WALL&DECÒ: LORENZO DE GRANDIS

Annual Report 2023

embellence GROUP

CONTENTS

This is Embellence Group

Embellence Group owns and develops strong brands in wallpaper and other interior decoration. The aim is to contribute to a more beautiful and inspiring everyday life, while also driving the development of a changing wallpaper and interior decoration market.

WALL&DECÒ: SALINA

1564
The "Rosenvinge" wallpaper pattern was designed. This was reintroduced in 2018 by Boråstapeter in their Anno collection.

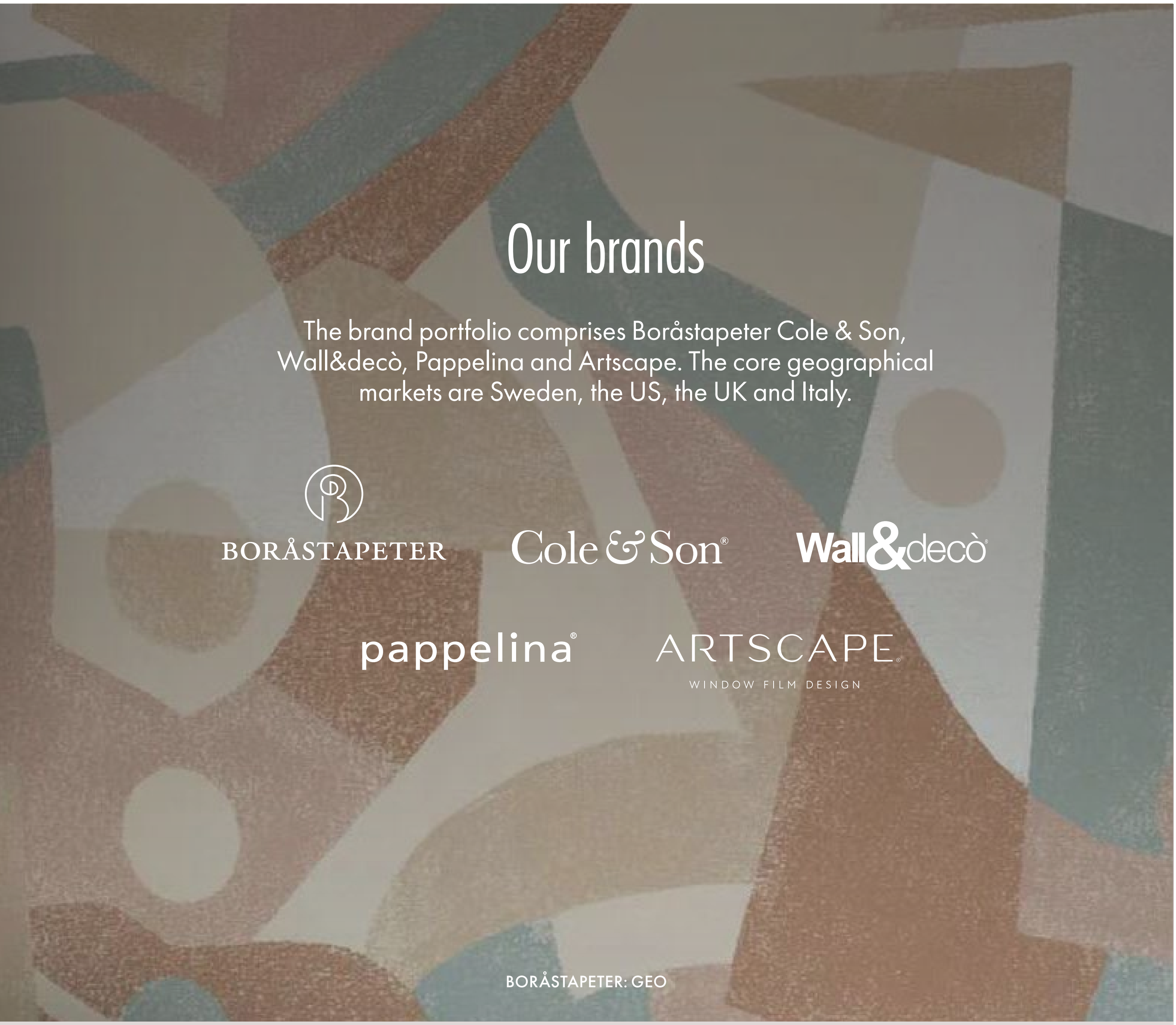
1875
Cole & Son was founded in Islington, in the UK.

1905
Boråstapeter was founded in Borås.

1999
Pappelina was founded in Falun.

2005
Wall&decò was founded.

2008
Embellence Group acquired Cole & Son.



Our brands

The brand portfolio comprises Boråstapeter Cole & Son, Wall&decò, Pappelina and Artscape. The core geographical markets are Sweden, the US, the UK and Italy.

BORÅSTAPETER

Cole & Son®

Wall&decò®

pappelina®

ARTSCAPE®
WINDOW FILM DESIGN

BORÅSTAPETER: GEO

2018

Embellence Group acquired Wall&decò.

2019

Cole & Son launched fabrics for upholstery and soft furnishings based on their most iconic prints.

Pappelina launched direct-to-consumer online sales.

2020

Cole & Son launched an online store in the UK.

2021

Boråstapeter launched an online store in Sweden.

Business growth through acquisition of Pappelina AB.

2022

Embellence Group acquired Artscape Inc.

Operational restructure in Borås into Boråstapeter and Borås Tapetfabrik.

2023

Cole & Son opened a flagship gallery in Chelsea, London.

The year in brief

Strong finish to a challenging year

Net sales in 2023 amounted to MSEK 740.5, up just over 3% compared with the year-earlier period. Acquisitions and exchange rate effects contributed 5%. Organic sales decreased 2% due to a weaker first half of the year, primarily in the Nordics, with high inflation and rising interest rates leaving a clear impression on the market for wallpaper and interior decoration. In the second half of the year, however, sales increased 5% compared with the year-earlier period owing to new product launches.

Adjusted EBITA was MSEK 95.1, corresponding to an adjusted EBITA margin of 12.8% (14.3). The decrease compared to the preceding year was due primarily to the weaker level of sales during the first half-year.

740
SALES
MSEK

95
ADJUSTED
EBITDA, MSEK

12.8
ADJUSTED EBITDA
MARGIN (%)

WALLCOVERING OF THE YEAR!

During the year, Cole & Son's Fungi Forest wallpaper – designed in partnership with UK fashion designer Stella McCartney – won the ELLE Decoration International Design Award for wall covering of the year. The wallpaper is made with nearly 80% recycled fibre material.


COLE & SON: FORNASETTI

Sharp focus on product development and launch of new collections

Despite a challenging market, primarily in the first half of the year, investments continued in both the individual brands and core capabilities. These included the investments in Boråstapeter Studio, wallpaper adapted by size and environment and produced entirely to order, and a more comprehensive update of Artscape's offering. Other initiatives included Cole & Son's launch of a new Fornasetti collection and fabrics in the popular "The Gardens" collection. Pappelina launched its new Woodland collection during the year.

Further steps taken in our sustainability activities

The efforts to reduce the amount of emissions and waste continued during the year. For example, Artscape and Wall&decò switched to fossil-free energy.

WALL&DECÒ: FUKURO

Cole & Son opened a flagship gallery in Chelsea, London.

Cole & Son's first flagship gallery opened in Chelsea, London during the year. In addition to all of the brand's wallpapers and fabrics, the store also includes an archive of historical collections.

Investments in online sales

Continued sharp focus during the year on development of the brands' online offering, in both new and existing geographic markets. During the year, Artscape opened its own online sales and Boråstapeter upgraded its platform.

ARTSCAPE: FLIGHT

PAPPELINA: EDIT

New CEO for Pappelina

Paulina Lundström was recruited as CEO of Pappelina during the year, taking office in February 2024. Paulina has solid experience from several brands in the design industry including Bolon and Kinnarps Group.

WALL&DECÒ: POETICO

PAPPELINA: KIM

ARTSCAPE: STAR MAGNOLIA

“Through focused, goal-oriented efforts we have gradually raised our brand profiles, expanded our offering, increased our geographic spread and strengthened our position in the premium segment.

Strong finish to a challenging year

Despite major challenges in our external environment, Embellence Group and our brands performed well during the year. Behind this development is a sharp focus on efficiency improvements and cost control – as well as continued successful product launches and other forward-looking initiatives.

Net sales in 2023 amounted to MSEK 740, up 3% compared with the year-earlier period. Acquisitions and exchange rate effects contributed 5%. Organic sales decreased 2% due to a weaker first half of the year, primarily in the Nordics, with high inflation and rising interest rates leaving a clear impression on the market for wallpaper and interior decoration. In the second half of the year, however, sales increased 5% compared with the year-earlier period owing to new product launches.

Adjusted EBITA was MSEK 95, corresponding to an adjusted EBITA margin of 12.8% (14.3). The decrease compared to the preceding year was due primarily to the weaker level of sales during the first half-year.

Looking at our brand companies, the picture is somewhat mixed. After a challenging start to the year, our three premium brands in the wallpaper category – Boråstapeter, Cole & Son and Wall&decò – had a strong second half of the year with growth in the key markets Sweden, the US, the UK and Italy. Boråstapeter's good performance also resulted in high capacity utilisation for the production unit, Borås Tapetfabrik. Our rug brand Pappelina and window film brand Artscape reported a somewhat less robust performance, which in the case of Artscape is attributable in part to a phase-out of a portion of its product range ahead of forthcoming launches in the spring of 2024.

Exciting initiatives in all of our strong brands

During the year, all of our brands worked actively on addressing and navigating a challenging market while developing and strengthening their long-term customer offering. This took place through, for example, product development, new collections and increased marketing activities. The tempo during the year in all areas was high.

Boråstapeter conquered the "fifth wall" with its Ceiling Collection. Furthermore, the partnership with the brand's US distributor deepened, which generated continued robust growth. The beautiful New Heritage collection was also launched during the year. This draws its inspiration from Swedish cultural heritage, and was well received in both the media and in terms of the sheer volume of sales.

During the year, Cole & Son finished a fantastic flagship gallery in Chelsea, in the heart of London – a place where architects, interior designers and end customers can surround themselves with "the wonderful world of Cole & Son". The magical Fornasetti Senzao Tempo II collection, where British craftsmanship and design meet Italian fantasy and wit, was launched during the year. This is the latest collection from the long-term partnership between two icons: Cole & Son and Fornasetti.

At the Salone del Mobile trade exhibition in April, Wall&decò presented its Essential Wallpaper Collection – wallpapers with 3D reliefs in sophisticated, elegant designs. The WET System, Wall&decò's unique wallpaper collection for shower walls, celebrated its 10th anniversary in the autumn with its campaign "10 years of reliability – 23,600 installations in 81 countries".

Pappelina launched another collection made from BIOVYN, a bio-attributed PVC based on tall oil. "My Pappelina" was also launched at the end of the year, with customers themselves determining the measurements of a selection of designs in order to obtain a rug that is a perfect fit for the home and the space. Additionally, the organisation was strengthened through the recruitment of Paulina Lundström as the new Managing director, taking office in February 2024.

Artscape conducted a brand assessment during the year, which included clarifying its market position, updating its offering, and development of a new graphic profile. In addition to several new designs, the company supplemented its product range with window films in textile for a more sophisticated expression.

Advances in long-term sustainability activities

Our long-term efforts in sustainability continued during the year. This effort is a broad one, spanning our supply chain and covering a large number of areas, both environmental and social. There has been sharp focus on increased efficiency in the use of materials, the transition to electricity from renewable sources, better logistics and increased use of materials with a lower climate impact. In total, our GHG emissions decreased –16% year-on-year.

One exciting initiative with a bearing on more environmentally friendly material was Wall&decò's launch of d.ecodura™, the world's first wallpaper where conventional fossil-based vinyl is replaced with wood-based oil from the forestry industry. This measure facilitated a nearly 50% reduction in the carbon footprint compared with earlier products, with characteristics retained as regards wear and tear and water resistance, and naturally it was offered with Wall&decò's fantastic patterns.

We also continued our efforts to ensure a sustainable organisation and stimulating workplace. Here, we implemented a new system during the year for measurement of employee surveys and eNPS measurements.

Increased clarity and an exciting future

The tempo of change in Embellence Group has been high in recent years. Since 2018, we have come from holding advanced positions in wallpaper, primarily in two geographic markets – Sweden and the UK – to today being a leading player throughout Europe, with a presence in the US as well. Through focused, goal-oriented efforts we have gradually raised the profiles of our brands, expanded our offering, increased our geographic spread and strengthened our position in the premium segment.

Now it is time for the next phase of Embellence Group's journey, with even greater focus on the development of our brands, and I am looking forward to working together with company management, in close partnership with our new Chairman of the Board, Magnus Welander, as well as the rest of the Board of Directors in order to grow the company's sales and profitability levels. More will be presented at the Capital Markets Day on 21 May, for which invitations have been sent out.

Even if several parameters are pointing in the right direction, the situation in our external environment and in the market remains turbulent – and will certainly continue to be so for the foreseeable future. This is something we will have to confront, and manage to the best of our ability. We will therefore remain sharply focused on profitable organic growth, a stable cash flow and a resilient balance sheet.

Finally, I would like to express my appreciation here for the commitment that all my colleagues on the Embellence team displayed through a challenging year. We are living and working in a time of rapid changes, where the ability and the courage to refocus, develop further and innovate are entirely crucial for success. The enthusiasm that has pervaded these efforts over the past year fills me with a great deal of optimism as we look ahead.

Borås, April 2024
Olle Svensk, CEO

Our business model

Embellence Group's business model is based on developing strong brands in wallpaper and other home furnishings.

Embellence Group combines the capacity of a large company in terms of resources and structures with the agility, adaptability and market knowledge of a small company.

Building and developing strong brands
The business model is largely based on the ability to harness and develop the history, creativity and innovation capability of our brands – and combine that with leading key capabilities. Cooperation and coordination take place in areas including strategy, finance, HR, digitalisation, sustainability and geographic expansion.

Protect and nurture
This is a decentralised process, based on a model that protects the entrepreneurship, passion, identity and development of each individual brand.

BORÅSTAPETER: CURVE

PAPPELINA: NOA

WALL&DECÒ: ORIENTE

COLE & SON: COLLECTION OF HUMMINGBIRDS

ARTSCAPE

BORÅSTAPETER: BUTTERCUP

Strategy

Continued growth in premium and luxury segments

Embellence Group shall continue to grow in the premium and luxury segments. Compared with the value segment, these segments have higher gross profit margins and potentially higher future growth rates. They are also more resilient in economic downturns. In addition to a shift in the sales mix, Embellence is aiming to continue broadening the product portfolio into related areas, such as fabrics. This broadening could take place within existing brands, or through acquisitions.

FOLLOW-UP 2023:

The share of premium continued to rise during the year. Overall, the share amounted to 64.5%. The main drivers were increased sales in Wall&decò and Cole & Son.

Increased international sales

In the premium segment, demand in Europe and Rest of World are expected to grow faster than in the Nordics moving forward. Embellence is therefore aiming to further increase the share of international net sales. This will be achieved primarily by organic expansion into new markets, and supplemented by acquisitions of international players.

FOLLOW-UP 2023:

The share of sales outside the Nordics continued to increase during the year. Overall, Europe and Rest of World accounted for about 61% of total net sales.

More efficient internal processes and closer customer relationships through digitalisation

Digitalisation offers enormous opportunities and essentially affects every part of Embellence's value chain, from production to sales. The overall objectives include strengthening the offering and the customer experience. In addition, the initiatives shall also improve the efficiency of internal processes and thereby reduce costs.

FOLLOW-UP 2023:

During the year, projects related to digitalisation were carried out across major parts of the value chain. This includes the majority of initiatives in developing various digital services and tools that are intended to make it easier for customers to choose wallpaper. Moreover, investments continued to be made in our own online sales for Boråstapeter and Artscape. Furthermore, Cole & Son and Pappelina opened their online sales to more countries.

Embellish with excellence

Sustainability has been incorporated into Embellence Group's strategy. The focus for this approach has three parts: a sustainable value chain, a sustainable organisation and stimulating workplace, and a responsible and ethical business.

FOLLOW-UP 2023:

Among the most important initiatives was the development of plans for change that consist of sustainability initiatives and projects for all brands in the Group, the implementation of systems for employee surveys and eNPS measurements, and planning for implementation of the forthcoming Corporate Sustainability Reporting Directive (CSRD).

Financial goals

NET SALES GROWTH

Embellence Group's growth target is to achieve net sales of SEK 1.2bn for the 2025 financial year. This corresponds to more than a doubling of net sales compared with 2020. This will be achieved by both organic growth and acquisitions.

Comments

During the year, net sales amounted to MSEK 740, up 2.8% compared with the year-earlier period.

INDEBTEDNESS

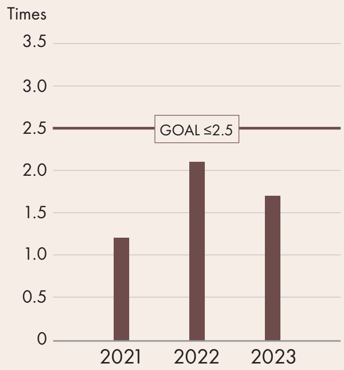
Embellence Group's interest-bearing net debt should not exceed 2.5 times EBITDA. A temporary increase may occur in connection with acquisitions, however.

Comments

At year-end, the debt/equity ratio (net debt/EBITDA) was 1.7 times, which was well below the target.

Excluding IFRS 16 effects,* the debt/equity ratio was 1.5 times.

*see Definitions on page 96

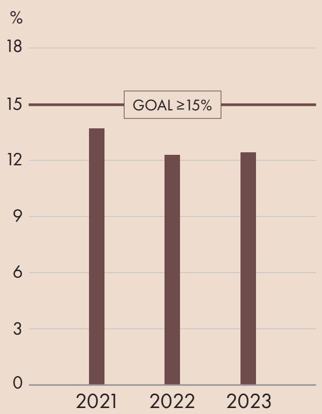


OPERATING MARGIN

Embellence Group's long-term target is to achieve an EBITA margin of at least 15% over a business cycle.

Comments

In 2023, the EBITA margin was 12.4%, compared with 12.3% in 2022.



DIVIDEND POLICY

Embellence Group's goal is to pay dividends of 30 to 50% of the profit for the period. When deciding on dividends, Embellence Group's financial position, cash flow and future prospects must be taken into account.

The Board of Director's proposal to the Annual General Meeting

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the 2023 financial year.

PAPPELINA: URVI

Business environment

The macroeconomic situation is also affecting the market for interior design. Developments during the year were challenging in all of Embellence's geographical core markets and in both the consumer and hospitality sub-markets.

SWEDEN

CONSUMER: Like Sweden, the UK consumer market for wallpaper in 2023 was weak. Embellence estimates that it decreased by 10–15% during the year. Looking ahead, we are seeing a more stable but still soft market. The turnaround is dependent on a positive macroeconomic trend, primarily through lower inflation and interest rates.

HOSPITALITY: Activity in the hospitality segment demonstrated greater resilience.

ITALY

CONSUMER: It is estimated that the Italian consumer market in 2023 decreased by an estimated 5–10%. The market strengthened in late 2023, and early 2024 was positive as well.

HOSPITALITY: The hospitality/project segment was stronger than the consumer market during the year. After a weaker start, activity gradually increased during the year.

UK

CONSUMER: Like Sweden, the UK consumer market for wallpaper in 2023 was weak. The decrease here was estimated to total 10–15% as well. The fundamental conditions are the same as for Sweden, with reduced inflation alongside lower interest rates likely to make a positive contribution.

HOSPITALITY: Activity in hospitality/project business demonstrated greater resilience.

USA

CONSUMER: The US consumer market for wallpaper started off strong in 2023 but then displayed a clearly negative trend up until the fourth quarter. Embellence is of the opinion that the market will continue to develop in a gradually positive direction in conjunction with the strengthening of the macroeconomic outlook.

HOSPITALITY: The hospitality segment during the year was more resilient with good levels of activity that, going forward, we see will continue.

POSITIVE TREND STABLE WEAK TREND

COLE & SON: MEDINA

TRENDS

Customised solutions
Customers are increasingly requesting customised products when it comes to format and design. This requires an ability to offer good opportunities for customisation.

Digital transformation
The interior design industry is undergoing a digital transformation. More and more services are being moved online from physical channels, placing demands on operators to develop their sales and marketing channels.

Greater access to inspiration via social media
Access to inspiration has increased dramatically in recent years, especially via social media platforms such as Instagram and Pinterest. This has led to an overall globalisation of trends.

Innovation with a focus on functionality and sustainability
More and more products are offering various types of functionality due to the ongoing innovation in materials in the industry. As well as functionality, innovation is also focused on the production of materials that are sustainable alternatives.

DRIVERS

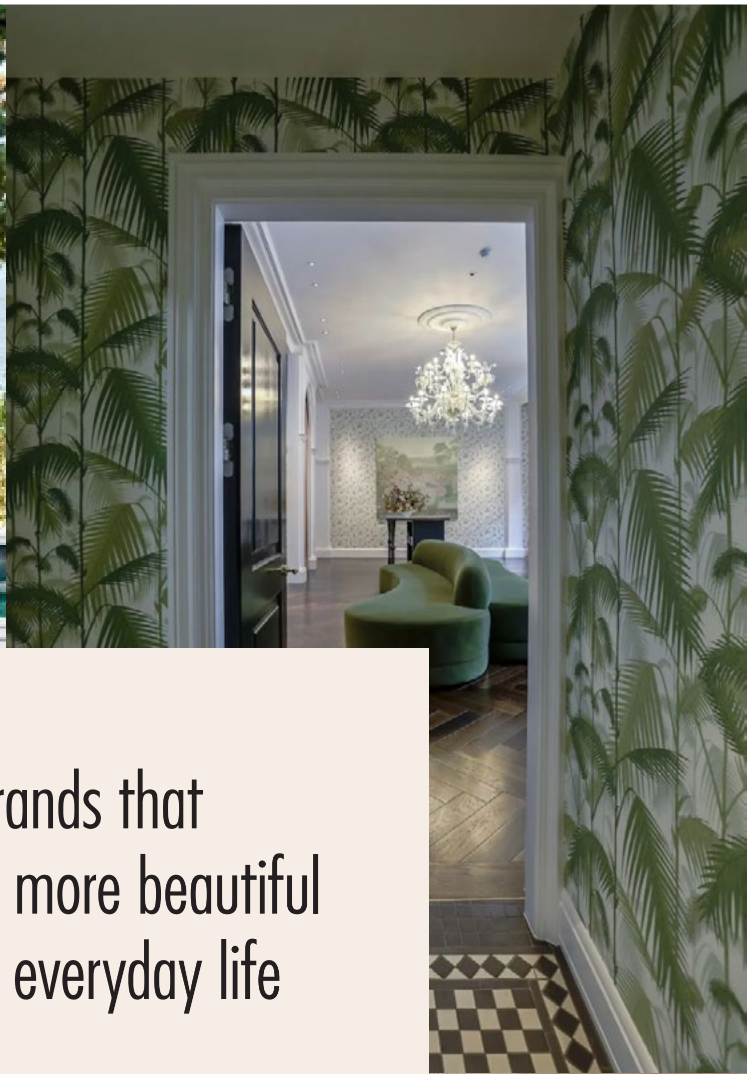
Interior design that reflects a personal style
Interior design creates an opportunity to express your identity and personality. Wallpaper offers an efficient way, in terms of both time and cost, to transform a home into something unique and personal compared with more extensive changes such as renovation.

High activity levels in hospitality
Despite the prevailing situation in the business environment, the performance of the hospitality segment in the Nordics, Europe and the US remains stable, as seen in factors such as continued investments in hotel and restaurant operations.

Growth in premium and luxury
The growing interest in premium and luxury products is largely driven by underlying global economic growth, wealth creation and generally growing prosperity in upper and middle classes.

Macroeconomic effects
In the short and medium term, growth will be hampered by the current macroeconomic climate. But when that eases, growth is expected to accelerate.

WALL&DECÒ: ANTONELLA



Strong brands that contribute to a more beautiful and inspiring everyday life

BORÅSTAPETER

Cole & Son

Wall&decò

pappelina

ARTSCAPE
WINDOW FILM DESIGN

BORÅSTAPETER

Boråstapeter was founded in 1905 with the vision that 'all Swedes should be able to afford to create a more beautiful home using wallpaper.' The number of international customers has since increased and the vision has now been changed to 'Drawing inspiration from our Swedish heritage, we create wallpapers for every home.' There are more than 10,000 designs in the design archive. New designs are developed both internally and in collaboration with renowned designers. The design archive also includes in-licensed designs from such designers as Arne Jacobsen and Alvar Aalto.

www.borastapeter.se

MILESTONES 2023

- Continued development of Boråstapeter Studio through expansion of product range and launch in more countries.
- Increased international sales, primarily through partnership with a new distributor in the US.
- Launch of new online sales platform that facilitates continued international expansion.
- Continued focus on cost control and savings.

BORÅSTAPETER: JUNGLE FRIENDS

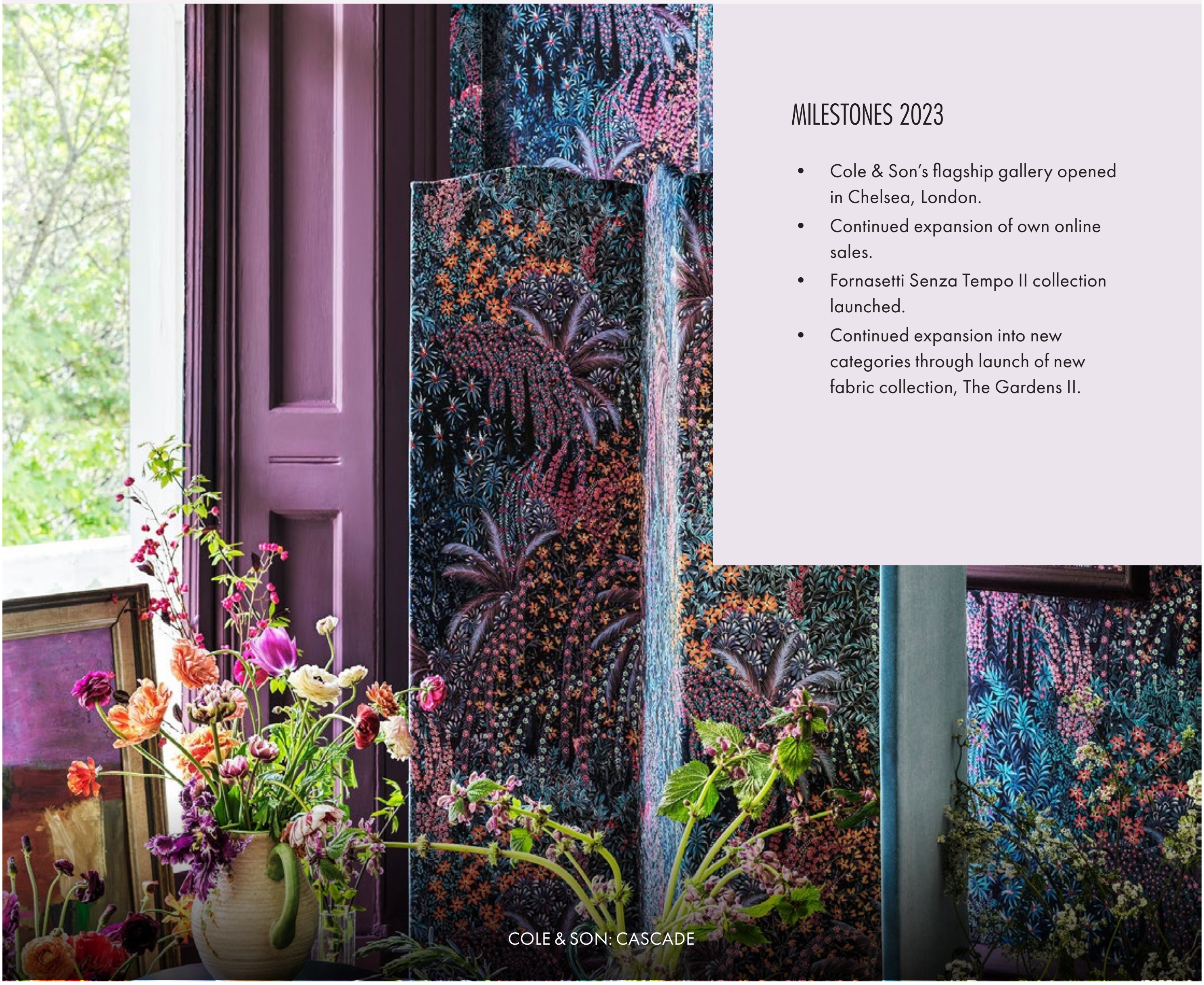
Cole & Son

With its iconic prints, Cole & Son is one of the leading brands in the global wallpaper market. The brand is characterised by eccentric, innovative and artistic design. Cole & Son is the wallpaper supplier by Royal Warrants of Appointment to His Majesty King Charles III and has a long tradition of furnishing palaces, castles and theatres in the UK as well as outside the domestic market. Cole & Son's wallpapers have been used in, for example, Buckingham Palace, the Palace of Westminster and the White House.

www.cole-and-son.com

MILESTONES 2023

- Cole & Son's flagship gallery opened in Chelsea, London.
- Continued expansion of own online sales.
- Fornasetti Senza Tempo II collection launched.
- Continued expansion into new categories through launch of new fabric collection, The Gardens II.



COLE & SON: CASCADE

Wall&decò

Wall&decò was founded in 2005 in Cervia by Christian Benini, who remains active as Creative Director. With his background as a photographer in advertising, he created an environment with large illustrated leaves that attracted attention from designers and architects. The design archive contains about 3,000 designs. In addition to traditional wallpaper, the product portfolio also includes three collections of innovative performance wallpaper: the OUT System, the WET System and the SOUND System, which combine design with technical solutions.

www.wallanddeco.com

MILESTONES 2023

- Strategic review of the organisation was initiated during the quarter with the overall purpose of strengthening the offering, increasing international sales and further optimising the synergies within Embellence Group.
- Sharp focus on product development, with results including the launch of a new bio-based material, d.ecodura™, in early 2024.
- Increased activity in the hospitality segment, with involvement in several large projects.

WALL&DECÒ: OVERLOCK

pappelina®

Pappelina is an international brand focused on the development, manufacture and sales of exclusive plastic rugs. The brand was founded in 1999 by Lina Rickardsson in Falun, Sweden, based on a vision to create high-quality, stylish and functional products with Scandinavian design. Pappelina's rugs are a piece of Swedish craftsmanship. The rugs are woven at Pappelina's own weaving mill in Leksand, Sweden, by dedicated and experienced craftspeople who use exclusively Swedish raw materials in the production. The rugs are non-allergenic, easy to clean, and water and UV-light resistant. In addition to exclusive rugs, Pappelina also offers other home furnishings such as blankets, cushions and trays.

www.pappelina.com

MILESTONES 2023

- Strengthening of own online sales and digital marketing activities.
- Efficiency improvements that facilitated staff reductions at the weaving mill in Leksand.
- Paulina Lundström was recruited as CEO of Pappelina during the year. Paulina has solid experience in several brands in the design industry including Bolon and Kinnarps Group.
- Launch of My Pappelina, which provides the consumer with the possibility of ordering their rug to size according to need and floor space.

PAPPELINA: URVI

ARTSCAPE

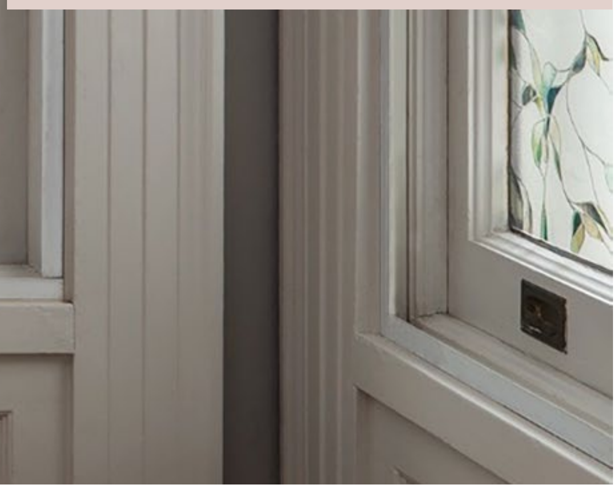
WINDOW FILM DESIGN

Artscape is a leading US manufacturer of exclusive pattern-based window film. The brand was founded in Portland, Oregon, in 1995 with a vision of offering beautiful privacy film for windows and glass. To date, sales have mainly been focused on North America, where the company has a leading position in its niche. The products are currently sold by more than 3,000 retailers, including home furnishing retailers.

www.artscape-inc.com

MILESTONES 2023

- New brand profile and new website launched, with improved opportunities for own online sales.
- Launch of window film featuring textiles.
- Focus on product development and preparation ahead of the launch of a new product range in the spring of 2024.



ARTSCAPE: FLIGHT

Own production with a focus on craftsmanship, quality and sustainability

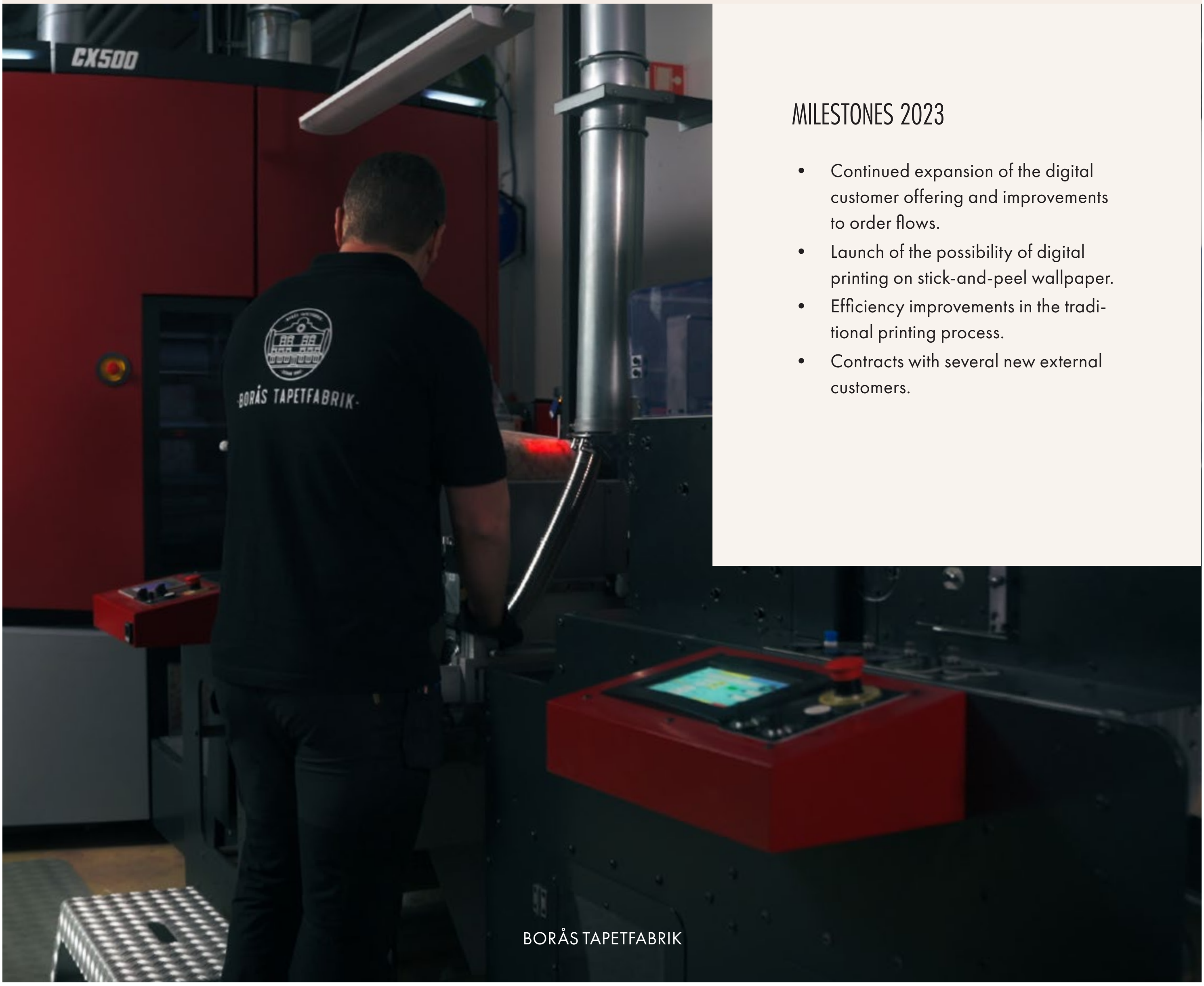
Several of our brands have their own production. Borås Tapetfabrik is the only independent production unit, but wallpapers are also printed in Cervia, as part of Wall&decò's operations. Pappelina's rugs are woven at their own weaving mill in Leksand.

BORÅS TAPETFABRIK

·BORÅS TAPETFABRIK·

Borås Tapetfabrik was founded in 1905 as a part of Boråstapeter. The factory has been run as its own company since 2022. With creativity and curiosity, unique solutions are produced to suit every client's situation and aspirations. Customers include wallpaper companies, designers, lifestyle brands and construction companies – everyone who has realised the versatile possibilities of wallpaper. Borås Tapetfabrik offers unique solutions in design, product development and production. A range of printing techniques and printing machines are offered, both traditional and digital. With a focus on craftmanship, quality and sustainability, the aim is to provide the world with first-class wallpaper.

www.borastapetfabrik.se



MILESTONES 2023

- Continued expansion of the digital customer offering and improvements to order flows.
- Launch of the possibility of digital printing on stick-and-peel wallpaper.
- Efficiency improvements in the traditional printing process.
- Contracts with several new external customers.

BORÅS TAPETFABRIK

Performance 2023

GROUP

Net sales and earnings

Net sales in 2023 amounted to MSEK 740.5, up 2.8% compared with the year-earlier period. Acquisition and exchange rate effects accounted for 2.2% and 2.6% respectively. Organic sales decreased 2.0%, which is attributable chiefly to a weak first half of the year, primarily in the Nordics, with high inflation and rising interest rates leaving a clear impression on the market for wallpaper and interior decoration. A clear increase in underlying sales was noticeable in the second half of the year. Adjusted EBITDA was MSEK 95.1, corresponding to an adjusted EBITA margin of 12.8% (14.3). The decrease compared to the preceding year was due primarily to the decrease in sales during the first half-year.

Net financial items

Net financial items for the full year amounted to MSEK –18.1 (–0.6). The negative net financial items were mainly driven by a higher interest expense of MSEK –14.4 (–9.2). Net financial items for the year-earlier period contained an impairment of MSEK 16.9 on the earnout for Artscape.

Cash flow

Cash flow from operating activities amounted to MSEK 64.6 (107.9). Cash flow from investing activities for the year amounted to MSEK –16.2 (–156.3). Cash flow from financing activities was MSEK –77.8 (54.2), with the year-on-year change attributable a changed overdraft facility. Cash flow for the year was MSEK –29.5 (5.8).

Financial position

At year-end, total assets amounted to MSEK 801.8 (853.2). The equity ratio was 51.7% (46.8%). Cash and cash equivalents amounted to MSEK 37.9 (66.2). The company's net debt was MSEK 204.4 (233.7). Indebtedness, measured as net debt/EBITDA, was 1.7 times (2.1) at year-end.

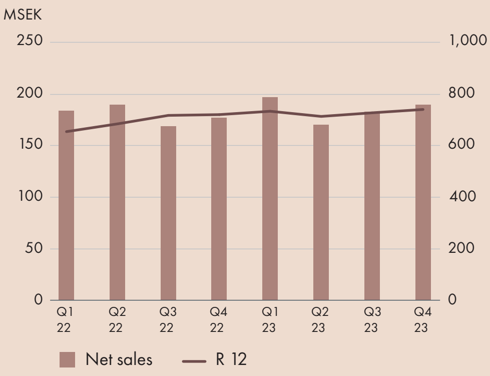
Net sales per segment

MSEK	2023	2022
Nordics	286.0	294.0
of which premium	31%	29%
Europe	251.0	242.2
of which premium	81%	84%
Rest of World	203.5	183.9
of which premium	91%	90%
Total	**740.5**	**720.1**

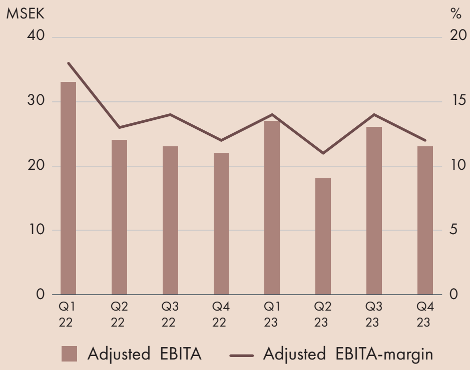
Adjusted EBITA per segment

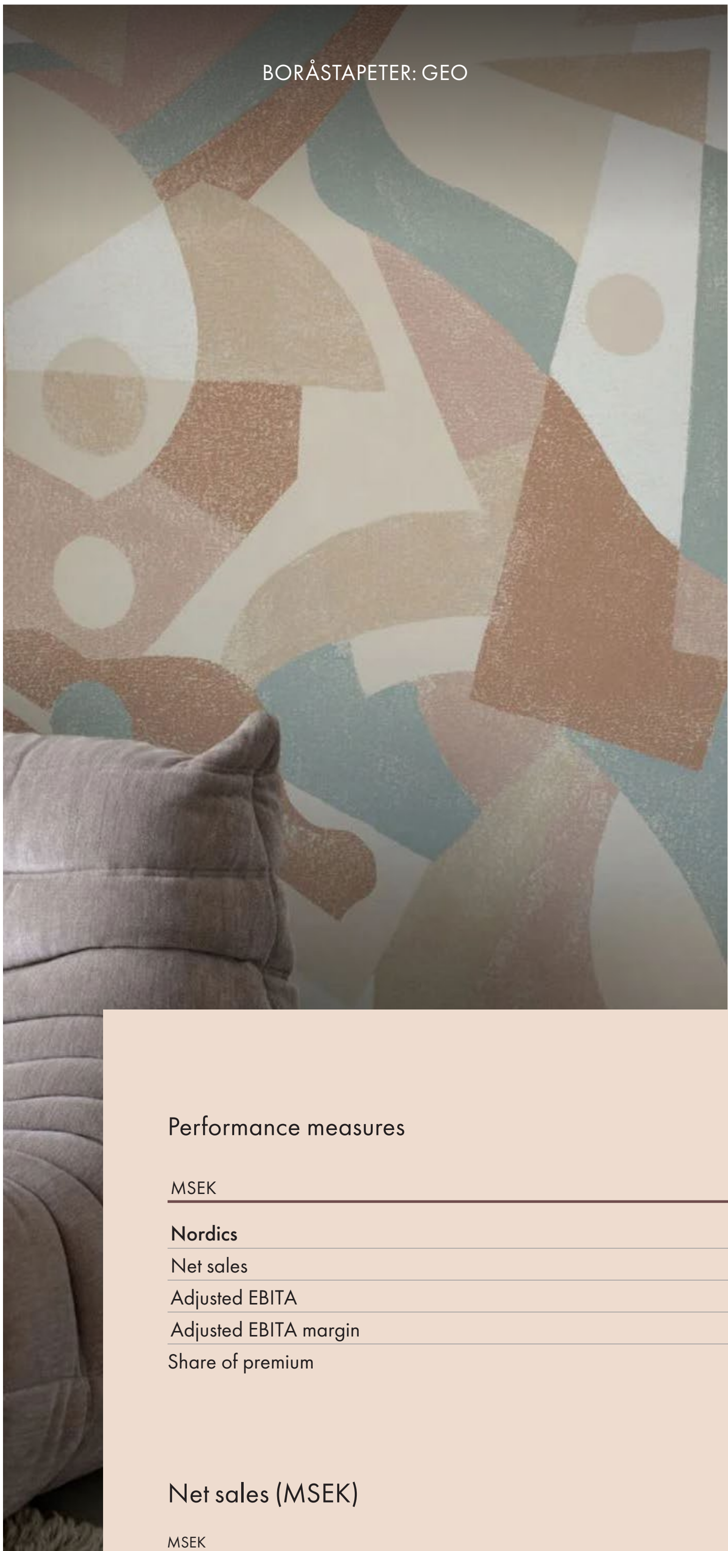
MSEK	2023	2022
Nordics	31.7	35.6
Europe	42.4	40.2
Rest of World	21.0	26.8
Total	**95.1**	**102.6**

Net sales (MSEK)



Adjusted EBITA (MSEK) and adjusted EBITA margin (%)





NORDICS

A market that remained challenging, but an improvement in the second half of the year

Net sales in the Nordics amounted to MSEK 286.0 (294.0), down 2.7% year-on-year. Sales in the Nordics in 2023 were also impacted by a continued uncertain macroeconomic situation, with high levels of inflation and interest rates. An improvement relating to sales performance could be discerned in the second half of 2023.

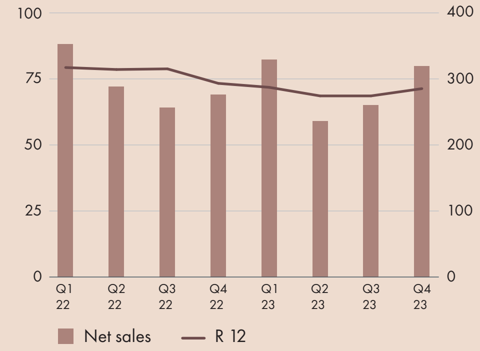
Adjusted EBITA was MSEK 31.7 (35.6). The decrease was attributable primarily to lower sales volumes and changes in the product mix.

The share of premium totalled 31% (29).

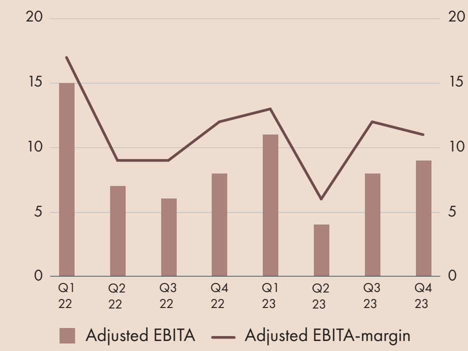
Performance measures

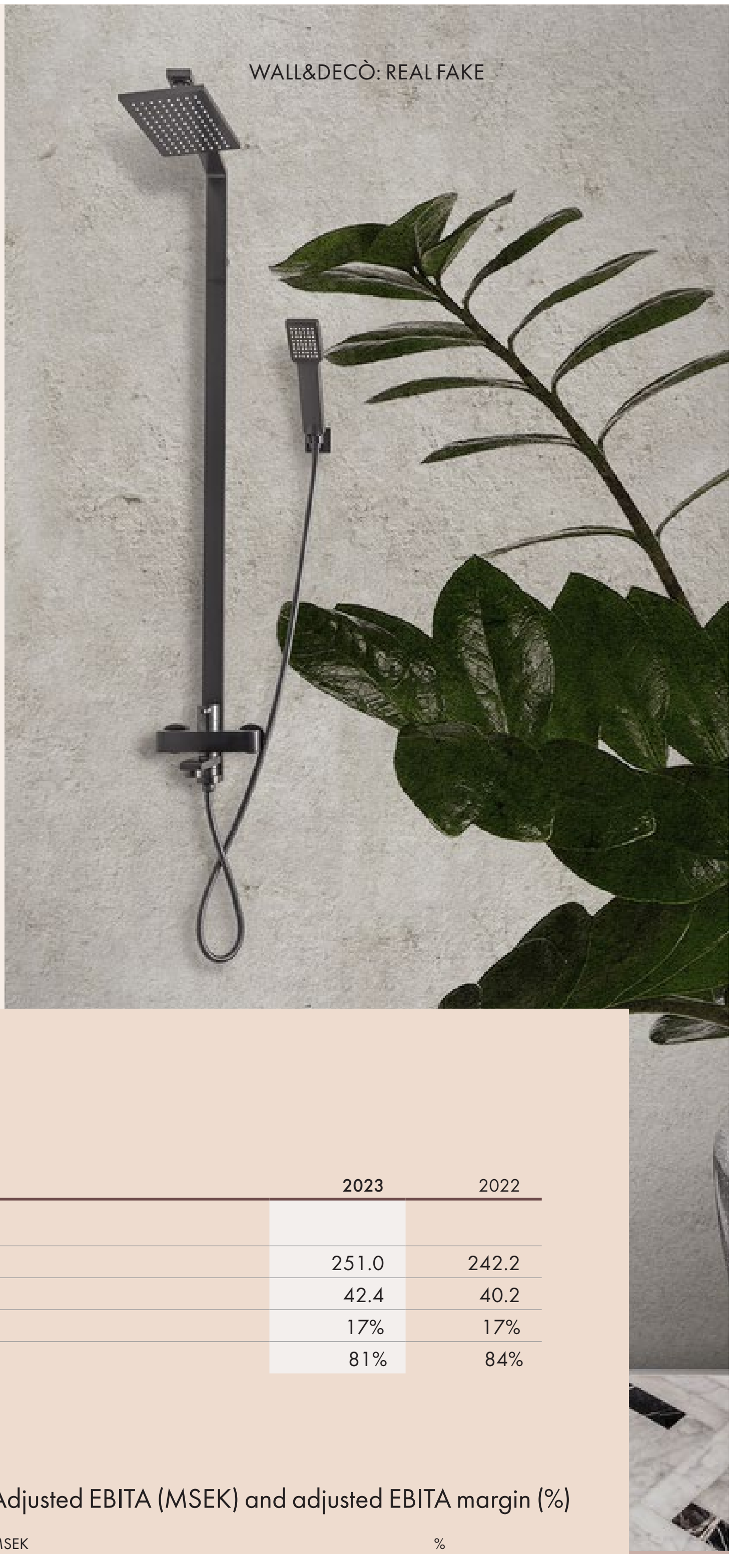
MSEK	**2023**	2022
Nordics		
Net sales	286.0	294.0
Adjusted EBITA	31.7	35.6
Adjusted EBITA margin	11%	12%
Share of premium	31%	29%

Net sales (MSEK)



Adjusted EBITA (MSEK) and adjusted EBITA margin (%)





EUROPE

Strong sales and stable margins

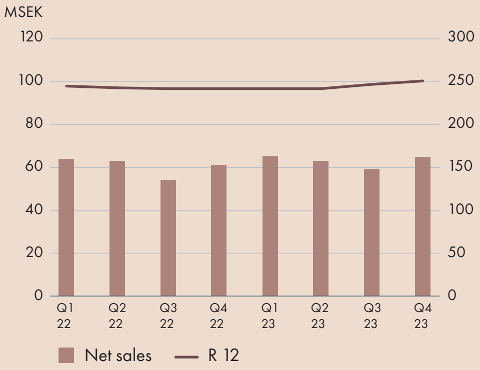
Net sales in Europe totalled MSEK 251.0 (242.2). The increase was mainly driven by a positive development in the major markets of the UK and Italy.

Adjusted EBITA was MSEK 42.4 (40.2). The improvement in earnings was due to factors such as increased sales and an advantageous sales mix. The share of premium was 81% during the year, compared with 84% in 2022.

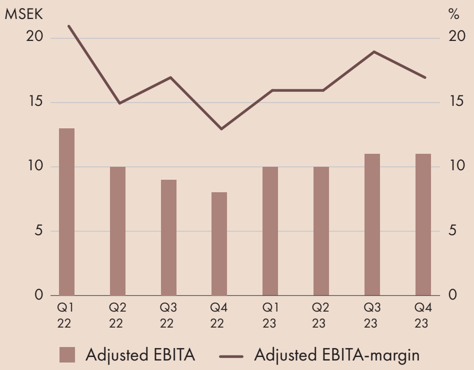
Performance measures

MSEK	**2023**	2022
Europe		
Net sales	251.0	242.2
Adjusted EBITA	42.4	40.2
Adjusted EBITA margin	17%	17%
Share of premium	81%	84%

Net sales (MSEK)



Adjusted EBITA (MSEK) and adjusted EBITA margin (%)



REST OF WORLD

Poorer profitability during the year

Net sales in Rest of World amounted to MSEK 203.5 (183.9). The increase in sales was attributable to the acquisition of Artscape, and also the strong performance of our wallpaper brand in Rest of World during the year.

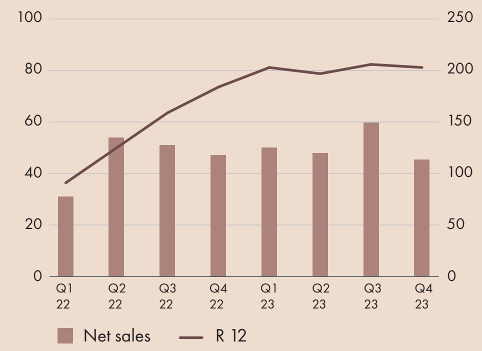
Adjusted EBITA amounted to MSEK 21.0 (26.9). Earnings were negatively impacted by changes in the sales mix.

The share of premium was 91%, compared with 90% in the preceding year.

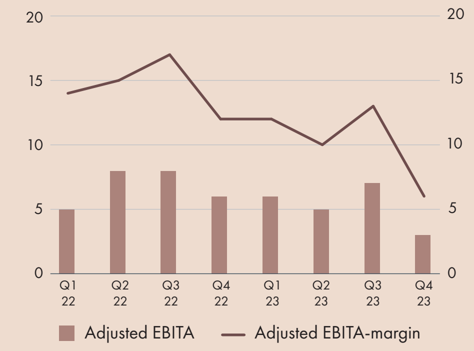
Performance measures

MSEK	**2023**	2022
Rest of World		
Net sales	203.5	183.9
Adjusted EBITA	21.0	26.8
Adjusted EBITA margin	10%	15%
Share of premium	91%	90%

Net sales (MSEK)



Adjusted EBITA (MSEK) and adjusted EBITA margin (%)



Contents

About the Sustainability Report

This statutory Sustainability Report has been submitted by the Board of Directors of Embellence Group AB, but is not part of the formal Annual Report. Unless otherwise stated, the information pertains to the entire Group, including subsidiaries. The pages in this Annual Report where the requirements for sustainability information pursuant to Chapter 6, Section 11 of the Swedish Annual Accounts Act are presented are indicated alongside this text.

Organisation and responsibilities

The Head of Sustainability is ultimately responsible for the Group's sustainability issues and ongoing sustainability practices. Group Management, under the leadership of the Head of Sustainability, has been tasked with developing the Group's sustainability-related practices. Based on Group Management's proposals, the Board makes decisions regarding prioritized sustainability topics, policies and the revision of existing policies. Like other operational activities, a considerable amount of Embellence Group's ongoing sustainability initiatives are conducted within the respective brands. The fact that the focus of these activities differs partly affects their focus and direction. The sustainability activities in each brand are carried out by sustainability representatives, who together comprise a Group-wide sustainability organisation.

WALL&DECÒ: MYSTERIA

EMBELLENCE GROUP'S ESG AGENDA

"Embellish with Excellence"

Embellence Group deems that a focused ESG process goes hand in hand with long-term growth and healthy profitability, as it is a prerequisite for building future-proof brands – and developing attractive products.

Sustainability activities with a focus on the entire value chain

We at Embellence Group are convinced that, through a long-term focus on sustainability with a social, environmental and economic perspective, we can promote lasting, responsible and sustainable development. The basis of our efforts is the high-quality products from our brands, which are responsibly manufactured and promote a more beautiful, more inspiring everyday life for people around the globe.

Our sustainability activities encompass the entire value chain, are integrated into both strategic and everyday activities and permeate all of our operations.

Our efforts in 2023 were in line with our ESG agenda, and the KPIs for sustainability activities related to the environment were defined. Some of the major initiatives in 2023:

- In-depth brand-specific change plans for sustainability initiatives.
- Product development projects for new products with less environmental impact, such as the rug collections that Pappelina launched with materials manufactured from bio-attributed PVCs based on tall oil.
- Updated systems for employee surveys.
- Planning for implementation of CSRD regulations.

"Embellish with Excellence" – the motto at the heart of our sustainability activities

Embellence Group's sustainability agenda – "Embellish with Excellence" – includes the Group's most important environmental, social and ethical aspects. The name captures the Group's main objective. This motto also represents our approach for continually working with a long-term perspective, and protecting and respecting the environment, society and people.

About the focus areas

The Group's climate and environmental commitment (A sustainable value chain) is focused on reducing the Group's direct and indirect negative impacts on the environment and the climate. The social sustainability theme (A sustainable organisation and stimulating workplace) is focused on protecting all employees and taking a stand on important social issues. Processes linked to ethics (Responsible and ethical business) are focused on securing the right conditions and optimal structures for governance.

EMBELLISH WITH EXCELLENCE

THREE FOCUS AREAS

A SUSTAINABLE VALUE CHAIN

– PROTECT THE CLIMATE AND THE ENVIRONMENT

Embellence Group's climate and environmental commitment is aimed at minimising the Group's direct and indirect negative impacts on the environment and the climate. The process is based on two strategic focus areas:

MORE EMBELLISHMENT WITH LESS IMPACT

Measure and reduce Scope 1, 2 and 3 GHG emissions in a reliable and continuous manner.

EFFICIENT MANAGEMENT OF MATERIALS AND RESOURCES

Switch to sustainable and renewable, and respect and use the materials, resources and energy used by the Group efficiently.

PAPPELINA: OTTO HARVEST

More embellishment with less impact

The data collection and analysis procedures were improved and streamlined in 2023. Each brand in the Group developed targets and change plans consisting of sustainability projects and initiatives to reduce their carbon footprint.

EXAMPLES OF KEY ACTIVITIES COMPLETED:

- Developed targets and change plans, and initiated change processes in each brand in the Group
- Intensified efforts in the supply chain, with a focus on sustainability and carbon footprint

FOCUS 2024

- Continue pursuing change processes in each brand and supply chain
- Evaluate consequences stemming from the CSRD

GHG emissions as defined by the Greenhouse Gas Protocol

Tonnes of CO_2e	2023	2022*	2021
Scope 1	1,153	1,169	1,333
Scope 2	211	238	174
Scope 3	9,137	11,154	
– Business travel	109	130	
– Materials	7,512	9,276	
– Transportation	1,516	1,748	
Total	10,501	12,561	1,506

Comments:
The decrease in Scope 2 is attributable to greater efficiency in electricity consumption in all brands in the Group, and to Artscape transitioning to renewable electricity and district heating during the year. The decrease in Scope 3 is attributable largely to lower production volumes and purchasing patterns, and also to increased efficiency in the use of materials.

Emissions relative to sales

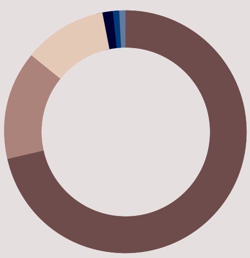
Tonnes of CO_2e/SEK million revenue	2023	2022*	2021
Scopes 1 and 2	1.8	2.0	2.3
– Year-on-year change	–10%	–13%	–46%
Scopes 1, 2 and 3	14.2	17.4	
– Year-on-year change	–18.4%	n.a.	

Comments:
We are seeing a continued decrease in Scope 1 and 2 emissions, which is an effect of reduced energy consumption and the transition to green energy in Artscape. For these same reasons, Scope 3 emissions also decreased. Volumes and purchasing patterns have also impacted the consumption of materials. In addition, both of these KPIs were positively impacted by growth in sales during 2023.

*Emissions figures for 2022 have been corrected. The main corrections are an upwards revision of emissions factors for some material components, and input data for electricity in one of the Group's divisions.

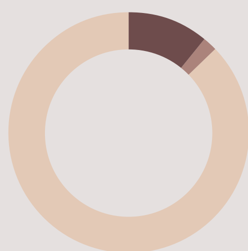
Allocation per emission source, %

- Materials 72%
- Transports 14%
- Other fuels 11%
- Electricity 1%
- Business travels 1%
- District heating 1%



Allocation between scopes, CO_2e

- Scope 1 11%
- Scope 2 2%
- Scope 3 87%

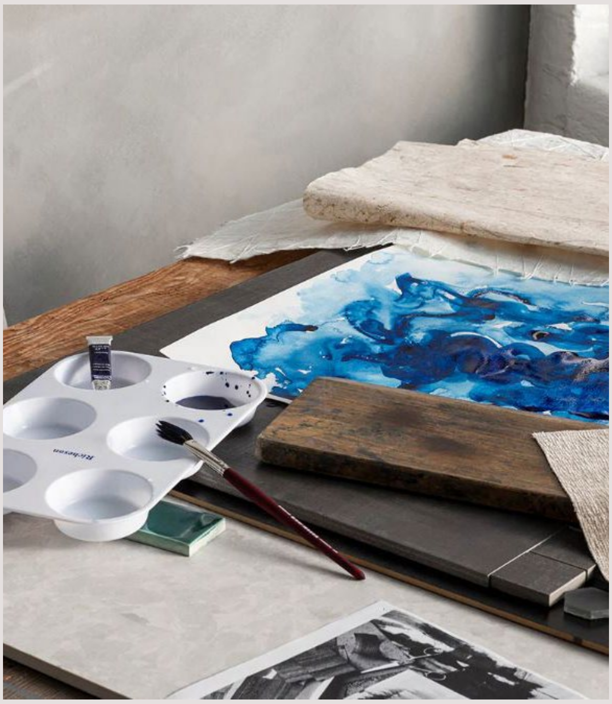


Efficient and optimal management of materials and resources

The materials and resources that are used to produce the Group's products are the largest source of the Group's GHG emissions. It is vital, therefore, to pursue a transition to sustainable and renewable, and to respect and take advantage of the materials and resources that are used. The main focus of the work involves a transition to sustainable alternatives, minimising waste, optimising waste management, increasing energy efficiency and switching to renewable energy.

TRANSITION TO SUSTAINABLE ALTERNATIVES

Involves continuously identifying, evaluating and introducing sustainable alternatives and recycled materials in products and packaging. The carbon footprint from materials is the single largest factor in the Group's total footprint. For this reason, it is a high-priority area. It is also the dimension that is the most complex and challenging since it depends on both availability and development of sustainable alternatives. It also depends on the market being receptive to new solutions and products, which often come at a somewhat higher cost. All brands in the Group have initiated processes and activities to identify and evaluate sustainable alternatives in their products and packaging. The KPI used to measure the Group's performance is CO_2e used materials/kg used materials.



Performance measures

	2023	2022*
Kg CO_2e/kg used materials	2.38	2.41

*The figures for 2022 have been revised since some material components have been ascribed a higher emission factor.

Comments:
No major changes in the form of materials transformation occurred in 2023. Pappelina is gradually increasing its share of fossil-free PVC (Biovyn) in its plastic rugs. In early 2024, Wall&decò additionally launched vinyl wallpaper based on fossil-free PVC (Biovyn), which has not yet started having an impact on the KPI.

72%

OF THE GROUP'S TOTAL GHG EMISSIONS IN 2023 ARE DERIVED FROM THE MATERIALS USED

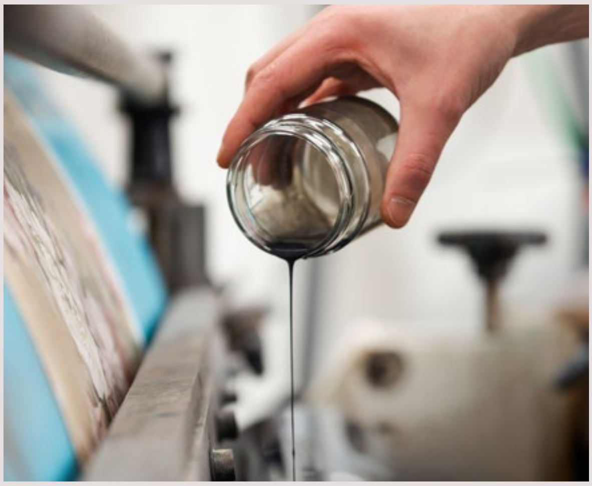
WALL&DECÒ d.ecodura™

The world's first fossil-free vinyl wallpaper

With the new d.ecodura™ collection, Wall&decò sets a new standard. D.ecodura™ is the first wallpaper where conventional fossil-based vinyl has been replaced with BIOVYN™, which is a bio-attributed PVC manufactured from wood-based feedstock from the forestry industry. Using BIOVYN™ for the surface layer promotes a 50% reduction in the carbon footprint compared with previously used wallpaper substrates. And all this without compromising on service life, attractiveness and washability.

MINIMISE WASTE AND OPTIMISE WASTE MANAGEMENT

Involves continuous efforts to minimise the waste arising from production and other parts of the business, and ensuring that any waste that does arise is recycled or managed as sustainably as possible. This applies, first and foremost, to the production facilities in Borås, Leksand and Italy. The KPI used to measure the Group's performance is Kg waste generated/kg used materials. All brands in the Group have set individual targets, with efforts under way to identify and implement waste-reduction measures and recycling. The KPI used to measure the Group's performance is kg waste generated/kg used materials.



Performance measures

	2023	2022*
Total waste generated/total kg used materials, %	20	20

*The figures for 2022 have been revised downward, since the measurement method was improved in 2023.

Comments:
No major reductions were realised during the year, but clear targets and plans have been developed in the respective divisions and a focused effort is in progress.

BORÅSTAPETER: WILD FOREST

BORÅS TAPETFABRIK

IMPROVED ENERGY EFFICIENCY AND TRANSITION TO RENEWABLE ENERGY

Involves continuous efforts to identify, evaluate and implement measures that lead to improved energy efficiency, and switching to renewable sources of energy. Energy is defined as all sources of energy in Scope 1 and Scope 2, including company cars. The KPI used for the Group's performance is CO_2e from energy consumption/total energy consumption.

98 %

OF THE GROUP'S TOTAL ELECTRICITY AND HEATING IS BASED ON FOSSIL-FREE SOURCES

Performance measures

	2023	2022	2021	2020
CO_2 emissions from energy consumption, kg/MWh*	133	171	138	250

*Energy consumption includes electricity, district heating, company cars and other fuels The KPI has been updated for 2020–2022, since energy consumption was corrected in one of the Group's brands.

Comments:
Emissions decreased in 2023 since energy efficiency has increased in all of the Group's brands. In addition, Artscape transitioned to green energy during the year. Wall&decò also transitioned to green energy starting in 2024, which is not yet reflected in the figures.

A SUSTAINABLE ORGANISATION AND STIMULATING WORKPLACE

– PROTECTS PEOPLE AND VALUES

Embellence Group's social sustainability activities focus on employee health, well-being and development. A great deal of energy is also being put into protecting and consolidating shared values. The Group's ability to identify, attract, develop and retain the right employees, with the right skills and attitude, is absolutely critical for the Group's continued success.

Satisfied employees in an open and constructive environment foster a culture that creates success through collaboration and motivation. The aim is that both companies and individuals promote and advocate inclusion, equality, diversity and openness. As planned, a tool for continual employee surveys was implemented in 2023 with the associated monitoring and activity procedures.


BORÅS TAPETFABRIK

Promote equality, diversity and openness

– TAKE A STAND AND ADVOCATE ON IMPORTANT SOCIAL ISSUES

Everyone at Embellence – regardless of sex, gender identity, ethnicity, sexual orientation, age or faith – has the right to be treated equally in recruitment and in the workplace, and there is zero tolerance for discrimination. The same approach is expected from stakeholders in the value chain, which is clarified through the Group's Code of Conduct for suppliers. Equality and diversity are self-evident goals and a clear position from the Group. The 2023 survey returned positive results in the dimension "inclusion and diversity" and is proof that the transparency, equality and diversity that is being promoted is in fact being felt among employees.

Gender distribution, 31 Dec. 2023

	2023	2022
Total	**217**	**241**
Of whom women	117	129
Of whom men	100	112
No. of senior executives	8	9
Of whom women	4	4
Of whom men	4	5
No. of Board members	5	6
Of whom women	3	3
Of whom men	2	3

Age distribution, 31 Dec. 2023

	2023	2022
Total	**217**	**241**
<30	17	22
30–50	120	134
>50	80	85
No. of senior executives	8	9
<30	0	0
30–50	6	4
>50	2	5
No. of Board members	5	6
<30	0	0
30–50	2	3
>50	3	3

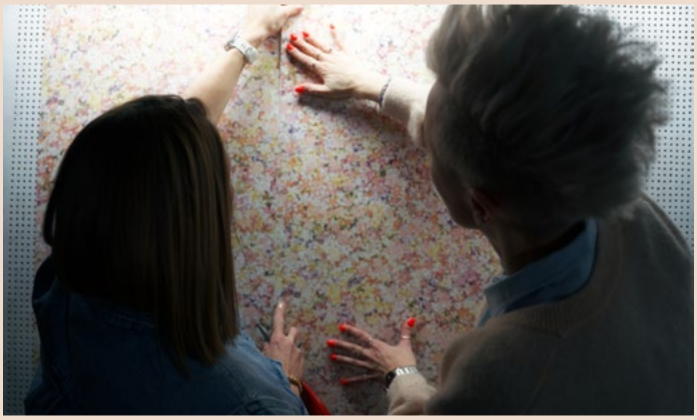
0

NO. OF DISCRIMINATION CASES REPORTED IN 2023

Take care of our employees

– ENSURE THE SAFETY, HEALTH AND DEVELOPMENT OF ALL EMPLOYEES

Employees are the Group's greatest and most valuable asset, and the ability to attract and retain the right talent is a key competitive differentiator. Creating the best possible conditions for satisfaction, well-being and development in the workplace is therefore essential. For Embellence Group, this means offering good employment terms and conditions, ensuring good health and safety, and providing opportunities for training and development.



Good employment terms and conditions

Involves ensuring that employees are satisfied and feel they have what they need in order to perform.

Health and safety

Involves proactive efforts to minimise risks that could lead to injury and ill health, and having clear processes for monitoring and action should anything occur. The number of incidents and sickness absence are key factors that are measured. All companies in the Group work in various ways to promote workplace health and safety, including training courses in ergonomics and safety, and by encouraging physical activity.

Training and development

Focus on offering good opportunities for professional development to employees. In addition to mandatory training in, for example, occupational health and safety, various opportunities for training are now offered by the companies based on position and skills profile. The goal is to continuously create better structures and professional development opportunities for the employees.

ENPS 2023

The 2023 employee survey showed good results in general, and also insightful differences among the Group's divisions and areas with potential for improvement.

Employees

Total no. of employees at 31 Dec 2022	241
Total no. of employees at 31 Dec 2023	**217**

Accidents and incidents

	2023	2022	2021
No. of fatal accidents at work	0	0	0
No. of serious non-fatal accidents at work	0	0	0
No. of accidents at work reported	1	0	3
No. of accidents at work	**1**	**0**	**3**

Comments:
The number of employees was 241 at the beginning of the year and 217 at year-end. The decrease is in part a result of the cost-savings initiative that was decided in late 2022, but also a consequence of routine efficiency improvements during the year. One workplace accident, a crushing injury at the production facility in Leksand, was reported during the year. The employee has recovered and measures have been taken to avoid similar injuries in future.

Responsible and ethical business

– ACT WITH INTEGRITY AS A COMPANY AND AS INDIVIDUALS

All activities carried out by Embellence Group shall be characterised by respect for individuals, society and the environment. This also applies to projects and initiatives that take place in collaboration with partners and suppliers. We have zero tolerance for any type of corruption, which includes all types of bribery and extortion. The theme for this process is 'Responsible and ethical business' and the aim is to lay the foundation for how we act and do business at both company and individual level. For the Group, this means having the right foundations in the form of corporate governance, policies, guidelines and other tools to ensure and promote the accountability and integrity of all employees.

Code of Conduct

The Group has a shared Code of Conduct that applies to all employees and sets out the guiding principles for ethics, anti-corruption, human rights, and social and environmental accountability. The Code of Conduct applies to all employees and training in the Code is mandatory for all employees.

Code of Conduct for suppliers

The Group's Code of Conduct for suppliers is continually implemented in the supply chain. This Code largely reflects the Group's internal Code of Conduct, since Embellence Group expects the companies that it works with to have similar aims and values in relation to sustainability. The Codes set out, for example, the requirement for a minimum wage and regulated working hours and a ban on child labour.

Policy review

In 2023, an effort began to inventory, review and update the Group's existing policies and guidelines.

WHISTLEBLOWING

Embellence Group's whistleblowing system enables employees and external parties to make anonymous reports of suspected misconduct that breaches laws or the Group's Codes of Conduct, values and policies. The system is available via Embellence Group's website, and each company's website.

	2023
No. of whistleblowing cases	0

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders in Embellence Group AB (publ), corporate identity number 556006-0625.

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2023 on pages 8, 28–39, 42–47 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Gothenburg, 15 April 2024
PricewaterhouseCoopers AB

Patrik Resebo
Authorised Public Accountant

The share

The Embellence share has been listed on Nasdaq First North Premier since 24 March 2021. The share price at the beginning of the year was SEK 19.60. At year-end, the price was SEK 24.80, corresponding to an increase of 27%.

Share performance and return

Embellence Group's share reached its highest price for the year of SEK 25.00 on 27 December 2023. The lowest price was SEK 15.75 on 9 October 2023. At year-end, the share price was SEK 24.80, an increase of 27% in 2023. This corresponds to a market capitalisation of MSEK 560.

Just over 6.7 million Embellence Group shares were traded on Nasdaq Stockholm during the year, with a value of slightly more than MSEK 76.6. The average daily turnover was just over 26,800 shares, corresponding to an average value of SEK 305,200 per day.

Share capital

Embellence Group's share capital amounted to MSEK 56.5, distributed among 22,583,877 shares, each with a quota value of SEK 2.5. All shares carry the same voting rights.

Dividend

The Board of Directors of Embellence Group proposes that no dividend be paid for 2023.

Shareholders

The number of shareholders amounted to 1,861 on 31 December 2023. The largest owner was Peter Lindell, through Cidro Förvaltning AB, who holds 15.8% of the total number of shares and votes in the company. The remaining 84.2% was owned by institutional investors and private individuals in Sweden and abroad.

Largest shareholders	Holding	Holding, %
Peter Lindell	3,575,781	15.8%
JCE Group	2,818,154	12.5%
Ramhill AB	2,271,150	10.1%
Sellers of Artscape Inc	1,183,877	5.2%
Avanza Pension	1,104,631	4.9%
Henrik Nyqvist	1,035,193	4.6%
Swedbank Robur Fonder	900,000	4.0%
FE Fonder	795,879	3.5%
Erik Åfors	795,054	3.5%
T-Konsortiet AB	792,216	3.5%
Other shareholders	7,311,942	32.4%
Total	**22,583,877**	**100.0%**

Share data	2023
Earnings per share before dilution, SEK	1.74
Earnings per share after dilution, SEK	1.74
Proposed dividend per share, SEK	0
Dividend payout ratio, %	–
Total number of shares outstanding at year-end	22,583,877

Share information	
Trading venue Nasdaq First North Premier	
Ticker	Embell
ICB code	4040
ISIN code	SE0013888831
Trading unit	1
Market capitalisation at 31 December 2023, MSEK	560

PAPPELINA: HUGO LINEN

Share performance 2023

Risks

Embellence Group is exposed to risks related to changes in market conditions, economic growth prospects and changes in customer behaviour.

All business operations are associated with risk. Risks, if well managed, may lead to opportunities and value creation, while poorly managed risks may result in damage and losses. Controlled risk-taking is crucial for favourable profitability.

Embellence Group works with risk management from a Group and operating perspective. The capacity to identify, evaluate, manage and follow up risk is an important element of the governance and control of Embellence Group's business operations. To reduce future risk, Embellence Group has also introduced processes for identifying and documenting negative deviations/improvement potential, and the business uses these in its work with continuous improvements.

Responsibility and organisation

The Board is ultimately responsible for establishing an effective system for internal control and risk management. Responsibility for maintaining an effective control environment and routine work with internal control and risk management is delegated to the CEO. Each manager within the Group is responsible for risk management in their own operations. This responsibility pertains both to routine work with operating and other relevant risks and to driving and developing risk management.

Follow-up and reporting

Embellence Group's risk management is systematically monitored by Group Management and includes regular reports. The reports describe developments in each area of responsibility including any developments with respect to identified risks. The Group's CFO regularly reports to the Board on the development of financial risks and work with internal control. The CEO regularly reports to the Board on the work with risk management and the development of the Group's risks.

The following pages describe the most important risks linked to Embellence Group's operations and business – and that could have a material negative impact on the Group's operations, strategy, profitability, cash flow, shareholder value or reputation. The risks are divided into three categories: business- and industry-specific risks, legal risks and financial risks. Financial risks are described in Note 1, and are therefore not presented in this section. Sustainability risks and risks linked to non-compliance with laws and rules, both in Embellence Group and the supply chain, are integrated into the risk categories.

SUSTAINABILITY-RELATED RISKS

An overview of the Group's sustainability-related risks is integrated into this risk section. Environmental risks are currently governed and followed up through a continuous assessment of the company's various activities, the principal components of which are production and the actual products. Indirect impact in the value chain will be more carefully monitored in the future. Employee-related risks are governed through the Group's Code of Conduct, which also specifies how resulting problems are to be managed.

BUSINESS- AND INDUSTRY-SPECIFIC RISKS

Embellence Group is exposed to risks related to changes in market conditions, economic growth prospects and changes in customer behaviour.
Demand for Embellence Group's products and services is dependent on the general business cycle in the segments and sectors targeted by Embellence Group's offering, which in turn is influenced by macroeconomic factors in the countries and regions in which Embellence Group operates, including the rate of growth in the global economy, currency fluctuations, customs duties and other global trade-restrictive measures, raw-material prices and inflation.

Demand for Embellence Group's products and services is also dependent on market conditions and drivers that may be more or less specific for Embellence Group's various business areas. For example, the prevalence of renovations and property maintenance drive demand for the company's products. These factors are in turn driven by residential sales since renovation and property maintenance frequently occur either before or after residential sales.

Furthermore, market trends such as a greater focus on interior decoration, the globalisation of fashion and an increase in the number of individuals with a substantial net wealth have increased the demand for products in the premium segment, which accounted for approximately 65% of Embellence Group's net sales in 2023.

There is a risk that changed market conditions and trends arising from, for example, altered macro and security environments, a deterioration in the business cycle, changed political priorities, new legislation, technological developments, digitalisation and changed geopolitical conditions, in particular growing protectionism, could lead to lower demand for Embellence Group's products and services, which would have an adverse impact on the Group's sales and growth.

In recent years, a number of events have occurred that have created political uncertainty, including unstable relationships between larger countries that have resulted in escalating trade restrictions and countermeasures. These types of events could have a negative impact on the Group's operations. As an example, Embellence Group cut off its sales to Russia in 2022, the Group makes no purchases from Russia and it is not dependent on materials or input materials produced in Russia.

There is also a risk that a downturn in the economic climate could influence the purchasing behaviour, production levels, investment plans and financial capability of Embellence Group's customers and lead to less favourable access to, and thereby conditions for, financing for the customers and sectors to which Embellence Group offers its products and services. A recession would also entail a risk that Embellence Group could find it difficult to maintain sufficient sales volumes to retain its profitability and find it difficult to receive payments on time.

Embellence Group is dependent on maintaining the company's reputation and the reputation of its brands
Embellence Group is dependent on its reputation and brands when it comes to attracting new customers, suppliers and business partners as well as maintaining such existing relationships. Embellence Group's reputation and brand are primarily dependent on the design and quality of its products and services. Manufacturing quality, customer service, delivery precision and lead times are also examples of factors that influence confidence among Embellence Group's customers and thus Embellence Group's reputation and brand.


ARTSCAPE: WINDSOR

Embellence Group is dependent on maintaining and establishing new relationships with customers, suppliers and business partners

Customer relationships are very important for Embellence Group and during 2023, Embellence Group's largest customer accounted for approximately 7.5% of the company's net sales. Embellence Group has both written and verbal agreements with customers, suppliers and partners. Embellence Group is dependent on its reputation and brand when it comes to attracting new customers, suppliers and business partners as well as maintaining such existing relationships. If Embellence Group loses a long-term or important customer or another customer relationship or fails to maintain its reputation, there is a risk that this could adversely impact the demand for Embellence Group's products and services.

Embellence Group is exposed to risks related to product development and other competitive factors

Embellence Group's customers have high quality requirements for the products and services supplied by the Group. Embellence Group risks losing customers and market share if the products and services delivered do not meet the customers' expectations in terms of quality, reliability, availability or function. In order to compete effectively, Embellence Group must also design and develop new products and continuously adapt and update its products and services as well as the business model in line with prevailing technical and digital conditions and trends.

Furthermore, competitors may develop new products, such as wallpapers in new innovative materials, that may be successful in competing with Embellence Group's own products. Embellence Group has also repositioned its offering to increase sales in the premium segment. If Embellence Group should fail with such a continued repositioning in the future, with its product development or with adapting to new technology and new business models, or for any other reason fail to effectively compete, this could result in a loss of market share and customers for Embellence Group.

Embellence Group is exposed to risks related to acquisitions and divestments

The company's strategy is in part based on acquiring players in the premium segment that complement the existing brand portfolio. Execution of the company's strategy exposes the company to several risks. For example, there is a risk that expected advantages of acquisitions may not be achieved or may lead to unexpected costs, or that the company may fail to find suitable acquisition targets or otherwise be prevented from completing acquisitions, for example due to competition or the company's financial position or failure by the company to integrate acquired businesses or employees.

Acquisitions also entail risks related to the integration of new operations and employees. In the event of acquisitions, it is important to retain key individuals and to provide a properly functioning and effective integration process. There is a risk of discontent arising among the employees and/or consultants in the acquired operations or among Embellence Group's employees and/or consultants, which may ultimately lead to a decision by key individuals or other employees or consultants to terminate their employment or consulting agreements. Moreover, there is a risk that acquired units may not perform as anticipated or that acquisitions may be cancelled. Following an acquisition, there is likewise a risk that business relationships with customers and suppliers could change or be discontinued, which would mean that the intended purpose of the acquisition may not necessarily be fulfilled.

Embellence Group is exposed to risks related to suppliers, distributors and other business partners

Embellence Group cooperates with a number of subcontractors within the scope of its operations and is dependent, for example, on the delivery of substrates for wallpaper manufacturing, pigments and titanium dioxide. The Group also has a network of distributors, agents and other business partners who, together with Embellence Group, sell the Group's brands in more than 90 countries. Embellence Group's distributor network and partnerships are therefore important to its production and sales. If the company had to replace a current distributor or retailer, it may be difficult for the company to find a replacement with equivalent, or satisfactory, capacity. In the event that the company intends to expand by way of new distributors or retailers, similar difficulties may arise.

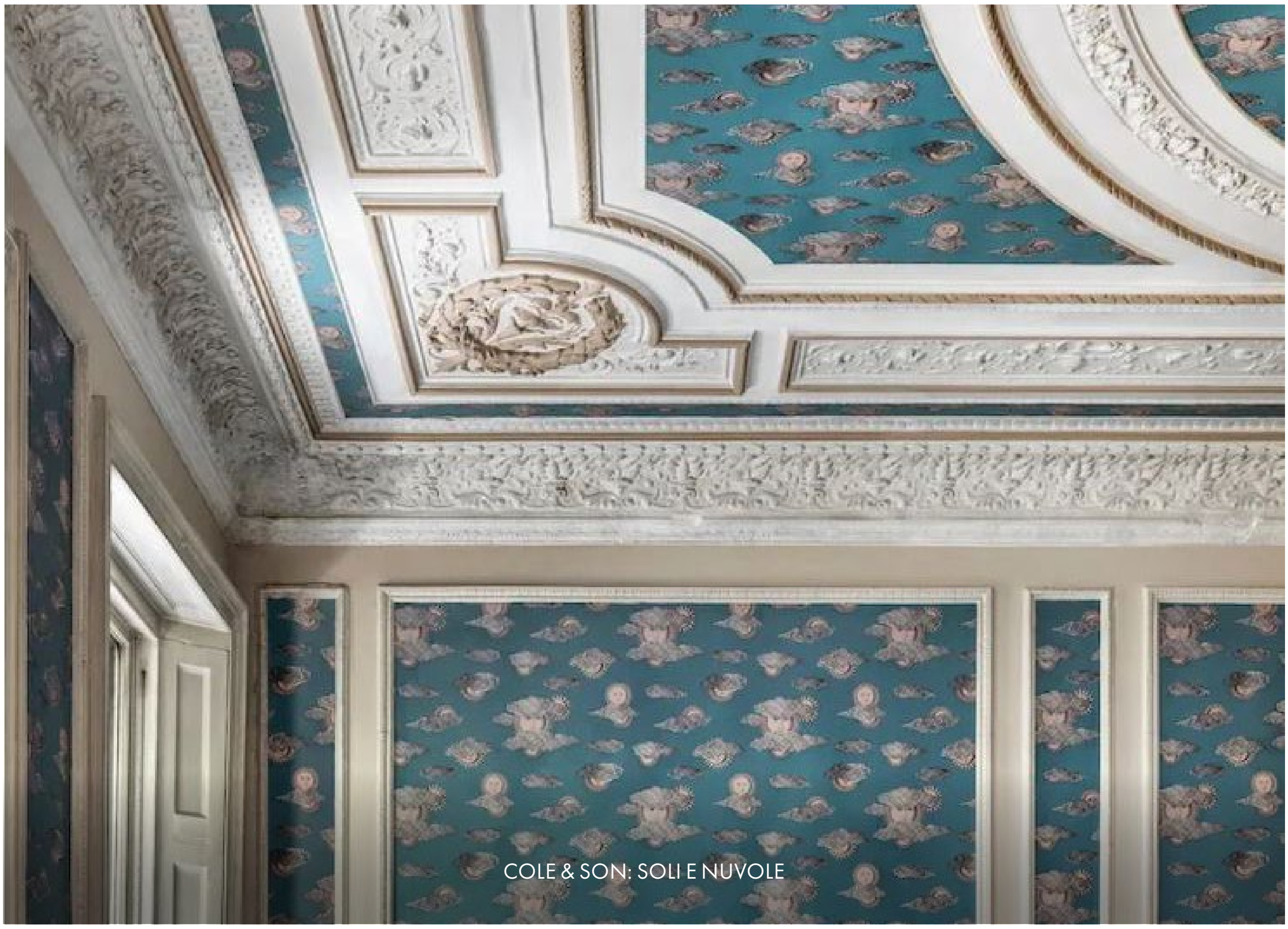
Embellence Group is dependent on subcontractors, distributors and other business partners meeting their contractual commitments with regard to quality, service and delivery times, and on these parties complying with Embellence Group's guidelines and other industry standards in terms of the environment, work environment, anti-corruption, human rights and business ethics. However, there is a risk that such players may not deliver on time or in accordance with the cost scenario or quality standards to which they have committed, or that they may not comply with the applicable guidelines and industry standards. If Embellence Group fails in its assessment and evaluation of such players and these players fail to a significant extent to maintain the quality level expected by Embellence Group or do not have properly functioning environmental and safety standards, this could have an adverse impact on Embellence Group's reputation and operations.

Embellence Group currently has at least two suppliers for almost all essential products required for its manufacturing facilities.

Embellence Group is dependent on attracting and retaining employees with key expertise

Embellence Group's employees are an important asset and key to the Group's long-term growth and success. Embellence Group is therefore dependent on attracting, developing, retaining and motivating employees with key skills in areas such as product development, manufacturing, sales and marketing, IT security, business development, strategy and project management. If Embellence Group fails to offer its employees the right support and skills development in their new roles, there is a risk that Embellence Group may experience a loss of skilled workers, dissatisfaction among employees and ultimately terminated employment, which could have an adverse effect on the Group's operations and competitiveness.

If Embellence Group fails to attract, develop, retain and motivate the qualified personnel required in the business, this could make it more difficult for the Group to deliver products and services of the quality and quantity expected by customers. There is also a risk that skilled employees could choose to leave Embellence Group for competitors or customers. If such departing employees with good insight into Embellence Group were also to convince other skilled staff to leave, this risk would be accentuated. There is a risk that this could result in a significant loss of future revenue and rising costs, which would mainly have an adverse impact on Embellence Group's operations and earnings.



Embellence Group is exposed to risks related to interruptions and disruptions at its manufacturing facilities

Embellence Group's own manufacturing operations take place at four facilities, two in Sweden, one in Italy and one in the USA. These manufacturing units comprise a chain of processes where interruptions and disruptions could impact Embellence Group's ability to meet its obligations to customers. Embellence Group's manufacturing facilities are located in Sweden, USA and Italy, which exposes Embellence Group to a series of different risks that could be more or less specific for the country or region concerned. These risks encompass extreme weather conditions and natural disasters, fire, theft, system failures, mechanical failures or equipment breakdowns and similar risks.

Embellence Group is exposed to risks related to higher purchase prices or a shortage of important raw materials

Embellence Group uses a range of different raw materials in its manufacturing operations and is therefore exposed to risks linked to prices for, and access to, the raw materials necessary for Embellence Group's production. Substrates for wallpaper manufacturing are the single most important raw material component in Embellence Group's production. Substrate purchasing encompasses a large number of varieties and quality levels, resulting in slightly differentiated pricing.

Furthermore, there is a risk that competition in the market will limit opportunities to fully compensate for cost increases by passing on price increases to customers, which would therefore have an adverse impact on Embellence Group's profit. These circumstances relating to cost increases or interruptions in the supply of key raw materials can thus increase Embellence Group's production costs and, accordingly, have an adverse impact on Embellence Group's operations and profit.

Embellence Group is exposed to IT and information handling risks

Embellence Group is dependent on properly functioning IT infrastructure in order to design, develop, produce and distribute its products and services. Accordingly, Embellence Group is exposed to risks related to interruptions and disruptions in its IT infrastructure, which may be caused by computer viruses, power cuts, human or technical error, sabotage, weather and nature-related events, or problems caused by inadequate management and maintenance. IT attacks, errors and damage to IT systems, operational disruptions, and incorrect or deficient deliveries of IT services by Embellence Group's IT suppliers could lead to extensive production stoppages that would have an adverse impact on Embellence Group's operations, in particular Embellence Group's operations relating to digital printing, and also expose the Group's design archive to risks. Such risks could mean the design archive becomes inaccessible over extended periods or is partially or entirely lost.

LEGAL RISKS

Embellence Group is exposed to risks related to intellectual property rights

Embellence Group is dependent on its ability to protect its intellectual property rights. Embellence Group owns or otherwise holds the rights to a large number of intellectual property rights, including word marks, websites, logotypes and designs, but primarily intellectual property rights pertaining to brands, including Cole & Son, Wall&decò, Boråstapeter, Artscape, Pappelina, Borås Tapetfabrik and Embellence Group. Embellence Group is also the licensee for certain designs that may entail some obligations and limitations in terms of the use of the design, which means that Embellence Group does not have the same freedom of use of designs compared with if Embellence Group had owned the design. Embellence Group works proactively to uphold the protection of its intellectual property rights, for example, by monitoring trademark registrations. The company works proactively to protect against infringement of the company's intellectual property rights, for example, by allowing external parties to monitor and follow up potential infringements. There is a risk that Embellence Group may fail to uphold adequate protection of its intellectual property rights. For example, should a player sell products of poor quality under any of Embellence Group's brands, designs or symbols, it could seriously limit Embellence Group's competitiveness and damage the Group's reputation. In recent years, Embellence Group has not been, and is not currently, subject to any material legal disputes concerning infringement of intellectual property rights. In addition, there is a risk that employees, both in Sweden and abroad, could develop intellectual property rights and that such intellectual property rights may be considered to accrue to the employee in accordance with applicable local legislation.

Embellence Group is exposed to risks related to non-compliance

Embellence Group's operations and its geographical spread expose Embellence Group to risks related to sustainability factors, such as human rights, labour conditions and corruption. Corruption-related incidents or accusations against suppliers, distributors and other business partners with which Embellence Group has a business relationship that – even if Embellence Group is not involved – lead to negative publicity, risk damaging Embellence Group's reputation.

Moreover, Embellence Group is dependent on its employees, subcontractors, distributors and other business partners complying with prevailing laws and regulations and internal governing documents and policies. Violations of, or non-compliance with, prevailing laws and regulations could have an adverse impact on Embellence Group's operations and reputation. Such action may, for example, apply to non-compliance with laws and regulations related to public procurements and competition law, money laundering, IT security and data protection (including GDPR) and corporate governance, the IFRS and other rules relating to accounting and financial reporting, the environment and work environment, business ethics and equal treatment. Given that Embellence Group's operations are international, with the various business areas assuming responsibility for operations as well as earnings and thus conducting their respective operations without using Group-wide functions in all business decisions, it is complex and time-consuming to fully follow up and check that the entire organisation complies with internal policies and codes of conduct. In addition, it may be difficult for the company to comply with mandatory regulations in all jurisdictions, which could mean that contractual provisions are invalid or unenforceable in certain jurisdictions, such as non-competition clauses in employment contracts in certain jurisdictions. In addition, the company may enter into commitments with local authorities in certain jurisdictions in order to, for example, employ certain individuals. If the company does not comply with such commitments, or locally applicable legislation, there is a risk that the company will have to pay penalty fees, which may have an adverse impact on the company's operations and financial position.

If Embellence Group's employees, suppliers, distributors or other business partners act in serious breach of current laws and internal and external policies or in a manner that does not comply with the level of business ethics and integrity undertaken by Embellence Group, this could mainly have an adverse impact on Embellence Group's reputation, operations and financial position.

Risks associated with environmental legislation and environmental responsibility

The environmental impact of Embellence Group's operations is primarily attributable to production processes through the use of materials and energy as well as management of production waste and energy recycling of used products.

Embellence Group's facilities are covered by national and regional requirements in terms of the environment, health and safety. These requirements may relate to emissions to air and water, unintentional environmental emissions, human contact with hazardous substances, treatment, transportation and management of waste and hazardous substances, surveying and corrective actions with regard to pollution, chemical handling, process safety and maintaining safe conditions at workplaces. As of 31 December 2023, the business that is conducted within Embellence Group is not of such a scope or nature that a permit requirement for environmentally hazardous operations, according to locally applicable legislation, exists for any of Embellence Group's production units. Compliance with the laws, permits and regulations applicable to the company's production units is complex and time-consuming. There is a risk that non-compliance with the requirements pertaining to the environment, health and safety could have an adverse impact on Embellence Group's reputation and operations.

Embellence Group is exposed to tax risks

Embellence Group operates through subsidiaries in three countries. The operations, including intra-Group transactions, are conducted in accordance with the Group's interpretations of current tax legislation, tax treaties and other tax regulations in the countries concerned as well as statements from the tax authorities concerned such as the Swedish Tax Agency. Embellence Group and its subsidiaries are from time to time subject to tax audits and reviews. There is a risk that tax audits or reviews could result in additional taxes being imposed or deductions being denied, for example with regard to former acquisitions of companies, reorganisations, intra-Group transactions and transactions with employees.

In the event that the Group's interpretation of tax legislation, tax treaties and other tax regulations or their applicability is incorrect, or if one or several authorities successfully make negative tax adjustments concerning a business unit within the Group, or if applicable laws, treaties, regulations or interpretations thereof or the administrative practice relating to these change, including changes with retroactive effect, the Group's past and present handling of tax issues may be questioned. If tax authorities successfully present such claims, this could lead to an increase in tax costs, including tax surcharges and interest, and have an adverse impact on the Group's operating profit.

BORÅSTAPETER: DAHLIA GARDEN BED SET

Corporate governance statement

Good corporate governance is a matter of ensuring that Embellence Group is managed as sustainably, responsibly and efficiently as possible.

The key external and internal management instruments for Embellence Group are the Swedish Companies Act, Nasdaq Stockholm's Issuer Rules, the Swedish Corporate Governance Code (the Code), the Articles of Association, the Board's rules of procedure, instructions for the Board's committees, instructions for the CEO including instructions for financial reporting and policies adopted by the Board. Embellence Group's Board is responsible for the company's organisation and the administration of the company's affairs. The CEO is responsible for ensuring that the ongoing administration of the company is conducted according to the Board's guidelines and instructions. In addition, the CEO prepares the agenda for Board meetings, in dialogue with the Chairman of the Board, and is otherwise responsible for preparing information and decision-making documentation for the Board.

For further information:

- The Swedish Companies Act, regeringen.se
- Nasdaq Stockholm, nasdaqomxnordic.com
- The Swedish Corporate Governance Code, bolagsstyrning.se
- Embellence Group's Articles of Association, embellencegroup.se

Deviation from the Code, stock exchange rules or good stock market practice

The company has deviated from the Code, since the Board is of the opinion that the company does not require separate audit and remuneration committees. Instead, the Board as a whole acts as the audit and remuneration committees.

According to the Swedish Corporate Governance Code, the company is to evaluate during the year the need for a special audit function to ensure compliance with established principles, standards and other applicable legislation relating to financial reporting. In the light of work carried out with internal control, the Board does not believe there is any need to introduce a special audit function (internal audit function).

General Meeting

According to the Swedish Companies Act, the General Meeting is the company's ultimate decision-making body and at the General Meeting, the shareholders exercise their voting rights on key issues, such as amendments to the Articles of Association, election of members of the Board of Directors and auditors as well as the appropriation of the company's profit or loss.

The Articles of Association do not contain any specific provisions regarding the appointment and dismissal of Board members or amendments to the Articles of Association.

The Annual General Meeting (AGM) must be held within six months from the end of the financial year and in addition to the AGM, Extraordinary General Meetings may be convened. According to the Articles of Association, General Meetings are convened through publication of the convening notice in the Swedish National Gazette (Sw. Post- och Inrikes Tidningar) and on the company's website. At the time of the notice convening the Meeting, information regarding the notice shall be published in Svenska Dagbladet.

Shareholders who wish to participate in a General Meeting must be included in the shareholders' register maintained by Euroclear Sweden on the day falling six banking days prior to the Meeting, and notify the company of their participation no later than on the date stipulated in the notice convening the General Meeting. Shareholders may attend General Meetings in person or by proxy and may be accompanied by a maximum of two assistants. Typically, it is possible for a shareholder to register for the General Meeting in several different ways as indicated in the notice of the Meeting. A shareholder may vote for all company shares owned or represented by the shareholder.

2023 AGM

The AGM was held on 28 April 2023. At the Meeting, decisions were adopted in accordance with the Board's proposals. These included the principles for the composition of the Nomination Committee as well as authorisation to the Board to issue new shares on one or more occasions and at the latest up until the next AGM. The AGM also resolved, in accordance with the proposal by the Board of Directors, on guidelines for remuneration to executive management and the adoption of new Articles of Association, which means that the Board has been given the opportunity to both collect powers of attorney and permit advance voting.

Extraordinary General Meeting 2023

The Extraordinary General Meeting of Embellence Group AB resolved in accordance with the principal owners' proposal to re-elect the existing Board members Karin Dennford, Anneli Kansbod, Henrik Nyqvist and Christina Ståhl and to elect Magnus Welander as a new member of the Board. The Meeting also resolved in accordance with the shareholder group's proposal to elect Magnus Welander as new Chairman of the Board.

2024 AGM

Embellence Group's 2024 AGM will be held on 8 May 2024. Each shareholder entitled to vote in Embellence Group may vote for the full number of shares the shareholder holds and represents with no limitation to the number of votes.

In addition to legal requirements regarding the rights of shareholders to participate at the General Meeting, advanced registration is required to the General Meeting within the period specified in the official notice, and where notification is also to be given where relevant if the shareholder intends to be accompanied by an assistant. Preparatory documents for AGMs and minutes from AGMs are available on the website.

Nomination Committee

Companies applying the Code are to have a Nomination Committee. According to the Swedish Corporate Governance Code, the General Meeting shall appoint the members of the Nomination Committee or resolve on procedures for appointing the members.

The Nomination Committee shall, pursuant to the Swedish Corporate Governance Code, consist of at least three members, a majority of whom shall be independent in relation to the company and Group Management. In addition, at least one member of the Nomination Committee shall be independent in relation to the largest shareholder in terms of voting rights or group of shareholders that cooperates in terms of the company's management.

At the AGM held on 28 April 2023, it was resolved that the following principles shall govern the composition of the Nomination Committee:

The company shall have a Nomination Committee composed of representatives of the three largest shareholders or shareholder groups as well as the Chairman of the Board. The Nomination Committee shall be constituted based on the shareholders' register maintained by Euroclear Sweden as of 30 September every year and other reliable shareholder information that has been provided to the company and the Chairman of the Board, who will also convene the first meeting of the Nomination Committee. The member representing the largest shareholder shall be appointed Chairman of the Nomination Committee, unless the Nomination Committee unanimously appoints someone else. If earlier than three months prior to the Annual General Meeting, one or more of the shareholders having appointed representatives to the Nomination Committee are no longer among the three largest shareholders, the representatives appointed by these shareholders shall resign and the shareholders who are then among the three largest shareholders may appoint their representatives. Should a member resign from the Nomination Committee before its work is completed and the Nomination Committee considers it necessary to replace him or her, such substitute member is to represent the same shareholder, or, if the shareholder is no longer one of the largest shareholders, the largest shareholder in turn. Shareholders who have appointed a representative to be a member of the Nomination Committee shall have the right to dismiss such a member and appoint a new representative as a member of the Nomination Committee. Changes to the composition of the Nomination Committee must be announced immediately.

The composition of the Nomination Committee ahead of the Annual General Meeting shall normally be announced no later than six months before that Meeting. Remuneration shall not be paid to the members of the Nomination Committee. The Company is to pay any necessary expenses that the Nomination Committee may incur in its work. The term of office for the Nomination Committee ends when the composition of the following Nomination Committee has been announced.

Nomination Committee ahead of the 2024 AGM

The composition of the Nomination Committee was announced on 4 October 2023. Ahead of the 2024 AGM, the Nomination Committee comprises the following members:

- Peter Lindell, representing Acervo
- Magnus Wärn, appointed by an owner group comprising Calyptra AB, Sundling Wärn Capital AB, AB Sergius, AB Sergius Capital and Ramhill AB
- Johan Martinsson, representing JCE Asset Management AB

The Nomination Committee has held eight meetings ahead of the 2024 AGM (six working meetings and two formal meetings), in addition to having several informal contacts. The Nomination Committee's proposal to the 2024 AGM is available on the Group's website, www.embellencegroup.se.

During the preparation of its proposal to the Board, the Nomination Committee has applied Rule 4.1 of the Code as its diversity policy whereby the Nomination Committee has taken into account the fact that the Board, with regard to the company's operations, development stage and other conditions, is to have an appropriate composition distinguished by diversity and breadth in respect of the competence, experience and background of the elected Board members.

Board of Directors

The Board of Directors is the second-highest decision-making body of the company after the General Meeting and is responsible for the company's organisation and management of the company's affairs, which means that the Board's responsibilities include setting targets and strategies, establishing procedures and systems for the evaluation of set targets, continuously assessing the company's financial position and profit as well as evaluating the operating management. The Board is also responsible for ensuring that correct information is provided to the company's shareholders, that the company complies with laws and regulations and that the company prepares and implements internal policies and ethical guidelines. The Board of Directors is also responsible for ensuring that annual reports and interim reports are prepared in a timely manner. Moreover, the Board of Directors appoints the CEO. The members of the Board are appointed by the AGM for the period until the end of the next AGM. According to the company's Articles of Association, the Board shall comprise not less than three and not more than ten members.

According to the Code, the Chairman of the Board is to be elected by the AGM. The Chairman of the Board is tasked with leading the work of the Board and ensuring the Board's work is conducted efficiently and that the Board fulfils its duties. The Board follows written rules of procedure which are reviewed annually and adopted by the statutory Board meeting. The rules of procedure regulate the Board's working methods and duties, decision-making procedures in the company, the agenda of Board meetings, the Chairman's duties as well as the distribution of work between the Board and the CEO. Instructions for financial reporting and instructions for the CEO are also established at the statutory Board meeting. The work of the Board is also conducted based on an annual presentation plan, which satisfies the Board's need for information. The Chairman of the Board and CEO maintain a regular dialogue about the management of the company in addition to Board meetings.

The Board of Directors meets according to a predetermined annual schedule and at least five ordinary Board meetings are to be held between each AGM, in addition to the statutory Board meeting. Informal contact also takes place between the Board members. 13 Board meetings were held in 2023.

Board committees

The Board has resolved to carry out the tasks of the Remuneration Committee and Audit Committee. This entails that the Board in its entirety shall, inter alia, monitor the company's financial reporting, monitor the efficiency of the company's internal controls, internal audits, and risk management, keep itself informed regarding the audit of the annual report and consolidated financial statements, review and monitor the impartiality and independence of the auditor and, in conjunction therewith, pay special attention to whether the auditor provides the company with services other than auditing services, and prepare a proposal for the General Meeting's resolution regarding the election of the auditor. Furthermore, the Board shall resolve on remuneration and other employment terms for the CEO and executive management.

Evaluation of the Board

The evaluation of the Board is included in the work of the Nomination Committee. Once per year, the Board carries out an evaluation of its work, including annual planning.

Fees to the Board of Directors

The 2023 AGM resolved that fees to the Board should be paid in an amount totalling SEK 1,750,000, of which SEK 500,000 to the Chairman of the Board and SEK 250,000 to each Board member not employed by the company.

CEO and other executive management

The CEO is subordinated to the Board of Directors and is responsible for the company's everyday management and the company's operations. The division of work between the Board of Directors and the CEO is set out in the rules of procedure for the Board of Directors and the CEO's instructions. Embellence Group's Group Management comprises two individuals, CEO Olle Svensk and the company's CFO, Karin Lidén.

Remuneration of executive management

For information about remuneration of executive management, refer to Note 4.

Incentive programmes

The company has three incentive programmes consisting of warrants. Two of the programmes are for the members of executive management and other key employees in the Group ("LTIP 2020" and "LTIP 2022") and the other programme is for certain Board members in the company ("Board Programme 2020"). LTIP 2020, LTIP 2022 and Board Programme 2020 are described below.

LTIP 2020

At the Extraordinary General Meeting on 31 July 2020, it was resolved to introduce a warrant-based incentive programme for the members of executive management in the Group. According to the terms of the programme, a maximum of 1,600,000 warrants could be subscribed for free of charge by the company which could transfer these to members of executive management in the Group who entered into pre-emption agreements with the company during the period from 31 July 2020 up to and including 31 August 2020. In total, the company subscribed for and transferred 969,584 warrants to the participants. The transfer to the participants took place at a price corresponding to the market value of the warrants. Each warrant entitles the holder to subscribe for one new share in the company during the period from 1 August 2024 up to and including 31 October 2024 at a subscription price of SEK 29.20 per share. Upon exercise of all warrants in LTIP 2020, a dilution effect of approximately 4.3% of the total number of shares and votes in the company would occur, although with reservation for a possible recalculation in accordance with the warrant terms.

LTIP 2022

The 2022 AGM resolved, in accordance with the Board's proposals, to adopt a long-term incentive programme for certain members of executive management and consultants, a total of eight individuals. The incentive programme includes the issue of a maximum of 176,000 warrants with the right to subscribe for 176,000 new shares in the company. In total, the company subscribed for and transferred 45,500 warrants to the participants. The transfer to the participants took place at a price corresponding to the market value of the warrants. Each warrant entitles the holder to subscribe for one new share in the company during the period from 1 June 2025 up to and including 30 June 2025 at a subscription price of SEK 39.85 per share. Upon exercise of all warrants in LTIP 2022, a dilution effect of approximately 0.2% of the total number of shares and votes in the company would occur, although with reservation for a possible recalculation in accordance with the warrant terms.

Board Programme 2020

At the Extraordinary General Meeting on 31 July 2020, it was resolved to introduce a warrant-based incentive programme for certain Board members in the company. According to the terms of the programme, a maximum of 400,000 warrants could be subscribed for free of charge by the company which could transfer these to Board members in the company who entered into pre-emption agreements with the company during the period from 31 July 2020 up to and including 31 August 2020. In total, the company subscribed for and transferred 229,201 warrants to the participants. The transfer to the participants took place at a price corresponding to the market value of the warrants. Each warrant entitles the holder to subscribe for one new share in the company during the period from 1 August 2024 up to and including 31 October 2024 at a subscription price of SEK 29.20 per share. Upon exercise of all warrants in Board Programme 2020, a dilution effect of approximately 1.1% of the total number of shares and votes in the company would occur, although with reservation for a possible recalculation in accordance with the warrant terms.

Internal control and risk management

Under the Swedish Companies Act, the Board is responsible for the company's organisation and management of the company's affairs and must regularly assess the company's and the Group's financial position and ensure that the company's organisation is designed so that the accounting, management of assets and the company's other financial circumstances are controlled in an adequate manner. The overarching aim of the internal control is to enable the execution of the company's strategies and targets and to ensure the financial statements are prepared in accordance with the law, applicable accounting standards and other requirements on listed companies. The responsibilities of the Board for the internal control are regulated in the Swedish Companies Act, Swedish Annual Accounts Act and the Code. The division of roles and responsibilities to enable effective governance of the company's risks is stipulated in the Board's rules of procedure, the instructions for the CEO and the instructions for financial reporting, which have all been adopted by the Board. The Board is also responsible for monitoring the company's financial position, monitoring the efficiency of the company's internal control and risk management, keeping itself informed regarding the audit of the annual report and consolidated financial statements, and reviewing and monitoring the impartiality and independence of the auditor.

Control environment

The Board is ultimately responsible for the internal control of financial reporting. In order to create and maintain a functioning control environment, the Board has adopted a number of policies and governing documents that regulate, for example, financial reporting and IT security. These mainly comprise the Board's rules of procedure, the instructions for the CEO, the instructions for committees set up by the Board and the instructions for financial reporting.

Responsibility for the day-to-day work of maintaining the control environment lies primarily with the company's CEO, who regularly reports to the Board in accordance with established instructions. The CEO is to regularly and as required keep the Board informed of the

status and development of the Group's business, income, earnings, financial position, cash flow and credit position. Furthermore, the CEO is to inform the Board of every business transaction that is material importance for the Group and every event or circumstance that, from the Board's perspective, is not immaterial for the Group. In addition to internal follow-up and reporting, the company's external auditors report to the CEO and Board during the financial year. Reports from the auditors provide the Board with a good understanding and reliable supporting data regarding the financial statements in the annual report.

Risk assessment and control activities

Risk assessment includes identifying and evaluating the risk of material errors in the company's business processes, which include accounting and reporting at the Group and subsidiary levels. Risk assessments are carried out on an ongoing basis and according to established guidelines focusing on the company's material business processes. The Board as a whole is responsible for regularly assessing the company's risk situation. Control activities aim to identify and limit risk. The Board is responsible for the internal control and follow-up of executive management. This work is conducted through internal and external control activities and by reviewing and monitoring the company's policies and governing documents.

Information and communication

The company has information and communication channels in place that aim to support the accuracy of financial reporting and enable reporting and feedback from the operations to the Board and management. These channels include making governing documents, in the form of internal policies, guidelines and instructions for financial reporting, available and known to the employees concerned. Financial reporting mainly takes place in a Group-wide system with predefined reporting templates. The company's financial reporting complies with laws and regulations applicable in Sweden and the local rules in each country where business is conducted. The company's information to shareholders and other stakeholders is provided in annual reports, interim reports and press releases.

Follow-up

The CEO ensures the Board receives regular reports on the performance of the company's operations, including the company's earnings and financial position, as well as information about important events, such as the development of individual projects. Generally, the CEO also reports on these topics at each Board meeting. The Board reviews the annual report and interim reports and conducts financial evaluations in line with an established plan. The Board monitors financial reporting and other related issues and regularly discusses these issues with the external auditors.

Audit

As a publicly traded company, the company is obligated to have at least one auditor to audit the annual report and accounting of the company and the Group as well as the administration of the CEO. The audit is to be as detailed and comprehensive as required by generally accepted auditing standards. The company's auditor is elected by the General Meeting and in accordance with the rules of the Swedish Companies Act. Accordingly, an auditor of a Swedish limited company has a mandate from and reports to the General Meeting and must not allow their work to be guided by the Board or any member of executive management. The auditor's reporting to the General Meeting takes place at the AGM through the auditor's report. According to the company's Articles of Association, the company is to have one or two auditors and no more than one deputy auditor. A registered public accounting firm may also be appointed as auditor. PricewaterhouseCoopers AB has been the company's auditor since 2010, and was re-elected at the 2023 AGM for period until the close of the 2024 AGM.

Fees to the auditors are to be paid according to approved invoice. Fees to PricewaterhouseCoopers AB totalled KSEK 1,745 for the 2023 financial year and related to the audit engagement for the company, tax advice and other services. For further information, refer to Note 6.

Stock market information and insider trading rules

As a listed company, all players in the stock market must be given access to insider information about the company at the same time and insider trading rules exist to prevent market abuse.

The Board has adopted a communication policy and insider policy with the aim of ensuring that the company provides accurate and good-quality information and management of insider information both internally and externally. The Chairman of the Board addresses overall ownership-related issues, while the CEO has overall responsibility for the company's external communication. Policies and guidelines for information disclosure and insider trading rules as well as updates and changes are made available and known to the personnel concerned, and executive management reviews the regulations with the employees. The company's rules and regulations are drawn up in accordance with Swedish legislation, First North Premier's regulations and the Code as well as the EU Market Abuse Regulation (MAR). All financial statements and press releases announced after the listing will be published on the company's website (www.embellencegroup.com) immediately after the announcement.

Board of Directors

Magnus Welander
Chairman of the Board

Born: 1966.
Chairman of the Board since December 2023.

Education:
Master of Science in Industrial Economics from the Institute of Technology at Linköping University.

Other current assignments:
Chairman of the Board of Directors of Mips AB and Eleiko Group AB. Board member of Herenco Group AB, Herenco Holding AB and HESTRA-Handsken AB.

Previous assignments (last five years):
CEO of Thule Group AB.

Holdings in the company:
210,306 shares on 31 December 2023.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
1/13 meetings

Karin Dennford
Board member

Born: 1976.
Board member since 2022.

Education:
Master of Science in Finance from School of Business, Economics and Law, Göteborg University.

Other current assignments:
Chief Investment Officer for Chalmers University of Technology Foundation.

Previous assignments (last five years):
Investment Director, JCE. Board member of Consafe Capital Advisors AB, OctoFrost Intressenter AB and OctoFrost AB.

Holdings in the company:
0 shares on 31 December 2023.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Anneli Kansbod
Board member

Born: 1973.
Board member since 2022.

Education:
Master of Science in Business and Economics from Uppsala University.

Other current assignments:
CEO of Bemz AB. Chairman of the Board of Egid AB.

Previous assignments (last five years):
Chairman of the Board of Directors of Kokillen AB, board member of Svensk Digital Handel.

Holdings in the company:
0 shares on 31 December 2023.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Henrik Nyqvist
Board member

Born: 1966.
Board member since 2010.

Education:
Studies in business administration and law.

Other current assignments:
Board member and CEO of NQ Fastigheter AB. Chairman of the Board of Directors of Fastadsystem Stål i Borås AB, Fasadsystem Stål Holding AB, Fasadsystem Fastighet i Borås AB, Salong Karma AB. Board member of NQ Förvaltning AB, Fastighets AB Pantängen 17, Fessus Förvaltning AB, Kavallen Fastigheter AB, Ramnås Fastigheter AB, T-Konsortiet AB, Inkinvest AB, NQ Fristad AB and NQ Trading AB.

Holdings in the company:
1,035,193 shares on 31 December 2023.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Christina Ståhl
Board member

Born: 1970.
Board member since 2020.

Education:
Master of Science in Business Administration and Economics from Lund University.

Other current assignments:
CEO of Blomsterlandet i Sverige AB, S-Invest Trading AB.

Previous assignments (last five years):
CEO of Bagaren och Kocken AB.
Board member of Outnorth AB.

Holdings in the company:
6,000 shares and 76,196 warrants on 31 December 2023.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Executive management

Olle Svensk
CEO

Born: 1968. CEO since 2016.

Education:
Studies in management, law and finance.

Other current assignments:
Borås Tapetfabrik AB (Chairman of the Board)
Wall&decò SRL (Chairman of the Board)
Boråstapeter AB (Chairman of the Board)
Fastighetsbolaget Borosan AB (Chairman of the Board)
Pappelina AB (Chairman of the Board)
Director Cole & Son (Wallpapers) Ltd

Previous assignments (last five years):
CEO of WA WallVision AB.

Holdings in the company:
22,335 shares and 633,756 warrants in LTIP 2020 in the company.

Karin Lidén
CFO

Born: 1975.
CFO since 2022.

Education:
Business Administration from the Stockholm School of Economics.

Other current assignments:
Fastighetsbolaget Borosan AB (CEO/Board member)
Borås Tapetfabrik AB (Board member)
Boråstapeter AB (Board member)
Boråstapeter AB (Board member)
Pappelina AB (Board member)

Previous assignments (last five years):
CFO for Powercell Sweden AB, several senior positions within Mölnlycke Healthcare.

Holdings in the company:
3,000

Management

Zurab Akhriev
Managing Director – Artscape Inc
Within Embellence since 2022

Past experience:
Artscape

Lars-Erik Henriksson
Managing Director – Boråstapeter
Within Embellence since 2020

Past experience:
Electrolux

Marie Karlsson
Managing Director – Cole & Son
Within Embellence since 2012

Past experience:
Lamina, Antenna Gallery

Paulina Lundström
Managing Director – Pappelina
Within Embellence since February 2024

Past experience:
Centiro, Jotex (Ellos Group), Bolon and Kinnarps Group

Lotta Samuelson
Managing Director – Borås Tapetfabrik
Within Embellence since 2021

Past experience:
Boxon Systems, Lexit Group Sweden

Robert Smolander
Head of Group Change Management & Sustainability
Within Embellence since 2021

Past experience:
Management consultant Arthur D. Little

Auditor's report on the Corporate Governance Statement

To the general meeting of the shareholders in Embellence Group AB (publ), corporate identity number 556006-0625.

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2023 on pages 48–55 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinion

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg, 15 April 2024
PricewaterhouseCoopers AB

Patrik Resebo
Authorised Public Accountant

Directors' Report

The Board of Directors and CEO of Embellence Group AB (publ), corporate identity number 556006-0625, hereby submit the annual report and consolidated financial statements for the period 1 January–31 December 2023.

About the business

Embellence Group (publ) acquires, owns and develops strong brands in wallpaper, textiles, rugs and other interior decoration. The Group has its registered office in Borås, Sweden.

Embellence Group had seven subsidiaries as of 31 December 2023: Boråstapeter AB, Borås Tapetfabrik AB, Fastighetsbolaget Borosan AB, Cole & Son Ltd, Wall&decò Srl, Pappelina AB and Artscape Inc. Rug and wallpaper manufacturing mainly takes place in Borås and Leksand in Sweden and in Cervia, Italy. Window film manufacturing takes place in Portland, Oregon in the US. Wallpapers and textiles are also purchased from external manufacturers in Europe.

Sales and earnings

During the year, net sales amounted to MSEK 740.5 (720.1), corresponding to an increase of 2.8%. Organic growth amounted to –2.0%, acquisition-related income accounted for 2.2% and positive exchange rate effects had an impact of 2.6%. Adjusted EBITA amounted to MSEK 95.1 (102.6), due primarily to a weak first half-year that impacted profitability. Net profit for the year amounted to MSEK 39.3 (57.4), resulting in earnings per share before dilution of SEK 1.74 (2.57).

Cash flow

Cash flow from operating activities was MSEK 64.5 (107.9). Operating cash flow was adversely impacted mainly by the negative development of working capital of MSEK –16.5 (–24.4).

Cash flow from investing activities for the year amounted to MSEK –16.2 (–156.3). Cash flow from financing activities was MSEK –77.9 (–54.2). Cash flow for the year was MSEK –29.5 (5.8).

Financial position

The company's total assets amounted to MSEK 801.8 (853.2) at the end of the year. The equity ratio was 51.7% (46.8), and cash and cash equivalents at the end of the year amounted to MSEK 37.9 (66.2). At year-end, net debt amounted to MSEK 204.4 (233.7). Net debt/EBITDA was 1.7 times at the end of the year. (2.1).

Overview of earnings and financial position for Embellence Group

	2023	2022	2021
Net sales (MSEK)	740.5	720.1	646.9
EBITA (MSEK)	92.0	88.5	88.3
Adjusted EBITA (MSEK)	95.1	102.6	99.9
Adjusted operating margin (%)*	12.8	14.3	15.4
Operating profit (MSEK)	69.9	71.0	80.3
Employees at year-end	228	247	236
Equity ratio (%)**	51.7	46.8	47.1
Total assets (MSEK)	801.8	853.2	623.5

*Adjusted operating profit (EBITA) in relation to net sales.
**Equity divided by total assets.

Significant events during the year

A challenging year with gradual improvements

In 2023, sales amounted to MSEK 740.5, corresponding to growth of 2.8%. Acquisition-related income and exchange rate effects made a positive contribution of 4.8% during the year, while organic growth was –2.0%. The cause of the sales performance is above all declining demand in the US and the Nordics, but with a glimpse of improved performance in the second half-year, primarily in the Nordics. Europe continues to perform positively, chiefly in the larger markets. The adjusted operating margin was 12.8%.

New Chairman of the Board

An Extraordinary General Meeting on 8 December 2023 resolved in accordance with the principal owners' proposal to re-elect the existing Board members Karin Dennford, Anneli Kansbod, Henrik Nyqvist and Christina Ståhl and to elect Magnus Welander as a new member of the Board. The Meeting also resolved in accordance with the shareholder group's proposal to elect Magnus Welander as new Chairman of the Board.

Continued efforts in accordance with previously adopted cost-savings programme in the Nordics

In order to address the prevailing economic situation, including generally higher costs and weaker demand, efforts continued during the year under the cost-savings programme that was initiated in 2022. Initiatives included reducing the number of items, assuring the quality of items in stock and a general reduction of wallpaper in stock.

Outlook

2024 will also likely be affected by the prevailing economic cycle and the turbulent global situation. How this will impact demand on interior decoration remains to be seen. In recent years, Embellence Group has actively developed its offering in the premium segment, which has higher growth and is more resilient in times of economic turbulence. The fact that, at present, the company is operating in various geographical markets and in different market and customer segments enables a healthy risk diversification and means we can improve our resilience to temporary downturns in certain specific niches or geographies.

Risks and uncertainties

The underlying wallpaper market is considered relatively stable. The Group has a strong market position in the Nordic market.

Nevertheless, the company is exposed to risks related to the business and the sector in which the company operates, including but in no particular order, risks related to: changes in market conditions, economic growth prospects and changes in customer behaviour, trends and the company's designs and styles, the reputation of the company and its brands, the ability to uphold and establish new relationships with customers, suppliers and business partners, product development and other competitive factors, corporate acquisitions and divestments, suppliers, distributors and other business partners, the ability to attract and retain employees with key expertise, interruptions and disruptions in its manufacturing facilities, higher purchase prices or a shortage of important raw materials, as well as IT and information handling.

The company is also exposed to legal risks, including but in no particular order, risks related to: intellectual property rights, non-compliance, legal and administrative proceedings, environmental legislation and environmental responsibility, as well as tax risk.

The operations are exposed to interest rate risk and financing risk, which are described in more detail in Note 1 of the annual report. Additionally, the company is exposed to certain credit, currency and liquidity risks. Financial transactions within the Group only take place to support operating activities and no transactions are conducted for speculative purposes. The Group has a financial policy that regulates the management of cash and cash equivalents and short-term investments. Excess liquidity may only be invested in fixed-income securities and in a manner that allows the funds to be freed up without difficulty in the short term.

The company has an overdraft facility of MSEK 175.0, of which MSEK 90.5 had been utilised on the reporting date. The company meets all of its undertakings in accordance with applicable covenants with the bank.

More information about the Group's interest-bearing liabilities is presented in Note 20, Note 24 and Note 25.

The Group does not use any hedging instruments as its net exposure to foreign currencies is limited. For further information about the Group's financial risk, refer to Note 1.

Sustainability report

In accordance with Chapter 6, Section 11 of the Swedish Annual Accounts Act, the company has chosen to prepare a sustainability report separate from the annual report. The sustainability report is included in this document on pages 8, 28–39 and 42–47.

Environmental impact

The Swedish part of the Group conducts operations that are subject to a notification requirement under the Environmental Code. The notification requirement applies to a plant that handles less than ten tonnes of organic solvents annually. This production represents almost all of the Swedish company's net sales. The Group's environmental policy stipulates that production must take place with the least possible impact taking into account the prevailing commercial conditions. This also applies to products and their final use.

Employees

At the end of the financial year, the Group had 217 employees, of whom 53.9% were women. Employee turnover is generally low in the Group, which means that the knowledge and experience of employees can be fully utilised. Furthermore, there are clear action plans for employee well-being, including policies for gender equality, drug use, bribery, victimisation and discrimination.

Work of the Board during the year

Embellence Group's Board comprises six members. During 2023, the Board held 13 minuted meetings. The Board is responsible for the company's organisation and administration of the company's affairs by establishing Group targets and strategies, ensuring procedures and systems are in place to follow up the established targets, continuously assessing the Group's financial situation and evaluating the operating management. As a general rule, the Board addresses issues that are of material importance to the Group.

In addition to the issues the Board is obliged to address according to the Board's rules of procedure, key topics during the year included issues related to the macroeconomic situation and its impact on the company's various operations. A specific description of the Board's work is presented in the Corporate Governance Statement.

Remuneration of executive management

According to the Swedish Companies Act, the AGM is to resolve on guidelines for remuneration and other employment terms for executive management. The guidelines are presented in Note 4. Executive management refers to Embellence Group's Group Management. The Board will present a proposal for decision at the 2024 AGM regarding this remuneration, including a proposal that remuneration should be on market terms and competitive. The full proposal will be published in conjunction with the notice of the AGM.

Shares and ownership structure
More information about the share and ownership structure is provided on pages 40–41.

Parent Company
Embellence Group AB (publ) is the Parent Company of the Group. The Parent Company's net sales amounted to MSEK 13.2 (13.4) and net profit for the year after tax amounted to MSEK 142.7 (7.0). Net profit for the year was impacted by dividends of MSEK 129.0 received from participations in subsidiaries. Dividends from subsidiaries are and will continue to be a significant source of revenue for the Parent Company.

Embellence Group AB has five employees, two of whom form Group Management.

Dividend policy and proposed dividend
Embellence Group's goal is to pay dividends of 30 to 50% of the profit for the period. When deciding on dividends, the company's financial position, cash flow and future prospects must be taken into account. Ahead of the 2024 AGM, the Board of Directors proposes that no dividend be paid for the 2023 financial year.

Proposed distribution of profit
Funds at the disposal of the AGM according to the Parent Company balance sheet (KSEK):

Share premium reserve	101,878
Retained earnings	18,334
Net profit for the year	142,675
Total	**262,887**

The Board of Directors proposes no dividend for 2023. The entire amount will be carried forward.

For more information on the Group's and the Parent Company's earnings and financial position, see the following income statement, balance sheet and accompanying notes.


COLE & SON: SELECTION OF HUMMINGBIRDS

Consolidated income statement

AMOUNTS IN KSEK	Note	2023	2022
Net sales	2	**740,472**	**720,100**
Cost of goods sold	8	–307,937	–296,865
Gross profit		**432,535**	**423,235**
Selling expenses	8	–265,205	–245,263
Administrative expenses	8	–99,030	–109,755
Other operating income	7	5,153	7,209
Other operating expenses	7	–3,507	–4,426
Operating profit	3–8	**69,946**	**71,000**
Financial income	9	14,266	19,308
Financial expenses	9	–32,411	–19,942
Profit before tax		**51,801**	**70,366**
Tax	11	–12,513	–12,962
Net profit for the year		**39,287**	**57,404**
Other comprehensive income			
Actuarial gains and losses after tax		–120	625
Translation differences		–4,983	26,893
Total other comprehensive income		**–5,103**	**27,518**
Comprehensive income for the year		**34,184**	**84,922**
Earnings per share before dilution	32	**SEK**	**SEK**
Calculated on net profit for the year		1.74	2.57
Earnings per share after dilution	32	**SEK**	**SEK**
Calculated on net profit for the year		1.74	2.57

Consolidated balance sheet

AMOUNTS IN KSEK	Note	**31 Dec 2023**	31 Dec 2022
ASSETS			
Intangible non-current assets	12	358,490	381,836
Tangible non-current assets	13	74,542	72,455
Right-of-use assets	14	54,765	67,557
Deferred tax assets	15	4,917	1,868
Financial non-current assets	24	3,244	2,662
Total non-current assets		**495,958**	**526,378**
Inventories	17	136,370	129,526
Accounts receivable – trade	18, 24	93,416	98,922
Current tax assets		11,821	6,428
Other receivables		4,581	7,480
Prepaid expenses and accrued income	19	21,723	18,217
Cash and cash equivalents	24	37,895	66,228
Total current assets		**305,806**	**326,801**
Total assets		**801,765**	**853,179**
EQUITY AND LIABILITIES			
Share capital		56,460	56,460
Other contributed capital		84,378	84,677
Reserves		24,441	29,544
Retained earnings, including net profit for the year		249,598	228,378
Equity attributable to Parent Company shareholders		**414,877**	**399,059**
Provisions for pensions	21	6,556	5,932
Deferred tax liabilities	22	16,601	15,336
Lease liabilities	14, 24, 25	42,806	53,309
Liabilities to credit institutions	24, 25	57,389	74,779
Other interest-bearing liabilities	24, 25	–	22,171
Total non-current liabilities		**123,352**	**171,527**
Lease liabilities	14, 24, 25	15,115	16,946
Bank overdraft facility	20, 24, 25	90,541	117,928
Liabilities to credit institutions	24, 25	14,996	14,758
Other interest-bearing liabilities	24, 25	21,402	–
Accounts payable	24	53,315	48,925
Current tax liabilities		9,286	7,071
Other current liabilities		10,559	20,662
Accrued expenses and deferred income	26	47,881	55,526
Provisions for warranties	27	441	777
Total current liabilities		**263,536**	**282,593**
Total equity and liabilities		**801,765**	**853,179**

Consolidated equity

AMOUNTS IN KSEK	SHARE CAPITAL	OTHER CONTRIBUTED CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL EQUITY
Opening equity 1 Jan 2022	**53,500**	**48,803**	**2,026**	**189,041**	**293,370**
Net profit for the year	**–**	**–**	**–**	**57,404**	**57,404**
Other comprehensive income	–	–	27,518	–	27,518
Total comprehensive income	**–**	**–**	**27,518**	**57,404**	**84,922**
Transactions with shareholders in their capacity as owners:					
Issue in kind	2,960	35,575	–	–	38,535
Option premiums received	–	299	–	–	299
Dividend	–	–	–	–18,067	–18,067
	2,960	35,874	–	–18,067	20,767
Closing equity 31 Dec 2022	**56,460**	**84,677**	**29,544**	**228,378**	**399,059**
Opening equity 1 Jan 2023	**56,460**	**84,677**	**29,544**	**228,378**	**399,059**
Net profit for the year	–	–	–	39,287	39,287
Other comprehensive income	–	–	–5,103	–	–5,103
Total comprehensive income	**–**	**–**	**–5,103**	**39,287**	**34,184**
Transactions with shareholders in their capacity as owners:					
Option premiums repaid	–	–299	–	–	–299
Dividend	–	–	–	–18,067	–18,067
	0	**–299**	**–**	**–18,067**	**–18,366**
Closing equity 31 Dec 2023	**56,460**	**84,378**	**24,441**	**249,598**	**414,877**

Share capital

The number of shares outstanding is 22,583,877 (22,583,877) with a quota value of SEK 2.50 (2.50). Each share carries one vote. Share capital comprises the registered share capital of the Parent Company.

Other contributed capital

Consists of premiums paid in connection with payment for shares issued, premiums in connection with new shares issued in business combinations, shareholder contributions received and option premiums paid in connection with warrants for executive management.

Reserves

Reserves consist entirely of translation differences attributable to translation of foreign subsidiaries in accordance with IAS 21.

Retained earnings

Retained earnings consist of the accumulated profit generated in total in the Group that has not been distributed to shareholders.

Capital management

The financial strategy is based on the creation of satisfactory financial conditions for the Group's operations and development. The capital structure can be adjusted by, for example, changing the dividend paid to the shareholders, issuing new shares or selling assets.

The equity ratio at year-end was 52% (47). Ahead of the 2024 AGM, the Board of Directors proposes that no dividend be paid.

The Group's aims for its capital structure are to safeguard the Group's ability to continue its operations so that it can continue to generate a return for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to keep capital costs down.

Consolidated cash flow

AMOUNTS IN KSEK	Note	2023	2022
OPERATING ACTIVITIES			
Operating profit		69,946	71,000
Adjustments for non-cash items:			
Depreciation and amortisation		48,535	41,280
Other	29	–2,871	2,327
Total		**115,610**	**114,607**
Interest received		1,046	219
Interest paid		–18,692	–12,717
Tax paid		–16,924	–18,647
Cash flow from operating activities before changes in working capital		**81,040**	**83,462**
Cash flow from changes in working capital			
Changes in inventories		–8,266	4,270
Changes in receivables		4,898	24,327
Changes in liabilities		–13,147	–4,122
Cash flow from operating activities		**64,525**	**107,937**
INVESTING ACTIVITIES			
Acquisition of intangible non-current assets		–3,867	–4,985
Acquisition of tangible non-current assets		–11,742	–9,884
Sales of tangible non-current assets		–	141
Acquisition of Group companies		–	–140,129
Acquisition of other financial non-current assets		–583	–1,552
Cash flow from investing activities		**–16,192**	**–156,409**
FINANCING ACTIVITIES			
Change in bank overdraft facilities		–27,387	1,931
Repayment of lease liabilities		–16,358	–12,616
New borrowing		–	94,535
Repayment of borrowings		–15,687	–11,875
Dividend		–18,067	–18,067
Option premiums repaid/received		–299	299
Cash flow from financing activities		**–77,798**	**54,207**
Cash flow for the year		**–29,465**	**5,735**
Cash and cash equivalents at beginning of year		**66,228**	**57,987**
Exchange rate differences in cash and cash equivalents		**1,132**	**2,506**
Cash and cash equivalents at end of year		**37,895**	**66,228**
The Group's undrawn credit facilities at year-end amounted to		**84,459**	**57,072**

Parent Company income statement

AMOUNTS IN KSEK	Note	2023	2022
Net sales	5	**13,202**	**13,351**
Operating expenses			
Administrative expenses	8	–24,210	–25,294
Other operating income	7	17	52
Other operating expenses	7	–122	–166
Operating loss	3–8	**–11,113**	**–12,057**
Profit from interests in Group companies	9	128,967	–
Other interest income and similar profit/loss items	9	17,320	1,308
Interest expense and similar profit/loss items	9	–41,498	–19,486
Profit/loss after financial items		**93,676**	**–30,235**
Appropriations	10	54,728	40,520
Profit before tax		**148,404**	**10,285**
Tax	11	–5,729	–3,320
Net profit for the year		**142,675**	**6,965**
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR			
Net profit for the year		142,675	6,965
Other comprehensive income		–	–
Comprehensive income for the year		**142,675**	**6,965**

Parent Company balance sheet

AMOUNTS IN KSEK	Note	31 Dec 2023	31 Dec 2022
ASSETS			
Intangible non-current assets	12	940	1,374
Interests in Group companies	16	615,947	615,947
Deferred tax assets	15	376	289
Financial non-current assets	24	1,467	1,129
Total non-current assets		**618,730**	**618,739**
Other receivables		313	160
Prepaid expenses and accrued income	19	1,064	1,487
Total current receivables		**1,377**	**1,647**
Total current assets		**1,377**	**1,647**
Total assets		**620,108**	**620,386**
EQUITY AND LIABILITIES			
Share capital		56,460	56,460
Statutory reserve		10,000	10,000
Share premium reserve		101,878	102,177
Retained earnings		18,334	29,436
Net profit for the year		142,675	6,965
Equity attributable to Parent Company shareholders		**329,347**	**205,038**
Untaxed reserves	23	**17,613**	**8,123**
Non-current liabilities			
Provisions for pensions	21	1,467	1,129
Liabilities to credit institutions	24, 25	57,389	74,779
Other interest-bearing liabilities	24, 25	–	22,171
Total non-current liabilities		**58,856**	**98,079**
Current liabilities			
Bank overdraft facility	20, 24, 25	90,541	117,928
Liabilities to credit institutions	24, 25	14,996	14,758
Other interest-bearing liabilities	24, 25	21,402	–
Accounts payable	24	1,136	532
Current tax liabilities		2,847	4,852
Liabilities to Group companies	24	78,281	162,594
Other current liabilities		627	808
Accrued expenses and deferred income	26	4,463	7,674
Total current liabilities		**214,292**	**309,146**
Total equity and liabilities		**620,108**	**620,386**

Parent Company equity

AMOUNTS IN KSEK	SHARE CAPITAL	STATUTORY RESERVE	SHARE PREMIUM RESERVE	RETAINED EARNINGS	NET PROFIT FOR THE YEAR	TOTAL EQUITY
Opening equity 1 Jan 2022	**53,500**	**10,000**	**66,303**	**–1,637**	**49,140**	**177,306**
Transfer of the previous year's profit	–	–	–	49,140	–49,140	–
Issue in kind	2,960	–	35,575	–	–	38,535
Option premiums received	–	–	299	–	–	299
Dividend	–	–	–	–18,067	–	–18,067
Net profit for the year	–	–	–	–	6,965	6,965
Total changes in wealth recognised in equity excluding transactions with company owners	2,960	–	**35,874**	31,073	**–42,175**	**27,732**
Closing equity 31 Dec 2022	**56,460**	**10,000**	**102,177**	**29,436**	**6,965**	**205,038**
Opening equity 1 Jan 2023	**56,460**	**10,000**	**102,177**	**29,436**	**6,965**	**205,038**
Transfer of the previous year's profit	–	–	–	6,965	–6,965	–
Option premiums repaid	–	–	–299	–	–	–299
Dividend	–	–	–	–18,067	–	–18,067
Net profit for the year	–	–	–	–	142,675	142,675
Total changes in wealth recognised in equity excluding transactions with company owners	–	–	–299	–11,102	135,710	124,309
Closing equity 31 Dec 2023	56,460	10,000	101,878	18,334	142,675	329,347

Parent Company cash flow

AMOUNTS IN KSEK	Note	2023	2022
OPERATING ACTIVITIES			
Operating loss		–11,113	–12,057
Adjustments for non-cash items:			
Depreciation and amortisation		434	427
Other	29	–1,128	3,767
Total		**–11,807**	**–7,863**
Dividends received from interests in Group companies		128,967	–
Interest received		2,808	1,308
Interest paid		–27,754	–14,802
Tax paid		–7,821	–794
Cash flow from operating activities before changes in working capital		**84,393**	**–22,151**
Cash flow from changes in working capital			
Changes in receivables		270	112
Changes in liabilities		–22,885	103,680
Cash flow from operating activities		**61,778**	**81,641**
INVESTING ACTIVITIES			
Acquisition of intangible non-current assets		–	–206
Acquisition of Group companies		–	–147,972
Acquisition of other financial non-current assets		–338	–259
Cash flow from investing activities		**–338**	**–148,437**
FINANCING ACTIVITIES			
Change in bank overdraft facilities		–27,387	1,931
New borrowing		–	94,508
Repayment of borrowings		–15,687	–11,875
Dividend		–18,067	–18,067
Option premiums repaid/received		–299	299
Cash flow from financing activities		**–61,440**	**66,796**
Cash flow for the year		**–**	**–**
Cash and cash equivalents at beginning of year		**–**	**–**
Cash and cash equivalents at end of year		**–**	**–**
The Parent Company's undrawn credit facilities at year-end amounted to		**84,459**	**57,072**

Notes

Note 1 Accounting policies and disclosures

General
The consolidated financial statements for Embellence Group AB's financial year ended 31 December 2023 have been approved by the Board of Directors and CEO and will be presented for adoption at the 2024 Annual General Meeting (AGM). The Parent Company is a Swedish limited company with its registered office in the City of Borås, Sweden. All amounts are in thousands of Swedish kronor (KSEK) unless indicated otherwise.

The Group's income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented for adoption at the ordinary AGM on 8 May 2024.

Statement of conformity with regulations applied
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) interpretations issued by IFRIC as adopted by the EU, RFR 1 Supplementary Accounting Rules for Groups, and the Swedish Annual Accounts Act.

The consolidated financial statements have been prepared based on historical cost, except in the case of financial derivatives which are measured at fair value. The consolidated financial statements are presented in Swedish kronor (SEK), which is also the Group's functional currency. All values are rounded off to the nearest thousand (KSEK). The Parent Company's statements are prepared in accordance with RFR 2 Accounting for Legal Entities and the Swedish Annual Accounts Act. The application of RFR 2 requires that the Parent Company, in the annual report for the legal entity, shall apply all IFRS standards adopted by the EU and statements to the extent that this is possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act and with consideration to the relationship between accounting and taxation. In cases where the Parent Company applies other accounting policies than the Group, this is stated separately at the end of this note.

Basis for preparation of the financial statements
The consolidated financial statements are based on historical cost except in the case of financial instruments, which are measured at fair value.

Basis of consolidation
The consolidated financial statements cover the Parent Company and its subsidiaries. The financial statements for the Parent Company and the consolidated subsidiaries have been prepared for the same accounting period and in accordance with the same accounting policies as apply to the Group.

Subsidiaries are consolidated from the date of acquisition, which is the date on which the Parent Company gains a controlling interest, and continue to be consolidated until the date on which such control ceases.

The acquisition method of accounting is applied to the Group's business combinations. The purchase price for the acquisition of a subsidiary comprises the fair value of assets transferred, liabilities assumed and the shares issued by the Group. The purchase price also includes the fair value of all assets and liabilities resulting from an agreement on a conditional purchase price. Any conditional purchase price to be transferred by the Group is recognised at fair value at the acquisition date as part of the purchase price. Subsequent changes to the fair value of the conditional purchase price that are deemed to be a liability are recognised in accordance with IFRS 9 in financial items in profit or loss. Acquisition-related costs are expensed as incurred. Identifiable acquired assets and assumed liabilities in a business combination are measured initially at their transfer-date fair value. Amounts by which the purchase price, any non-controlling interests and the transfer-date fair value of previous shareholdings exceeds the fair value of the Group's share of identifiable acquired net assets are recognised as goodwill.

All intra-Group balances, revenue, costs, gains and losses arising in transactions between companies included in the consolidated financial statements are eliminated in full.

Translation of foreign subsidiaries
Foreign subsidiaries report their position and earnings to the Parent Company in their functional currency.

These are then translated to SEK using the current rate method, which means that the balance sheet is translated at the closing rate and the income statement at the average rate for the financial year. Translation differences are recognised in other comprehensive income.

Financial assets and liabilities
Financial assets and liabilities are measured and recognised in the Group in accordance with the rules in IFRS 9. IFRS 9 classifies financial instruments in categories. The classification depends on the intention behind the acquisition of the financial instrument. Executive management determines the classification at the time the instrument is originally acquired. The categories are: Financial assets and liabilities at fair value through profit or loss, Financial assets and liabilities at amortised cost, and Financial assets and liabilities at fair value through other comprehensive income.

A financial asset or financial liability is recognised in the balance sheet when the company becomes party according to the contractual provisions of the instrument. Trade receivables are recognised in the balance sheet when an invoice has been sent.

A liability is recognised when the counterparty has performed and the company is contractually obliged to pay, even if an invoice has not yet been received. A financial asset is derecognised from the balance sheet when the rights in the contract have been realised, expire or when the company loses control over them. A financial liability is derecognised from the balance sheet when the obligation in the contract is discharged or otherwise extinguished.

Acquisitions and disposals of financial assets are recognised on the trade date, which is the date on which the company undertakes to acquire or dispose of the asset, except in cases where the company acquires or disposes of listed securities, in which case settlement date accounting is applied.

Financial assets at amortised cost
Assets held for the purpose of collecting contractual cash flows and where these cash flows consist solely of payments of principal and interest are measured at amortised cost. Assets in this category are recognised initially at fair value including transaction costs. After the acquisition date, they are measured at amortised cost by applying the effective interest method.

Accounts receivable – trade
Trade receivables are amounts attributable to customers and relating to goods sold or services performed as part of operating activities. Trade receivables are generally due for payment within 30 days and all trade receivables have therefore been classified as current assets. Trade receivables are held solely for the purpose of collecting contractual cash flows and are therefore measured at amortised cost.

Impairment of financial assets

The Group assesses future expected credit losses associated with assets recognised at amortised cost. The Group recognises credit loss reserves for such expected credit losses at each reporting date. For trade receivables, the Group applies the simplified approach to credit loss reserves; in other words, the reserves will equal the expected losses over the lifetime of the receivable. Expected credit losses are recognised in consolidated operating profit.

Cash and cash equivalents

Cash and cash equivalents consist of cash and immediately available balances with banks and equivalent institutions.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of earnouts in business combinations. Financial liabilities at fair value through profit or loss are also recognised in subsequent periods at fair value and the change in value is recognised in net financial items in net profit for the year. Liabilities in this category are classified as current liabilities if payment is due within 12 months of the balance sheet date. If payment is due after 12 months of the balance sheet date they are classified as non-current liabilities.

Financial liabilities at amortised cost

The Group's other financial liabilities are classified as measured at amortised cost applying the effective interest method. Financial liabilities at amortised cost consist of liabilities to credit institutions, accounts payable, other current liabilities and accrued expenses. New borrowing is initially recognised at fair value, net after transaction costs. Borrowing is subsequently recognised at amortised cost and any difference between the amount received (net after transaction costs) and the repayment amount is recognised in the statement of comprehensive income distributed across the term of the loan, applying the effective interest method. Borrowing is classified as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Distributed dividends are recognised as a liability after the General Meeting has approved the dividend. Accounts payable and other operating liabilities have a short expected lifetime and are measured excluding discounts at nominal amounts.

Tax

Tax expense for the period includes current and deferred tax. Tax is recognised in the income statement, except when the tax refers to items recognised in other comprehensive income or directly in equity. In such cases, the tax is also recognised in other comprehensive income or equity, as appropriate.

Current tax

Current tax expense is calculated using the tax rules that have been enacted or substantively enacted as at the reporting date in the countries where the Parent Company and its subsidiaries operate and generate taxable income.

Deferred tax on temporary differences

Deferred tax is recognised, using the balance sheet method, for all temporary differences that arise between the tax base of an asset or liability and its carrying amount in the consolidated financial statements. Deferred tax assets are recognised to the extent it is probable that there will be future taxable surpluses against which the temporary differences can be utilised.

Receivables and liabilities in foreign currency

Receivables and liabilities denominated in a foreign currency have been translated at the closing rate.

Inventories

Inventories have been measured at the lower of cost and net realisable value. Cost is calculated using the first in, first out (FIFO) method. The cost of finished goods includes the costs of materials and direct labour as well as a reasonable proportion of production overheads based on normal production capacity. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Group as lessee

The Group's leases consist mainly of rights of use for premises and equipment. Leases are recognised as a right-of-use asset and a corresponding liability on the date the leased asset is available for use by the Group. Short-term leases and leases where the underlying asset is of low value are exempted.

The lease payments are each distributed between repayment of the lease liability and financial expense. The financial expense is to be allocated to each period during the lease term so as to produce a constant periodic rate of interest for the remaining balance of the liability.

The lease term is set as the non-cancellable period of the lease, including optional periods if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease.

The Group's lease liabilities are recognised at the present value of the Group's fixed payments (including in-substance fixed payments). Purchase options are included in the payments if it is reasonably certain that these will be exercised to acquire the underlying asset. Penalties payable on termination of the lease are included if the lease term reflects the fact that the lessee will exercise an option to terminate the lease. The lease payments are discounted at the interest rate implicit in the lease if this can be easily established, and otherwise at the Group's incremental borrowing rate.

The Group's right-of-use assets are recognised at cost and initially include the present value of the lease liability, adjusted for lease payments paid on or before the date of introduction, as well as initial direct costs. Restoration costs are included in the asset if an equivalent provision for restoration costs has been identified. Right-of-use assets are depreciated on a straight line basis over the shorter of the asset's useful life or the term of the lease.

Intangible non-current assets

Goodwill

The amount by which the purchase price exceeds the fair value of identifiable acquired net assets is recognised as goodwill. Goodwill on the acquisition of subsidiaries is recognised under intangible assets.

Goodwill is tested annually in accordance with IAS 36 to identify any impairment and is recognised at cost less accumulated impairment. Goodwill impairment is not reversed. The gain or loss on divestment of an entity includes the remaining carrying amount of goodwill relating to the entity divested.

The goodwill value established as at the date of acquisition is distributed to cash-generating units, or groups of cash-generating units, that are expected to benefit from the acquisition through synergy effects. Assets and liabilities that are already in the Group at the date of acquisition can also be attributed to these cash-generating units. Each such cash flow to which goodwill is distributed corresponds to the lowest level within the Group at which goodwill is monitored in the company's governance and is no larger than a Group segment, i.e. a line of business or a geographic area as per the Group's segment reporting.

Impairment exists when the recoverable amount of a cash-generating unit (or groups of cash-generating units) is less than the carrying amount. An impairment loss is then recognised in the income statement.

Contractual customer relationships

Contractual customer relationships are recognised at fair value on the date of acquisition. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship, which is ten years.

Note 1 Accounting policies and disclosures, cont.

Design archive

The design archive is recognised at fair value on the date of acquisition. The design archive is assessed to have a finite useful life and with effect from 2013 is amortised over the expected life of the design archive, which is 15 years.

Brands

Brands are recognised at fair value on the date of acquisition. The brands are then either amortised or tested for impairment in accordance with IAS 36 in the same way as goodwill. Brands that are deemed to have an indefinite useful life are brands that were acquired with the intention of being kept for a substantial future period. Brands assessed to have a finite useful life are amortised over a ten-year period. The reason for this amortisation period is that the Group's acquired brands have good reputations and a large, stable market share in key markets.

Software

Expenditure for software is recognised in the Group as an asset in accordance with IAS 38 Intangible Assets. Amortisation is applied over three to five years.

Product development

Product development expenditure is expensed as incurred since the conditions for capitalisation in accordance with IAS 38 Intangible Assets are not deemed to be fulfilled.

Tangible non-current assets

Tangible non-current assets are recognised at cost less accumulated depreciation. Further expenditures are added to the carrying amount of the asset or recognised as a separate asset, as applicable, only if it is probable that the Group will enjoy future economic benefits associated with the asset and the cost can be reliably estimated. The carrying amount of the replaced part is derecognised from the balance sheet. All other forms of repair and maintenance are recognised as expenses in the income statement in the period in which they are incurred.

Depreciation of tangible non-current assets

Depreciation according to plan is based on the cost and useful life of the assets concerned. Any residual value has not been taken into consideration as it is not deemed material. Annual depreciation has been applied using the following percentages.

Goodwill	Tested for impairment
Contractual customer relationships	10%
Design archive	6.67%
Brands	Tested for impairment
Brands	10%
Software, computer equipment	20–33%
Machinery	10–33%
Other equipment	5–25%
Buildings	1.25–10%

Land is not depreciated.

The design archive's useful life of 15 years was estimated by the Group on the basis of its expected sustained return and its strategic importance. The above assets are tested for impairment regularly.

Impairment of tangible non-current assets

The Group continually evaluates the book values of non-current assets. If there is an indication that the value of any non-current assets may have decreased, the asset's recoverable amount is established. The recoverable amount is the higher of an asset's net realisable value and value in use. The asset is written down by the amount by which the asset's carrying amount exceeds its recoverable amount and the cost is charged to the income statement. An asset's value in use is calculated by discounting future cash flows.

Pensions

The Group companies have various pension plans. From 2018 and onwards, there are both defined-benefit and defined-contribution pension plans in the Group. Defined contribution pension plans are those where the Group pays fixed contributions to a separate legal entity. The Group has no legal or constructive obligation to pay additional contributions if this legal entity does not have sufficient resources to pay all the benefits to employees that are related to their service in the current or previous periods. Defined-benefit plans are plans for post-employment benefits other than defined-contribution plans and are found in the subsidiary in Italy.

Defined contribution plans

Past-service costs are recognised immediately in the income statement, unless changes to the pension plan are conditional upon the employee remaining employed in the Group for a set period (vesting period). In such cases, the past-service cost is allocated on a straight line basis over the vesting period.

For defined contribution plans, the Group pays contributions into publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations beyond paying these contributions. The contributions are recognised as employee expenses as they fall due for payment. Prepaid contributions are recognised as an asset to the extent that cash repayment or reduction of future payments can flow to the Group.

Defined-benefit plans

Actuarial calculations are made for all defined-benefit plans for the purpose of establishing the present value of the Group's obligations in respect of vested benefits for current and previous employees. Actuarial calculations are made annually and based on actuarial assumptions established on the closing date. Changes in the present value of the obligations as a result of changed actuarial assumptions as well as experience-based adjustments are presented as remeasurements. Provisions for pensions and similar obligations in the consolidated balance sheet correspond to the present value of the obligations on the closing date, less the fair value of the plan assets. The discount rate is used to calculate net interest on the net pension liability (asset). All changes in the net pension liability (asset) are recognised as they arise. Service costs and net interest expense (income) are recognised in the income statement, while remeasurements such as actuarial gains and losses are recognised in other comprehensive income.

Contingent liabilities

A contingent liability is recognised where there is a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, or when there is a commitment that is not reported as a liability or provision because it is unlikely that an outflow of resources will be required.

Provisions

A provision is recognised when the company has an obligation due to a past event and it is probable that an outflow of financial resources will be required to settle the obligation, and the amount can be reliably estimated.

Borrowing costs

Embellence Group AB has no projects for which capitalisation of interest is required under IAS 23, which means that borrowing costs have been charged to profit or loss for the period to which they relate.

Net sales (revenue recognition)

Net sales recognised by Embellence Group refer to revenue from the sale of goods. Where applicable, net sales have been reduced by the value of discounts given and returns. Revenue from sales is recognised when control of the goods is transferred and there are no undischarged obligations that may affect the customer's approval of the goods.

The goods are often sold with a discount for volume based on cumulative sales over a 12-month period. The revenue from the sale of goods is recognised based on the price in the contract, less estimated volume discounts. Historical data is used to estimate the expected value of discounts and the revenue is recognised only to the extent that it is highly probable that a significant reversal will not occur. A liability (included in the item Accrued expenses and deferred income) is recognised for expected volume discounts in relation to sales up to and including the reporting date.

A receivable is recognised when the goods have been delivered, since this is the time at which the consideration becomes unconditional (i.e. only the passage of time is required in order for payment to be made).

Disclosures concerning related party transactions

Related party transactions are presented in Note 5.

Accounting estimates and assessments

In preparing Embellence Group's consolidated financial statements, the Board and CEO have made estimates and assessed various accounting matters that are of significance for amounts reported. This applies in the following areas:

Impairment testing for goodwill and brands

Each year, the Group performs impairment testing for goodwill and brands, in accordance with the accounting policy described in Note 1. The recoverable amount of the cash-generating unit is established by calculating value in use. These calculations require certain estimates to be made. For more information, see Note 12.

Neither goodwill nor certain brands are amortised. Annual testing of existing goodwill and these brands is carried out based on defined cash-generating units. Embellence Group has assessed that the cash-generating units for goodwill and brands consist of the segments Nordics, Europe and Rest of World.

Financial risks and risk management

Through its business the Group is exposed to many different financial risks: market risk (including foreign currency risk, interest rate risk in fair value, interest rate risk in cash flow and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of the financial markets and endeavours to minimise potential unfavourable effects on the Group's financial results.

Dependence on customers

Embellence Group has a broad customer base and is not dependent on any individual customer or customer group such that any loss thereof would seriously impact the Group's profitability.

Credit losses

Credit losses cannot be avoided entirely in businesses where goods are supplied against later payment. To minimise the risks, credit assessments are carried out on an ongoing basis and there are also credit limits for each customer. Outstanding receivables are continuously monitored, with reminders being sent and interest being invoiced when necessary. The usual credit period is the current month plus 30 days. Embellence Group has not historically been affected by a significant level of credit losses.

Dependence on suppliers

There are alternative suppliers for all goods and components that Embellence Group buys in, and consequently our assessment is that Embellence Group would not be seriously damaged should an individual supplier not be able to meet the requirements set.

Commodity price risk

Commodity price risk refers to the risk of increased costs for direct and indirect materials when commodity prices rise in the global market. The Group does not hedge commodity purchases.

IT security

Embellence Group works actively on IT security and has taken many measures to preclude and prevent IT problems arising. Should problems nonetheless occur, Embellence Group has a plan for dealing with these quickly so that production and deliveries, etc. are affected as little as possible.

Foreign currency risk

The Group is active internationally and is exposed to foreign currency risk from various types of currency exposure. Foreign currency risk arises from the following two exposure categories:

- Translation exposure – defined as recognised assets and liabilities as well as net investment in foreign operations.
- Transaction exposure – defined as the net of all contracted commercial financial inflows and outflows in foreign currency.

Embellence Group does not actively hedge currency risk for estimated future flows in foreign currency. All transactions between Embellence Group AB and other companies in the Group are to take place as far as possible in the local currency of the company concerned.

As at 31 December 2023, foreign net assets in the consolidated balance sheet amounted to approximately MGBP 10, MUSD 22 and MEUR 8 (MGBP 12, MUSD 23 and MEUR 8). No hedging has been conducted in respect of these foreign net assets.

The most significant transaction exposure in the Group is from changes in EUR, USD and GBP against SEK. This is because purchases of materials, mainly paper, are made in EUR. The Group has export revenue in EUR but this does not cover its purchasing requirements since the majority of the Group's products are sold in SEK, GBP and USD. A 10% change in the EUR exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 2.6 (1.2). A 10% change in the GBP exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 4.3 (4.6). A 10% change in the USD exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 1.9 (2.8).

Interest rate, financing and liquidity risk

Interest risk refers to the risk that the Group's exposure to changes in market interest rates may negatively affect earnings. Financing risk refers to the risk that financing of the Group's capital requirements and refinancing of outstanding debt may become more difficult or costly. The maturity and terms of borrowings are decided based on Embellence Group's future liquidity needs, the interest rate situation and other factors in the lending market. Liquidity risk refers to the risk that financing cannot be obtained, or only at significantly higher costs.

The Group has borrowing of MSEK 94 and a committed overdraft facility of MSEK 175, of which MSEK 84 was unutilised at 31 December 2023. Interest rate risk in the Group's cash and cash equivalents depends mainly on developments in the Swedish interest market. The Group's sources of financing consist mainly of equity, cash flow from operating activities and an utilised overdraft facility. A 1% increase or decrease in interest levels related to average utilised overdraft facilities would have resulted in an increase or decrease in net financial items of MSEK 1.2 (1.3).

Note 1 Accounting policies and disclosures, cont.

The Group's prudent liquidity management ensures that there are sufficient cash funds to meet the needs of the operating activities. At the same time, it is ensured that the Group has sufficient agreed credit facilities to pay its liabilities as they fall due. On the reporting date, the company had cash of MSEK 38 and an unutilised overdraft facility of MSEK 84 that can be used to manage liquidity risk. Due to the Group's dynamic operations, the Group needs to have flexible financing that allows it to utilise agreed credit limits.

Management monitors rolling forecasts of the Group's liquidity reserves (including unutilised credit facilities) and its cash and cash equivalents based on expected cash flows. Such analysis is usually carried out by the operating companies, observing the guidelines and restrictions established by Group Management. The restrictions vary from region to region, taking into consideration liquidity in different markets.

Parent Company accounting policies

The Parent Company's annual report is prepared in accordance with Swedish law and applies the Swedish Annual Accounts Act and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board.

Presentation formats

The presentation format prescribed in the Annual Accounts Act is used for the income statement and balance sheet. The presentation format for the statement of changes in equity is also consistent with the Group's format, but must also include the columns stated in the Annual Accounts Act. Moreover, there is a difference in terms, compared with the consolidated accounts, mainly with regard to financial income and expense, and equity.

Interests in subsidiaries

Interests in subsidiaries are recognised at cost less any impairment. Cost includes acquisition-related costs and any earnout.

The recoverable amount is calculated if there is an indication of impairment of interests in subsidiaries. Impairment is recognised if the recoverable amount is less than the carrying amount. Impairment is recognised in the items Profit from interests in Group companies.

Financial instruments

IFRS 9 is not applied in the Parent Company. Instead, the Parent Company applies the items set out in RFR 2 (IFRS 9 Financial instruments, p. 3–10). Financial instruments are measured at cost. Financial assets acquired with the intention of holding them on a short-term basis will be recognised in subsequent periods in accordance with the lower value principle at the lowest of cost and market value. When calculating the net realisable value of receivables recognised as current assets, the policies for impairment testing and loss risk provision in IFRS 9 are applied. For a receivable recognised at amortised cost at consolidated level, this entails that the loss risk provision recognised in the Group in accordance with IFRS 9 is also to be recognised in the Parent Company.

Leases

The Parent Company has elected not to apply IFRS 16 Leases, but instead elected to apply RFR 2 IFRS 16 Leases p. 2–12, meaning all lease payments are recognised as expenses on a straight-line basis during the lease term.

Appropriations

Group contributions are recognised as appropriations.

Note 2 Segment information

Description of segments and main activities:

The CEO of Embellence Group AB is the chief operating decision-maker for the Group. The CEO evaluates the Group's financial position and earnings, and takes strategic decisions. The CEO has identified operating segments based on the information processed and used as a basis for distributing resources and evaluating results. The CEO monitors and evaluates the Group based on the operating segments shown below.

The CEO primarily uses adjusted EBITA (EBITA excluding items affecting comparability) to assess the Group's results.

	2023				2022			
AMOUNTS IN KSEK	Nordics	Europe	Rest of World	Total	Nordics	Europe	Rest of World	Total
Net sales	286,027	250,994	203,452	740,472	293,996	242,186	183,918	720,100
Adjusted EBITA	31,723	42,389	21,038	95,150	35,607	40,186	26,851	102,644
Items affecting comparability								
Acquisition-related costs				–				–4,228
Listing costs				–				–60
Restructuring costs				–3,168				–9,217
Other non-recurring costs				–				–625
EBITA				**91,982**				**88,514**
Amortisation of intangible assets				–22,036				–17,514
Operating profit				**69,946**				**71,000**
Adjusted EBITA margin	11.1%	16.9%	10.3%	12.8%	12.1%	16.6%	14.6%	14.3%
Share of premium sales*	31.4%	81.3%	90.8%	64.6%	29.0%	84.3%	90.3%	63.3%

*Premium sales shows sales of wallpaper for which the end consumer pays more than SEK 700 per roll as well as sales of textiles, Artscape's products and the majority of Pappelina's product range.

The Group sells its products all over the world, with the breakdown below representing the Group's main markets:

Note 2 Segment information, cont.

AMOUNTS IN KSEK	2023	2022
Net sales by market		
Sweden	238,371	242,592
USA	148,592	147,994
UK	84,869	78,286
Italy	55,891	51,502
Germany	34,134	34,314
Other Nordics	47,467	53,693
Rest of Europe	75,017	77,188
Rest of World	56,131	34,531
Net sales by market total	**740,472**	**720,100**

AMOUNTS IN KSEK	2023	2022
Non-current assets		
Sweden	138,147	147,872
UK	94,912	95,810
Italy	98,984	103,897
USA	155,754	174,269
Non-current assets total	**487,797**	**521,848**

The Group's non-current assets exclude financial assets and deferred tax assets.

Note 3 Average number of employees

	2023		2022	
	Employees	Of whom women	Employees	Of whom women
Embellence Group AB	5	2	3	–
Boråstapeter AB	47	31	54	36
Borås Tapetfabrik AB	43	3	51	6
Cole & Son Ltd	30	18	30	19
Wall&decò S.rl.	36	19	37	20
Pappelina AB	22	17	27	21
Artscape Inc	32	21	34	26
Group total	**215**	**111**	**236**	**128**

	Group		Parent Company	
	2023	2022	2023	2022
No. of Board members – women	3	3	3	3
No. of Board members – men	2	3	2	3
Total	**5**	**6**	**5**	**6**
No. of members of executive management – women	1	–	1	–
No. of members of executive management – men	2	2	2	2
Total	**3**	**2**	**3**	**2**

Note 4 Salaries, other remuneration and social security contributions

AMOUNTS IN KSEK	2023 Salaries and other remuneration	2023 Social security costs. (of which pension costs)	2022 Salaries and other remuneration	2022 Social security costs. (of which pension costs)
Embellence Group AB	7,869	5,231	8,143	5,099
		(2,689)		(2,272)
Boråstapeter AB	30,973	15,153	33,388	19,077
		(9,843)		(8,632)
Borås Tapetfabrik AB	24,958	10,296	28,333	12,090
		(2,674)		(3,504)
Cole & Son Ltd	15,450	2,701	15,796	2,527
		(892)		(1,695)
Wall&decò S.rl.	18,203	5,833	16,723	6,093
		(4,444)		(4,400)
Pappelina AB	9,232	3,853	9,903	3,911
		(946)		(916)
Artscape Inc	18,271	4,993	15,690	3,842
		(2,689)		(443)
Total	**124,956**	**48,060**	**127,976**	**52,639**
		(24,177)		**(21,862)**

Salaries and other remuneration to the CEO and Board, breakdown by company:	2023 Board and CEO (of which bonuses)	2023 Other employees (of which bonuses)	2022 Board and CEO (of which bonuses)	2022 Other employees (of which bonuses)
Embellence Group AB	3,657	4,212	5,045	3,098
	(0)	(204)	(747)	(425)
Boråstapeter AB	1,909	29,064	2,025	31,363
	(215)	(1,065)	(399)	(1,372)
Borås Tapetfabrik AB	1,235	23,723	1,004	27,328
	(143)	(633)	(2)	(733)
Cole & Son Ltd	3,128	12,322	3,134	12,662
	(83)	(317)	(790)	(281)
Wall&decò S.rl.	3,251	14,951	2,828	13,895
	(16)	(449)	(181)	(1,108)
Pappelina AB	1,659	7,573	1,545	8,357
	(12)	(132)	(14)	(139)
Artscape Inc	6,993	11,278	4,932	10,758
	(392)	(0)	(577)	(53)
Total	**21,832**	**103,124**	**20,514**	**107,462**
	(861)	**(2,800)**	**(2,710)**	**(4,111)**

Note 4 Salaries, other remuneration and social security contributions, cont.

AMOUNTS IN KSEK	Board fees/basic salary	Variable remuneration	Other remuneration benefits	Pension costs	Total
Remuneration and other benefits to executive management in 2023					
CEO Olof Svensk	**2,113**	**–**	**81**	**970**	**3,164**
Other members of executive management (two)	3,116	90	191	837	4,234
Board members	1,573	–	–	–	1,573
of which					
Morten Falkenberg	458	–	–	–	–
Henrik Nyqvist	250	–	–	–	–
Christina Ståhl	280	–	–	–	–
Paul Steene	83	–	–	–	–
Karin Dennford	250	–	–	–	–
Hanna Graflund Sleyman	83	–	–	–	–
Anneli Kansbod	169	–	–	–	–
Group total	**6,802**	**90**	**272**	**1,807**	**8,971**

AMOUNTS IN KSEK	Board fees/basic salary	Variable remuneration	Other remuneration benefits	Pension costs	Total
Remuneration and other benefits to executive management in 2022					
CEO Olof Svensk	**2,631**	**747**	**99**	**1,082**	**4,559**
Other members of executive management (two)	2,547	425	186	702	4,860
Board members	1,667	–	–	–	1,667
of which					
Morten Falkenberg	500	–	–	–	–
Henrik Nyqvist	250	–	–	–	–
Christina Ståhl	250	–	–	–	–
Paul Steene	250	–	–	–	–
Karin Dennford	167	–	–	–	–
Hanna Graflund Sleyman	167	–	–	–	–
Mattias Letmark	83	–	–	–	–
Group total	**6,845**	**1,172**	**285**	**2,272**	**10,574**

Remuneration to executive management and related parties

Remuneration terms for the CEO were set by the Board. The Chairman of the Board and CEO set the remuneration terms for other senior executives on the executive management team.

Bonuses for executive management are based partly on the Group's results, partly on sales and partly on various individual targets. The maximum bonus is 40% of basic salary for the CEO and 36% for other members of executive management. Other benefits for the CEO and other members of executive management consist mainly of company cars.

As regards pensions, the CEO is covered by the ITP plan and has a supplementary retirement pension which means that the company pays premiums corresponding to 30% of salary. Other members of executive management are entitled to pensions under the ITP system or equivalent. If the CEO's contract is terminated, a maximum of 12 months' severance pay is payable. Other than the above and what is stated in Note 5, no transactions have occurred between related parties and Embellence Group AB (publ) or other Group companies. In the Parent Company Embellence Group AB, members of executive management and Board members have subscribed for warrants. For more information about these programmes, see Note 30.

The Board fees/basic salary includes taxable remuneration that is recognised as costs during the financial year, as well as changes in holiday pay debts and other salary-related remuneration. Variable remuneration includes bonuses disbursed. As regards Board fees, the amount disbursed is recognised.

Note 5 Related-party transactions

During the year, no transactions took place with Board members or other members of executive management, or with companies controlled by them. For customary remuneration of Board members, refer to Note 4.

Note 6 Remuneration of auditors

The following remuneration was paid to the company's auditors:

	Group		Parent Company	
AMOUNTS IN KSEK	2023	2022	2023	2022
HW Fisher				
Statutory audit	481	654	–	–
Tax advisory services	–	74	–	–
Other services	126	–	–	–
Total	**607**	**728**	**–**	**–**
PWC				
Statutory audit	1,445	1,082	449	395
Other auditing services	227	200	227	120
Tax advisory services	20	361	20	361
Other services	53	95	54	95
Total	**1,745**	**1,738**	**750**	**971**
Other				
Statutory audit	1,027	347	–	–
Tax advisory services	719	120	–	–
Other services	–	748	–	–
Total	**1,746**	**1,215**	**–**	**–**
Total auditing services	3,136	2,283	676	515
Total tax advisory services	739	555	20	361
Total other services	223	843	54	95
Total	**4,098**	**3,681**	**750**	**971**

Note 7 Other operating income and expenses

AMOUNTS IN KSEK	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Other operating income				
Exchange rate differences for operating receivables/liabilities	3,063	4,208	17	–
Government assistance received	63	2,113	–	–
Rental income	600	600	–	–
Gains on sales of tangible non-current assets	5	–	–	–
Insurance remuneration	75	–	–	–
Other operating income	1,347	288	–	52
Total	**5,153**	**7,209**	**17**	**52**
Other operating expenses				
Exchange rate differences for operating receivables/liabilities	–3,490	–4,411	–122	–166
Losses on sales of tangible non-current assets	–17	–15	–	–
Total	**–3,507**	**–4,426**	**–122**	**–166**

Note 8 Depreciation according to plan by function and by asset class, and cost of operations

AMOUNTS IN KSEK	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
By function				
Production costs	10,550	10,327	–	–
Selling expenses	10,635	11,495	–	–
Administrative expenses	27,350	19,522	434	427
Total	**48,535**	**41,344**	**434**	**427**
By asset class				
Brands	8,309	7,038	–	–
Contractual customer relationships	4,928	3,902	–	–
Other intangible non-current assets	8,122	5,934	434	427
Buildings	1,522	1,464	–	–
Design archive	677	640	–	–
Plant and equipment	8,093	7,111	–	–
Right-of-use assets, real estate	12,399	10,943	–	–
Right-of-use assets, equipment	4,485	4,312	–	–
Total	**48,535**	**41,344**	434	**427**
Operating expenses				
Raw materials and consumables	216,858	204,137	–	–
Employee costs	165,929	175,679	13,290	14,501
Depreciation and amortisation	48,535	41,344	434	427
Other expenses	240,850	230,723	10,486	10,366
Total	**672,172**	**651,883**	**24,210**	**25,294**

Note 9 Financial income and expenses

AMOUNTS IN KSEK	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Profit from interests in Group companies				
Dividend	–	–	128,967	–
Total	**–**	–	**128,967**	**–**
Financial income				
Interest income	1,045	218	2,808	1,308
Exchange rate differences	13,221	2,176	14,512	–
Fair value measurement of earnout	–	16,914	–	–
Total	**14,266**	**19,308**	**17,320**	**1,308**
Financial expenses				
Interest expense	–18,487	–12,791	–27,754	–14,802
Exchange rate differences	–13,743	–6,979	–13,744	–4,683
Other financial expenses	–181	–172	–	–
Total	**–32,411**	**–19,942**	**–41,498**	**–19,486**
Net financial items	**–18,145**	**–634**	**–24,178**	**–18,178**

Note 10 Appropriations

AMOUNTS IN KSEK	Parent Company 2023	Parent Company 2022
Group contributions received	64,218	48,743
Group contributions paid	–	–3,100
Provision to tax allocation reserve	–9,490	–5,123
Total	**54,728**	**40,520**

Note 11 Tax on net profit for the year

AMOUNTS IN KSEK	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Current tax				
Current tax on net profit for the year	–13,744	–13,458	–5,815	–3,386
Total current tax	**–13,744**	**–13,458**	**–5,815**	**–3,386**
Deferred tax				
Deferred tax on untaxed reserves	–1,330	–891	–	–
Deferred tax on unused tax loss carryforwards	2,440	341	–	–
Deferred tax upon amended tax rate on Group surpluses	–605	–	–	–
Deferred tax on temporary differences and intra-Group profit on inventories	726	1,046	86	66
Total deferred tax	**1,231**	**496**	**86**	**66**
Total tax on net profit for the year	**–12,513**	**–12,962**	**–5,729**	**–3,320**

The difference between the tax rate applicable to the Group and the effective tax rate consists of the following components:

	Group			
AMOUNTS IN KSEK	**Percentage**	**2023**	Percentage	2022
Profit before tax		**51,801**	–	**70,366**
Tax rate applicable in Sweden	20.6%	–10,671	20.6%	–14,495
Tax effect of non-taxable income and non-deductible expenses	–0.6%	301	–4.8%	3,363
Tax effect of temporary differences	–1.1%	548	–0.7%	491
Tax effect of tax rate applicable in foreign subsidiaries	4.2%	–2,170	1.4%	–965
Change to deferred tax in Group surpluses upon amended tax rate	1.2%	–605	–	–
Tax for prior periods	–0.2%	84	1.9%	–1,356
	24.2%	**–12,513**	**18.4%**	**–12,962**

	Parent Company			
AMOUNTS IN KSEK	**Percentage**	**2023**	Percentage	2022
Profit before tax		**148,404**		**10,285**
Tax rate applicable in Sweden	20.6%	–30,571	20.6%	–2,119
Tax effect of non-taxable income and non-deductible expenses	–16.6%	24,702	10.2%	–1,047
Tax effect of temporary differences	–0.1%	87	–0.6%	66
Tax for prior periods	0.0%	53	2.1%	–220
	3.9%	**–5,729**	**32.3%**	**–3,320**

Note 12 Intangible non-current assets

AMOUNTS IN KSEK	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Total carrying amounts of intangible non-current assets				
Goodwill	237,316	239,690	–	–
Contractual customer relationships	38,142	44,490	–	–
Brands	68,057	77,857	–	–
Design archive	2,623	3,231	–	–
Other intangible non-current assets	12,352	16,568	940	1,374
Total	**358,490**	**381,836**	**940**	**1,374**
Goodwill				
Cost, opening balance	239,690	160,245	–	–
Corporate acquisitions	–	68,036	–	–
Translation difference	–2,374	11,409	–	–
Accumulated cost, closing balance	**237,316**	**239,690**	–	–
Residual value according to plan, closing balance	**237,316**	**239,690**	–	–
Contractual customer relationships				
Cost, opening balance	48,513	–	–	–
Corporate acquisitions	–	45,498	–	–
Translation difference	–1,838	3,014	–	–
Accumulated cost, closing balance	**46,675**	**48,513**	**–**	**–**
Depreciation, opening balance	–4,023	–	–	–
Depreciation for the year	–4,928	–3,902	–	–
Translation difference	418	–120	–	–
Accumulated depreciation, closing balance	**–8,533**	**–4,023**	–	–
Residual value according to plan, closing balance	**38,142**	44,490	–	–
Brands				
Cost, opening balance	92,096	34,364	–	–
Purchases	22	–	–	–
Corporate acquisitions	–	**53,039**	–	–
Translation difference	–2,031	4,693	–	–
Accumulated cost, closing balance	**90,087**	**92,096**	–	–
Depreciation, opening balance	–14,239	–6,601	–	–
Corporate acquisitions	0	–31	–	–
Depreciation for the year	–8,309	–7,037	–	–
Translation difference	518	–570	–	–
Accumulated depreciation, closing balance	**–22,030**	**–14,239**	–	**–**
Residual value according to plan, closing balance	**68,057**	**77,857**	**–**	**–**
Design archive				
Cost, opening balance	9,693	9,383	–	–
Translation difference	144	310	–	–
Accumulated cost, closing balance	**9,837**	**9,693**	**–**	**–**
Depreciation, opening balance	–6,462	–5,630	–	–
Depreciation for the year	–677	–640	–	–
Translation difference	–75	–192	–	–
Accumulated depreciation, closing balance	**–7,214**	**–6,462**	–	–
Residual value according to plan, closing balance	**2,623**	**3,231**	**–**	**–**

Note 12 Intangible non-current assets, cont.

AMOUNTS IN KSEK	Group		Parent Company	
	2023	2022	**2023**	2022
Other intangible non-current assets				
Cost, opening balance	54,282	47,568	2,168	1,963
Purchases	3,845	4,916	–	205
Corporate acquisitions	–	1,258	–	–
Sales/disposals	–14,872	–	–	–
Reclassifications	–	53	–	–
Translation difference	–15	487		–
Accumulated cost, closing balance	**43,240**	**54,282**	**2,168**	**2,168**
Depreciation, opening balance	–37,714	–30,531	–794	–368
Corporate acquisitions	–	–994	–	–
Sales/disposals	14,872	–	–	–
Depreciation for the year	–8,121	–5,934	–434	–426
Translation difference	75	–255	–	–
Accumulated depreciation, closing balance	**–30,888**	**–37,714**	**–1,228**	**–794**
Residual value according to plan, closing balance	**12,352**	**16,568**	**940**	**1,374**

A breakdown of goodwill by segment is given below:

AMOUNTS IN KSEK	**2023**				2022			
	Nordics	Europe	Rest of World	Total	Nordics	Europe	Rest of World	Total
Goodwill	42,522	100,805	93,989	237,316	42,510	100,570	96,610	239,690

Impairment testing for goodwill and brands

The carrying amounts of goodwill and brands have been tested for impairment by calculating their recoverable amounts, which are based on calculations of value in use. These calculations are derived from estimated future cash flows before tax based on financial budgets approved by the Board and covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate as shown below. The growth rate does not exceed the long-term growth rate for the market in which the cash-generating units operate.

Executive management has identified the segments Nordics, Europe and Rest of World as the cash-generating units for goodwill and brands.

Executive management has identified the annual growth in volume for each cash-generating unit over the five-year forecast period as a key assumption. The sales volume in each period is the main driver of income and expenses. The annual growth in volume is based on previous results and executive management's expectations of market development. The long-term growth rate used accords with expected future inflation. The discount rates used are stated before tax and reflect specific risks that apply to the various cash-generating units.

The testing performed did not indicate any impairment. Key assumptions for goodwill that were used for calculating value in use in 2023:

	Goodwill		
	Nordics	Europe	Rest of World
Annual growth in volume	2–6%	2–6%	2–6%
Long-term growth rate	2%	2%	2%
Discount rate	11.9%	11.9%	11.9%

The assumptions for brands are not reported since these values do not amount to a material sum.

Sensitivity analysis for goodwill

The recoverable amount exceeds the carrying amount for goodwill. This remains the case if the assumptions are changed as follows:

– A 1 percentage point increase in the discount rate before tax
– The estimated growth rate would have been 50% lower.
– The estimated EBITA margin would have been 10% lower.

Note 13 Tangible non-current assets

AMOUNTS IN KSEK	Group 2023	Group 2022
Total carrying amounts of tangible non-current assets		
Land and buildings	34,781	36,009
Leasehold improvements	13,605	8,950
Construction in progress and advances	1,480	1,816
Plant and machinery	18,312	18,448
Equipment, tools, fixtures and fittings	6,364	7,232
Total	**74,542**	**72,455**
Land and buildings		
Cost, opening balance	42,568	100,258
Purchases	–	71
Corporate acquisitions	–	1,007
Disposals	–	–58,806
Translation difference	–40	38
Accumulated cost, closing balance	**42,528**	**42,568**
Depreciation, opening balance	–6,559	–62,671
Corporate acquisitions	–	–906
Disposals	–	58,511
Reclassifications	295	–
Depreciation for the year	–1,523	–1,464
Translation difference	40	–29
Accumulated depreciation, closing balance	**–7,747**	**–6,559**
Residual value according to plan, closing balance	**34,781**	**36,009**
Leasehold improvements		
Cost, opening balance	14,853	10,853
Purchases	6,179	3,012
Reclassifications	–	355
Translation difference	–	633
Accumulated cost, closing balance	**20,969**	**14,853**
Depreciation, opening balance	–5,903	–5,253
Reclassifications	–295	294
Depreciation for the year	–1,140	–702
Translation difference	–27	–242
Accumulated depreciation, closing balance	**–7,364**	**–5,903**
Residual value according to plan, closing balance	**13,605**	**8,950**
Construction in progress and advances		
Cost, opening balance	1,816	191
Purchases	1,503	1,816
Reclassifications	–1,816	–191
Translation difference	–23	–
Accumulated cost, closing balance	**1,480**	**1,816**

Note 13 Tangible non-current assets, cont.

AMOUNTS IN KSEK	Group 2023	Group 2022
Plant and machinery		
Cost, opening balance	183,284	184,650
Purchases	2,832	1,752
Corporate acquisitions	–	164
Sales/disposals	–3,324	–
Reclassifications	1,816	–4,467
Translation difference	245	1,185
Accumulated cost, closing balance	**184,853**	**183,284**
Depreciation, opening balance	–164,835	–165,182
Corporate acquisitions	–	–164
Sales/disposals	3,324	–
Reclassifications	–	5,848
Depreciation for the year	–4,869	–4,535
Translation difference	–161	–802
Accumulated depreciation, closing balance	**–166,541**	**–164,835**
Residual value according to plan, closing balance	**18,312**	**18,448**
Equipment, tools, fixtures and fittings		
Cost, opening balance	34,002	30,745
Purchases	1,228	2,536
Corporate acquisitions	–	2,533
Sales/disposals	–1,635	–404
Reclassifications	–	–2,192
Translation difference	–32	784
Accumulated cost, closing balance	**33,563**	**34,002**
Depreciation, opening balance	–26,770	–23,804
Corporate acquisitions	–	–2,354
Sales/disposals	1,607	388
Reclassifications	–	1,395
Depreciation for the year	–2,084	–1,811
Translation difference	48	–584
Accumulated depreciation, closing balance	**–27,199**	**–26,770**
Residual value according to plan, closing balance	**6,364**	**7,232**

Note 14 Leases

AMOUNTS IN KSEK	Group 2023	Group 2022
Right-of-use assets		
Real estate	47,592	57,576
Equipment	7,173	9,981
Total	**54,765**	**67,557**
Lease liabilities		
Non-current	42,806	53,309
Current	15,115	16,946
Total	**57,921**	**70,255**

Right-of-use assets added in 2023 amounted to KSEK 1,518 (31,797).

AMOUNTS IN KSEK	Group 2023	Group 2022
Depreciation of right-of-use assets		
Real estate	12,399	10,943
Equipment	4,485	4,312
Total	**16,884**	**15,256**
Interest expense (included in financial expenses)	2,275	3,282

Total cash flow pertaining to leases in 2023 amounted to KSEK 18,279 (15,750).

Note 15 Deferred tax assets

	Group		Parent Company	
AMOUNTS IN KSEK	2023	2022	2023	2022
Total carrying amounts				
Deferred tax assets	4,917	1,868	376	289
Total	4,917	**1,868**	**376**	**289**
Deferred tax assets				
At 1 January	1,868	634	289	223
Added	3,076	1,383	87	66
Expired	–27	–149	–	–
At 31 December	**4,917**	**1,868**	**376**	**289**
Total carrying amounts of deferred tax assets				
Attributable to temporary differences	2,477	1,527	376	289
Attributable to unused tax loss carryforwards	2,440	341	–	–
Total	**4,917**	**1,868**	**376**	**289**

As of December 31, 2023, the deferred tax asset related to lease liabilities amounted to MSEK 11.6 (2.7). In the balance sheet, the deferred tax asset related to lease liabilities is netted against the deferred tax liability related to right-of-use assets.

Note 16 Interests in Group companies

AMOUNTS IN KSEK	Parent Company 2023	2022
Interests in Group companies		
At 1 January	615,947	408,557
Corporate acquisitions	–	207,390
At 31 December	**615,947**	**615,947**

	Share of equity	Share of voting rights	No. of shares	Carrying amount, 31 Dec 2023	Carrying amount, 31 Dec 2022
Boråstapeter AB	100%	100%	1,000,000	179,651	179,651
Cole & Son Ltd	100%	100%	208,889	68,886	68,886
Wall&decò S.rl.	100%	100%	10,000	104,809	104,809
Pappelina AB	100%	100%	1,000	55,161	55,161
Borås Tapetfabrik AB	100%	100%	250	25	25
Fastighetsbolaget Borosan AB	100%	100%	250	25	25
Artscape Inc	100%	100%	87,451	207,390	207,390
Group total				**615,947**	**615,947**

Note 17 Inventories

AMOUNTS IN KSEK	Group 2023	2022
Raw materials and consumables	29,758	33,675
Work in progress	17,806	18,257
Finished goods and goods for resale	88,806	77,594
Total	**136,370**	**129,526**

Impairment of finished goods and goods for resale to net realisable value amounts to KSEK 15,497 (11,000). This impairment has been recognised in the statement of comprehensive income as Cost of goods sold. The impact on earnings in 2023 was KSEK –4,497 (+7,329).

Note 18 Accounts receivable – trade

AMOUNTS IN KSEK	Group 2023	2022
Allowance for credit losses		
Allowance at beginning of year	**4,610**	**3,099**
Added to allowance during the year	2,229	2,134
Confirmed credit losses	–340	–501
Recovered credit losses	–164	–170
Translation difference	–	48
Allowance at year-end	**6,336**	**4,610**
Ageing report for past due trade receivables		
<30 days	26,976	28,212
30–60 days	4,400	3,836
>60 days	9,090	7,146
Total	**40,465**	**39,194**

On 31 December 2023, the total loss level was 0.3% (0.07%) of net sales, which is considered immaterial.
Expected loss per category is therefore not recognised.

Note 19 Prepaid expenses and accrued income

AMOUNTS IN KSEK	Group		Parent Company	
	2023	2022	**2023**	2022
Accrued bonus income	690	1,456	–	–
Accrued energy taxes	72	–	–	–
Prepaid rent	5,704	1,112	–	–
Prepaid expenses for trade fairs and marketing	2,209	2,850	–	–
Prepaid insurances	1,218	970	370	276
Other	11,830	11,829	694	1,211
Total	**21,723**	**18,217**	**1,064**	**1,487**

Note 20 Bank overdraft facilities

AMOUNTS IN KSEK	Group		Parent Company	
	2023	2022	**2023**	2022
Committed credit facilities	175,000	175,000	175,000	175,000
Credit drawn	–90,541	–117,928	–90,541	–117,928
Undrawn credit facilities	**84,459**	**57,072**	**84,459**	**57,072**

Current interest rate is 5.754% (4.176)

Note 21 Provisions for pensions

AMOUNTS IN KSEK	Group		Parent Company	
	2023	2022	**2023**	2022
Provisions for defined-benefit pension plans	3,528	3,457	–	–
Pension obligations covered by company-owned endowment policies	3,028	2,475	1,467	1,129
Undrawn credit facilities	**6,556**	**5,932**	**1,467**	**1,129**

Defined-benefit pension plans

Embellence Group has defined-benefit pension plans in Italy ("Trattamento di Fine Rapporto" or TFR). The defined-benefit pension plans arose in 2018 when Embellence Group AB made an acquisition in which the pension liability had previously been measured according to local accounting practices (Italian GAAP). -TFR is mandatory for Italian companies under Article 2120 of the Civil Code, and according to IAS 19 this type of plan is to be regarded as a defined-benefit pension plan (if the company has fewer than 50 employees). The remuneration to the employee depends on how long the employee works at the company and the salary received during this period.

Embellence Group established the opening balance as at 31 December 2018 and the resulting increase in liability (compared with Italian GAAP) was charged to equity under actuarial gains and losses. The net value of defined-benefit pension obligations in the Group is specified below.

AMOUNTS IN KSEK	Group	
	2023	2022
Provisions for defined-benefit pension plans	3,528	3,457
Total provisions	**3,528**	**3,457**
Present value of defined-benefit obligations	3,528	3,457
Net value	**3,528**	**3,457**
Changes in defined-benefit obligations		
Opening balance	**3,457**	**3,499**
Service cost in current period	680	773
Interest expense	126	36
Total recognised in the income statement	**806**	**809**

Note 21 Provisions for pensions, cont.

AMOUNTS IN KSEK	Group 2023	2022
Actuarial gains and losses, gross	120	–625
Total recognised in other comprehensive income	**120**	**–625**
Exchange rate changes	–12	286
Paid remuneration	–842	–512
Closing balance	**3528**	**3,457**

Actuarial gains and losses are recognised gross. The amount adjusted for tax is KSEK –120 (625), which is recognised in other comprehensive income.

SENSITIVITY ANALYSIS	Group 2023	2022
0.5% increase in discount rate	171	166
0.5% decrease in discount rate	–186	–181
0.25% increase in inflation rate	–35	–35
0.25% decrease in inflation rate	35	35
Actuarial assumptions:		
Discount rate	3.17%	3.77%
Expected wage growth	3.00%	3.00–6.90%
Inflation	2.00%	2.00–5.90%

Defined contribution pension plans

For salaried employees in Sweden, the ITP 2 plan's defined-benefit pension obligations provide a retirement pension and survivor's pension (alternatively a survivor's pension) through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 3, Classification of ITP Plans Financed through Insurance with Alecta, this is a defined-benefit plan covering several employers. The company does not have access to information that enables reporting of its proportional share of the plan's obligations, plan assets and costs for the 2023 financial year, and consequently the plan cannot be reported as a defined-benefit plan. The ITP 2 pension plan insured through Alecta is therefore reported as a defined contribution plan. The premium for the defined-benefit retirement and survivor's pension is calculated individually and depends on factors such as salary, previously earned pension and expected remaining years of service. Anticipated contributions in the next reporting period for the ITP 2 plans insured with Alecta total KSEK 5,618 (5,163). Alecta publishes information about its collective funding ratio on its website.

The Group's share of the total contributions to the plan and the Group's proportion of the total number of active members of the plan are 0.01087% and 0.01097% respectively (0.01535% and 0.01097%). The collective funding ratio comprises the market value of Alecta's assets as a percentage of the estimated insurance commitments calculated using Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective funding ratio is normally allowed to range between 125% and 175%. If Alecta's collective funding ratio is below 125% or exceeds 175%, measures must be taken to create the conditions for the funding ratio to return to the normal range. If the funding ratio is low, one measure may be to raise the agreed price for new policies and increases in existing benefits. In the case of a high funding ratio, one measure could be to introduce premium reductions. At year-end 2023, Alecta's surplus in the form of the collective funding ratio was 158% (172%).

Note 22 Deferred tax liabilities

AMOUNTS IN KSEK	Group 2023	Group 2022
Deferred tax liabilities		
At 1 January	15,336	14,390
Provisions made during the year	1,391	910
Utilised during the year	–143	–
Translation difference	17	36
At 31 December	**16,601**	**15,336**
Total carrying amounts of deferred tax liabilities		
Temporary differences relating to tangible non-current assets	3,544	3,528
Attributable to untaxed reserves	6,739	5,408
Attributable to Group surpluses on intangible non-current assets	5,932	6,010
Other	386	390
Total	**16,601**	**15,336**

As of December 31, 2023, the deferred tax liability related to right-of-use assets amounted to MSEK 10.7 (2.5). In the balance sheet, the deferred tax liability related to right-of-use assets is netted against the deferred tax asset related to lease liabilities.

Note 23 Untaxed reserves

AMOUNTS IN KSEK	Parent Company 2023	Parent Company 2022
Tax allocation reserve 2021	3,000	3,000
Tax allocation reserve 2022	5,123	5,123
Tax allocation reserve 2023	9,490	–
Total	**17,613**	**8,123**

Note 24 Financial assets and liabilities

AMOUNTS IN KSEK	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Assets in the balance sheet	Amortised cost	Amortised cost	Amortised cost	Amortised cost
Financial non-current assets	3,244	2,662	1,467	1,129
Accounts receivable – trade	93,416	98,922	–	–
Cash and cash equivalents	37,895	66,228	–	–
Total	**134,555**	**167,812**	**1,467**	**1,129**

AMOUNTS IN KSEK	Interest rate	Group 2023	Group 2022	Parent Company 2023	Parent Company 2022
Liabilities in the balance sheet		Amortised cost	Amortised cost	Amortised cost	Amortised cost
Bank overdraft facility	4.18%	90,541	117,928	90,541	117,928
Liabilities to credit institutions	4.75–7.04%	72,385	89,537	72,385	89,537
Other interest-bearing liabilities	3.50%	21,402	22,171	21,402	22,171
Accounts payable		53,315	48,925	1,136	532
Total		**237,643**	**278,561**	**185,464**	**230,168**

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts specified in the tables are the contractual, undiscounted cash flows. Future cash flows in foreign currency have been measured using the exchange rate prevailing on the balance sheet date and future cash flows relating to variable interest rates were calculated using the rate prevailing on the balance sheet date.

	Group							
	2023				2022			
AMOUNTS IN KSEK	Less than 1 year	1–5 years	Over 5 years	Total	Less than 1 year	1–5 years	Over 5 years	Total
Maturity profile of financial liabilities								
Lease liabilities	15,791	33,951	16,233	65,975	16,914	40,029	19,891	76,834
Bank overdraft facility	90,541	–	–	90,541	117,928	–	–	117,928
Liabilities to credit institutions	17,909	63,809	–	81,718	14,758	74,779	–	89,537
Other interest-bearing liabilities	21,527	–	–	21,527	–	22,171	–	22,171
Accounts payable	53,315	–	–	53,315	48,925	–	–	48,925
Total	**199,082**	**97,760**	**16,233**	**313,075**	**198,525**	**136,979**	**19,891**	**355,395**

	Parent Company							
	2023				2022			
AMOUNTS IN KSEK	Less than 1 year	1–5 years	Over 5 years	Total	Less than 1 year	1–5 years	Over 5 years	Total
Maturity profile of financial liabilities								
Bank overdraft facility	90,541	–	–	90,541	117,928	–	–	117,928
Liabilities to credit institutions	17,909	63,809	–	81,718	14,758	74,779	–	89,537
Other interest-bearing liabilities	21,527	–	–	21,527	–	22,171	–	22,171
Accounts payable	1,136	–	–	1,136	532	–	–	532
Total	**131,113**	**63,809**	–	**194,922**	**133,218**	96,950	**–**	**230,168**

Note 25 Change in liabilities to credit institutions and other liabilities

		Cash flow		Non-cash		
AMOUNTS IN KSEK	**1 Jan 2023**	New borrow-ing	Repayments	Reclassifications	Other	**31 Dec 2023**
Liabilities to credit institutions	89,537	–	–15,687	–	–1,465	72,385
Other interest-bearing liabilities	22,171	–	–	–	–769	21,402
Non-current lease liabilities	53,309	–	–	–15,115	4,613	42,807
Current lease liabilities	16,946	–	–16,358	15,115	588	15,115
Bank overdraft facility	117,928	–	–27,387	–	–	90,541
Total	**299,891**	**–**	**–59,432**	**–**	**1,791**	**242,249**

		Cash flow		Non-cash		
AMOUNTS IN KSEK	1 Jan 2022	New borrow-ing	Repayments	Reclassifications	Other	31 Dec 2022
Liabilities to credit institutions	–	94,535	–11,875	–	6,877	89,537
Other interest-bearing liabilities	–	–	–	–	22,171	22,171
Non-current lease liabilities	55,035	–	–617	–16,946	15,837	53,309
Current lease liabilities	11,999	–	–11,999	16,946	–	16,946
Bank overdraft facility	115,997	1,931	–	–	–	117,928
Total	**183,031**	**96,466**	**–24,491**	**–**	**44,885**	**299,891**

Note 26 Accrued expenses and deferred income

	Group		Parent Company	
AMOUNTS IN KSEK	**2023**	2022	**2023**	2022
Liabilities for salaries and holiday pay, social security contributions	27,752	27,198	3,381	4,306
Bonuses to customers	2,879	4,592	–	–
Restructuring costs	1,029	6,395	427	2,506
Other	–	17,341	655	862
Total	**47,881**	**55,526**	**4,463**	**7,674**

Note 27 Provisions for warranties

AMOUNTS IN KSEK	Group	
	2023	2022
At 1 January	777	868
Utilised during the year	–777	–868
Provisions made during the year	441	777
At 31 December	**441**	**777**

Note 28 Pledged assets and contingent liabilities

AMOUNTS IN KSEK	Group		Parent Company	
	2023	2022	**2023**	2022
Pledged assets				
Floating charges	90,250	90,250	–	–
Property mortgages	99,750	99,750	–	–
Shares in Group companies	583,713	698,120	511,138	511,138
Total	**773,713**	**888,120**	**511,138**	**511,138**

Pledged assets relate to the Parent Company's overdraft facility.

Contingent liabilities

The Group has no contingent liabilities.

Note 29 Adjustments for non-cash items

AMOUNTS IN KSEK	Group		Parent Company	
	2023	2022	**2023**	2022
Change in inventory obsolescence reserves	1,422	–7,650	–	–
Exchange rate differences	–1,654	11,292	–1,466	3,509
Other	–2,639	–1,315	338	258
Total	**–2,871**	**2,327**	**–1,128**	**3,767**

Note 30 Warrant programmes

A summary of the Group's warrant programmes is presented below.

Incentive programme for the Board of Directors

The 2020 incentive programme for the Board of Directors was issued in July 2020 and encompasses a series of warrants that are to be transferred to the Board members with a vesting period of four years, after which the holder can exercise the warrants to subscribe for shares. The General Meeting resolved to issue and subsequently transfer up to 400,000 warrants. The exercise price is SEK 29.20 and the warrants can be exercised between 1 August 2024 and 31 October 2024. Participants in the programme acquire the warrants at market value and therefore no share-based payment arises.

Incentive programme for executive management

LTIP 2020 was issued in July 2020 and encompasses a series of warrants that are to be transferred to members of executive management with a vesting period of four years, after which the holder can exercise the warrants to subscribe for shares. The General Meeting resolved to issue and subsequently transfer up to 1,600,000 warrants. The exercise price is SEK 29.20 and the warrants can be exercised between 1 August 2024 and 31 October 2024. Participants in the programme acquire the warrants at market value and therefore no share-based payment arises.

Incentive programme 2022

The 2022 Annual General Meeting resolved to introduce LTIP 2022, an incentive programme for certain members of executive management and consultants through issuing a maximum of 176,000 warrants with the right to subscribe for 176,000 new shares in the company. 45,500 warrants were subscribed in the second quarter of 2022, corresponding to 0.20% of the total number of shares. The exercise price is SEK 39.85 and the warrants can be exercised from 1 June 2025 up through 30 June 2025. The warrants have been measured at market value using the Black & Scholes valuation model and participants in the programme acquired the warrants at market value, and thus no share-based payments arose. The estimated fair value on the award date for warrants awarded was SEK 6.57.

Warrants awarded during the year

	Group	
	2022	2021
At 1 January	**1,244,285**	**1,198,785**
Awarded during the year	–	45,500
Options repaid	–90,909	–
At 31 December	**1,153,376**	**1,244,285**

The remaining weighted average term of outstanding warrants at the end of the period was 1.6 years

Fair value of warrants awarded

The estimated fair value on the award date for warrants awarded in 2020 was SEK 3.30 per warrant. The fair value of warrants awarded in 2022 was SEK 6.57 per warrant. The fair value on the award date is estimated using an adapted version of the Black-Scholes model. This includes a Monte Carlo simulation model that takes into account the exercise price, the term of the warrant, its dilution effect (if material), the share price on the award date and expected volatility in the share price, the expected dividend yield, a risk-free interest rate for the term of the option as well as correlation and volatility for a group of comparable companies.

Note 31 Proposed distribution of earnings

Funds at the disposal of the AGM according to the Parent Company balance sheet (KSEK):

Share premium reserve	101,878
Retained earnings	18,334
Net profit for the year	142,675
Total	**262,887**

The Board of Directors proposes that the earnings be distributed as follows:

Share premium reserve	101,878
Carried forward	161,009
Total	**262,887**

Note 32 Earnings per share

AMOUNTS IN SEK	**2023**	2022
Net profit for the period		
Earnings per share before dilution (SEK)	1.74	2.57
Earnings per share after dilution (SEK)	1.74	2.57
Performance measures used in the calculation of earnings per share before and after dilution (MSEK)		
Net profit for the period	**39.3**	**57.4**
Before dilution Weighted average number of ordinary shares for calculation of earnings per share before dilution	22,583,877	22,321,154
Warrants Adjustment for calculation of earnings per share after dilution attributable to warrants	–	–
After dilution Weighted average number of ordinary shares and potential ordinary shares used as denominator for calculation of earnings per share after dilution	22,583,877	22,321,154

Note 33 Events after the closing date

There were no significant events to report after the closing date.

The undersigned give their assurance that the consolidated financial statement and annual account have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and with generally accepted accounting policies in Sweden and provide a true and fair account of the Group's and company's financial position and earnings, and that the consolidated administration report and the administration report provides a true and fair account of the Group's and company's operations, financial position and earnings and describe the material risks and uncertainties faced by the companies that form the Group.

Borås, 15 April 2024

Magnus Welander
Chairman of the Board

Anneli Kansbod
Board member

Karin Dennford
Board member

Henrik Nyqvist
Board member

Christina Ståhl
Board member

Olof Svensk
CEO

Our Audit Report was issued, 15 April 2024
PricewaterhouseCoopers AB

Patrik Resebo
Authorised Public Accountant

Auditor’s report

Unofficial translation
To the general meeting of the shareholders of Embellence Group AB (publ),
corporate identity number 556006-0625

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Embellence Group AB (publ) for the year 2023. The annual accounts and consolidated accounts of the company are included on pages 57-94 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2023 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2023 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-47 and 97. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of Embellence Group AB (publ) for the year 2023 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company´s organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Gothenburg, 15 April 2024
PricewaterhouseCoopers AB

Patrik Resebo
Authorized Public Accountant

Definitions

Share of premium
Net sales of premium products divided by total net sales.

No. of employees
Total number of employees included on Embellence Group's payroll at the end of the period.

Gross margin premium
Gross profit from premium products divided by net sales of premium products.

Gross profit premium
Net sales less costs of goods sold for premium products.

EBITA
(Earnings before interest, taxes and amortisation). Operating profit/loss before amortisation of intangible assets.

EBITA margin
EBITA divided by net sales.

EBITDA
(Earnings before interest, taxes, depreciation and amortisation). Operating profit/loss before depreciation, amortisation and impairment.

Adjusted EBITA
EBITA adjusted for items affecting comparability.

Adjusted EBITA margin
Adjusted EBITA divided by net sales.

Items affecting comparability
Material costs that impact comparability of accounting periods. These items include, but are not limited to, restructuring costs, listing costs, acquisition costs and losses in connection with divestments of operations.

Net debt
The sum of non-current interest-bearing liabilities, non-current lease liabilities, current interest-bearing liabilities, current lease liabilities, liabilities and receivables against Group companies and bank overdraft minus cash and cash equivalents.

Net debt/EBITDA
Net debt divided by EBITDA, rolling 12 months.

Net debt/EBITDA excl. IFRS16
Net debt divided by EBITDA, rolling 12 months, excluding effects of the recognition of leases according to IFRS 16.

Net sales currency effect
Translation effects based on current exchange rates compared with exchange rates for the same period last year.

Net sales – organic growth
Change in net sales after adjustments for net sales that have arisen from acquired or divested operations, in constant currencies.

Premium sales
Premium sales shows sales of wallpaper for which the end consumer pays more than SEK 700 per roll as well as sales of textiles, Artscape's products and the majority of Pappelina's product range.

Earnings per share in SEK
Profit after tax divided by the normal number of shares.

Earnings per share in SEK after dilution
Earnings after tax divided by the average number of shares outstanding during the period plus the number of shares that would have been issued as an effect of the ongoing incentive programmes.

Equity ratio
Equity attributable to Parent Company shareholders as a percentage of total assets.

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GROUP