro, the Group will become exposed to several currencies, but the effect from individual currencies will conversely be reduced as the total revenue increases.	Exchange rate fluctuations can be mitigated through price increases, but they typically take 1–3 months to implement, depending on the customer segment. In some cases, currency exposures are hedged by means of financial contracts if the exposure is regarded as exceeding an acceptable level.
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. A crash may affect the ability to produce, invoice and deliver. The war in Ukraine generally increases the risk of cyber attacks.	Extended downtime for IT systems – whether caused by internal factors or external attacks – may have significant financial consequences.	We continuously ensure resilience of the systems. This includes making sure that there is a solid platform for systems hosted by external partners. We have also taken out basic insurance cover to reduce cyber crime risks. A disaster recovery plan has also been drawn up.
6 Market recession	In the past year, the market for building materials and paints in particular has been positively affected by increased demand. In the long term, rising interest rates are expected to have a negative impact on the activity level in the construction industry, but the impact is expected to be limited for 22/23.	A market recession will obviously affect revenue and earnings, but the extent is difficult to determine. By comparison, Flügger's revenue fell by 6% during the financial crisis, and earnings were halved. However, revenue and earnings had normalised within 18 months.	Organisation and investments are adjusted on an ongoing basis to be at the forefront of a positive or negative development in demand. The painters are typically among the last workmen on a project, so we can typically react in time if the market starts to decrease.

Strategy and corporate social responsibility

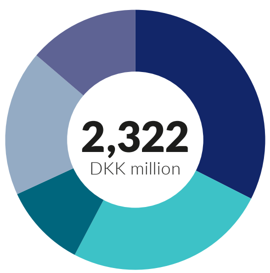
Our business

Flügger is a Danish-based international group, which develops, produces, markets and sells a wide range of building paints, wood stains, fillers, wallpapers and accessories. Our target groups are professional painters and private consumers. We see it as our key task to develop and supply products and solutions that enable our customers to achieve high-quality results as efficiently as possible.

We design and improve our products in a central development department, manufacture our products at our own factories and ship them out all the way to the stores, where our employees guide and assist our customers in achieving an optimal result. Our total value chain is unusual in a European context, where most of our competitors focus 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, which goes all the way back to 1783.

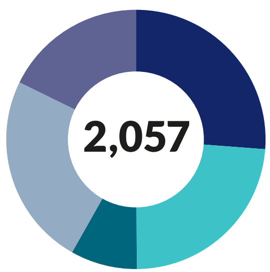


Revenue



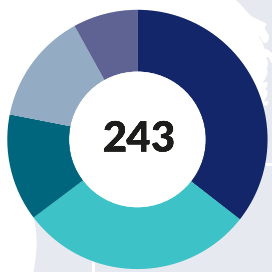
Incl. Iceland, Greenland and the Faroe Islands

Employees

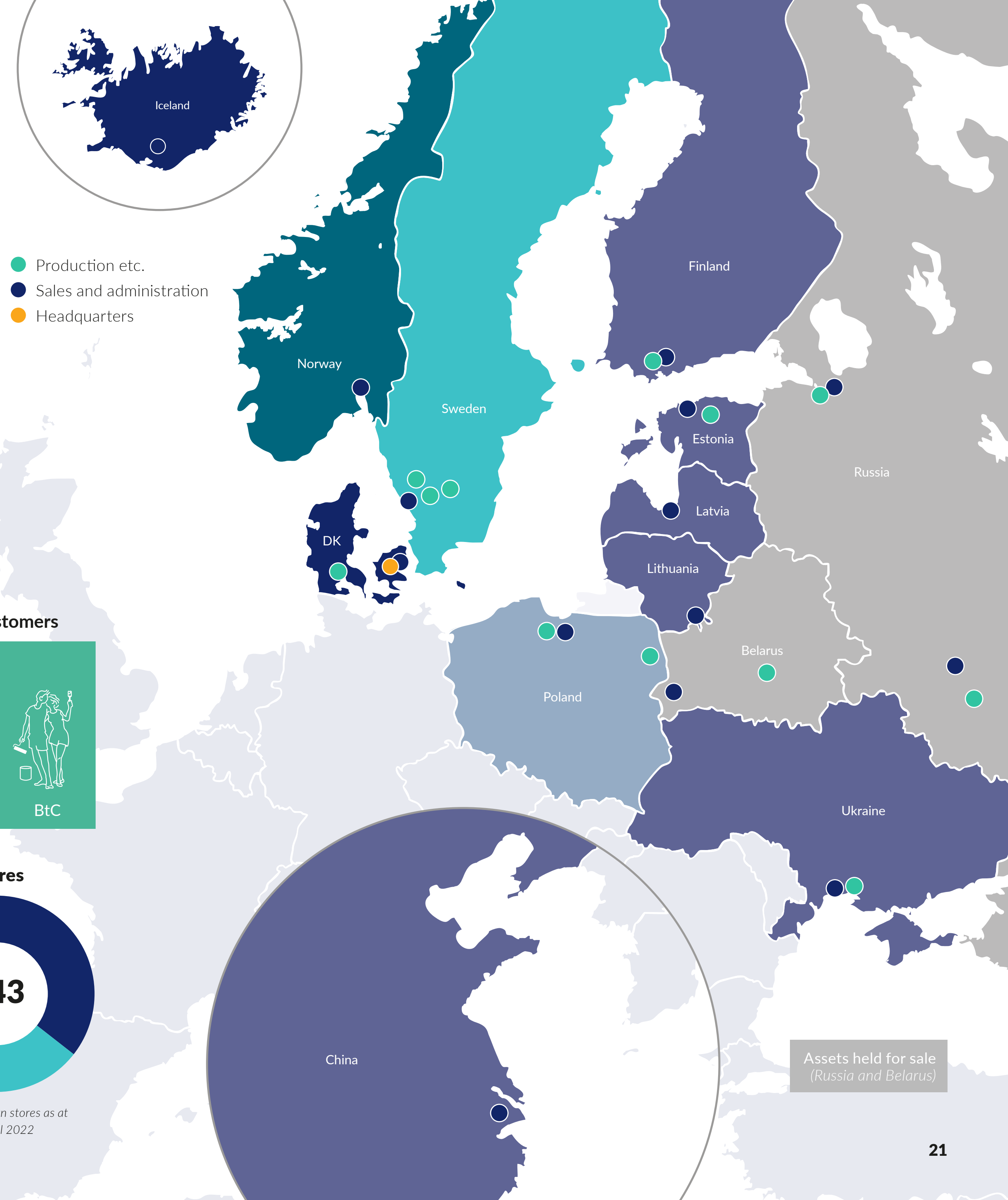


Number of employees as at 30 April 2022

Stores



Number of own stores as at 30 April 2022



76% of the wetgoods that Flügger sells today are certified with the Nordic Swan Ecolabel or the EU Ecolabel.

Going Green: Successful implementation and focus on long-term trends

In recent years, Flügger has executed a large number of strategic initiatives have had a major impact on the company and resulted in positive changes of fundamental elements of the business.

Flügger has successfully consolidated its production and converted the Group's main factory in Kolding into one of the most modern in the industry. We have constructed a brand-new automated filler factory in Sweden. We have simplified our price structure, optimised our store network, reduced the quantity of item numbers, launched a 100% online product range (Notes®) and generally increased our online presence. We have established a major position in several Eastern European countries with our acquisition of Eskaro. Not least, every day we are moving the operations of Flügger in an even more sustainable direction by thinking green in everything we do.

A solid foundation for changing circumstances

When we were preparing our Going Green strategy for 2020, the COVID-19 pandemic hit the world and changed the reality for consumers and dealers. We experienced record revenue and earnings and revised our financial outlook upwards four times in 2020/21. Based on our growth and acquisitions, especially in Eastern Europe, we assessed that Flügger could grow by DKK 1 billion in three years with earnings of 10%. However, the world was subsequently hit by several sudden movements with sharply increasing prices of energy and raw materials and, most recently, the war in Ukraine. Precisely Ukraine and Russia were among the markets for which Flügger had the greatest expectations. This has obviously affected the outlook for Flügger in the short term, in the same way as for many other companies. With the successful implementation of the strategic initiatives and a solid financial foundation, Flügger is, however, well positioned and able to act on long-term opportunities.

Suspended target for 2023/24

After a historically good result in 2020/21 and early positive effects of our Going Green strategy, we decided in the summer of 2021 to update the long-term target for Flügger for 2023/24. When the war tragically broke out in Ukraine in early 2022, it quickly became clear that our updated target for 2023/24 could not be met. The reason was that part of the target was based on the acquisition of Eskaro with activities in countries including Russia, Belarus and Ukraine, as well as further acquisitions in the region. The focus is therefore now on the other initiatives in the strategy.

Continuing initiatives and focusing on persistent trends

The six strategic focus areas of the Going Green strategy are still both relevant and applicable, and they set the framework for the day-to-day development of Flügger. However, the strategic focus area of acquisitions has been affected, as all investment considerations in Russia are ceased and investment opportunities in Ukraine are subject to cautious reassessment. The focus areas that will significantly characterise the years ahead are digital transformation, where Flügger continues to seek to lead the field, and sustainability in a broad sense. We see both focus areas as persistent trends for which Flügger must constantly challenge the status quo.

Going Green: Our six strategic focus areas

1. VALUE-BASED PRICING STRUCTURE

Fair prices for our solutions

We want to increase our competitiveness through a transparent, fair and simple pricing structure. The pricing structure will be based on the customer's perceived value. At the same time, we want to increase our earnings by reducing production and procurement costs. This will be achieved by pooling production in fewer factories, by renegotiating procurement contracts and by optimising the recipes for a number of products.

HIGHLIGHTS OF 2021/22

- Historically large increases in prices of raw materials have been partially passed on to the market via a fair and optimised price structure
- Reduction of purchasing costs was achieved in the order of DKK 32 million through recipe optimisation, standardisations and renegotiation of agreements etc. to the benefit of customers and earnings.

FOCUS IN 2022/23

- Ensuring optimum prices among small customers

2. STORE NETWORK

Top priority to serving our customers

We will continue to work to ensure the best possible geographic locations of our stores, so we have the best conditions for servicing our customers. We will also continue to strengthen our franchise network in the Nordic region to further strengthen domestic sales to individuals.

HIGHLIGHTS OF 2021/22

- Establishment of Flügger House in Rødovre with the largest paint store in the Nordic region
- Optimisation of own network of stores
- Increased share of total sales via digital platforms with an increase from just under 1% to 3%
- Implementation of Colors That Matter marketing platform in stores

FOCUS IN 2022/23

- Introducing a new store design
- Further rollout of Colors That Matter
- Further increase of share of sales via digital platforms

3. GROWTH

Striking the right balance between organic growth and growth through acquisitions

The past year has been marked by consolidation in the building painting market and a continued battle for market shares in and outside the Nordic region. Our ambition is to maintain our leading position in the Nordic region and to consolidate and increase our market shares in Eastern and Central Europe.

Organic growth is achieved through optimisation of our product range, launch of new, environmentally-friendly products and investments in production, marketing and digital transformation, among other areas. New acquisition prospects are evaluated on an ongoing basis and can potentially contribute to further non-organic growth if there is a good match. However, the war in Ukraine has currently put a stop to acquisitions in the affected geographies.

HIGHLIGHTS OF 2021/22

- Acquisition of Lithuanian distribution partner
- Integration of Eskaro Group AB
- Exploitation of synergies in the DIY segment
- Dealing with the war in Ukraine, including decision to divest Russian and Belarusian activities

FOCUS IN 2022/23

- Stabilisation of operations and handling of the markets that are affected by the war in Ukraine
- Assessment of the situation in Eastern Europe in relation to acquisitions
- Focus on the high-end customer segment in China

4. PRODUCTION AND DISTRIBUTION

Consolidation of production and distribution

In recent years, Flügger has invested approximately DKK 115 million in a new, modern filler factory in Sweden, which means increased automation and trebled capacity. In parallel, we have invested approx. DKK 130 million in modernising our factory in Kolding, with increased automation and the possibility of producing products that are more environmentally friendly. With the conversion, we are also increasing our capacity and delivery flexibility. Going forward, we will update and streamline our logistics solutions through more modern distribution centres and through faster and more environmentally-friendly transport.

HIGHLIGHTS OF 2021/22

- Increase in share of ecolabelled products to 76% for all wetgoods
- Doubling of the number of paint buckets in production with 50% recycled plastic
- Start-up and full commissioning of new filler factory in Bollebygd, Sweden
- Installation of fully automatic chemicals dosing system at the factory in Kolding

FOCUS IN 2022/23

- Introduction of more ecolabelled products and more environmentally friendly packaging
- Installation of fully automated dosing system for powder and filling in Kolding
- Expansion of production capacity for filler and tools at the factories in Sweden
- Streamlining of warehousing and transport functions, including delivery to stores and end customers

5. PRODUCT RANGE AND INVENTORY

Optimising product lines and inventory management

Our customers must be able to get the goods they need, whether they shop in our physical stores or online. We have streamlined our range and are also working to improve our inventory management. We will continue this work in 2022/23.

HIGHLIGHTS OF 2021/22

- Quantity of item numbers has been significantly reduced with a 38% reduction in wall and ceiling products in the Flügger brand
- Introduction of new Perform product range enables a reduction of other ranges and provides a clearer range composition for the customers
- The number of tools has been reduced and the range has been simplified with resulting revenue growth

FOCUS IN 2022/23

- Continued roll-out of cross-segmental core range for all Flügger stores and online
- Continued phasing-out of products that generate limited revenue

6. DIGITAL TRANSFORMATION

Closer to our customers and their needs

In the past year, we have focused more on digital transformation as an important prerequisite for developing solutions and services to help our customers streamline and facilitate their working day, as well as to guide and inspire their choice of products.

We want increasingly to incorporate value-adding digital tools and services in all relevant processes to help our professional customers optimise their business, cultivating ever-closer relations with us.

HIGHLIGHTS OF 2021/22

- Acquisition of the company Malgodt.dk with transfer of competences, especially in e-commerce and logistics
- Establishment of Click & Collect
- Launch of Notes®, a 100% digital Direct to Consumer lifestyle brand
- New delivery method for Denmark
- Deployment of MACH architecture (scalable IT infrastructure)

FOCUS IN 2022/23

- New Flügger BtC and BtB e-commerce platform
- Optimisation of processes for customer-oriented systems

Focus on Innovation

Flügger launches Notes®
– a green and digital lifestyle brand with global ambitions

After only eight months of development time, Flügger has launched the lifestyle brand Notes®, which offers a significantly different customer journey for Flügger's personal customers.

Based on Flügger's green and digital strategy, Flügger has launched the lifestyle brand Notes®, which is born digital and is exclusively sold online. Notes® has been specially developed for the style-conscious and environmentally conscious consumer who attaches equal importance to aesthetics, quality and sustainability. The process from idea to launch has moved swiftly and underlines one of the core competences in the Flügger DNA: the ability to develop and scale the business through continuous innovation of products and business model.

– Flügger's future is green and digital. Through the acquisitions of Detale CPH and Malgodt.dk, we have built up our core competences in digital development, performance marketing and design in recent years. Combined with our high product quality and well-functioning infrastructure, we want to use Notes® to set the agenda for decorative paint and become the leading online player, says CEO Sune Schnack.

Notes® has been developed in collaboration with the venture company Rainmaking, which has proven to be a strong match for Flügger. The two partners have developed a new brand with a globally scalable business model in record time. As a Direct to Consumer brand, the aim with Notes® is to bring Flügger closer to the consumer. Notes® is, in fact, being launched on the market with a lifestyle universe and a simplicity in the customer journey that are completely new in the industry.

– With Notes®, we make the painting job easy and simple, and the entire customer journey is designed with that in mind. For example, our customers can be sent large self-adhesive swatches free of carriage, which can be put on the wall, as an easy way to test colours before purchase. The point is that, in your busy everyday life, you should be able to sit at home in the evening and design your living room with inspiration from the Notes® platform and other lifestyle media, according to Sune Schnack.

Significantly reduced plastic consumption

The development of Notes® must be seen as part of the continuous work done by Flügger to become even more sustainable in production, packaging and paint. This has, for example, resulted in a new and innovative packaging for Notes® in the form of a specially developed bag with a spout. Compared to a bucket, the bag requires up to 71% less plastic, which supports the ambition of Flügger to reduce the environmental and climate footprint of its packaging.

Another important objective for Notes® is a reduction of wastage, and here too Notes® sets new standards. Using an online calculator, the customers can assess how much paint they need and, with the aid of the 2-litre bags (which can be emptied to the last drop), this ensures less wastage at the point of consumption. Finally, all the colours in Notes® are certified with the Nordic Swan Ecolabel and the EU Ecolabel.

Notes® at a glance

- www.notesofcolour.com
- 100% online store
- 40 carefully selected designer colours
- Certified with the Nordic Swan Ecolabel and the EU Ecolabel.
- Supplied in bags, which, compared to paint buckets, reduces the use of plastic by up to 71%
- Developed in collaboration with the venture company Rainmaking

Sustainability in Flügger

At Flügger, we believe in the value of preserving and keeping our favorite things rather than disposing them in favour of something new. We develop high-quality products that extend the life of the materials. 99% of our sold wetgoods are water-borne products, and 76% are ecolabelled. We have come a long way – but there is still a lot we can do.

Colours make a difference. They can renew, beautify, prolong, enlarge, diminish and change. Colours help set the mood in our homes and define our surroundings. At Flügger, we love all colours, but green is especially important to us – and has been for a long time.

Our passion for paint and good craftsmanship is steeped in our history, which spans several centuries. Fortunately, the time when paints contained solvents and large quantities of harmful chemicals is long gone. At Flügger, we have long since made an active choice to replace oil- and solvent-based paints with water-based paints, and we continue to improve the environmental and health profile of our products year by year.

But to Flügger, sustainability is more than just the contents of the bucket. We also have a responsibility to reduce the climate and environmental footprint from our production, the packaging used for our products and our own production of tools. We have a responsibility as a workplace for ensuring that our employees thrive and develop, have good working conditions, and that they feel free to be themselves.

At Flügger, we also support initiatives that make a positive difference to society. We have a long history of supporting charitable causes, and we enter into partnerships where we can use our products, competences or voice to contribute to a more sustainable and colourful future.

Our Going Green strategy sets a strong green direction for Flügger. Our focal point for sustainability comprises our focus areas Paint, Packaging and Production as well as People and Partnerships. These are the areas in which we have a special obligation and an opportunity to nudge both our business and the industry in a greener and more sustainable direction.

In 2021/22, we have made progress in several areas:

- We have increased the share of ecolabelled wetgoods to 76%. At the same time, we have phased out one of our most popular ranges in favour of more environmentally-friendly products.
- We have invested heavily in upgrading and optimising our largest production facilities and worked with FSC certification of our tool and wallpaper production
- We have significantly increased our use of recycled plastic and experimented with new packaging that reduces plastic consumption in our packaging by up to 71% compared to a traditional bucket
- We are off to a good start with carrying out life cycle analyses and testing innovative technology and methods that will take us to the next level in our development of sustainable solutions

Overall, we are well on track towards meeting our goals for 2030 to produce 100% ecolabelled paints, use 75% recycled plastic in our packaging and have carbon neutral production.

Our ambition is for the entire Flügger Group to contribute to a more sustainable and colourful future. That is why we are also taking steps to include Unicell International and Eskaro Group AB in our sustainability work.

In addition to working with an ambitious agenda at Flügger, we are also active in organisations such as the Danish Coatings and Adhesives Association, to influence the agenda at industry level. Sustainability is one of the most important themes of our time, and demonstrating our ability to act responsibly and contribute to a sustainable world is very important to us.

Our sustainability focus areas

Going Green strategy

ReColor Paint	ReColor Packaging	ReColor Production
100% ecolabelled paint by 2030	75% recycled plastic in packaging by 2030	Carbon neutral production by 2030
Target 2023/24	**Target 2023/24**	**Target 2023/24**
80% ecolabelled paint	25% buckets made of min. 50% recycled plastic and 50% recycled plastic in own-produced tools and accessories	50% reduction of CO_2 per litre of produced wetgoods
New paint series for better indoor climate	Packaging with maximum share of recycled plastic	25% reduction of wastewater per litre of produced wetgoods
New paint series with sustainable raw materials	40% increase in goods weight per consignment	25% increase in recycled waste from factories

People | **Partnerships**

Compliance and risk management

*Read more about our sustainability work in our CSR Report, which also constitutes the mandatory statement for Flügger group A/S; cf. section 99a of the Danish Financial Statements Act (**Årsregnskabsloven**).*

The report can be accessed here: www.flugger.com/en/investor/csr-report-2021-22/

Income statement

	2020/21	2021/22
Revenue	2,161,640	2,321,548
Production costs	-946,793	-1,112,170
Gross profit/loss	**1,214,847**	**1,209,378**
Sales and distribution costs	-807,786	-851,496
Administrative expenses	-184,583	-195,090
Other operating income	6,719	15,775
Other operating costs	1,077	5,518
Operating profit before writedown of Eskaro	**228,120**	**173,049**
Writedown Eskaro	**-**	**-73,726**
Operating profit	**228,120**	**99,323**
Financial income	19,242	28,525
Financial costs	-27,173	-48,449
Profit/loss before tax	220,189	79,399
Tax	-40,208	-36,357
Profit after tax, continuing operations	**179,981**	**43,042**
Profit after tax, discontinuing operations	-	-51,235
Net profit/loss for the year	**179,981**	**-8,193**

Distribution of profit, continuing operations		
Shareholder in Flügger group A/S, share	170,837	52,921
Minority interests	9,144	-9,879
Net profit/loss for the year	**179,981**	**43,042**

Earnings per share, continuing operations		
Earnings per share of DKK 20	59.1	18.0
Diluted earnings per share of DKK 20	59.1	18.0

Distribution of profit, incl. discontinuing operations		
Shareholder in Flügger group A/S, share	170,837	7,464
Minority interests	9,144	-15,657
Net profit/loss for the year	**179,981**	**-8,193**

Earnings per share, incl. discontinuing operations		
Earnings per share of DKK 20	59.1	2.5
Diluted earnings per share of DKK 20	59.1	2.5

Statement of comprehensive income

	2020/21	2021/22
Net profit/loss for the year	**179,981**	**-8,193**
Items recirculated to income statement:		
Value adjustment, forward contracts		
- transferred to financials	-139	177
- unrealised share	-177	-3
Value adjustment, subsidiaries etc.	12,624	-
Total other comprehensive income	**12,308**	**174**
Tax on other comprehensive income	-70	38
Total comprehensive income	**192,219**	**-7,981**

Comprehensive income distribution, continuing operations		
Shareholder in Flügger group A/S, share	183,075	53,133
Minority interests	9,144	-9,879
Net profit/loss for the year	**192,219**	**43,254**

Comprehensive income distribution, incl. discontinuing operations		
Shareholder in Flügger group A/S, share	183,075	7,676
Minority interests	9,144	-15,657
Net profit/loss for the year	**192,219**	**-7,981**

Balance sheet

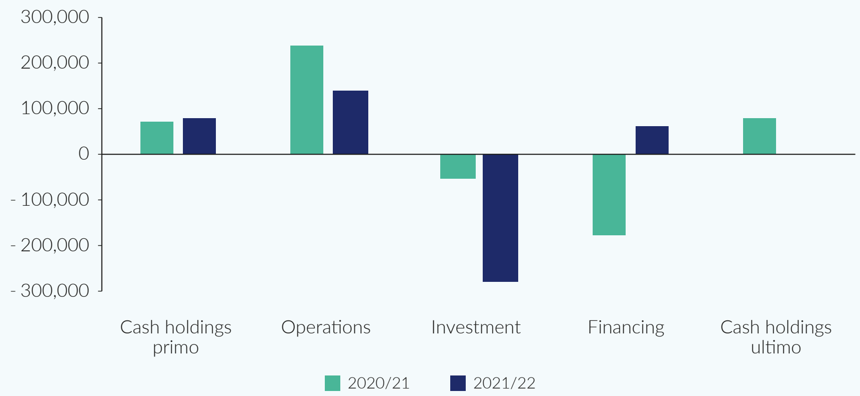
	30.04.2021	30.04.2022
Assets		
Goodwill	119,329	159,020
Other intangible assets	42,933	88,376
Prepayments, intangible assets	13,008	25,396
Intangible assets	175,270	272,792
Land and buildings	161,275	250,518
Technical plant and machinery	76,626	103,993
Other machinery and equipment	23,941	70,704
Leasing assets	378,734	373,090
Assets in course of construction	115,659	135,820
Property, plant and equipment	756,235	934,125
Other receivables	28,279	-
Financial assets	28,279	-
Deferred tax asset	13,280	12,807
Non-current assets	973,064	1,219,724
Inventories	344,048	462,082
Receivables	368,550	384,186
Securities	63	62
Cash and cash equivalents	156,682	28,748
Assets intended for sale	-	130,707
Current assets	869,343	1,005,785
Total assets	1,842,407	2,225,509

	30.04.2021	30.04.2022
Liabilities		
Share capital	60,000	60,000
Reserve for foreign exchange adjustments	-93,493	-93,493
Reserve for hedging transactions	-213	-1
Profit/loss brought forward	899,788	910,939
Proposed dividend	45,000	30,000
Equity, excl. minorities	911,082	907,445
Minority interest	39,808	11,500
Equity	950,890	918,945
Deferred tax	9,309	22,990
Leasing obligation	307,195	298,540
Mortgage credit institution loans	-	112,710
Bank debt	-	9,128
Other payables	5,249	6,872
Long-term liabilities	321,753	450,240
Leasing obligation	78,866	85,739
Bank debt	15,636	230,943
Debt to connected parties	-	37,000
Suppliers	219,797	259,121
Income tax	39,232	23,022
Other payables	215,516	168,756
Deferred income	717	41
Liabilities relating to assets intended for sale	-	51,702
Short-term liabilities	569,764	856,324
Total liabilities	1,842,407	2,225,509

Cash flow statement

	2020/21	2021/22
Operating profit	228,120	99,323
Depreciation, amortisation and writedowns	139,514	184,516
Other non-cash items	-6,419	8,909
Change in receivables	2,252	62,463
Change in inventories	-35,749	-91,524
Change in trade creditors	26,602	-59,608
Change in other payables relating to operating activities	-17,224	-52,382
Cash flows from operations before financing and tax	337,096	151,697
Financial income	1,259	1,509
Financial costs	-10,698	-15,893
Cash flows from operations before tax paid	327,657	137,313
Tax paid	-14,588	-40,552
Cash flows from operating activities	313,069	96,761
Purchase of intangible fixed assets	-18,752	-57,368
Purchase of tangible fixed assets	-120,693	-185,904
Sale of fixed assets	2,922	18,111
Prepayment for acquisition of company	-28,279	-
Acquisition of company	-	-39,424
Cash flows to investing activities	-164,802	-264,585
Cash flows after investing activities	-148,267	-167,824
Change in bank and mortgage debt	-16,550	-131,309
Raising of loans from shareholder and company participants	-	37,000
Leasing costs paid	-83,122	-85,378
Dividend paid	-28,908	-44,137
Cash flows to financing activities	-128,580	-38,794
Cash flows for the year from continuing operations	-19,687	-129,030
Cash flows for the year from discontinuing operations	-	4,367
Cash flows for the year for the period	-19,687	124,663
Cash and cash equivalents, beginning of year	137,291	156,682
Value adjustment	-296	2,983
Total cash and cash equivalents	156,682	35,002
Of which classified as assets intended for sale	-	6,254
Cash and cash equivalents, year-end	156,682	28,748

Development in cash flows



The cash flow statement figures cannot be directly derived from the consolidated balance sheet figures, as the opening balance sheets for the foreign affiliated companies are converted at end-of-year exchange rates in the individual years. Bank accounts and fixed-term deposits contain tied-up funds totalling DKK 0.3 million (last year DKK 0.3 million).

Accounting policies applied

Cash flow statement

The cash flow statement shows cash flows for the year, broken down by operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated according to the indirect method on the basis of the profit/loss for the year after paid interest and tax adjusted for non-cash operating items and changes in working capital.

Cash flows from investing activities include payments in connection with purchase and sale of companies and activities, purchase and sale of intangible, tangible and other non-current assets.

Cash flows from financing activities include changes in the size or composition of share capital and costs connected with this as well as the raising of loans, instalments on interest-bearing debt, leasing costs paid, purchase of own shares as well as dividend paid to shareholders etc.

Cash and cash equivalents include cash funds and securities with a term to maturity of less than three months and which can easily be converted into cash funds and for which there are only negligible risks of changes in value.

Cash flows denominated in currencies other than the functional currency are converted as at transaction day exchange rates.