embellence
GROUP

ANNUAL REPORT 2021

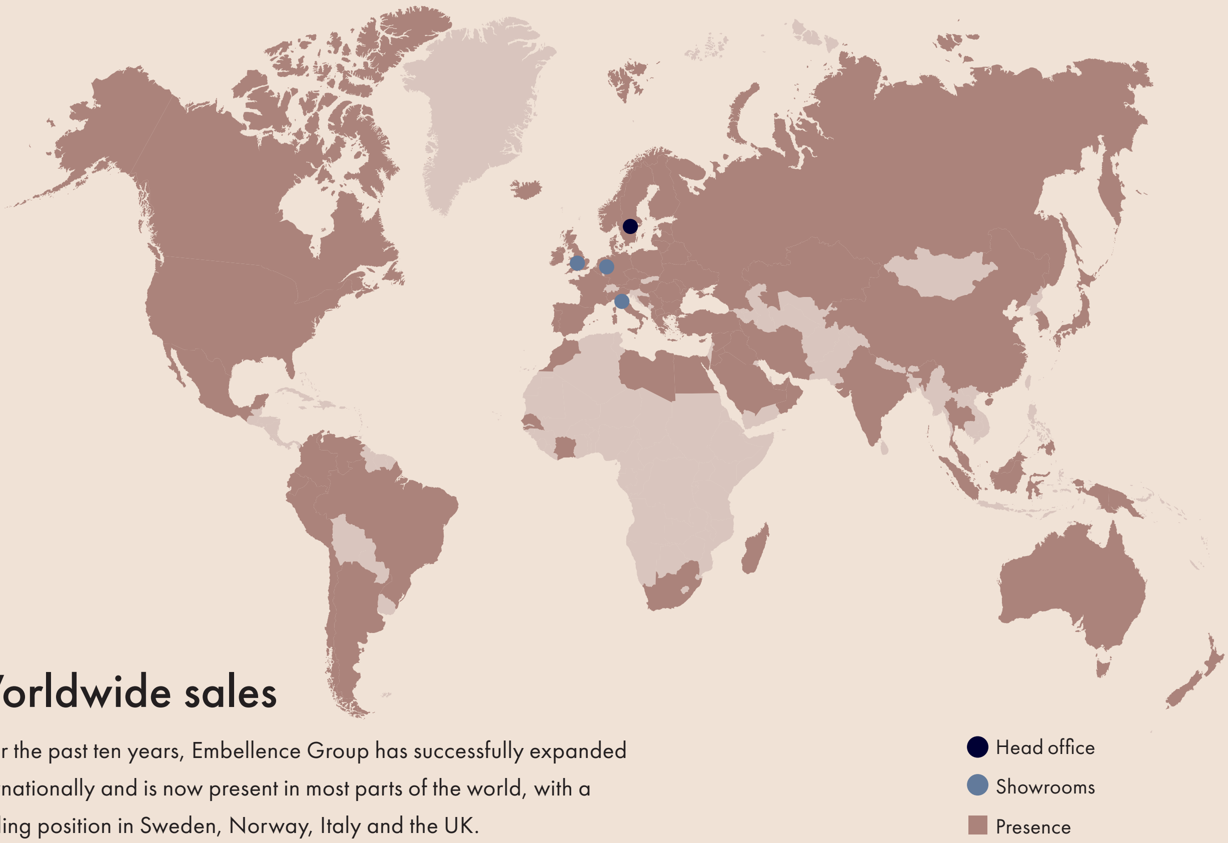
Contents

This is Embellence Group

Embellence Group acquires, owns and develops strong brands in wallpaper, textiles, rugs 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.

Our brands

The brand portfolio comprises Cole & Son, Wall&decò, Boråstapeter, Pappelina and Artscape. The brands comprise a total archive of approximately 17,000 prints – ranging from exclusive luxury designs to more timeless and classic styles.



Worldwide sales

Over the past ten years, Embellence Group has successfully expanded internationally and is now present in most parts of the world, with a leading position in Sweden, Norway, Italy and the UK.

History

1564
The "Rosenvinge" wallpaper pattern was designed. This was introduced 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.

2002
Embellence acquired the Swedish company Engblad & Co.

2005
Wall&decò was founded.

2008
Embellence Group acquired Cole & Son.

2010
Litorina acquired a majority interest in the Parent Company of Embellence Group.

2018
Embellence Group acquired Wall&decò
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2019
Cole & Son launched fabrics for upholstery and soft furnishings based on their most iconic prints. Pappelina launched direct-to-consumer e-commerce.

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.

The year in brief

Stable growth with favourable profitability
In 2021, sales amounted to MSEK 646.9, corresponding to growth of 13.5%. The adjusted operating margin was 15.4%. Overall, the performance was well in line with our financial goals and ambition of reaching sales of at least SEK 1.2bn by 2025, with an EBITA margin of at least 15%.

Acquisition of Pappelina
At the beginning of the year, we acquired the premium Pappelina brand, which produces and sells designer rugs made from plastic. The acquisition is a key step in our strategy to expand into related product categories.
At the end of the year, we acquired the assets of Dalaslöjden AB, which has manufactured Pappelina's rugs since 1999. The acquisition pertains to both of Dalaslöjden's production facilities, one in Leksand, Sweden, and one in Estonia, including inventories. The acquisition ensures control over the supply chain, which will enable improved efficiency, increased availability and faster flows.

Listing on First North Premier Growth Market
On 24 March 2021, the Embellence Group share was admitted to trading on First North Premier Growth Market. Overall, the listing will provide more opportunities for raising finance through access to capital markets. This strengthens the conditions for taking a leading position in premium home decor.

Major e-commerce investments
A major focus during the year was the development of each brand's e-commerce offering. Both Boråstapeter and Cole & Son launched online direct-to-consumer sales during the year.

Streamlined operations in Boråstapeter AB
During the year, a decision was made to split the subsidiary Boråstapeter AB into two subsidiaries, Boråstapeter AB and Borås Tapetfabrik AB. The aim of the change was to further clarify and focus the operational responsibility, where Boråstapeter AB focuses on brand, design, marketing and sales, while Borås Tapetfabrik AB focuses on product development and efficient production of high-quality wallpapers for various brands in the Nordics and Europe. The new organisation took effect on 1 January 2022.

New production facility in Italy
During the year, Wall&decò's new production facility opened in Cervia, Italy. The new facility, which also houses the brand's head office, will bring significant improvements in terms of productivity, efficiency and logistics.

Events after the end of the financial year

Acquisition of Artscape Inc.
In March 2022, the US company Artscape Inc. was acquired. Through this acquisition, Embellence Group has expanded its operations to also include exclusive pattern-based window film ("artwork for windows").

Cole & Son opened a flagship store in central London.
In early 2022, Cole & Son signed a lease for a new flagship store in Chelsea, London. The new store is scheduled to open in 2022.

MSEK	2021	2020
Group		
Net sales	646.9	569.9
EBITA	88.3	71.2
Adjusted EBITA	99.9	82.5
Profit before tax	74.3	62.4
Net profit for the period	59.3	43.1
Operating cash flow	62.1	67.1
EBITA margin, %	13.7%	12.5%
Adjusted EBITA margin, %	15.4%	14.5%
Net debt	125.0	101.3
Net debt/EBITDA RTM	1.2	1.1
Equity ratio, %	47.1%	41.3%
Earnings per share for the period before dilution (SEK)	2.77	2.02
Earnings per share for the period after dilution (SEK)	2.72	2.02
No. of employees	236	200

For definitions, see page 90.

PAPPELINA

Our brands

BORÅSTAPETER

BORÅSTAPETER WAS FOUNDED in the early 1900s 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, of which about 1,000 are currently in production. New patterns are mainly developed internally, but also 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

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 Her Majesty Queen Elizabeth II 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.

Cole & Son was established in 1875 by John Perry in Islington, London. In the 19th century, Cole & Son was the supplier to several renowned printing companies and was particularly known for its high-quality block print and well-made stripes and Jaspe technique. At an early stage, the company developed production that was also able to handle pan-coating and flocking to enable the production of wallpaper that imitated cut velvet. Today, the Cole & Son archive consists of approximately 1,800 block print designs, 350 screen print designs and a huge quantity of original drawings and wallpapers.

Since 2019, several collections have also been launched as textiles for upholstery and soft furnishings.

www.cole-and-son.com

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 portfolio also includes two collections of innovative performance wallpaper, the "OUT system" and "WET system," which combine design with technical solutions. The OUT system contains wallpapers developed for outdoor walls and façades, while the WET system is adapted for damp environments such as bathrooms.

www.wallanddeco.com

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 in Sweden by dedicated and experienced craftspeople who use exclusively Swedish raw materials in the production. The rugs are manufactured from certified and non-toxic PVC, and are non-allergenic, easy to clean, and water and UV-light resistant.

In addition to exclusive plastic rugs, Pappelina also offers other home accessories such as blankets, cushions and trays.

www.pappelina.com

artscape

ARTWORK FOR YOUR WINDOWS.

ARTSCAPE IS A LEADING US MANUFACTURER of exclusive pattern-based window film ("artwork for windows"). The brand was founded in 1999 by Thomas Hicks, who is still the President of the company. To date, sales have mainly been focused on North America, where the company has a strong position in its niche.

www.artscape-inc.com

Stronger than ever

During Embellence Group's first year as a listed company, we delivered sales of MSEK 646.9, with an adjusted operating margin of 15.4%. We are therefore in line with our financial goals and ambition of reaching sales of SEK 1.2bn by 2025 and an EBITA margin of at least 15%.

It is not easy to summarise 2021 because so much happened. In January, we acquired Pappelina AB – our first acquisition outside the wallpaper category and a sign that we are broadening our offering. In February, we continued the process of changing the company name – from WallVision to Embellence Group. This will better indicate what kind of company we are, and are about to become – i.e. not only wallpaper offerings, but also rugs, upholstery fabrics, cushions and now also window films.

In March, we announced our decision to list on Nasdaq First North Premier. This is an important step for us to create exposure, recruit talent and gain better access to capital.

In the second quarter of 2021, we launched our own e-commerce sales for Cole & Son in the UK, and Boråstapeter in Sweden. Our aim was not primarily to sell direct to consumers, but to gain more consumer insight and create a better experience of our brands. All surveys indicate that consumers and interior designers in all markets start their journey online and we, and our brands, must be available there. This does not mean that all purchases will be completed there, far from it, but more and more customers are expecting to be able to buy directly. It is simple, convenient and, in some cases, perceived as more secure.

Following a very strong first half-year – 16% growth in the first quarter, and 33% in the second quarter – there was a slight slowdown in the third quarter. As vaccination rates increased, an upswing in travel led to weaker demand. In addition, we also noted an increase in supply chain disruptions.

While the year's initial major Brexit challenges for Cole & Son have stabilised and new procedures have been established, a generally fast-paced economy has created inflationary pressure. The costs for our most important input materials gradually increased in the second half of the year, and to protect our margins, we were forced to implement several price increases in early 2022. It is in times like these that our long-term investments in building strong brands pay off.

The year ended on a stable note with strong profitability, the result of hard work on cost control, mix and pricing in all companies. This enabled us to navigate despite strong inflationary pressure. We closed the year with positive growth of 13.5%, of which 3.9% was organic, and adjusted operating profit (EBITA) of 15.4%.

Overall, we have a strong year behind us, fully in line with our objectives when we announced our decision to list in March. The overall target is to double our sales between 2020 and 2025, with operating profit of at least 15%. Looking back on 2021, we can proudly say that we delivered fully in line with our strategy – and that we intend to continue doing so.

Finally, a few words about 2022. It goes without saying that our industry is also affected by the terrible war in Ukraine. Russia and Ukraine account for some 1.5% of Embellence Group's sales, but the war will probably affect demand in the surrounding countries as well. Exactly how, and to what extent, remains to be seen. One thing is certain, however: we are now facing another year that requires focus, cost control and preparedness.

Embellence Group's foundation is our fantastic brand portfolio – Boråstapeter, Wall&decò, Pappelina, Cole & Son and our latest addition, Artscape. By systematically investing in our brands, we are creating the conditions for financial sustainability and market differentiation. We are filling our brands with fantastic design, high quality and craftsmanship as well as a high level of service. The Managing Directors of each subsidiary is responsible for maintaining and strengthening the engagement of consumers, architects and interior designers all over the world.

Embellence Group's value is created by, and in, our brands. Based on this conviction, we will continue to double the company's sales to SEK 1.2bn by 2025. This will be achieved through organic growth of 3–5% per year as well as selective add-on acquisitions that are complementary to our brand position, geography and offering. We see great potential to take a leading position in the consolidation of a fragmented industry.

Last but not least, I would like to thank all of Embellence Group's employees for your fantastic work in 2021. Without your drive, commitment and passion, we would not be standing here today – stronger than ever!

Olle Svensk, CEO

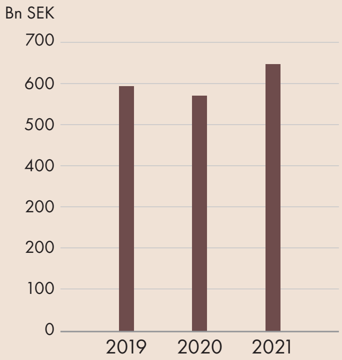
Financial goals

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 double 2020 net sales. This will be reached by organic growth and add-on acquisitions.

Comments

During the year, net sales amounted to MSEK 646.9, up 13.5% compared with the year-earlier period. Excluding income from Pappelina, which was acquired in Q1 2021, growth was 3.9%. Negative currency effects contributed –0.5%.



LEVERAGE

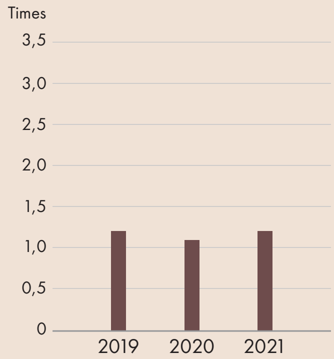
Embellence Group's interest-bearing net debt should not exceed 2.5 times EBITDA, although a temporary increase may occur in connection with acquisitions.

Comments

The debt/equity ratio (net debt/EBITDA) amounted to 1.2 times at the end of the year, which was under the target.

Excluding IFRS 16,* the debt/equity ratio was 0.6 times.

*see Definitions on page 90

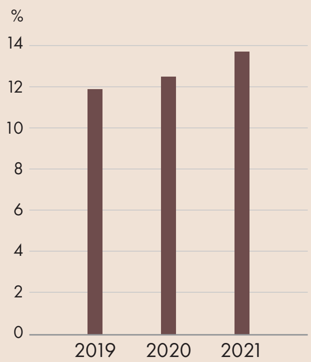


OPERATING MARGIN

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

Comments

In 2021, the EBITA margin was 13.7%, an improvement compared with the preceding year.



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 2022 Annual General Meeting

The Board of Directors proposes to the 2022 Annual General Meeting (AGM) that a dividend of SEK 0.80 per share be paid, corresponding to 36.8% of net profit for the year.

30–50%

OF NET PROFIT FOR THE PERIOD

PAPPELINA


WALL&DECÒ

Strategy

CONTINUED GROWTH IN THE PREMIUM SEGMENT

Embellence Group shall continue to grow in the premium segment since this segment has higher gross profit margins and a higher anticipated growth rate than the value segment. In addition to a shift in the sales mix, this also involves a continued broadening of the product portfolio into related areas, such as fabrics. This broadening could take place either within existing brands or through acquisitions.

Follow-up 2021:

The share of premium continued to increase during the year. The total share was 55%, compared with 49% in the preceding year. The main drivers were increased sales in Wall&decò, Cole & Son and Pappelina.

INCREASED INTERNATIONAL SALES

In 2021, the Nordics accounted for 52% of Embellence Group's total sales. In the premium segment, however, sales 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 by organic expansion into new markets and acquisitions of international players.

Follow-up 2021:

The share of sales outside the Nordics continued to grow in line with the strategy. In 2021, this share was 49%, up 3 percentage points compared with 2020.

GROWTH THROUGH ACQUISITIONS

Embellence Group shall continue to expand the brand portfolio through complementary acquisitions. The acquisition criteria include that potential target companies must be profitable premium brands with sales in interior design. In addition, the target company should have a solid design archive that complements the existing styles in Embellence Group's portfolio and can be used in a range of product categories.

Follow-up 2021:

Pappelina AB, which manufactures and sells designer rugs made from plastic, was acquired during the year. The acquisition is a key step in our strategy to expand into related product categories. After the end of the year, the US company Artscape Inc. was also acquired. Through this acquisition, Embellence has expanded its operations to also include exclusive pattern-based window film ("artwork for windows").

CLOSER CUSTOMER RELATIONSHIPS THROUGH DIGITALISATION

The relationship between the brands and end customers shall be further strengthened. This mainly involves increasing online direct-to-consumer sales. In addition to meeting customer preferences, online sales contribute to higher gross margins, stronger customer loyalty and a larger potential customer base. In addition, several initiatives and investments in the development of various digital services and tools are taking place with the aim of making it easier for customers to choose wallpaper.

Follow-up 2021:

During the year, Cole & Son and Boråstapeter launched online stores for customers in the UK and Sweden, respectively. This means that most of the Group's brands now conduct online sales in their respective home markets. Sales are generally showing favourable growth, although still from low levels. In 2022, online sales will also be expanded into other geographic markets.

Embellence's strengths

Embellence Group holds a leading position in a growing niche market. The company's main strengths include its strong growth with favourable profitability, a successful focus on premium, and an ongoing broadening of the offering.

Favourable growth and high profitability

Embellence Group's net sales rose 4.3% on average between 2019 and 2021 and amounted to MSEK 646.9 at the end of 2021. During the same period, the gross profit margin remained stable at around55%, while the adjusted EBITA margin rose from 13.2% to 15.4%. The main drivers of this improved profitability included a stronger focus on the premium segment and cost efficiencies.

Strong brands

Operations at Embellence Group are based on a portfolio of strong brands, all with a premium or luxury position in their respective niches. The common denominator is that consumers, architects and interior designers all over the world consider these brands relevant. Investments are continuously made in the portfolio, with a focus on premium design, high-quality products, online and offline inspiration, and a high level of service.

Strong market position

Embellence holds a strong market position and is a market leader in all home markets. In Sweden and Norway, the market share in the premium segment is 43% and 63%, respectively. In the value segment, the estimated market share is 47% and 42%, respectively. In Italy, the estimated market share in the premium segment is 23%, primarily through Wall&decò. The corresponding figure for the UK is 29%.

Successful focus on premium

By continuously investing in marketing, innovation and design – combined with acquisitions of international brands – the share of total sales attributable to premium has gradually increased in recent years. Compared with other segments, the premium segment shows higher growth and higher gross profit margins.

Extensive design archive

Embellence's combined design archive consists of around 10,000 designs from different eras and representing different styles. Overall, this offers good opportunities to remain relevant throughout different cycles and trend shifts. The archive includes both proprietary designs and in-licensed designs created by external designers.

Broader range

The extensive design archive enables expansion into other segments of the interior decoration market, including textiles, cushions, blankets and trays. All brands have commenced work in this area that will continue throughout 2022.

Geographic expansion and growing share of international sales Embellence's brands are sold in more than 90 countries, and there are also showrooms in Milan, London and Cologne. The company has been working actively to increase the share of international sales for some time. In 2021, Europe and Rest of World accounted for nearly 50% of net sales.

Well-invested production facilities

The company's largest production facilities are located in Borås, Sweden and Cervia, Italy. The facility in Borås has been upgraded in recent years by investing in more efficient flows and better conditions for digital printing. The facility in Cervia became operational in summer 2021 and is state-of-the-art in terms of efficiency and productivity.


BORÅSTAPETER

Business environment and market

Embellence Group's core business is wallpaper sales. Historically, the wallpaper market has mainly been driven by new construction, with most of the volumes comprising mass-produced low-price wallpaper. The wallpaper market has gradually been transformed and wallpaper is now considered more of an interior design product. The main drivers are a growing interest in interior design, increased prosperity and the globalisation of trends.

WALLPAPER MARKET SIZE*

The estimated size of the global market for wall coverings, which include interior paint, tiles and wallpaper, is approximately SEK 410bn on an annual basis, of which the estimated size of the wallpaper market is approximately SEK 70bn, and the interior paint market approximately SEK 340bn.

While total wallpaper volumes have decreased over time, the total market value has shown positive growth in recent years. Volumes have mainly declined in the value segment, while interest in premium wallpaper has increased. This trend is expected to continue in the coming years.

	Share	Estimated market value
Premium	15–20%	~SEK 10bn
Value		
Medium	35–50%	~SEK 30bn
Basic	35–50%	~SEK 30BN

The global wallpaper market can be divided into two segments: premium and value.

- **THE PREMIUM SEGMENT**
  mainly comprises wallpapers with a price per roll of more than SEK 700. The characteristics generally include a strong focus on design and innovation, a high level of service and high margins. Sales are mainly conducted through designers, architects and carefully selected partners. The premium wallpaper market has shown steady growth in recent years.

- **THE VALUE SEGMENT**
  comprises wallpapers with a price per roll ranging from SEK 0–699. The value segment can be divided into two sub segments: medium and basic. The basic segment comprises wallpaper rolls with prices ranging from SEK 0–299, while the price per roll in the medium segment ranges from SEK 300–699. Compared with the premium segment, the volumes are higher, albeit declining, and margins are generally lower. Sales are normally conducted through retailers and superstores.

Strong position in Europe – and leading in home markets*

The global wallpaper market is fragmented with a large number of mainly small-scale players. In addition to Embellence Group, the largest players in the premium segment include Sanderson Design Group in the UK, Schumacher in the US and Élitis in France.

Embellence Group is a leading player in Europe with strong positions in its home markets. In Sweden and Norway, Embellence Group's estimated market share in the premium segment is 43% and 63%, respectively. The corresponding share in the value segment is 47% and 42%, respectively. In the UK and Italy, Embellence Group is mainly active in the premium segment with an estimated market share of 23% and 29%, respectively.

Embellence's market share in home markets

	Premium segment	Value segment
Sweden	43%	47%
Norway	63%	42%
UK	29%	1%
Italy	23%	–

*Information about market size and Embellence Group's market share in the specified geographic markets has been obtained from a market research report conducted by QVARTS in 2018 on behalf of Embellence Group.

TRENDS AND DRIVERS

Interest in interior design has grown steadily in recent years and this trend is also expected to continue. The main drivers include increased prosperity, a growing interest in interior design that reflects a personal style, and the globalisation of design trends.

Increased prosperity

The growing interest in premium products is largely driven by global economic growth, wealth creation and a general rise in prosperity in the upper and middle classes.

Interior design that reflects a personal style

Interior design makes it possible to reflect personal style and taste. 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.

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.

PAPPELINA

Performance 2021

GROUP

Net sales and earnings
During the year, net sales amounted to MSEK 646.9 (569.9), up 13.5% compared with the year-earlier period. Excluding income from Pappelina, which was acquired in Q1 2021, growth was 3.9%. Negative exchange rate effects contributed –0.5%. Adjusted EBITA amounted to MSEK 99.9 (82.5). The improvement was mainly attributable to increased sales and a higher share of premium.

Net profit for the year amounted to MSEK 74.3 (62.4), resulting in earnings per share before dilution of SEK 2.77 (2.02).

Net financial items
For full-year 2021, net financial items amounted to MSEK –6.0 (–3.7). The annual change was primarily due to higher interest expense and negative currency effects.

Cash flow
Cash flow from operating activities was MSEK 62.1 (67.1). Operating cash flow was positively impacted mainly by improved operating income of MSEK 80.3 (60.0).

During the year, cash flow from investing activities totalled MSEK –53.2 (–17.4) and mainly pertained to the acquisition of Pappelina, the acquisition of the assets in Dalaslöjden AB, and some minor investments in production in Borås as well as in digital platforms. Cash flow from financing activities was MSEK –2.3 (–33), with the year-on-year change attributable to increased use of the overdraft facility. Cash flow for the year was MSEK 6.6 (16.7).

Financial position
The company's total assets amounted to MSEK 623.5 (513.1) at the end of the year. The equity ratio was 47.1% (41.3) and cash and cash equivalents amounted to MSEK 58.0 (49.0) at the end of the quarter. The company's net debt amounted to MSEK 125.0 at the end of the quarter, compared with MSEK 101.3 at the end of 2020. The change in net debt was due to an increase in long-term leases. The debt/equity ratio (net debt/EBITDA) was 1.2 times at the end of the quarter. (1.1 at 31 Dec 2020).

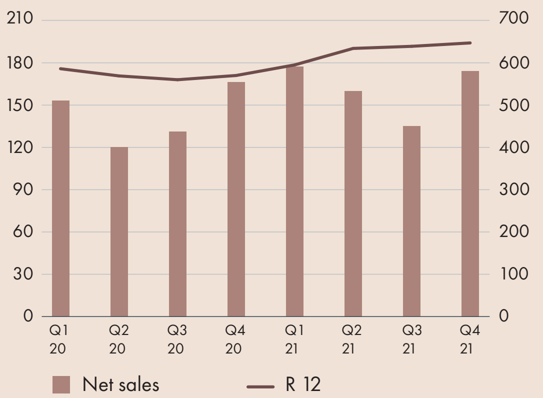
Net sales per segment

MSEK	**2021**	2020
Nordics	328.3	306.1
of which premium	29%	22%
Europe	241.8	209.6
of which premium	80%	81%
Rest of World	76.8	54.2
of which premium	85%	78%
Total	**646.9**	**569.9**

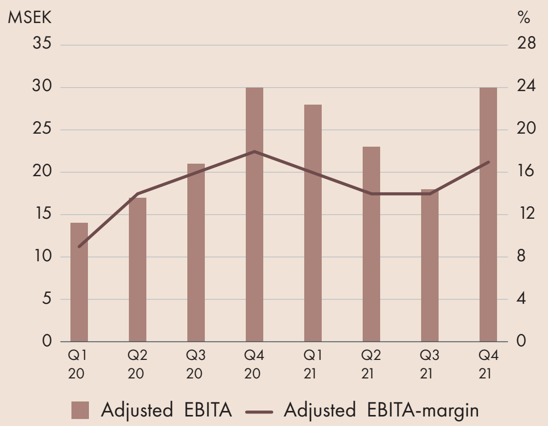
Adjusted EBITA per segment

MSEK	**2021**	2020
Nordics	52.8	46.6
Europe	37.7	27.8
Rest of World	9.4	8.0
Total	**99.9**	**82.5**

Net sales (MSEK)



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



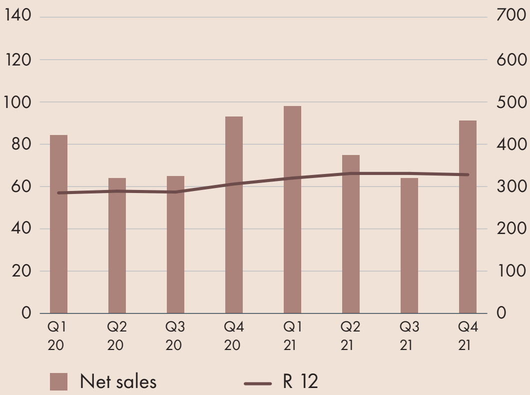
NORDICS

Improved margins due to increased share of premium

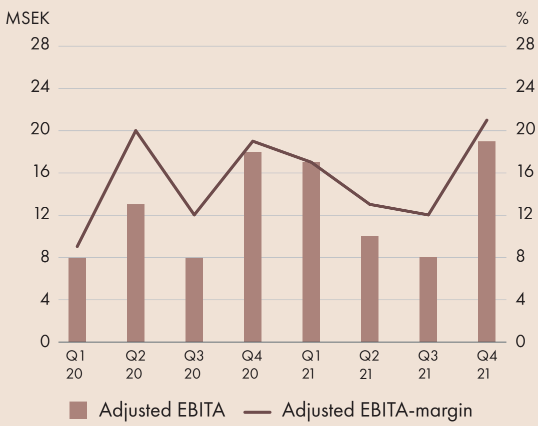
Net sales in the Nordics amounted to MSEK 328.3 (306.1), up 7.2% compared with the preceding year. The increase was mainly due to the acquisition of Pappelina AB. Adjusted EBITA amounted to MSEK 52.8 (46.6) and was positively impacted by the increased share of premium sales in the Nordics, which also offset the cost increases for input materials. The share of premium totalled 29% (22).

MSEK	**2021**	2020
Nordics		
Net sales	328.3	306.1
Adjusted EBITA	52.8	46.6
Adjusted EBITA margin	16%	15%
Share of premium	29%	22%

Net sales (MSEK)



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



EUROPE

Growth despite supply chain disruptions

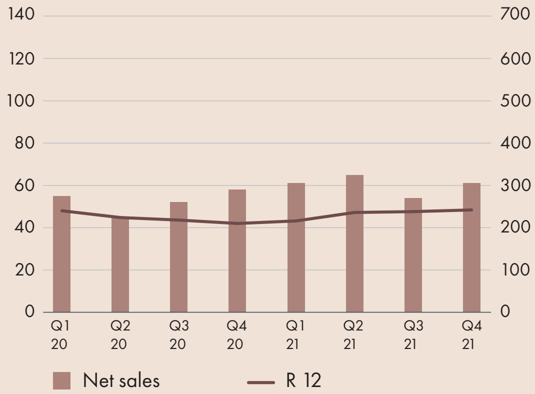
Net sales in Europe amounted to MSEK 241.8 (209.6), up 15.4% compared with the preceding year.

The add-on acquisition of Pappelina AB, as well as the positive trend for Boråstapeter, made a positive contribution to the increase in net sales. Organic growth in Europe developed slightly negatively, mainly due to lower demand in the UK and France. However, Italy and Germany showed strong growth during the year.

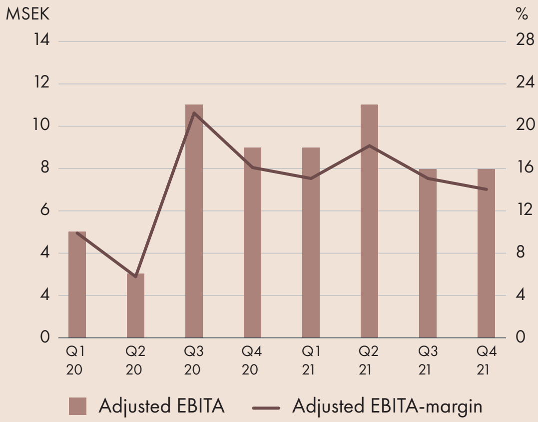
Adjusted EBITA amounted to MSEK 37.7 (27.8). The stronger earnings were partly attributable to higher profitability related to Pappelina. During the year, the share of premium totalled 80%, compared with 81% in 2020.

MSEK	**2021**	2020
Europe		
Net sales	241.8	209.6
Adjusted EBITA	37.7	27.8
Adjusted EBITA margin	16%	13%
Share of premium	80%	81%

Net sales (MSEK)



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



REST OF WORLD

Strong growth

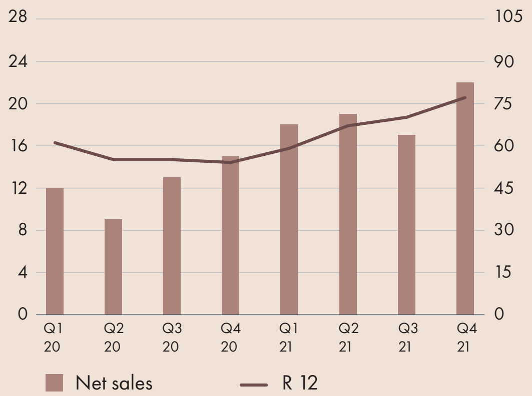
Net sales in Rest of World amounted to MSEK 76.8 (54.2), up 41.7% compared with the preceding year. This development is the result of positive organic growth as well as positive effects due to the add-on acquisition of Pappelina AB. The US, the largest market in the region, continues to perform well.

Adjusted EBITA amounted to MSEK 9.4 (8.0). Earnings were positively affected by higher net sales, but also negatively by launches and activities in e-commerce. The share of premium totalled 85%, compared with 78% in the preceding year. The increased share of premium sales was mainly driven by the add-on acquisition.

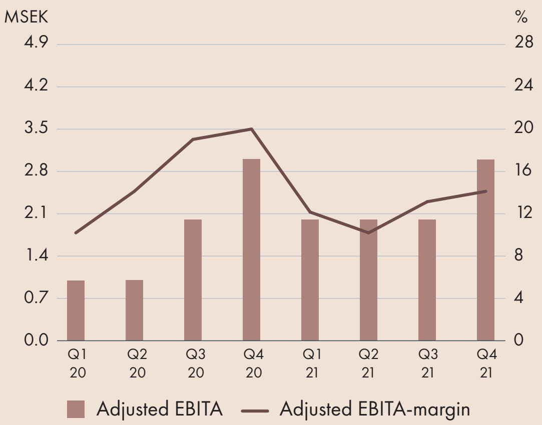
Performance measures

MSEK	**2021**	2020
Rest of World		
Net sales	76.8	54.2
Adjusted EBITA	9.4	8.0
Adjusted EBITA margin	12%	15%
Share of premium	85%	78%

Net sales (MSEK)



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



BORÅSTAPETER

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.

Page references:

Embellence Group and sustainability

Embellence Group believes that focused sustainability initiatives go hand-in-hand with long-term growth and high profitability. A key aspect of sustainability is continuous reduction of the company's direct and indirect environmental impact. Other topics with high relevance are related to social responsibility, ethics and anti-corruption.

All of Embellence's business operations apply a structured approach to these topics. Like other operational activities across the Group, sustainability initiatives have historically been largely decentralised, which has led to challenges in terms of comparisons and conclusions, and conducting uniform efforts at Group level. In 2021, these efforts were focused on implementing a more Group-wide approach and working method. This will also be our main focus as we move forward.

The largest direct source of our emissions is production, mainly in the company's own production facilities in Borås and Leksand in Sweden, and in Cervia in Italy. These facilities are working continuously to identify and address potential for improvement for both employees and the environment. A key sustainability-related area that we intend to monitor closely and investigate as we move forward is our external (outsourced) production.

THREE MATERIAL TOPICS

In 2021, a more structured, Group-wide approach to sustainability was initiated. Three material topics were identified:

A SUSTAINABLE VALUE CHAIN

Embellence Group aims to continuously reduce emissions and environmental impacts across its entire value chain.

A SUSTAINABLE ORGANISATION AND EMPLOYEE ENGAGEMENT

Embellence Group aims to be a responsible and attractive employer. Good social and working conditions are key issues.

ETHICS AND ANTI-CORRUPTION

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 take a zero-tolerance approach to all forms of corruption, which includes all types of bribery and extortion.

Highlights 2021

- Recruitment of a Sustainability Director for the Group
- Preparations for conducting a materiality assessment, which also includes systematic stakeholder dialogue
- Identification/baseline study of relevant sustainability aspects in the various brands, such as energy use in production
- Implementation and compilation of emissions calculations for Scope 1 and Scope 2

Organisation and responsibilities

The Head of Group Change Management and Sustainability is ultimately responsible for the Group's sustainability issues and ongoing sustainability initiatives. Group Management, under the leadership of the Head of Group Change Management and Sustainability, has been tasked with developing the Group's efforts to promote sustainability. Group Management proposes material sustainability topics to the Board and monitors ethical issues, risks and public opinion. In addition, Group Management has been tasked with proposing policies and revisions of existing policies to the Board.

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. In 2022, the aim is to continue working towards the implementation of joint targets and procedures in order to enable comparability and to create the best conditions for a positive development. As an important part of these efforts, collaboration across the Group will increase during the year, including the establishment of a Group-wide sustainability organisation with representatives from various parts of the Group.

A SUSTAINABLE VALUE CHAIN

Embellence Group's business model is based on acquiring, owning and developing strong brands in wallpaper, textiles, rugs and other home furnishings. The goal is to build strong, well-defined premium brands with distinct positions that are recognised by consumers, designers and architects worldwide – each with their own unique story and offering. Sustainability initiatives follow the entire value chain and cover a broad spectrum of topics, including materials, emissions, energy consumption and waste.

Embellence's overall objective is to continuously reduce the negative impacts of its own operations, while increasing transparency and clarity about the real impacts of the company's products. Achieving these targets requires access to data. At present, Embellence measures the Scope 1 and 2 emissions from the company's brands. The aim moving forward is to continue standardising and improving the data compiled by the Group's operations and brands – and to gradually start to identify both upstream and downstream Scope 3 emissions.

Group-wide targets

A review of the Group-wide sustainability targets commenced in 2021. The aim is to verify and possibly update these targets in 2022.

EMBELLENCE GROUP'S VALUE CHAIN

DESIGN & PURCHASING	PRODUCTION & LOGISTICS	MARKETING & SALES

Material topics

- Materials
- Emissions and hazardous substances
- Energy consumption
- Waste

TARGET	EXAMPLE OF ACTIVITIES 2021
Halve emissions by 2030 The Group's total Scope 1 and Scope 2 emissions shall be reduced by 50% by 2030	• Decision to switch from LPG to locally produced biogas (methane) at Boråstapeter's facility in Borås • Established operations at a new facility in Italy that is energy self-sufficient
Increased transparency about environmental impacts Disclosure of brand-specific emissions at item level as of 2023	• Calculated and disclosed the Group's Scope 1 and Scope 2 emissions and established procedures for subsequent processes • Planned additional organisational and operational changes to enable reliable and complete data processing
Phase-out of all single-use, petroleum-based plastics All use of single-use, petroleum-based plastics shall be eliminated by 2030. Petroleum-based raw materials shall be replaced by recyclable or renewable materials.	• Pappelina switched to cardboard packaging instead of plastic • Cole & Son switched to paper packaging instead of plastic for samples • Identification of additional measures to be evaluated for the elimination of single-use, petroleum-based plastics

Proactive efforts to reduce GHG emissions

All operations are working proactively to identify initiatives that can lead to reduced emissions. Access to data makes it possible to focus initiatives and resources on the areas where they achieve the greatest value.

The largest source of direct emissions is the Group's production facilities.

Most emissions arise from the consumption of energy in production processes, and from inbound and outbound transport. The largest single source of greenhouse gas (GHG) emissions is Boråstapeter's production facility in Viared, which also accounts for the largest share of wallpaper production volume.

From LPG to locally produced biogas

One of the major causes of emissions when manufacturing wallpaper is drying. At the facility in Viared, there are about 30 dryers that run on LPG and are thereby responsible for relatively significant GHG emissions. A project commenced in 2021 with the aim of replacing LPG with biogas (methane) produced locally from manure. The project was granted funding by the Swedish Environmental Protection Agency during the year. The new system will be installed in 2022 and is expected to be operational in 2023. Initial estimates indicate that the shift will enable a considerable reduction in emissions and thereby negative impacts.

Active efforts to reduce energy consumption

All operations are working proactively to continuously reduce energy use. The measures include regular energy audits, a switch to LED bulbs and other ongoing investments in energy efficiency.

Boråstapeter's facility in Borås only uses electricity generated by wind. Much of the energy used in production, for printing and drying for example, is recovered by a heat exchanger and used to heat the premises.

During the year, Wall&decò's new facility in Cervia, Italy became fully operational. The facility is equipped with solar panels that generate more electricity than the facility uses. The surplus is sold to the electricity market. A study also commenced in Borås in 2021 to look into the possibility of installing solar panels.

Pappelina's production was previously outsourced to an external partner, Dalaslöjden AB. The assets of this company were acquired in 2021, comprising two production facilities – one in Leksand, Sweden and one in Estonia. A process to identify potential environmental and energy efficiencies has now commenced.

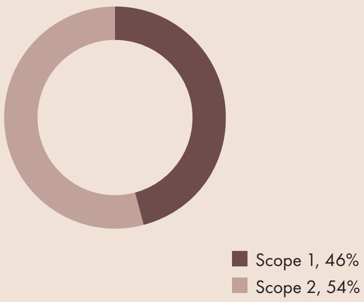
While Cole & Son does not handle its own production, the company is striving to reduce energy use in the premises used as a warehouse, distribution centre and office. The premises previously relied on gas for heating, but this system was replaced by a heat exchanger in 2021, which is leading to lower emissions and significantly reducing energy use.

Allocation of GHG emissions in accordance with the Greenhouse Gas Protocol

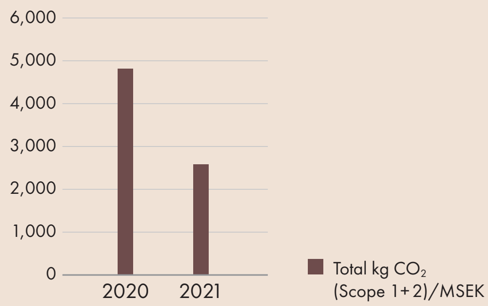
GHG emissions	2021	2020	Change, %	Change, actual figures
Total Scope 1 emissions, kg CO_2e	1,335,802	1,277,710	5%	58,092
Total Scope 2 emissions, kg CO_2e	378,073	1,482,056	–74%	–1,103,983
Total Scope 1+2 emissions, kg CO_2e	1,713,875	2,759,766	–38%	–1,045,891
Total kg CO_2e (Scope 1+2)/MSEK sales	2,649	4,843	–45%	–2,193

[incl. definition of Scope 1 and 2]

Allocation of Scope 1 and 2



Emissions reduction relative to sales



Sustainable materials

All of Boråstapeter's wallpapers are printed on either FSC-certified paper or non-woven material. The base paper is made from a blend of mechanically unbleached and chemically bleached pulp. The bleached pulp is elemental chlorine free (ECF) pulp.

The non-woven substrate is made from a mixture of synthetic fibres and blended paper pulp. This combination makes the material dimensionally stable and easy to use. The synthetic fibres come from recycled products such as PET containers, and the paper pulp comes from FSC-certified forests. The non-woven substrate is certified in accordance with Standard 100 by OEKO-TEX®.

Only water-based paints and varnishes are used in the production process, no heavy metals or substances that harm the environment. The production facility in Borås has its own water treatment plant. All paint residue is filtered from process effluents so that only clean and controlled clearwater is discharged into the municipal sewage system for final treatment.

Pappelina's rugs are made from PVC produced in Sweden. The rugs do not contain phthalates or any other toxic chemicals. The plastic is approved for food contact, and for toys in the EU and US. A process to study the possibility of using more sustainable materials commenced in 2021.

Wall&decò offers digitally printed wallpapers. The ink used is UL Greenguard-certified, which means it has been tested and scientifically proven to have low chemical emissions. In 2021, a project was initiated together with suppliers to evaluate substrate materials that are more sustainable.

All of Cole & Son's externally produced wallpapers are printed on FSC-certified materials.

Phase-out of single-use plastics

One of the Group-wide targets is to eliminate the use of single-use, petroleum-based plastics by 2030. Petroleum-based plastics are to be replaced by a recycled or renewable raw material. The relevant items range from packing material to wallpaper rolls and other packaging materials. In recent years, for example, Pappelina has stopped using plastic packaging for rugs and now uses boxes made from corrugated cardboard.

Cole & Son now uses paper packing for the samples it distributes instead of plastic.

Optimise and offset carbon emissions from transport

All brands are working proactively to streamline and optimise their transport and logistics flows – both inbound and outbound – with the aim of reducing GHG emissions from transportation.

The transport and logistics arrangements vary between each operation, but all of the Group's transport is essentially outsourced.

Boråstapeter offsets all of the carbon emissions from its transport. Cole & Son's inbound transport. Local same-day deliveries in London take place with the company's own electric car and the possibility of offsetting emissions from other outbound transport is being investigated. Wall&decò is also looking into the possibility of offsetting carbon emissions from transport in 2022. During the year, Pappelina commenced a project with the aim of gaining insight and knowledge of its transport-related emissions – and the possibility of carbon offsetting them.

For business travel, employees are encouraged to travel by train instead of flying or driving. Cole & Son has also launched a campaign to promote and financially support cycling to work. In Borås, electric vehicle charging infrastructure will be installed.

Waste

All operations are working to reduce the amount of waste and increase recycling rates. Wall&decò's production is digital and made-to-order, which minimises spillage. Of the waste that does arise, most is incinerated and used for energy recovery.

During the year, Cole & Son introduced a new paper press, which has significantly reduced its energy consumption and enabled sales of waste paper for recycling. In Borås, a structured process for sorting and recycling waste has been in place for some time. Boråstapeter is also working actively to achieve better monitoring of both production and sales – thereby reducing the number of roles held in stock – and ultimately scrapping.

"With love from Pappelina"

A partnership with UNHCR was initiated in 2020, in which Pappelina donated rugs to those in need. A large number of rugs were sent to Kampala in Uganda where they are used as sleeping mats, doormats or for storing food. The donated rugs had minor defects and would otherwise have been incinerated.

COLE & SON

Certifications

Wallpaper production is controlled and regulated by a range of certifications and labels that guarantee environmental accountability, safety, health and the highest quality.

Boråstapeter and Cole & Son only use FSC-certified materials from well-managed forests with Chain of Custody certification, and one new tree is planted for every tree used to make wallpaper. FSC certification also provides credible assurance that the entire production chain promotes biodiversity, preserves high conservation value forests and cultural relics, and safeguards the protection of forest workers by upholding their right to collective bargaining and maintaining their social and economic welfare. Boråstapeter's wallpapers also have CE marking, which guarantees that they comply with EU safety, health and environmental requirements. All manufacturing complies with EU environmental standards and the industry standards established by the Global Wallcoverings Association (IGI).Boråstapeter's wallpapers are fire-rated according to product standards and meet the product requirement for the emission of volatile organic compounds (VOC) into the atmosphere in accordance with M1 Emission Class For Building Materials, following testing by RISE. The results are below the limits of detection and quantification and also therefore the exposure limit values by a margin, which means that the wallpapers do not have a negative impact on the indoor climate. The wallpapers are also certified in accordance with SundaHus and Byggvarubedömningen. Wall&decò offers digitally printed wallpapers with UL Greenguard-certified ink.

Improved transparency for customers

Embellence's ambition is to help improve transparency around the emissions of its products. The target is to publish the company's carbon footprint as of 2023. A project commenced in 2021 with the aim of securing access to the data required for reporting. This project will continue in 2022.

Focus 2022

- Review and update the Group's overall sustainability strategy and targets
- Formalise and strengthen the Group's sustainability organisation and processes
- Improve data management processes and procedures, and work with change initiatives linked to sustainability
- Expand the use of the Code of Conduct across the Group to include sustainability dimensions for suppliers.

A SUSTAINABLE ORGANISATION AND EMPLOYEE ENGAGEMENT

Embellence 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. The skills and performance of employees are crucial to the achievement of our targets and the continued development of the company.

Embellence works proactively to develop its employee benefits. The company offers market-based terms of employment and benefits as well as opportunities for continuing professional development and a stimulating, safe and healthy workplace environment. In addition to external recruitment, the company also promotes internal mobility and career development.

Material topics

- Good working conditions
- Equality, diversity and non-discrimination
- Freedom of association and collective agreements
- Training
- Workplace health and safety

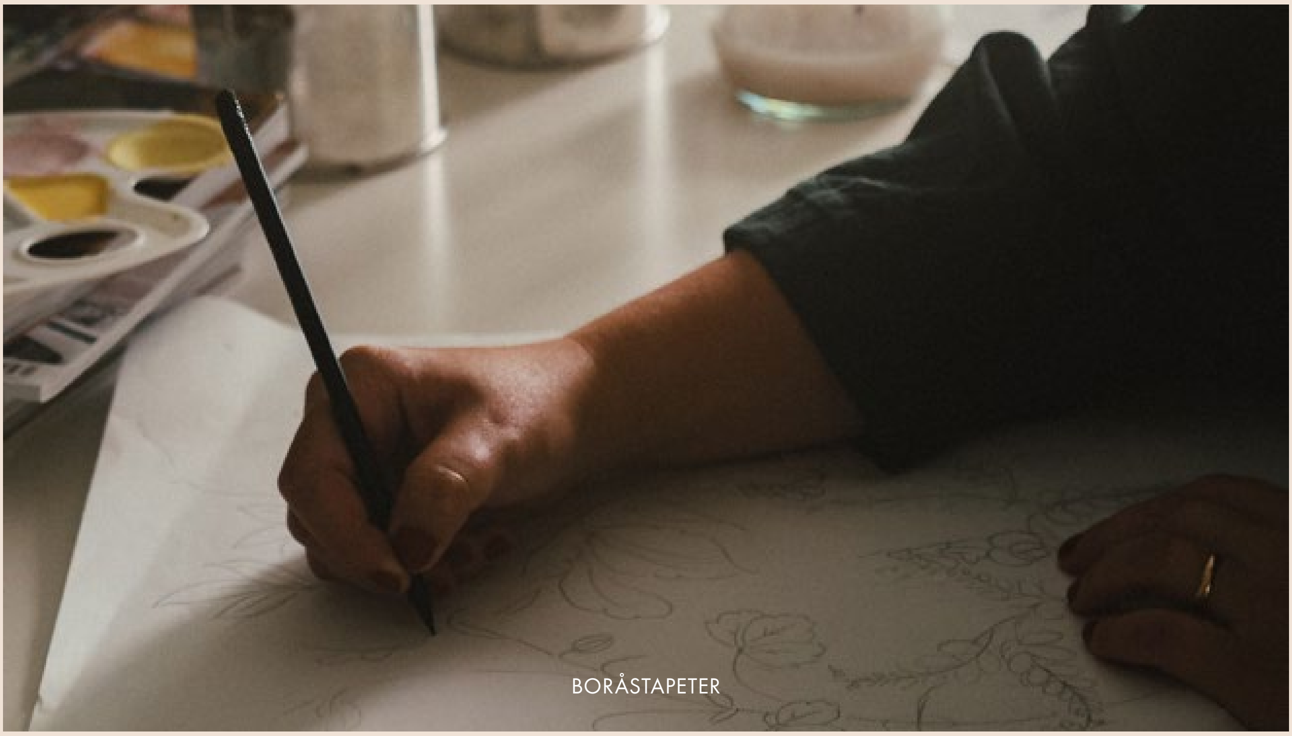
Professional development

All employees are offered continuing professional development. In addition to mandatory training in, for example, occupational health and safety, environmental requirements and protection, professional development based on role and skills profile is also offered.

Over the past two years, the pandemic has led to major challenges in terms of physical meetings, which meant that some training sessions had to be cancelled or postponed.

Equality and diversity

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. The company is committed to equality and diversity, and a clear position builds brand trust among both customers and employees.



BORÅSTAPETER

Regular employee satisfaction surveys

There is a strong focus on measuring and following up feedback and views from employees.

To date, these surveys have been carried out locally by each brand. As of 2022, joint and uniform guidelines will be introduced with the aim of increasing comparability.

Boråstapeter launched a new system, Winningtemp, during the year to measure and optimise employee engagement. The platform makes it possible to measure the well-being of employees based on a range of factors which, in combination, provide insights into the employee experience – from personal development and commitment to motivation and leadership. Follow-up enables greater transparency and increased opportunities to turn insights into concrete plans of action. Similar systems will also be rolled out in other operations.

Health and safety

The Group's companies work in various ways to promote workplace health and safety, including regular health checks and ergonomic training and by encouraging physical activity. All operations and brands also work extensively to create safe and secure workplaces for all. No one should fall ill or be injured due to their work. Key aspects of safety work include continuous identification of potential hazards, and learning lessons from previous incidents and accidents.

COVID-19

A strong focus in 2021 was to reduce the spread of COVID-19 and to ensure safe workplaces. A wide range of measures were taken during the year to protect employees, customers and suppliers to the greatest extent possible, while also allowing the operations to continue with as little impact as possible. All decisions were based on the precautionary principle, taking into account the recommendations issued by the relevant authorities.

Social conditions and human rights

The areas of social responsibility and human rights are not considered material topics for the Group. Embellence Group makes extremely few purchases from countries outside the EU or US, or from developing countries. The Group is working to identify related risks, but they have not been assessed as material to date.

Focus 2022

- Evaluate the aspects that the Group's social sustainability initiatives should focus on
- Establish methods for measuring and monitoring these aspects
- Identify and address areas for improvement for the Group's companies

Employees

Total no. of employees at 31 Dec 2021	236
New employees during the year	32
Employee turnover during the year	21

Gender distribution,

	2021
Total	**236**
Of whom women	131
Of whom men	101
Management teams	21
Of whom women	12
Of whom men	9
Board of Directors	5
Of whom women	1
Of whom men	4

Accidents and incidents

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

ETHICS AND ANTI-CORRUPTION

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 take a zero-tolerance approach to all forms of corruption, which includes all types of bribery and extortion.

As a complement to current legislation, Embellence's Board and Management have jointly formulated and adopted a framework that sets the guidelines for how Embellence should act as a responsible company and employer.

Code of Conduct

Embellence Group's Code of Conduct specifies guiding principles for ethics, anti-corruption and human rights as well as social and environmental responsibility. The Code of Conduct provides clear guidelines for such areas as gifts, drugs and alcohol, and potential conflicts of interest. The Code of Conduct applies to all employees with no exceptions, and Code of Conduct training is mandatory for all employees.

Code of Conduct for suppliers

A number of brands have introduced a separate Code of Conduct for suppliers. These codes establish principles for ethical and responsible conduct in accordance with accepted international standards. The codes set out principles such as minimum wages, regulated working hours and a ban on child labour.

Joint whistleblower system

If an employee discovers something that breaches a Code of Conduct, values, policies or applicable law, they can report it via an internal whistleblower system. The system enables employees to submit anonymous reports of misconduct that breaches the law or Embellence's Codes of Conduct, values or policies. The aim of the system is to ensure that any irregularities are brought to the attention of the company should communication via the closest line manager or HR function be not possible for any reason.

In 2022, the whistleblower system will be reviewed and made easier to access for both internal and external parties.

	2021
No. of discrimination-related matters reported in 2021	0

Focus 2022

- Review and systematise Code of Conduct training for all employees at both Group and company level
- Review and ensure expanded use of the Code of Conduct for suppliers by all companies
- Make an inventory of, and review, existing policies and guidelines to identify potential gaps and improvement potential

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 2021 on pages 24–33 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, 31 March 2022
PricewaterhouseCoopers AB

Patrik Resebo
Authorised Public Accountant


WALL&DECÒ

The share

The Embellence share was listed on Nasdaq First North Premier on 24 March 2021. The offering price was SEK 42 per share. At year-end, the price was SEK 34.4, corresponding to a decrease of 21%.

Share performance and return

Embellence Group's share reached its highest price for the year of SEK 51 on 2 June 2021. The lowest price was SEK 32.25 on 6 December 2021. At year-end, the share price was SEK 34.4, a decline of 21% in 2021. This corresponds to a market capitalisation of MSEK 736.

Just over 1.1 million Embellence Group shares were traded on Nasdaq Stockholm during the year, with a value of slightly more than MSEK 39, corresponding to an average daily turnover of just over 54,000 shares. During the year, shares were traded for an average MSEK 1.8 per day.

Shareholders

The number of shareholders amounted to 1,904 on 31 December 2021. The largest owner on the same date was Litorina, which holds 22.8% of the total number of shares and votes in the company. The remaining 77.2% is owned by institutional investors and private individuals in Sweden and abroad.

Share capital

Embellence Group's share capital amounted to MSEK 53.5, distributed among 21,400,000 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 a dividend of SEK 0.80 per share for 2021, or a total of MSEK 18,067,102. According to the goals adopted by the Board, Embellence Group is to pay an annual dividend to shareholders amounting to 30 to 50% of the profit for the period. When deciding on dividends, the company's financial position, cash flow and future prospects must also be taken into account. The Board's full dividend proposal is presented in the official notice of the AGM.

Largest shareholders on 31 Dec 2021	Holding	Holding, %
Litorina Coinvest 1 AB	4,875,227	22.78%
JCE Asset Management	2,247,000	10.50%
Nordnet Pensionsförsäkring AB	2,245,149	10.49%
T-Konsortiet AB	792,216	3.70%
FE Småbolags Sverige	731,247	3.33%
Försäkringsaktiebolaget Avanza Pension	640,409	2.99%
NQ Förvaltning AB	591,377	2.76%
Jerker Adeberg Holding AB	572,647	2.68%
Strand Småbolagsfond	567,000	2.65%
Sijoitusrahasto Aktia Nordic Mic	500,000	2.34%
Other shareholders	7,655,728	35.77%
Total	**21,400,000**	**100%**

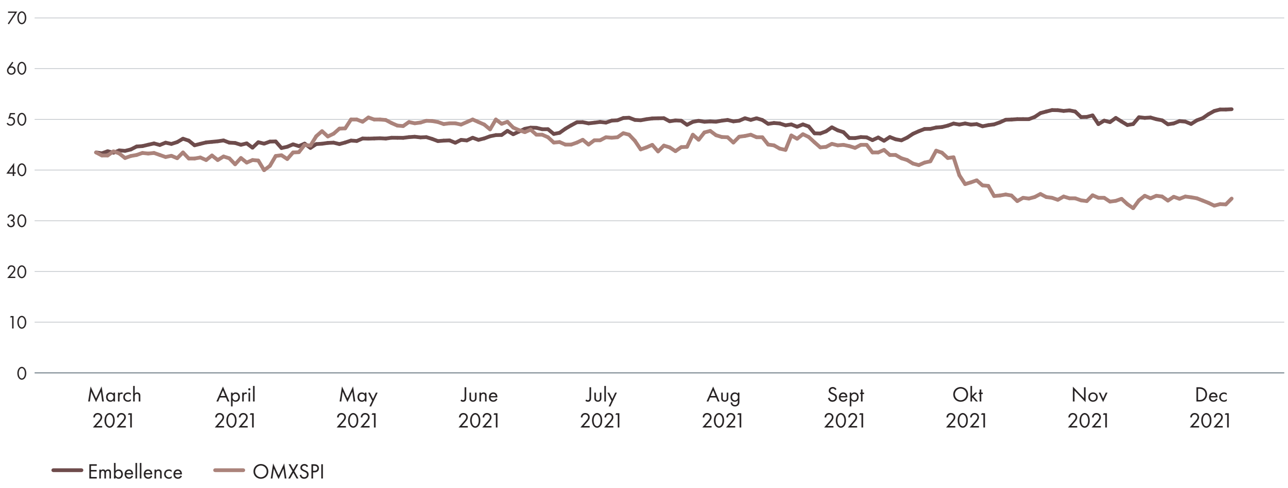
Share information

Trading venue Nasdaq First North Premier	
Ticker	Embell
ICB code	4040
ISIN code	SE0013888831
Trading unit	1
Market capitalisation at 31 Dec 2021, MSEK	736.10
Change during the year, %	–20.92
Yearly high, SEK	51.00
Yearly low, SEK	32.25

Share data

	2021
Earnings per share before dilution, SEK	2.77
Earnings per share after dilution, SEK	2.72
Dividend per share, SEK	0.80
Dividend payout ratio, %	36.77
Share price at year-end, SEK	34.40
Total number of shares outstanding at year-end	21,400,000

Share performance 2021



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 business area. 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 monthly 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. More detailed analysis, governance and follow-up of sustainability risks will be carried out as sustainability work develops and is structured. 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 also 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. Looking ahead, there will be greater focus on ensuring that each subsidiary has a clear Code of Conduct that staff are trained in and establishing tools for employee surveys throughout the Group.

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 50% of Embellence Group's net sales in 2020.

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 whose long-term effects on the general economy are unknown, such as the COVID-19 pandemic, the UK's withdrawal from the EU ("Brexit") and other 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. Embellence Group's sales to Russia have been suspended. These sales amounted to MSEK 12 in 2021. The Group makes no purchases from Russia and is not dependent on materials or input goods 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 exposed to risks related to trends and the company's designs and style

The company's operations and financial position are dependent on the company's end consumers, mostly private persons, continuing to find the company's service, products and style attractive, and the company thus strives to develop new styles. As part of these efforts, the company enters into designer partnerships. It is difficult to predict what trends, designs and styles will be popular among end consumers and this varies over time. Thus, the company and its business partners work proactively to adjust their products, designs and styles so that they are in line with the current trends. However, there is a risk that the company, or its business partners, could misjudge or fail to fully adjust their products, designs and styles to future design demand and that customers or end consumers will therefore not find the company's products attractive or that customers or end consumers may not find the company's products, designs and styles attractive for other reasons.

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. The risk of exposure to negative publicity and negative opinions has grown due to the many information and media channels that exist today, making it more difficult for Embellence Group to control how its brands are perceived in the market.

The company also works with "influencer marketing" by partnering with influential public profiles in design and interior decoration. If such individuals which the company collaborates with attract negative publicity, regardless of the cause, there is a risk that the company will be associated with such negative publicity, which could have an adverse impact on the company's reputation. Moreover, comprehensive negative publicity pertaining to regulatory or legal processes, significant breaches of laws or regulations, or failure to meet important contractual obligations or deadlines may damage Embellence Group's reputation and brand as well as undermine the confidence of customers and other stakeholders in Embellence Group.

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 2021, Embellence Group's largest customer accounted for approximately 4.5% 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 direct- to-consumer sales

Embellence Group's ambition is to increase its direct-to-consumer sales, and the Group has therefore implemented several initiatives in order to move closer to the end consumer, and there is a risk that the company, in whole or in part, may not succeed in increasing its direct-to-consumer sales. If the company's estimates, in whole or in part, turn out to be incorrect, this could have an adverse impact on the company's operations and earnings. In connection with the decision to have increased direct-to-consumer sales as an ambition, the company has also made assumptions and estimates regarding costs related to such sales, for example costs for establishing its own e-commerce platform. Such assumptions and estimates are subject to the same risks and uncertainties as stated above. Accordingly, there is a risk that the company's costs could be higher than the company has anticipated, which could have an adverse impact on the company's operations and earnings.

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, with the exception of the facility in Italy, where substrates are mainly provided by one supplier.

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 two facilities, one in Borås, Sweden and one in Cervia, Italy. 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 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. Wall&decò's and Cole & Son's design archives are fully digitalised, and the company has initiated work to digitise the Group's entire design archive. 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 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, Perswall, Pappelina 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.

Embellence Group is exposed to risks related to legal and administrative proceedings

Embellence Group may from time to time become involved in civil, work environment and administrative proceedings, which may concern large claims for damages or other claims for payment. Disputes may also arise in claims from customers that Embellence Group's products are deficient or flawed, and do not meet the quality standards expected by the customer. There is also a risk that a dispute relating to compensation liability for Embellence Group could arise if Embellence Group terminates a distributor or partnership agreement. Furthermore, the company may also be forced to initiate legal proceedings to protect the company's intellectual property rights. For example, the company has historically taken steps approximately two to three times semi-annually to prevent infringement of the company's trademarks. During the last 12 months, the Group has not been involved in any public proceeding, legal proceeding or arbitration (including any proceedings that are pending or threatened of which the Group is aware) that have had or could have an effect on the financial position or profitability of the Group.

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 2021, 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 either of Embellence Group's two 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.

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 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 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.

2021 AGM

The AGM was held on 25 February 2021. 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 of the Board to issue new shares. The authorisation entitles the Board to resolve to increase the company's share capital through the issue of new shares equivalent to a dilution of the number of shares outstanding on the date of the notice convening the AGM of up to 20%, calculated after full exercise of the proposed issue authorisation.

2022 AGM

Embellence Group's 2022 AGM will be held on 3 May. The Meeting will be held only through advanced voting (postal vote) pursuant to temporary legal regulations. No Meeting will be held with the opportunity to attend in person or by proxy. Shareholders who are included in the shareholders' register maintained by Euroclear Sweden AB no later than 25 April 2022, and who have notified the company of their attendance at the AGM by submitting their postal vote no later than Monday, 2 May 2022, may attend the Meeting.

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 25 February 2021, 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 AGM, 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 then are 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 member and appoint a new representative 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 AGM 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 2022 AGM

The composition of the Nomination Committee was announced on 13 December 2021. Ahead of the 2022 AGM, the Nomination Committee comprises the following members:

- Morten Falkenberg (Chairman of the Board),
- Jörgen Ekberg, appointed by Litorina,
- Karin Dennford, appointed by JCE Asset Management, and
- Jerker Adeberg, appointed by T-konsortiet AB.

The Nomination Committee held one meeting ahead of the 2022 AGM and also a number of follow-up meetings and discussions by e-mail, Teams and phone. The Nomination Committee's proposal to the 2022 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. The Board currently consists of five ordinary members, elected by the General Meeting.

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 2021.

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

As of 2022, the evaluation of the Board will be included in the work of the Nomination Committee. Once per year, the Board will also carry out an evaluation of its work, including annual planning.

Fees to the Board of Directors

The 2021 AGM resolved that fees to the Board should be paid in an amount of SEK 1,500,000, of which SEK 500,000 to the Chairman of the Board and SEK 250,000 to each Board member not employed by the company. No separate fees are to be paid for committee work by Board members.

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, Pär Ihrskog.

Remuneration of executive management

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

Incentive programmes

The company has two incentive programmes consisting of warrants. One programme is for the members of executive management and other key employees in the Group ("LTIP 2020") and the other programme is for certain Board members in the company ("Board Programme 2020"). LTIP 2020 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.

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 2021 AGM for period until the close of the 2022 AGM.

Fees to the auditors are to be paid according to approved invoice. Fees to PricewaterhouseCoopers AB totalled SEK 1,994,000 for the 2021 financial year and related to the audit engagement for the company, tax advice and other services.

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

Morten Falkenberg
Chairman of the Board

Born: 1958.
Chairman of the Board since 2021.

Education:
Bachelor's degree in Marketing and Commerce from Copenhagen Business School.

Main occupation
Board assignments and consultancy roles in private equity

Other assignments:
Vice Chairman of the Board of Velux Group. Board member of Aktiebolag Fagerhult, Caljan, Duni AB.

Previous assignments (selection):
Chairman of the Board of Lovene Dörr Aktiebolag. Board member and CEO of Nobia AB and Nobia Sverige AB.

Shareholding in the company:
113,728 shares and 153,032 warrants on 31 December 2021.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
11/13 meetings

Christina Ståhl
Board member

Born: 1970.
Board member since 2020.

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

Main occupation
CEO of Bagaren och Kocken AB and Go Shopping ApS

Other assignments:
Board member of Fjellsport AS, Fjellsport Group AS, Outnordic Invest AB, Outnorth AB and WA Wallvision AB (publ).

Previous assignments (selection):
Board member of Joy Boy Aktiebolag, MQ MarQet AB, MQ Sweden AB and Nobia AB. CEO of MQ Holding AB. Board member and CEO of MQ Retail AB and Joy Shop Aktiebolag.

Shareholding in the company:
6,000 shares and 76,196 warrants on 31 December 2021.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Mattias Letmark
Board member

Born: 1979.
Board member since 2018.

Education:
Master of Science in Engineering from the Royal Institute of Technology with focus on engineering physics as well as studies in economics at the Stockholm School of Economics.

Main occupation
Partner, Litorina Capital Advisors AB

Other assignments (selection):
Board member of Brödernas TopCo AB, JOHBECO AB, Layer Group AB and Sushi Yama Group AB. Board member and CEO of WA WallVision AB (publ).

Previous assignments (selection):
Board member of Fiskarhedenvillan, Grolls and Sveba Dahlén.

Shareholding in the company:
0 shares on 31 December 2021.

Independent of major shareholders
No

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.

Main occupation
CEO and owner in property sector

Other assignments:
Chairman of the Board of Borås Bygg o Kakel AB, Elitkontoret i Borås AB, Fasadsystem Stål i Borås AB and Fasadsystem Stål i Borås Holding AB. Board member of Borås Bar & Bistro AB, Fastighets AB Pantängen 17, Fessus förvaltning AB, InkInvest Aktiebolag, Kavallen Fastighets AB, NQ Förvaltning AB, Ramnås Fastigheter AB, Sibelius 1 AB, T-Konsortiet AB and WA Wallvision AB (publ). Chairman of the Board and CEO of NQ Fastigheter AB.

Previous assignments (selection):
Chairman of the Board of Segelsand Förvaltning AB and T-Konsortiet AB. Board member of Slutplattan POVLI 103188 AB.

Shareholding in the company:
11,598 shares on 31 December 2021.

Independent of major shareholders
No

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Paul Steene
Board member

Born: 1973.
Board member since 2020.

Education:
Master of Science in Engineering from Lund University with focus on mechanical engineering as well as studies in economics at Lund University.

Main occupation
Partner, Litorina Capital Advisors AB

Other assignments (selection):
Board member of Litorina Capital Advisors AB, Litorina V Holding AB, Litorina V Investment, RugVista Group AB (publ), Layer Group AB and WA Wallvision AB (publ).

Previous assignments (selection):
Board member of Fractal Design, Coromatic, Textilia, Pax and LGT Logistics.

Shareholding in the company:
0 shares on 31 December 2021.

Independent of major shareholders
No

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Johan Liljegren
Employee representative

Born: 1974
Board member since 2018.

Education:
Upper secondary education in graphic design with focus on printing processes

Main occupation
Printer at Embellence Group

Other assignments:

Shareholding in the company:
0 shares on 31 December 2021.

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 sedan 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)
Pappelina AB (Board member)
Director Cole & Son (Wallpapers) Ltd

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

Shareholding in the company:
2,335 shares and 633,756 warrants in LTIP 2020 in the company.

Pär Ihrskog
CFO/CIO

Born: 1970.
1971. CFO sedan 2019.

Education:
Master of Business Administration from Gothenburg School of Business, Economics and Law.

Other current assignments:
Boråstapeter AB (Board member)
Pappelina AB (Chairman of the Board)
Borås Tapetfabrik AB (Board member)
Wall&decò SRL (Board member)

Previous assignments (last five years):
Chairman of the Board of SKF (China) Co. Ltd. and SKF Distribution (Shanghai) Co. Ltd.

Shareholding in the company:
2,400 shares and 90,909 warrants in LTIP 2020 in the company.

Management

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

Past experience::
Lamina, Antenna Gallery

Lina Rickardsson
Creative Lead – Pappelina
Within Embellence since 2021

Past experience::
Founder, Pappelina

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

Past experience::
Management consultant Arthur D. Little

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

Past experience::
Electrolux

Lotta Samuelson
Managing Director – Borås Tapetfabrik
Within Embellence since 2021

Past experience::
Boxon Systems, Lexit Group Sweden

Christian Tomadini
Managing Director – Wall&decò
Within Embellence since 2021

Past experience::
LaCividina, Moroso

Christian Benini
Art Director – Wall&decò
Within Embellence since 2018

Past experience::
Founder of Wall&decò, Photogena

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 2021 on pages 42–49 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.

Opinions

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, 31 March 2022
PricewaterhouseCoopers AB

Patrik Resebo
Authorized 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 2021.

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 30 March 2022: 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. Wallpapers and textiles are also purchased from external manufacturers in Europe.

At the beginning of the year, the former subsidiary Borge AS was discontinued.

Sales and earnings

During the year, net sales amounted to MSEK 646.9 (569.9), up 13.5% compared with the year-earlier period. Excluding income from Pappelina, which was acquired in Q1 2021, growth was 3.9%. Negative exchange rate effects contributed –0.5%.

Adjusted EBITA amounted to MSEK 99.9 (82.5). In 2021, operating profit was charged with items affecting comparability totalling MSEK 11.5 (11.3), mainly related to acquisition costs and restructuring costs.

EBIT for 2021 amounted to MSEK 80.3 (66.0).

Net financial items for the year amounted to MSEK –6.0 (–3.7). The annual change was primarily due to higher interest expense and negative currency effects.

Cash flow

Cash flow from operating activities for the year was MSEK 98.9 (81.9). Operating cash flow was negatively impacted by changes in working capital, which were mainly due to increased accounts receivable and repayment of deferred VAT and employer contributions (a consequence of government support measures related to the pandemic).

During the year, cash flow from investing activities totalled MSEK –53.2 (–17.4) and mainly pertained to the acquisition of Pappelina AB and the acquisition of the assets in Dalaslöjden AB.

Cash flow from financing activities for the year was MSEK –2.3 (–33.0).

Cash flow for the year was MSEK 6.6 (16.7).

Financial position

The company's total assets amounted to MSEK 623.5 (513.1) at the end of the year. The equity ratio was 47.1% (41.3) and cash and cash equivalents amounted to MSEK 58.0 (49.0). The company's net debt amounted to MSEK 125.0 at the end of the year, compared with MSEK 101.3 at the end of 2020. The change in net debt was due to an increase in long-term leases. The debt/equity ratio (net debt/EBITDA) amounted to 1.2 times at the end of the year (1.1 at 31 December 2020).

Overview of earnings and financial position for Embellence Group

	2019	2020	2021
Net sales (MSEK)	594.3	569.9	646.9
Operating profit (EBIT) (MSEK)*	74.3	77.4	91.9
EBITA	70.8	71.2	88.3
Adjusted EBITA	78.2	82.5	99.9
Adjusted operating margin (%)**	13.2	14.5	15.4
Operating profit (MSEK)	66.9	66.0	80.3
Employees at year-end	194	200	236
Equity/assets ratio (%)***	46.8	41.3	47.1
Total assets (MSEK)	532.2	513.1	623.5

Definitions

* Operating profit excl. items affecting comparability.
**Adjusted operating profit (EBITA) in relation to net sales.
***Equity divided by total assets.

Significant events during the year

Acquisition of Pappelina

At the beginning of the year, we acquired the premium Pappelina brand, which produces and sells designer rugs made from plastic. The acquisition is a key step in our strategy to expand into related product categories. At the end of the year, we acquired Dalaslöjden AB, which has manufactured Pappelina's rugs since 1999. The acquisition pertains to both of Dalaslöjden's production facilities, one in Leksand, Sweden, and one in Estonia, including inventories.

Listing on First North Premier Growth Market

On 24 March 2021, the Embellence Group share was admitted to trading on First North Premier Growth Market. Overall, the listing will provide more opportunities for raising finance through access to capital markets. This strengthens the conditions for taking a leading position in premium home decor.

Major e-commerce investments
A major focus during the year was the development of each brand's e-commerce offering. Both Boråstapeter and Cole & Son launched online direct-to-consumer sales during the year.

Streamlined operations in Boråstapeter AB
During the year, a decision was make to split the subsidiary Boråstapeter AB into two subsidiaries, Boråstapeter AB and Borås Tapetfabrik AB. The aim of the change was to further clarify and focus the operational responsibility, where Boråstapeter AB focuses on brand, design, marketing and sales, while Borås Tapetfabrik AB focuses on product development and efficient production of high-quality wallpapers for various brands in the Nordics and Europe. The new organisation took effect on 1 January 2022.

New production facility in Italy
During the year, Wall&decò's new production facility opened in Cervia, Italy. The new facility, which also houses the brand's head office, will bring significant improvements in terms of productivity, efficiency and logistics.

Significant events after the end of the financial year

Acquisition of Artscape Inc.
Artscape Inc. was acquired on 4 March 2022. Through this acquisition, Embellence Group has expanded its operations to also include exclusive pattern-based window film ("artwork for windows"). Further information about the acquisition can be found in Note 31.

Cole & Son opened a flagship store in central London.
In early 2022, Cole & Son signed a lease for a new flagship store in Chelsea, London. The new store is scheduled to open in 2022.

Consequences of the war in Ukraine
The war in Ukraine is increasing the risk that demand will slow in neighbouring countries. Embellence Group's sales in Russia have been suspended. Sales in Russia totalled MSEK 12 in 2021.

Outlook
The wallpaper market in Sweden and Europe has historically, and from a value perspective, been relatively stable. However, in 2021 substantial sales fluctuations were still noted in some markets, largely as a result of the government measures taken to reduce infection rates. During the year, costs for input materials gradually increased and we were forced to raise prices to protect our margins. At the present time, we believe inflationary pressure will remain significant. 2022 will also be characterised by volatility and the impact that the war in Ukraine will have on demand for interior decoration is currently uncertain. We expect the significance of the home will increase for many people as we spend more time at home. The growing interest in interior decoration in the Nordics and internationally is creating excellent conditions for increased exports of the Group's brands, particularly in the premium segment.

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 116.0 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 and Note 23.

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 25–32.

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 236 employees, of whom 53.8% 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 2021, 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 listing of the Embellence share on First North Premier Growth Market and strategic decisions on acquisitions. 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 2022 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 36–37.

Parent Company

Embellence Group AB (publ) is the Parent Company of the Group. Embellence Group AB has four 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. The Board of Directors proposes to the 2022 AGM that a dividend of SEK 0.80 per share be paid.

Proposed distribution of profit

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

Share premium reserve	66,302,991
Retained earnings	–1,636,908
Net profit for the year	49,140,476
Total	113,806,559

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

Dividend	18,067,102
Carried forward	95,739,457
Total	113,806,559

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.

Consolidated income statement

AMOUNTS IN KSEK	Note	2021	2020
Net sales	2	**646,884**	**569,864**
Cost of goods sold	8	–287,834	–257,890
Gross profit		**359,050**	**311,974**
Selling expenses	8	–199,197	–182,848
Administrative expenses	8	–82,948	–65,381
Other operating income	7	5,147	3,970
Other operating expenses	7	–1,795	–1,688
Operating profit	3–8	**80,257**	**66,027**
Financial income	9	2,126	2,411
Financial expenses		–8,052	–6,063
Profit before tax		**74,332**	**62,375**
Tax	11	–15,010	–14,428
Net profit for the year from continuing operations		**59,321**	**47,947**
Profit/loss from discontinued operations	12	**–6**	**–4,816**
Net profit for the year		**59,315**	**43,131**
Other comprehensive income			
Actuarial gains and losses after tax		161	–111
Translation differences		12,705	–14,657
Total other comprehensive income		**12,866**	**–14,768**
Comprehensive income for the year		**72,181**	**28,363**
Earnings per share before dilution	33	**SEK**	**SEK**
Calculated on profit from continuing operations		2.77	2.24
Calculated on net profit for the year		2.77	2.02
Earnings per share after dilution	33	**SEK**	**SEK**
Calculated on profit from continuing operations		2.72	2.24
Calculated on net profit for the year		2.72	2.02

Consolidated balance sheet

AMOUNTS IN KSEK	Note	**31 Dec 2021**	31 Dec 2020
ASSETS			
Intangible non-current assets	13	208,796	167,937
Tangible non-current assets	14	69,786	65,366
Right-of-use assets	15	67,173	33,058
Deferred tax assets	16	634	4,675
Financial non-current assets	25	1,110	481
Total non-current assets		**347,499**	**271,517**
Inventories	18	86,864	85,221
Accounts receivable – trade	19, 25	104,763	83,921
Current tax assets		4,766	3,580
Other receivables		6,394	5,177
Prepaid expenses and accrued income	20	15,190	14,519
Cash and cash equivalents	25	57,987	49,007
Total current assets		**275,963**	**241,425**
Assets held for sale	12	–	136
Total assets		**623,462**	**513,078**
EQUITY AND LIABILITIES			
Share capital		53,500	53,500
Other contributed capital		48,803	39,387
Reserves		2,026	–10,840
Retained earnings, including net profit for the year		189,041	129,726
Equity attributable to Parent Company shareholders		**293,370**	**211,773**
Provisions for pensions	22	4,580	3,504
Deferred tax liabilities	23	14,390	8,408
Lease liabilities	15, 25, 26	55,035	26,315
Total non-current liabilities		**74,005**	**38,227**
Lease liabilities	15, 25, 26	11,999	6,511
Bank overdraft facility	21, 25, 26	115,997	107,877
Liabilities to controlling company	25	–	9,563
Accounts payable – trade	25	47,880	52,064
Current tax liabilities		5,310	2,040
Other current liabilities		23,763	22,235
Accrued expenses and deferred income	27	50,270	62,080
Provisions for warranties	28	868	650
Total current liabilities		**256,087**	**263,020**
Liabilities directly associated with assets held for sale	12	–	58
Total equity and liabilities		**623,462**	**513,078**

Consolidated equity

AMOUNTS IN KSEK	SHARE CAPITAL	OTHER CONTRIBUTED CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL EQUITY
Opening equity 1 Jan 2020	**53,500**	**847**	**3,928**	**190,574**	**248,849**
Net profit for the year	**–**	**–**	**–**	**43,131**	**43,131**
Other comprehensive income	–	–	–14,768	–	–14,768
Total comprehensive income	**–**	**–**	**–14,768**	**43,131**	**28,363**
Transactions with shareholders in their capacity as owners:					
Shareholder contributions received	–	34,584	–	–	34,584
Option premiums received	–	3,956	–	–	3,956
Group contributions paid	–	–	–	–116,770	–116,770
Tax on Group contributions paid	–	–	–	12,791	12,791
	–	**38,540**	**–**	**–103,979**	**–65,439**
Closing equity 31 Dec 2020	**53,500**	**39,387**	**–10,840**	**129,726**	**211,773**
Opening equity 1 Jan 2021	**53,500**	**39,387**	**–10,840**	**129,726**	**211,773**
Net profit for the year	–	–	–	59,315	59,315
Other comprehensive income	–	–	12,866	–	12,866
Total comprehensive income	**–**	**–**	**12,866**	**59,315**	**72,181**
Transactions with shareholders in their capacity as owners:					
Shareholder contributions received	–	9,416	–	–	9,416
	–	9,416	**–**	–	**9,416**
Closing equity 31 Dec 2021	**53,500**	**48,803**	**2,026**	**189,041**	**293,370**

Share capital

The number of shares outstanding is 21,400,000 (21,400,000) 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/assets ratio at year-end was 47% (41). The Board of Directors proposes to the 2022 AGM that a dividend of SEK 0.80 per share 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	2021	2020
OPERATING ACTIVITIES			
Operating profit from continuing operations		80,257	66,027
Adjustments for non-cash items:			
Depreciation and amortisation		27,166	26,710
Other	30	7,766	191
Total		**115,189**	**92,928**
Interest received		1,026	1,030
Interest paid		–8,052	–5,246
Tax paid		–9,372	–6,833
Cash flow from operating activities before changes in working capital		**98,791**	**81,879**
Cash flow from changes in working capital			
Changes in inventories		1,617	20,243
Changes in receivables		–19,907	–69,582
Changes in liabilities		–18,469	37,227
Cash flow from operating activities from discontinued operations		72	–2,705
Cash flow from operating activities		**62,104**	**67,062**
INVESTING ACTIVITIES			
Acquisition of intangible non-current assets		–9,034	–7,524
Acquisition of tangible non-current assets		–9,508	–9,456
Sales of tangible non-current assets		333	–
Acquisition of Group companies		–34,391	–
Acquisition of other financial non-current assets		–628	–458
Cash flow from investing activities from discontinued operations		–	40
Cash flow from investing activities		**–53,228**	**–17,398**
FINANCING ACTIVITIES			
Change in bank overdraft facility		8,120	–22,487
Repayment of lease liabilities		–10,431	–10,802
Option premiums received		–	247
Cash flow from financing activities from discontinued operations		–	–
Cash flow from financing activities		**–2,311**	**–33,042**
Cash flow for the year		**6,565**	**16,622**
Cash and cash equivalents at beginning of year		**49,007**	**34,388**
Exchange rate differences in cash and cash equivalents		**2,415**	**–2,003**
Cash and cash equivalents at end of year		**57,987**	**49,007**
The Group's undrawn credit facilities at year-end amounted to		**59,003**	**42,123**

Parent Company income statement

AMOUNTS IN KSEK	Note	2021	2020
Net sales	5	**11,888**	**7,541**
Operating expenses			
Administrative expenses	8	–28,401	–18,079
Other operating income	7	1,848	40
Other operating expenses	7	–27	–69
Operating profit/loss	3–8	**–14,691**	**–10,567**
Profit from interests in Group companies	9	26,872	18,461
Other interest income and similar profit/loss items	9	1,082	310
Interest expense and similar profit/loss items	9	–3,380	–1,052
Profit after financial items		**9,883**	**7,152**
Appropriations	10	45,232	–72,770
Profit/loss before tax		**55,115**	**–65,618**
Tax	11	–5,974	4,342
Net profit/loss for the year		**49,140**	**–61,276**
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR			
Net profit/loss for the year		49,140	–61,276
Other comprehensive income		–	–
Comprehensive income for the year		**49,140**	**–61,276**

Parent Company balance sheet

AMOUNTS IN KSEK	Note	31 Dec 2021	31 Dec 2020
ASSETS			
Intangible non-current assets	13	1,595	786
Interests in Group companies	17	408,557	353,346
Deferred tax assets	16	223	4,342
Financial non-current assets	25	870	367
Total non-current assets		**411,245**	**358,841**
Receivables from Group companies	25	–	80
Other receivables		339	165
Prepaid expenses and accrued income		1,420	210
Total current receivables		**1,759**	**455**
Cash and bank balances	25	–	9,363
Total current assets		**1,759**	**9,818**
Total assets		**413,004**	**368,659**
EQUITY AND LIABILITIES			
Share capital		53,500	53,500
Statutory reserve		10,000	10,000
Share premium reserve		66,303	56,887
Retained earnings		–1,637	59,639
Net profit/loss for the year		49,140	–61,276
Equity attributable to Parent Company shareholders		**177,306**	**118,750**
Untaxed reserves	24	**3,000**	**–**
Non-current liabilities			
Provisions for pensions	25	870	367
Total non-current liabilities		**870**	**367**
Current liabilities			
Bank overdraft facility	21, 25, 26	115,997	–
Accounts payable – trade		464	1,072
Current tax liabilities		2,260	–
Liabilities to Group companies	25	105,495	244,536
Other current liabilities		504	307
Accrued expenses and deferred income	27	7,107	3,627
Total current liabilities		**231,828**	**249,542**
Total equity and liabilities		**413,004**	**368,659**

Parent Company equity

AMOUNTS IN KSEK	SHARE CAPITAL	STATUTORY RESERVE	SHARE PRE-MIUM RESERVE	RETAINED EARNINGS	NET PROFIT FOR THE YEAR	TOTAL EQUITY
Opening equity 1 Jan 2020	**53,500**	**10,000**	**18,347**	**74,651**	**–15,012**	**141,486**
Transfer of the previous year's profit	–	–	–	–15,012	15,012	–
Shareholder contributions	–	–	34,584	–	–	34,584
Option premiums received	–	–	3,956	–	–	3,956
Net profit/loss for the year	–	–	–	–	–61,276	–61,276
Total changes in wealth recognised in equity excluding transactions with company owners	**–**	**–**	**38,540**	–15,012	**–46,264**	**–22,736**
Closing equity 31 Dec 2020	**53,500**	**10,000**	**56,887**	**59,639**	**–61,276**	**118,750**
Opening equity 1 Jan 2021	53,500	10,000	56,887	59,639	–61,276	118,750
Transfer of the previous year's profit	–	–	–	–61,276	61,276	–
Shareholder contributions	–	–	9,416	–	–	9,416
Net profit for the year	–	–	–	–	49,140	49,140
Total changes in wealth recognised in equity excluding transactions with company owners	–	–	9,416	–61,276	110,416	58,556
Closing equity 31 Dec 2021	53,500	10,000	66,303	–1,637	49,140	177,306

Parent Company cash flow

AMOUNTS IN KSEK	Note	2021	2020
OPERATING ACTIVITIES			
Operating loss		–14,691	–10,567
Adjustments for non-cash items:			
Depreciation and amortisation		247	121
Other	30	223	633
Total		**–14,221**	**–9,813**
Dividends received from interests in Group companies		26,872	21,461
Interest received		1,082	44
Interest paid		–3,100	–1,052
Tax paid		–	–
Cash flow from operating activities before changes in working capital		**10,633**	**10,640**
Cash flow from changes in working capital			
Changes in receivables		–1,304	49,942
Changes in liabilities		–77,919	–50,209
Cash flow from operating activities		**–68,590**	**10,373**
INVESTING ACTIVITIES			
Acquisition of intangible non-current assets		–1,056	–907
Acquisition of Group companies		–55,211	–
Acquisition of other financial non-current assets		–503	–367
Cash flow from investing activities		**–56,770**	**–1,274**
FINANCING ACTIVITIES			
Change in bank overdraft facility		115,997	–
Option premiums received		–	247
Cash flow from financing activities		**115,997**	**247**
Cash flow for the year		**–9,363**	**9,346**
Cash and cash equivalents at beginning of year		**9,363**	**17**
Cash and cash equivalents at end of year		**–**	**9,363**
The Parent Company's undrawn credit facilities at year-end amounted to		**59,003**	**–**

Notes

Note 1 Accounting policies and disclosures

General
The consolidated financial statements for Embellence Group AB's financial year ended 31 December 2021 have been approved by the Board of Directors and CEO and will be presented for adoption at the 2022 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.

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 Parent Company's functional currency. All values are rounded off to the nearest thousand (KSEK).

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 31 March 2022.

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 inaccordance 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 consideration for the acquisition of a subsidiary comprises the fair value of assets transferred, liabilities assumed and the shares issued by the Group. The consideration also includes the fair value of all assets and liabilities resulting from an agreement on a conditional consideration. 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 consideration, 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 initial recognition, they are recognised at amortised cost 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.

Liabilities
The Group's other financial liabilities are recognised initially at fair value, net after transaction costs. Other financial liabilities are subsequently recognised at amortised cost applying the effective interest method. Non-current liabilities have an anticipated term of more than one year, while current liabilities have a term of less than one year. This category includes liabilities to credit institutions, trade payables and other current liabilities.

Borrowing
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 profit or loss distributed across the term of the loan, applying the effective interest method.

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 consideration 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.

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.

Note 1 Accounting policies and disclosures, cont.

Tangible non-current assets

Tangible non-current assets are recognised at cost less 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
Design archive	6.67%
Brands, Cole & Son	Tested for impairment
Brands, other	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 Group's 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 customer bonuses, 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:

Inventory obsolescence provisions

The Group's inventory is impaired with regard to each collection's predetermined life expectancy.

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 the Cole & Son brand are amortised.

Annual testing of existing goodwill and 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.

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.

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.

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 2021, foreign net assets in the consolidated balance sheet amounted to around MGBP 10 and MEUR 9 (31 Dec 2020: MGBP 10 and MEUR 10). 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 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 NOK. A 10% change in the EUR exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 0.3 (2020: 3.8). A 10% change in the GBP exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 4.4 (2020: 3.6).

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 committed credit facilities of MSEK 175, of which MSEK 59 was unutilised as at 31 December 2021.

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 1.4 (1.2).

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 58 and an unutilised overdraft facility of MSEK 59 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.

Other risks

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.

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.

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.

Note 1 Accounting policies and disclosures, cont.

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 contingent considerations.

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.

Operating leases

All leases are recognised as operating leases.

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.

	2021				2020			
AMOUNTS IN KSEK	Nordics	Europe	Rest of World	Total	Nordics	Europe	Rest of World	Total
Net sales	328,303	241,759	76,822	646,884	306,092	209,571	54,200	569,863
Adjusted EBITA	52,771	37,709	9,392	99,872	46,612	27,804	8,033	82,449
Items affecting comp.								
Acquisition-related costs				–1,365				–770
Listing costs				–6,325				–2,229
Restructuring costs				–3,865				–8,305
EBITA				**88,317**				**71,145**
Amort. intang. assets				–8,060				–5,118
Operating profit				**80,257**				**66,027**
Adj. EBITA margin	16.1%	15.6%	12.2%	14.5%	15.2%	13.3%	14.8%	14.5%
% premium sales*	29%	80%	85%	55%	22%	81%	78%	49%
Gross marg. premium sales				64%				65%

*Premium sales shows sales of wallpaper for which the end consumer pays more than SEK 700 per roll as well as sales of textiles.

Note 2 Segment information, cont.

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

AMOUNTS IN KSEK	2021	2020
Net sales by market		
Sweden	265,697	252,260
UK	65,447	65,760
Italy	46,463	37,653
USA	45,952	28,630
Norway	38,982	31,593
Other Nordic	23,624	22,240
Rest of Europe	129,849	106,158
Rest of World	30,870	25,569
Net sales by market total	**646,884**	**569,863**

AMOUNTS IN KSEK	2021	2020
Non-current assets		
Sweden	151,967	109,537
UK	92,853	57,010
Italy	100,935	99,815
Non-current assets total	**345,755**	**266,361**

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

Note 3 Average number of employees

	2021		2020	
	Employees	Of whom women	Employees	Of whom women
Embellence Group AB	3	–	3	–
Boråstapeter AB	108	44	102	39
John O. Borge AS	–	–	8	7
Cole & Son Ltd	36	28	38	25
Wall&decò S.rl.	42	23	40	24
Pappelina AB	9	7	–	–
Group total	**198**	**102**	**191**	**95**

	Group		Parent Company	
	2021	2020	2021	2020
No. of Board members – women	1	2	–	–
No. of Board members – men	13	15	2	2
Total	**15**	**17**	**2**	**2**
No. of members of executive management – women	4	3	–	–
No. of members of executive management – men	8	9	3	3
Total	**12**	**12**	**3**	**3**

Note 4 Salaries, other remuneration and social security contributions

AMOUNTS IN KSEK	2021 Salaries and other remuneration	2021 Social security conts. (of which pension costs)	2020 Salaries and other remuneration	2020 Social security conts. (of which pension costs)
Embellence Group AB	7,616	5,543	6,044	4,759
		(3,052)		(2,557)
Boråstapeter AB	59,788	27,279	59,724	24,903
		(8,829)		(7,118)
John O. Borge AS	–	–	7,603	1,835
		(–)		(576)
Cole & Son Ltd	16,014	2,508	16,650	2,970
		(887)		(950)
Wall&decò S.rl.	14,605	5,553	13,932	4,958
		(1,604)		(972)
Pappelina AB	3,633	1,571	–	–
		(305)		(–)
Group total	**101,656**	**42,454**	**103,953**	**39,425**
		(14,677)		**(12,173)**

Salaries and other remuneration to the CEO and Board, breakdown by company:	2021 Board and CEO (of which bonuses)	2021 Other employees (of which bonuses)	2020 Board and CEO (of which bonuses)	2020 Other employees (of which bonuses)
Embellence Group AB	4,349	3,267	2,476	3,568
	(555)	(487)	(144)	(231)
Boråstapeter AB	1,788	58,000	1,307	58,417
	(277)	(1,851)	(–)	(571)
John O. Borge AS	–	–	2,141	5,462
	(–)	(–)	(–)	(–)
Cole & Son Ltd	2,486	12,605	2,265	14,385
	(476)	(448)	(319)	(19)
Wall&decò S.r.l.	1,105	13,500	2,210	11,722
	(–)	(–)	(–)	(–)
Pappelina AB	–	3,633	–	–
	(–)	(–)	(–)	(–)
Group total	9,728	91,453	10,399	93,554
	(832)	(2,338)	(463)	(821)

AMOUNTS IN KSEK	Board fees/basic salary	Variable remuneration	Other remuneration benefits	Pension costs	Total
Remuneration and other benefits to executive management in 2021					
CEO Olof Svensk	**2,669**	**555**	**108**	**1,024**	**4,356**
Other members of executive management (two)	2,236	487	179	1,429	4,331
Board members	1,125	–	–	–	1,125
of which					
Morten Falkenberg	375.0				
Henrik Nyqvist	187.5				
Christina Ståhl	187.5				
Paul Steene	187.5				
Mattias Letmark	187.5				
Group total	**6,030**	**1,042**	**287**	**2,453**	**9,812**
Remuneration and other benefits to executive management in 2020					
CEO Olof Svensk	2,332	144	85	1,132	3,693
Other members of executive management (two)	3,337	231	228	1,425	5,221
Group total	**5,669**	**375**	**313**	**2,557**	**8,914**

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. Salaries including bonuses for the executive management team were paid in the amount of KSEK 7,072, of which remuneration for the CEO amounted to KSEK 3,224. 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 31.

Note 5 Related-party transactions

Embellence Group AB is a related party of its subsidiaries, Boråstapeter AB, Pappelina AB, Cole & Son Ltd and Wall & decò S.rl.
Other related parties consist of the Board members, CEO and executive management.

	Parent Company	
AMOUNTS IN KSEK	**2021**	2020
Embellence Group AB		
Sales to subsidiaries	11,638	7,541
Total	**11,638**	**7,541**
Embellence Group AB		
Purchases from subsidiaries	–	–
Total	**–**	**–**

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	**2021**	2020	**2021**	2020
PWC				
Statutory audit	1,339	1,628	555	578
Other auditing services	80	–	–	–
Tax advisory services	49	58	49	57
Other services	526	1,059	523	1,059
Total	**1,994**	**2,745**	**1,127**	**1,694**
HW Fisher				
Statutory audit	337	294	–	–
Tax advisory services	–	81	–	–
Other services	50	23	–	–
Total	**387**	**398**	**–**	**–**
Total	**2,381**	**3,143**	**1,127**	**1,694**

Note 7 Other operating income and expenses

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Other operating income				
Exchange rate differences for operating receivables/liabilities	1,576	74	–	1
Gains on sales of tangible non-current assets	143	435	–	–
Rental income	600	–	–	–
Government assistance received	903	3,461	–	39
Other operating income	1,925	–	1,848	–
Total	**5,147**	**3,970**	**1,848**	**40**
Other operating expenses				
Exchange rate differences for operating receivables/liabilities	–1,682	–1,688	–27	–69
Losses on sales of tangible non-current assets	–113	–	–	–
Total	**–1,795**	**–1,688**	**–27**	**–69**

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

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
By function				
Production costs	10,214	16,195	–	–
Selling expenses	8,940	3,261	–	–
Administrative expenses	8,034	7,254	247	121
Total	**27,188**	**26,710**	**247**	**121**
By asset class				
Brands	2,458	953	–	–
Other intangible non-current assets	4,996	3,558	247	121
Buildings	1,879	1,644	–	–
Design archive	606	607	–	–
Plant and equipment	6,759	8,536	–	–
Right-of-use assets, property	5,798	7,095	–	–
Right-of-use assets, equipment	4,691	4,317	–	–
Total	**27,187**	**26,710**	**247**	**121**
Operating expenses				
Raw materials and consumables	197,728	157,068	–	–
Employee costs	148,171	137,306	15,810	10,822
Depreciation and amortisation	27,187	26,710	247	121
Other expenses	196,893	185,035	12,350	7,136
Total	**569,979**	**506,119**	**28,407**	**18,079**

Note 9 Financial income and expenses

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Profit from interests in Group companies				
Dividend	–	–	26,872	21,461
Impairment losses	–	–	–	–3,000
Total	**–**	**–**	**26,872**	**18,461**
Financial income				
Interest income	243	1,030	1,082	44
Exchange rate differences	1,883	1,381	–	266
Total	**2,126**	**2,411**	**1,082**	**310**
Financial expenses				
Interest expense	–6,899	–5,245	–3,100	–374
Other financial expenses	–1,153	–818	–280	–678
Total	**–8,052**	**–6,063**	**–3,380**	**–1,052**
Net financial items	**–5,926**	**–3,652**	**24,574**	**17,719**

Note 10 Appropriations

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Group contributions received	–	–	48,232	44,000
Group contributions paid	–	–	–	–116,700
Provision to tax allocation reserve	–	–	–3,000	–
Total	**–**	**–**	**45,232**	**–72,700**

Note 11 Tax on net profit for the year

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Current tax				
Current tax on net profit for the year	–10,651	–18,942	–1,855	–
Total current tax	**–10,651**	**–18,942**	–1,855	**–**
Deferred tax				
Deferred tax on untaxed reserves	–1,241	20	–	–
Deferred tax on unused tax loss carryforwards	–3,772	4,248	–4,248	4,248
Deferred tax on temporary differences and intra-Group profit on inventories	654	246	129	94
Total deferred tax	**–4,359**	**4,514**	**–4,119**	**4,342**
Total tax on net profit for the year	**–15,010**	**–14,428**	**–5,974**	**4,342**

Note 11 Tax on net profit for the year, cont.

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	2021	Percentage	2020
Profit before tax		**74,332**		**62,375**
Tax rate applicable in Sweden	20.6%	–15,312	21.4%	–13,348
Tax effect of non-taxable income and non-deductible expenses	0.9%	–677	3.3%	–2,086
Tax effect of temporary differences	–0.8%	595	–0.4%	246
Tax effect of tax rate applicable in foreign subsidiaries	–0.5%	384	–1.2%	760
	20.2%	**–15,010**	**23.1%**	**–14,428**

	Parent Company			
AMOUNTS IN KSEK	Percentage	2021	Percentage	2020
Profit/loss before tax		**55,115**		**–65,618**
Tax rate applicable in Sweden	20.6%	–11,354	21.4%	14,042
Tax effect of non-taxable income and non-deductible expenses	–9.6%	5,251	–14.9%	–9,794
Tax effect of temporary differences	–0.2%	129	0.1%	94
	–10.8%	**–5,974**	**–6.6%**	**4,342**

Note 12 Discontinued operations

In November 2019, the Board of the controlling company at that time, WA WallVision AB, announced its intention to sell its Norwegian subsidiary John O. Borge AS. The subsidiary's assets and liabilities have therefore been recognised as held for sale in the annual report. The sale was never completed, and the Board therefore chose to discontinue the company in 2021.

AMOUNTS IN KSEK	2021	2020
Analysis of profit		
Income	–	24,043
Expenses	–6	–27,364
Loss before tax	–6	–3,321
Tax	–	–1,495
Loss from discontinued operations	**–6**	**–4,816**
Analysis of cash flows		
Net cash flow from operating activities	72	–2,705
Net cash flow from investing activities	–	40
Net cash flow from financing activities	–	–
Net change in cash and cash equivalents from discontinued operations	**72**	**–2,665**

AMOUNTS IN KSEK	2021	2020
Assets held for sale		
Accounts receivable – trade	–	95
Other assets	–	41
Total assets in disposal group associated with discontinued operations	**–**	**136**
Liabilities directly attributable to assets held for sale		
Other liabilities	–	58
Total liabilities in disposal group associated with discontinued operations	**–**	**58**

Note 13 Intangible non-current assets

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Total carrying amounts of intangible non-current assets				
Goodwill	160,245	136,798	–	–
Brands	27,762	14,266	–	–
Design archive	3,753	3,986	–	–
Other intangible non-current assets	17,036	12,887	1,595	786
Total	**208,796**	**167,937**	**1,595**	**786**
Goodwill				
Cost, opening balance	136,798	143,756	–	–
Corporate acquisitions	18,885		–	–
Translation difference	4,562	–6,958	–	–
Accumulated cost, closing balance	**160,245**	**136,798**	**–**	**–**
Residual value according to plan, closing balance	**160,245**	**136,798**	**–**	**–**
Brands				
Cost, opening balance	18,236	18,864	–	–
Purchases	90	28	–	–
Corporate acquisitions	15,013	–	–	–
Translation difference	1,025	–656	–	–
Accumulated cost, closing balance	**34,364**	**18,236**	**–**	**–**
Amortisation and impairment, opening balance	–3,970	–3,106	–	–
Amortisation and impairment for the year	–2,458	–988	–	–
Translation difference	–174	124	–	–
Accumulated amortisation and impairment, closing balance	**–6,602**	**–3,970**	**–**	**–**
Residual value according to plan, closing balance	**27,762**	**14,266**	**–**	**–**
Design archive				
Cost, opening balance	8,542	9,899	–	–
Translation difference	841	–1,357	–	–
Accumulated cost, closing balance	**9,383**	**8,542**	**–**	**–**
Amortisation and impairment, opening balance	–4,556	–4,395	–	–
Amortisation and impairment for the year	–606	–607	–	–
Translation difference	–468	446	–	–
Accumulated amortisation and impairment, closing balance	**–5,630**	**–4,556**	**–**	**–**
Residual value according to plan, closing balance	**3,753**	**3,986**	**–**	**–**

Note 13 Intangible non-current assets, cont.

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Other intangible non-current assets				
Cost, opening balance	40,390	33,160	907	–
Purchases	7,455	7,295	1,056	907
Sales/disposals	–1,958	–	–	–
Reclassifications	1,529	201	–	–
Translation difference	152	–266	–	–
Accumulated cost, closing balance	**47,568**	**40,390**	**1,963**	**907**
Amortisation and impairment, opening balance	–27,503	–23,719	–121	–
Amortisation and impairment for the year	–4,995	–3,623	–247	–121
Sales/disposals	1,918	–	–	–
Translation difference	48	–161	–	–
Accumulated amortisation and impairment, closing balance	**–30,532**	**–27,503**	**–368**	**–121**
Residual value according to plan, closing balance	**17,036**	**12,887**	**1,595**	**786**

Other intangible non-current assets comprise primarily capitalised expenses for e-commerce platforms and business systems.

A breakdown of goodwill by segment is given below:

	2021				2020			
AMOUNTS IN KSEK	Nordics	Europe	Rest of World	Total	Nordics	Europe	Rest of World	Total
Goodwill	42,485	94,155	23,605	160,245	34,278	84,002	18,518	136,798

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 executive management 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 2021:

	Goodwill		
	Nordics	Europe	Rest of World
Annual growth in volume	1–3%	8–10%	8–15%
Long-term growth rate	2%	2%	2%
Discount rate	9.6%	9.6%	9.6%

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
– A 1 percentage point decrease in the estimated growth rate for extrapolating the cash flows beyond the five-year period
– A 1 percentage point decrease in the estimated EBITA margin

Note 14 Tangible non-current assets

AMOUNTS IN KSEK	Group 2021	2020
Total carrying amounts of tangible non-current assets		
Land and buildings	35,726	38,941
Leasehold improvements	7,460	2,867
Construction in progress and advances	191	672
Plant and machinery	19,468	14,831
Equipment, tools, fixtures and fittings	6,941	8,055
Total	**69,786**	**65,366**
Land and buildings		
Cost, opening balance	100,228	100,228
Purchases	30	–
Accumulated cost, closing balance	**100,258**	**100,228**
Depreciation, opening balance	–61,287	–59,903
Depreciation for the year	–1,384	–1,384
Accumulated depreciation, closing balance	**–62,671**	**–61,287**
Residual value according to plan, closing balance	**37,587**	**38,941**
Leasehold improvements		
Cost, opening balance	7,068	5,277
Corporate acquisitions	385	–
Purchases	155	2,494
Reclassifications	2,806	–146
Translation difference	439	–557
Accumulated cost, closing balance	**10,853**	**7,068**
		–
Depreciation, opening balance	–4,201	–4,018
Corporate acquisitions	–385	–
Depreciation for the year	–495	–371
Translation difference	–172	188
Accumulated depreciation, closing balance	**–5,253**	**–4,201**
Residual value according to plan, closing balance	**5,600**	**2,867**
Construction in progress and advances		
Cost, opening balance	672	–
Purchases	1,751	672
Reclassifications	–2,232	–
Accumulated cost, closing balance	**191**	**672**
Plant and machinery		
Cost, opening balance	183,144	182,758
Corporate acquisitions	34	–
Purchases	8,281	3,900
Reclassifications	545	–816
Sales/disposals	–9,239	–119
Translation difference	1,885	–2,579
Accumulated cost, closing balance	**184,650**	**183,144**

Note 14 Tangible non-current assets, cont.

AMOUNTS IN KSEK	Group 2021	2020
Depreciation, opening balance	–168,313	–165,734
Corporate acquisitions	–34	–
Sales/disposals	9,008	89
Depreciation for the year	–4,545	–4,958
Translation difference	–1,298	2,290
Accumulated depreciation, closing balance	**–165,182**	**–168,313**
Residual value according to plan, closing balance	**19,468**	**14,831**
Equipment, tools, fixtures and fittings		
Cost, opening balance	29,166	26,643
Corporate acquisitions	1,615	–
Purchases	839	2,669
Reclassifications	158	761
Sales/disposals	–2,323	–77
Translation difference	1,290	–830
Accumulated cost, closing balance	**30,745**	**29,166**
Depreciation, opening balance	–21,111	–18,385
Corporate acquisitions	–1,404	–
Sales/disposals	2,111	29
Depreciation for the year	–2,193	–3,367
Translation difference	–1,207	612
Accumulated depreciation, closing balance	**–23,804**	**–21,111**
Residual value according to plan, closing balance	**6,941**	**8,055**

Note 15 Leases

AMOUNTS IN KSEK	Group 2021	2020
Right-of-use assets		
Property	56,917	19,748
Equipment	10,255	13,310
Total	**67,172**	**33,058**
Lease liabilities		
Non-current	55,035	26,316
Current	11,999	6,511
Total	**67,034**	**32,827**

Right-of-use assets added in 2021 amounted to KSEK 40,482 (35,171).

Note 15 Leases, cont.

AMOUNTS IN KSEK	Group 2021	Group 2020
Depreciation of right-of-use assets		
Property	5,798	7,095
Equipment	4,692	4,317
Total	**10,490**	**11,412**
Interest expense (included in financial expenses)	1,260	610

Total cash flow pertaining to leases in 2021 amounted to KSEK 11,493 (11,981).

Note 16 Deferred tax assets

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Total carrying amounts				
Deferred tax assets	634	4,675	223	4,342
Total	**634**	**4,675**	**223**	**4,342**
Deferred tax assets				
At 1 January	4,675	–	4,342	–
Added	207	4,675	129	4,342
Expired	–4,248	–	–4,248	–
At 31 December	**634**	**4,675**	**223**	**4,342**
Total carrying amounts of deferred tax assets				
Attributable to temporary differences	634	427	223	94
Attributable to unused tax loss carryforwards	–	4,248	–	4,248
Total	**634**	**4,675**	**223**	**4,342**

Note 17 Interests in Group companies

AMOUNTS IN KSEK	Parent Company 2021	Parent Company 2020
Interests in Group companies		
At 1 January	353,346	324,477
Corporate acquisitions	55,211	–
Shareholder contributions	–	34,584
Sales	–	–2,715
Impairment losses	–	–3,000
At 31 December	**408,557**	**353,346**

Note 17 Interests in Group companies, cont.

	Share of equity	Share of voting rights	No. of shares	Carrying amount, 31 Dec 2021	Carrying amount, 31 Dec 2020
Boråstapeter AB	100%	100%	1,000,000	179,651	179,651
Cole & Son Ltd	100%	100%	208,889	68,885	68,885
Wall&decò S.rl.	100%	100%	10,000	104,810	104,810
Pappelina AB	100%	100%	1,000	55,161	–
Borås Tapetfabrik AB	100%	100%	250	25	–
Fastighetsbolaget Borosan AB	100%	100%	250	25	–
Group total				**408,557**	**353,346**

The Group had the following subsidiaries as at 31 December 2021:

	Country of registration and operation	Business	Share of ordinary shares directly held by the Parent Company (%)	Share of ordinary shares held by the Group (%)
Boråstapeter AB	Sweden	Manufacture and sale of wallpaper	100%	100%
Cole & Son Ltd	UK	Sale of wallpaper	100%	100%
Wall&decò S.rl.	Italy	Manufacture and sale of wallpaper	100%	100%
Pappelina AB	Sweden	Manufacture and sale of rugs	100%	100%
Borås Tapetfabrik AB	Sweden	Manufacture and sale of wallpaper	100%	100%
Fastighetsbolaget Borosan AB	Sweden	Property management	100%	100%

All subsidiaries are consolidated. The share of voting rights in those subsidiaries held directly by the Parent Company is the same as the percentage of ordinary shares held.

Note 18 Inventories

	Group	
AMOUNTS IN KSEK	**2021**	2020
Raw materials and consumables	16,559	14,863
Work in progress	2,985	4,124
Finished goods and goods for resale	67,320	66,234
Total	**86,864**	**85,221**

Impairment of finished goods and goods for resale to net realisable value amounts to KSEK 18,329 (20,867). This impairment has been recognised in the statement of comprehensive income as Cost of goods sold.

Note 19 Accounts receivable – trade

AMOUNTS IN KSEK	Group 2021	Group 2020
Allowance for credit losses		
Allowance at beginning of year	3,010	1,591
Corporate acquisitions	216	–
Added to allowance during the year	205	1,510
Confirmed credit losses	–312	–35
Recovered credit losses	–20	–
Translation difference	–	–56
Allowance at year-end	**3,099**	**3,010**
Ageing report for past due trade receivables		
<30 days	21,715	26,797
30–60 days	2,293	2,661
>60 days	11,579	3,796
Total	**35,587**	**33,254**

On 31 December 2021, the total loss level was 0.05% (0.01%) of net sales, which is considered immaterial. Expected loss per category is therefore not recognised.

Note 20 Prepaid expenses and accrued income

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Accrued bonus income	1,487	1,742	–	–
Accrued energy taxes	137	187	–	–
Prepaid rent	298	765	–	–
Prepaid expenses for trade fairs and marketing	1,796	594	–	–
Prepaid insurances	1,063	613	449	–
Other	10,410	10,618	971	210
Total	**15,191**	**14,519**	**1,420**	**210**

Note 21 Bank overdraft facilities

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Committed credit facilities	175,000	150,000	175,000	–
Credit drawn	–115,997	–107,877	–115,997	–
Undrawn credit facilities	**59,003**	**42,123**	**59,003**	**–**

Current interest rate is 1.75% (2020: 2.15%)

Note 22 Provisions for pensions

AMOUNTS IN KSEK	Group 2021	2020
Provisions for defined benefit pension plans	3,499	3,045
Pension obligations covered by company-owned endowment policies	1,081	459
Undrawn credit facilities	**4,580**	**3,504**

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 2021	2020
Provisions for defined benefit pension plans	3,499	3,045
Total provisions	**3,499**	**3,045**
Present value of defined benefit obligations	3,499	3,045
Fair value of plan assets	–	–
Net value	**3,499**	**3,045**
Changes in defined benefit obligations		
Opening balance	**3,045**	**2,386**
Service cost in current period	694	744
Interest expense	–	–
Total recognised in the income statement	**694**	**744**
Actuarial gains and losses, gross	–161	106
Total recognised in other comprehensive income	**–161**	**106**
Exchange rate changes	58	–
Paid remuneration	–137	–191
Closing balance	**3,499**	**3,045**

Actuarial gains and losses are recognised gross. The amount adjusted for tax is KSEK 161 (–106), which is recognised in other comprehensive income.

SENSITIVITY ANALYSIS	Group 2021	2020
0.5% increase in discount rate	208	184
0.5% decrease in discount rate	–229	–203
0.25% increase in inflation rate	–39	–34
0.25% decrease in inflation rate	38	33
Actuarial assumptions:		
Discount rate	0.98%	0.34%
Expected wage growth	2.20%	2.00%
Inflation	1.20%	1.00%

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 2018 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 5,998 (2020: 5,496). 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 0.01304% and 0.01160% respectively (2020: 0.01706% and 0.00917%). 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 2021, Alecta's surplus in the form of the collective funding ratio was 172% (2020: 148%).

Note 23 Deferred tax liabilities

	Group	
AMOUNTS IN KSEK	2021	2020
Deferred tax liabilities		
At 1 January	8,408	8,799
Provisions made during the year	5,886	241
Utilised during the year	–	–532
Translation difference	96	–100
At 31 December	**14,390**	**8,408**
Total carrying amounts of deferred tax liabilities		
Temporary differences relating to tangible non-current assets	3,492	3,198
Attributable to untaxed reserves	4,498	1,529
Attributable to Group surpluses on intangible non-current assets	6,493	3,804
Other	–93	–123
Total	**14,390**	**8,408**

Note 24 Untaxed reserves

	Parent Company	
AMOUNTS IN KSEK	2021	2020
Tax allocation reserve 2021	3,000	0
Total	**3,000**	**0**

The Group recognised deferred tax of KSEK 618 on untaxed reserves.

Note 25 Financial assets and liabilities

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Assets in the balance sheet	Amortised cost	Amortised cost	Amortised cost	Amortised cost
Financial non-current assets	1,110	481	870	367
Accounts receivable – trade	104,763	83,921	–	–
Receivables from controlling company/Group companies	–	–	–	80
Cash and cash equivalents	57,986	49,007	–	9,363
Total	**163,859**	**133,409**	**870**	**9,810**

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Liabilities in the balance sheet	Amortised cost	Amortised cost	Amortised cost	Amortised cost
Bank overdraft facility	115,997	107,877	115,997	–
Liabilities to controlling company/Group companies	–	9,563	105,495	244,536
Accounts payable – trade	47,880	52,064	464	1,072
Total	**163,877**	**169,504**	**221,956**	**245,608**

	Group							
	2021				2020			
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	12,002	39,213	23,521	74,736	7,613	19,438	11,195	38,246
Bank overdraft facility	115,997	–	–	115,997	107,877	–	–	107,877
Liabilities to controlling company/Group companies	–	–	–	0	9,563	–	–	9,563
Accounts payable – trade	47,880	–	–	47,880	52,064	–	–	52,064
Total	**175,879**	**39,213**	**23,521**	**238,613**	**177,117**	**19,438**	**11,195**	**207,750**

	Parent Company							
	2021				2020			
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	115,997	–	–	115,997	–	–	–	–
Liabilities to controlling company/Group companies	105,495	–	–	105,495	244,536	–	–	244,536
Accounts payable – trade	464	–	–	464	1,072	–	–	1,072
Total	**221,956**	**–**	**–**	**221,956**	**245,608**	**–**	**–**	**245,608**

Note 26 Change in liabilities to credit institutions and other liabilities

AMOUNTS IN KSEK	1 Jan 2021	Cash flow: New borrowing	Cash flow: Repayments	Non-cash: Reclassifications	Non-cash: Other	31 Dec 2021
Non-current lease liabilities	26,316	–	−3,920	−11,999	44,639[1]	55,035
Current lease liabilities	6,511	–	−6,511	11,999	–	11,999
Bank overdraft facility	107,877	–	8,120	–	–	115,997
Total	**140,704**	**–**	**−2,311**	**–**	**44,639**	**183,031**

AMOUNTS IN KSEK	1 Jan 2020	Cash flow: New borrowing	Cash flow: Repayments	Non-cash: Reclassifications	Non-cash: Other	31 Dec 2020
Non-current lease liabilities	12,015	–	−2,915	−6,511	23,726[1]	26,315
Current lease liabilities	7,887	–	−7,887	6,511	–	6,511
Bank overdraft facility	130,364	–	−22,487	–	–	107,877
Total	**150,266**	**–**	**−33,289**	**–**	**23,726**	**140,703**

Non-cash – Other
1) Change due to additional and discontinued leases

Note 27 Accrued expenses and deferred income

AMOUNTS IN KSEK	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Liabilities for salaries and holiday pay, social security contributions	25,877	26,922	3,456	2,682
Bonuses to customers	2,997	19,269	–	–
Restructuring costs	5,127	–	2,477	–
Other	16,269	15,888	1,174	945
Total	**50,270**	**62,079**	**7,107**	**3,627**

Note 28 Provisions for warranties

AMOUNTS IN KSEK	Group 2021	Group 2020
At 1 January	650	600
Corporate acquisitions	288	–
Utilised during the year	−650	−600
Provisions made during the year	580	650
At 31 December	**868**	**650**

Note 29 Pledged assets and contingent liabilities

	Group		Parent Company	
AMOUNTS IN KSEK	2021	2020	2021	2020
Pledged assets				
Floating charges	75,250	75,250	–	–
Property mortgages	99,750	99,750	–	–
Shares in Group companies	439,078	218,441	303,697	179,651
Total	**614,078**	**393,441**	**303,697**	**179,651**

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

Contingent liabilities

The Group has no contingent liabilities.

Note 30 Adjustments for non-cash items

	Group		Parent Company	
AMOUNTS IN KSEK	2021	2020	2021	2020
Translation differences	4,683	–2,102	–	–
Change in inventory obsolescence reserves	858	1,063	–	–
Exchange rate differences of a financial nature	1,101	564	–280	266
Other	1,124	666	503	367
Total	**7,766**	**191**	**223**	**633**

Note 31 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.

Warrants awarded during the year

	Group	
AMOUNTS IN KSEK	2021	2020
At 1 January	**1,198,785**	**–**
Awarded during the year	–	1,198,785
Forfeited during the year	–	–
At 31 December	**1,198,785**	**1,198,785**

The remaining weighted average term of outstanding warrants at the end of the period was 2.6 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 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 32 Proposed distribution of earnings

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

Share premium reserve	66,303
Retained earnings	–1,637
Net profit for the year	49,140
Total	**113,806**

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

Share premium reserve	66,303
Dividend	18,067
Carried forward	29,436
Total	**113,806**

Note 33 Earnings per share

AMOUNTS IN SEK	2021	2020
Continuing operations		
Earnings per share before dilution	2.77	2.24
Earnings per share after dilution	2.72	2.24
Net profit for the period		
Earnings per share before dilution (SEK)	2.77	2.02
Earnings per share after dilution (SEK)	2.72	2.02
Performance measures used in the calculation of earnings per share before and after dilution (MSEK)		
Profit from continuing operations	59.3	48.0
Net profit for the period	59.3	43.2
Profit above is attributable to Parent Company shareholders in its entirety.		
Before dilution Weighted average number of ordinary shares for calculation of earnings per share before dilution	21,400,000	21,400,000
Warrants Adjustment for calculation of earnings per share after dilution attributable to warrants	381,785	–
After dilution Weighted average number of ordinary shares and potential ordinary shares used as denominator for calculation of earnings per share after dilution	21,781,785	21,400,000

Note 34 Events after the closing date

- In early 2022, Cole & Son signed a lease for a new flagship store in Chelsea, London. The new store is scheduled to open in 2022.
- On 4 March 2022, the Group acquired 100% of the company Artscape Inc. Through this acquisition, Embellence Group has expanded its operations to also include pattern-based window film ("artwork for windows"). The acquisition is expected to generate attractive opportunities for Embellence Group that include continued growth potential in the US, great potential for the window film category in Europe and design synergies with Boråstapeter. A preliminary acquisition calculation is presented below:

Purchase consideration Artscape Inc., KSEK:

Cash and cash equivalents	146,178
Debentures	20,882
Embellence shares	38,535
Contingent consideration	16,888
Total payment for shares	**222,484**

The cash flow effect of the acquisition is KSEK 142,963. On acquisition, the company had net cash/cash and cash equivalents of KSEK 3,215.

Recognised amount of identifiable acquired assets and assumed liabilities of Pappelina, KSEK:	Preliminary
Cash and cash equivalents	3,215
Tangible non-current assets	6,497
Intangible non-current assets: Brands	52,794
Intangible non-current assets: Customer relationships	45,498
Intangible non-current assets: Other	461
Inventories	39,032
Trade receivables and other receivables	21,451
Other receivables	1,174
Accounts payable – trade	–4,997
Deferred tax liabilities	–
Other liabilities	–9,582
Total identifiable assets	**155,543**
Goodwill	66,941
Total identifiable assets	**222,484**

Acquisition-related costs of KSEK 2,155 are included in administrative expenses in the Group's income statement for the 2021 financial year.

The fair value of the agreed contingent consideration has been estimated at KSEK 16,888 using what is known as the income approach. Fair value is estimated based on an assumed EBITDA for Artscape Inc. The nominal value is estimated according to the fair value of the liability, since the discount effect is not significant. The earnout is based on a multiple of 6x the EBITDA for 2022 compared with the adjusted EBITDA for 2021.

Based on the forecast for 2022, the contingent consideration is estimated at KSEK 16,888.

The fair value of trade receivables was KSEK 21,145. Of this figure, doubtful receivables were estimated at KSEK 450.

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, 30 March 2022

Morten Falkenberg
Chairman of the Board

Mattias Letmark
Board member

Johan Liljegren
Employee representative

Henrik Nyqvist
Board member

Paul Steene
Board member

Christina Ståhl
Board member

Olof Svensk
CEO

Our Audit Report was issued 31 March 2022
PricewaterhouseCoopers AB

Patrik Resebo
Authorized 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 2021.

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 2021 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 2021 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 1–50. 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 2021 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 31 March 2022
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 leasing 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. IFRS 16
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
Wallpaper for which the end consumer pays more than SEK 700 per roll. Comprising all of Pappelina's products.

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.


WALL&DECÒ

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GROUP