WALL&DECÒ: LITTLE BROWN,
CONTEMPORARY COLLECTION 2022

embellence GROUP

ANNUAL REPORT 2022

BORÅSTAPETER: ARCHIVE LANDSCAPE, LANDSCAPE COLLECTION

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, Borås Tapetfabrik, 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.

1564

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

1875

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

1905

Boråstapeter was founded in Borås.

1999

Pappelina was founded in Falun.

2005

Wall&decò was founded.

2008

Embellence Group acquired Cole & Son.

Worldwide sales

Over the past decade, Embellence Group has successfully expanded internationally and is now present in most parts of the world. The core markets are Sweden, the US, the UK and Italy.

Head office Showrooms Offices Sales

Embellence Group acquired Wall&decò

2018

2019

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

Pappelina launched direct-to-consumer online sales.

Cole & Son launched an online store in the UK.

2020

2021

Boråstapeter launched an online store in Sweden.

Business growth through acquisition of Pappelina AB.

Embellence Group acquired Artscape Inc.

Operational restructure in Borås into Boråstapeter and Borås Tapetfabrik.

2022

The year in brief

Continued growth, driven by acquisitions
In 2022, sales amounted to MSEK 720.1, corresponding to growth of 11.3%. The acquisition of Artscape and positive currency effects made a positive contribution of 18.0% during the year, while organic growth was –6.7%. The negative organic sales growth was largely the result of significantly lower demand in the Nordics, mainly driven by decreasing disposable incomes due to high inflation. The adjusted operating margin was 14.3%.

Acquisition of Artscape Inc.
In March 2022, the US company Artscape Inc. was acquired. Through this acquisition, Embellence Group is expanding its operations to also include exclusive pattern-based window film ('artwork for windows'). The driving forces behind the acquisition include continued favourable growth potential for Artscape in the US, major potential for the pattern-based window film category in Europe (where Artscape currently has a limited presence), stable cash flows and possible design synergies with Boråstapeter.

A major focus during the year was integration and continued development of the business. As part of this process, preparations for the launch of Artscape's products outside North America also commenced.

In connection with the acquisition, a directed issue of 1,183,877 new shares was conducted, as authorised by the 2021 Annual General Meeting. The issued shares were used as part of the purchase price.

Streamlined operations in Boråstapeter AB
At the beginning of the year, the Boråstapeter AB subsidiary was split into two subsidiaries – Boråstapeter AB and Borås Tapetfabrik AB. The aim of the change was to further clarify and streamline the operational roles, where Boråstapeter is focused on brands, design, marketing and sales, and Borås Tapetfabrik is focused on product development and the production of high-quality wallpapers for various brands in the Nordics and Europe.

Cole & Son to open 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 2023.

Continued investment in online sales
A major focus during the year was development of the brands' online offering. In spring 2022, Pappelina and Boråstapeter opened up for online sales in new geographic markets.

Launch of cost-savings programme in the Nordics
In order to address the prevailing economic situation, including generally higher costs and weaker demand, a cost-savings programme was launched during the year, with an expected annual impact of approximately MSEK 9 on EBITA. The cost-savings programme mainly comprises layoffs through streamlining and reorganisation. Streamlining includes reducing the number of items, assuring the quality of items in stock and a general reduction of wallpaper in stock. This process will continue in 2023.

Impact of Russia's war on Ukraine
In 2021, sales in Russia and Ukraine totalled approximately MSEK 12. Deliveries to both countries have been suspended since 24 February 2022. Embellence does not have any producers or sub-contractors in these countries, and the war has not led to any supply chain disruptions.


PAPPELINA: EDIT COLLECTION

MSEK	**2022**	2021
Group		
Net sales	720.1	646.9
EBITA	88.5	88.3
Adjusted EBITA	102.6	99.9
Profit before tax	70.4	74.3
Net profit for the period	57.4	59.3
Operating cash flow	107.9	62.1
EBITA margin, %	12.3%	13.7%
Adjusted EBITA margin, %	14.3%	15.4%
Net debt	233.7	125.0
Net debt excl. IFRS 16 effects	163.4	57.9
Net debt/EBITDA RTM	2.1	1.2
Net debt/EBITDA excl. IFRS 16 effects (R12)	1.7	0.6
Equity ratio, %	46.8%	47.1%
Earnings per share for the period before dilution (SEK)	2.57	2.77
Earnings per share for the period after dilution (SEK)	2.57	2.72
No. of employees	247	236

For definitions, see page 97.

A good year despite difficult conditions

2022 was a turbulent year, and challenging in many ways. The pandemic was replaced by war in our vicinity, record high energy prices, rising interest rates and soaring inflation. For Embellence Group, this led to dampened organic growth and a slightly lower operating margin. In view of the economic development, we are still largely satisfied with our performance for the year as a whole.

For full-year 2022, sales amounted to MSEK 720.1, corresponding to growth of 11.3%, where lower demand in the Nordics was offset by increased income related to the acquisition of Artscape. The slowdown in Sweden, in particular, was a direct consequence of the economic situation, where high electricity prices, rising interest rates and generally high inflationary pressure led to decreasing disposable incomes and a stronger focus on economic efficiency.

Adjusted EBITA was MSEK 102.6 (99.9), corresponding to an adjusted EBITA margin of 14.3% (15.4). The lower margin was primarily attributable to higher costs for input materials due to rising inflation, but also to the sales trend in the Nordics in particular. From this perspective, we are still largely satisfied and in absolute figures, we have never been bigger or had better earnings.

Building strong brands

Our business model is based on acquiring, owning and developing strong brands in their respective niches. Brands that are credible, genuine and clear, and have a premium or luxury focus. We have a long-term perspective and despite the external challenges, we will continue to invest in our brands. This process is driven by two key principles. We will protect and nurture each individual brand – based on its history and position. However, continuous development is required to maintain relevance. This process is largely based on the ability to harness and develop the history, creativity and innovation capability of our brands – and combine that with the key capabilities of the Group. These areas include digitalisation, sustainability and geographic expansion.

Strong focus on premium and luxury

An active process is taking place within all brands to increase the degree of premium. This essentially covers all stages of the value chain, from the offering and product quality to marketing and sales. During the year, Cole & Son pursued several initiatives with the aim of further strengthening its position in the luxury and ultra-luxury segments. These include 1 Palace Street in London, Waldorf Astoria and the Cairo Opera House. A similar process is also taking place in Artscape, where the entire brand profile has been reviewed and updated. In addition, the actual offering is also being updated and renewed with new designs and products.

Investments in online sales

The more substantial initiatives also include investments in our own online sales for several of our brands, including Boråstapeter, Pappelina and Cole & Son.

Direct sales to consumers, designers and architects have been increasing for several years, and this trend strengthened further during the pandemic. As in other sectors, we see a growing desire to buy directly from the brand. The advantages include a high level of service and short delivery times.

Geographic expansion

Another key area for several of the brands is geographic expansion. In Artscape, preparations for a launch in Europe took place during the year. Wall&decò concentrated on its continued expansion in the US, which will become an increasingly significant market. During the year, Pappelina opened up for online sales in several new geographic markets, including Australia, Japan, South Korea and the UK.

Joining forces on sustainability

The entire Group is also mobilising around sustainability. In 2022, several initiatives were implemented with the aim of creating a structured and professional approach to Group-wide ESG issues, and increasing the integration of ESG factors into the company's overall strategy. Key elements here are methods for measuring, monitoring and reporting – but extensive efforts are also taking place to develop more sustainable products, and to embed sustainability values in the customer offering. These include Pappelina's BIO Edition rug collection, made from a carbon-neutral bio-attributed PVC from wood-based tall oil, and Borås Tapetfabrik's development of a more sustainable wallpaper material, made from a higher proportion of recycled input materials.

Outlook and forward focus

The business environment is challenging and in 2023, we will be focused on ensuring profitability, a stable cash flow and a resilient balance sheet.

The situation in our geographic segments is somewhat fragmented. In the Nordics, Europe and the US, we expect continued challenges in the consumer market, driven by macroeconomic factors that are collectively affecting disposable income. In the Middle East and Asia, the overall market trend is expected to remain positive. The trend for hospitality, on the other hand, is generally more positive. Continued investments in real estate and hospitality are expected to contribute to sustained stable demand. This is also a high priority for us and we are now intensifying our focus on this area.

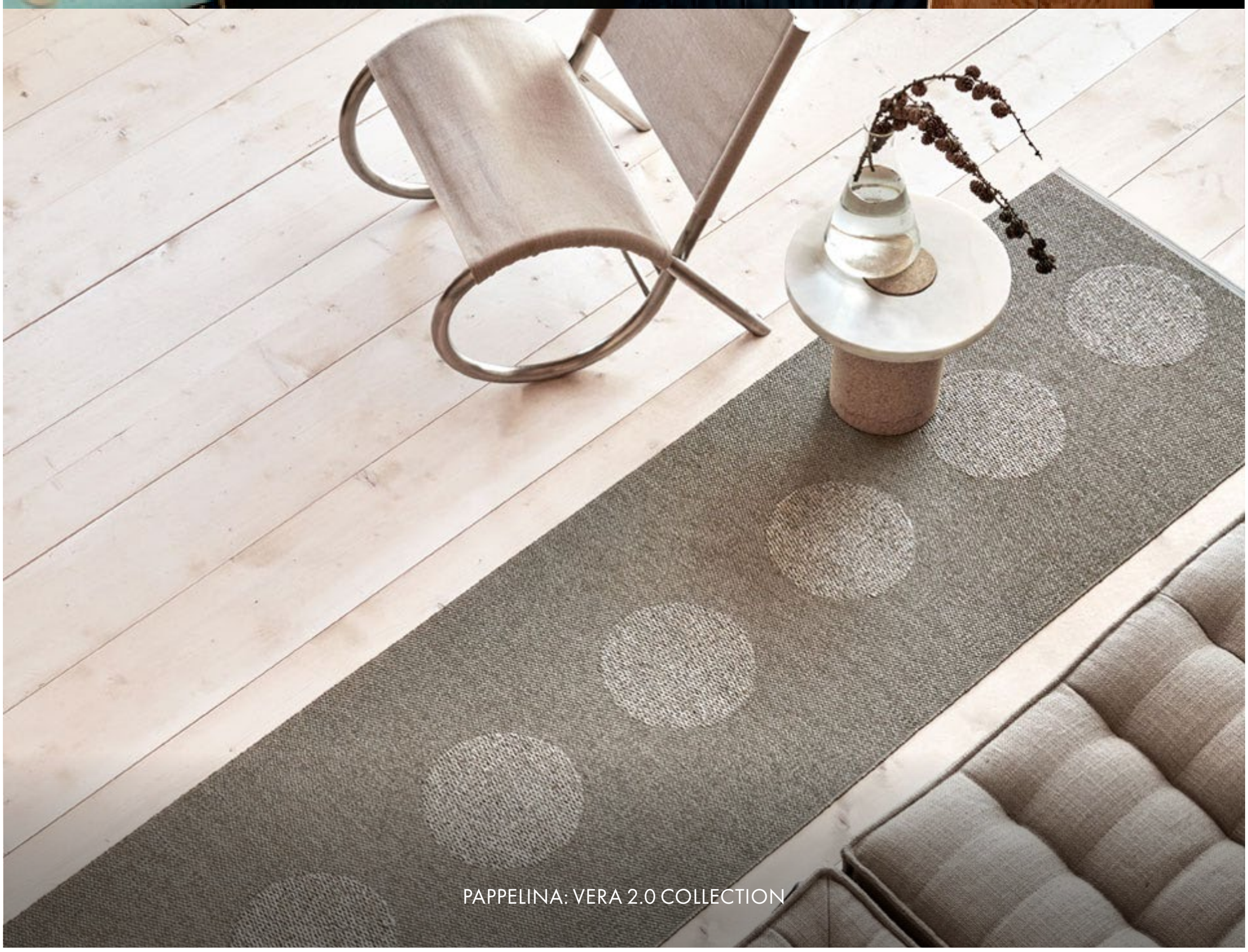
Participation and commitment

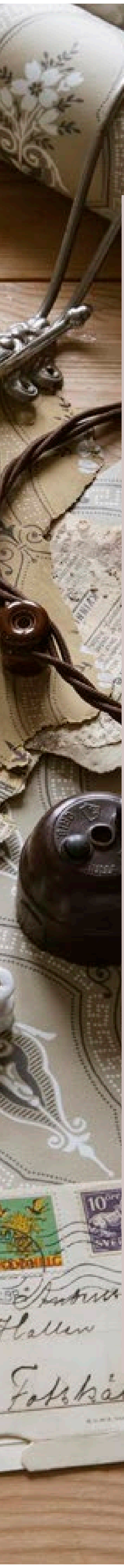
We are entering 2023 with a clear and shared idea of how we want to continue our development – both in individual parts, and as a whole. However, none of this can be realised without the participation and commitment of the entire organisation. I would therefore like to express my gratitude for the forward-looking spirit that has characterised the work of this entire organisation, and will continue to do so. In times of challenges and change, that is exactly what is needed.

Borås, March 2023
Olle Svensk, CEO


BORÅSTAPETER

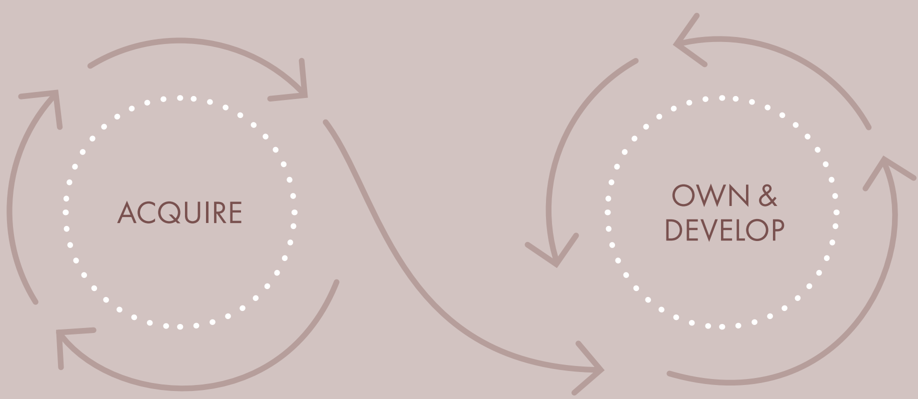

WALL&DECÒ: HIKARI, ESSENTIAL COLLECTION 2021


PAPPELINA: VERA 2.0 COLLECTION



Our business model

Embellence Group's business model is based on acquiring, owning and developing strong brands in wallpaper, textiles, rugs and other home furnishings.



The focus lies on brands in the premium and luxury segments with strong positions in their own niches. Sales take place, or have the potential to take place, internationally and through various channels.

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

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

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

Strategy

CONTINUED GROWTH IN PREMIUM AND LUXURY SEGMENTS

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

Follow-up 2022:

The share of premium continued to rise during the year. The total share was 63%, compared with 54% in the preceding year. The main drivers were the acquisition of Artscape Inc. and increased sales in Wall&decò and Cole & Son.

INCREASED INTERNATIONAL SALES

In the premium segment, 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 2022:

The share of sales outside the Nordics increased during the year. Overall, Europe and Rest of World accounted for about 60% of total net sales, compared with 51% in the preceding year. This trend was mostly due to the acquisition of Artscape, but also to the increase in organic sales outside the Nordics.

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. They must be clearly pattern-based, and have the potential to both complement existing styles in Embellence Group's portfolio, and be used in a range of product categories.

Follow-up 2022:

The US company Artscape Inc. was acquired during the year. Through this acquisition, Embellence has expanded its operations to also include exclusive pattern-based window film ('artwork for windows').

MORE EFFICIENT INTERNAL PROCESSES AND CLOSER CUSTOMER RELATIONSHIPS THROUGH DIGITALISATION

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

Follow-up 2022:
During the year, projects related to digitalisation were carried out across major parts of the value chain. The more substantial initiatives included continued investments in our own online sales for Boråstapeter, Pappelina and Cole & Son. 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. The investments in digitalisation also extend to production. During the year, the share of digitally printed wallpapers increased by 4 percentage points.

EMBELLISH WITH EXCELLENCE

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

Follow-up 2022:
In 2022, several initiatives were implemented to create a structured and professional approach to Group-wide ESG issues, and to incorporate sustainability into the company's overall strategy. These include the creation of an ESG agenda (Embellish with Excellence), the establishment of a sustainability organisation, the identification of KPIs and the implementation of continuous improvement processes.

Financial goals

NET SALES GROWTH

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

Comments

During the year, net sales amounted to MSEK 720.1, up 11.3% compared with the year-earlier period. Excluding income from Artscape, which was acquired in the first quarter of 2022, growth was −6.7%. Positive currency effects contributed 1.9%.

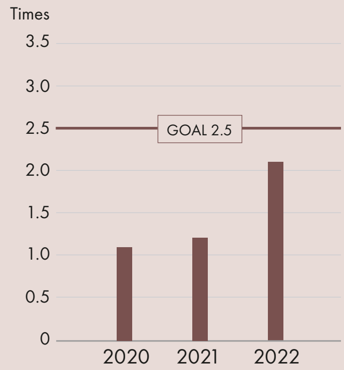
INDEBTEDNESS

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

Comments

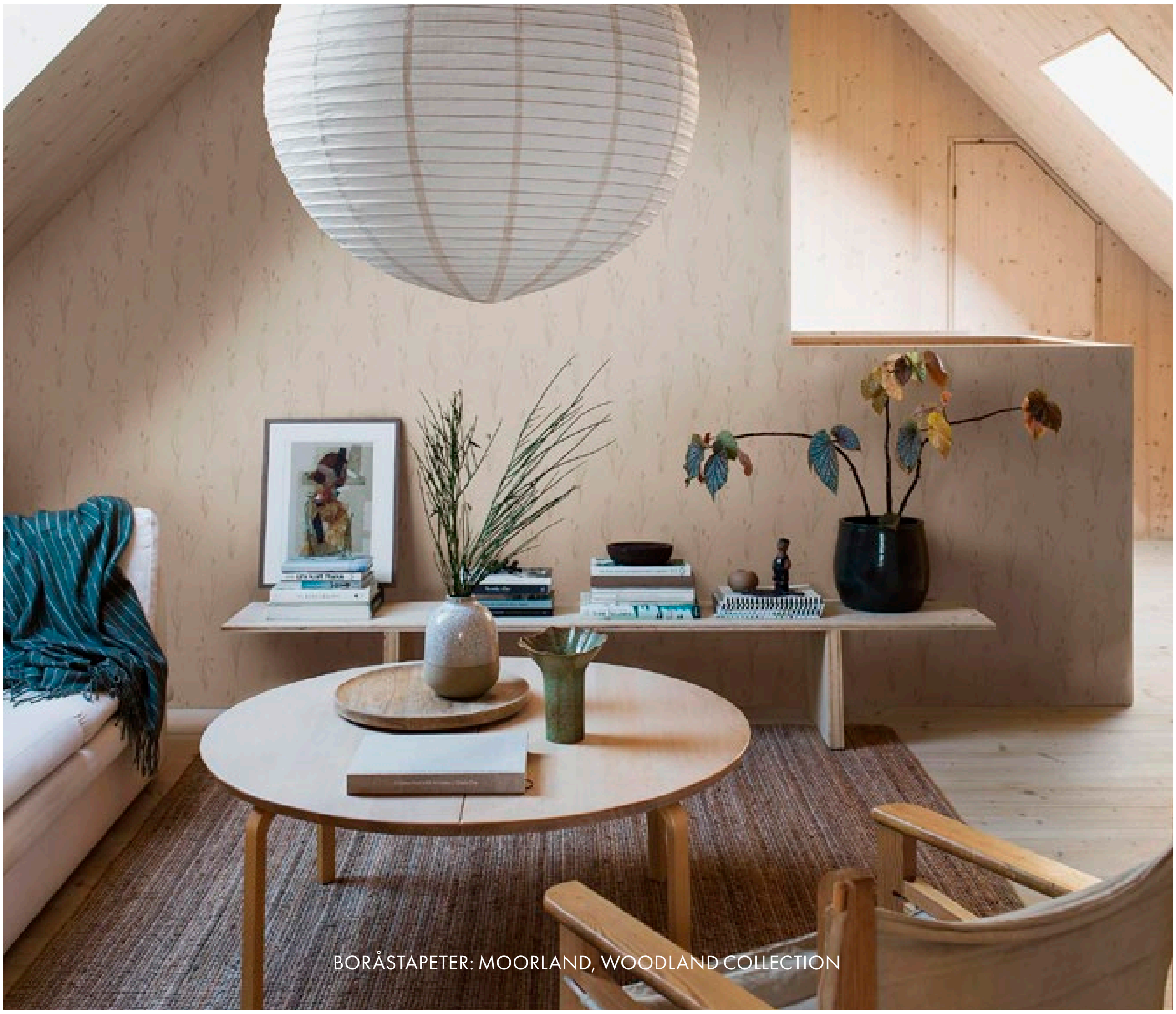
At year-end, the debt/equity ratio (net debt/EBITDA) was 2.1 times, which was well below the target.

Excluding IFRS 16 effects,* the debt/equity ratio was 1.7 times.



* see Definitions on page 96

WALL&DECÒ: CLOROFILLA, WET COLLECTION 2022



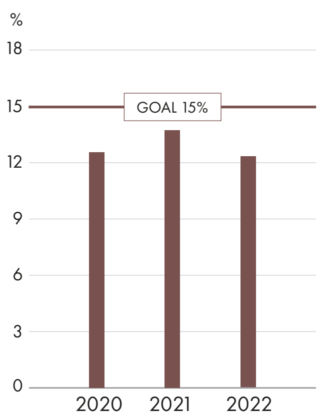
BORÅSTAPETER: MOORLAND, WOODLAND COLLECTION

OPERATING MARGIN

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

Comments

In 2022, the EBITA margin was 12.3%, compared with 13.7% in 2021. The decline was largely due to decreased sales in the Nordics and higher costs for input materials.



DIVIDEND POLICY

Embellence Group's goal is to pay dividends of 30 to 50% of 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

Ahead of the 2022 Annual General Meeting, the Board of Directors proposes a dividend of SEK 0.80 per share, corresponding to 31% of net profit for the year.

30–50%

OF NET PROFIT FOR THE PERIOD

Business environment and market

The macroeconomic situation is also affecting the market for interior design. The greatest challenges are in the consumer market in the Nordics, but also in Rest of Europe and the US. The trend for hospitality remains relatively strong in most markets, however. In the Middle East and Rest of Asia, the market trend is expected to remain positive as a whole.

NORDICS

CONSUMER: Deemed to be in a negative trend and is one of the toughest markets at present, driven by the macroeconomic factors affecting disposable income.

HOSPITALITY: Considered relatively stable. The market is affected, but to a lesser extent, by the same macroeconomic factors as the consumer market.

MIDDLE EAST

CONSUMER: The trend is considered strong. Consumers have high buying power and are less sensitive to macroeconomic factors.

HOSPITALITY: The trend is considered strong. High and continuous investment in real estate and hospitality.

SOUTH AMERICA

CONSUMER: The trend is considered weak. High inflation and falling consumer confidence.

HOSPITALITY: Relatively stable outlook. Despite macroeconomic challenges, the market direction is assumed relatively positive with a tailwind from the recovery in 2022.

REST OF EUROPE AND THE US

CONSUMER: The market direction in Europe (excluding the Nordics) and the US is expected to be negative, but not as weak as in the Nordics, as macroeconomic factors are not expected to hit households in these countries as hard.

HOSPITALITY: The trend is considered slightly positive. Travel is boosting the market and consumers are not as restrained.

ASIA

CONSUMER: The trend is considered positive. Macroeconomic factors have a lesser effect on consumers than in the US and in Europe.

HOSPITALITY: The trend is considered positive. Continued investment in real estate and hospitality is bolstering the market.

AUSTRALIA

CONSUMER: As in the US and Europe, the trend is considered weak, with low levels of consumer confidence.

HOSPITALITY: Considered slightly positive. As Asia continues to open up, hospitality is supported by increased travel which is expected to bolster the market.

Negative trend | Weak trend | Stable | Positive trend | Strong trend

TRENDS

Customised products
Customers are increasingly requesting customised products when it comes to format and design. This requires an ability to offer high-quality customisation services, as well as flexible design and production capabilities.

Digital transformation
The interior design industry is undergoing a digital transformation. More and more services are being provided online, placing demands on players to develop their sales and marketing channels. The digital transformation is also taking place internally, and the share of digitally printed wallpaper is steadily growing.

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

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

DRIVERS

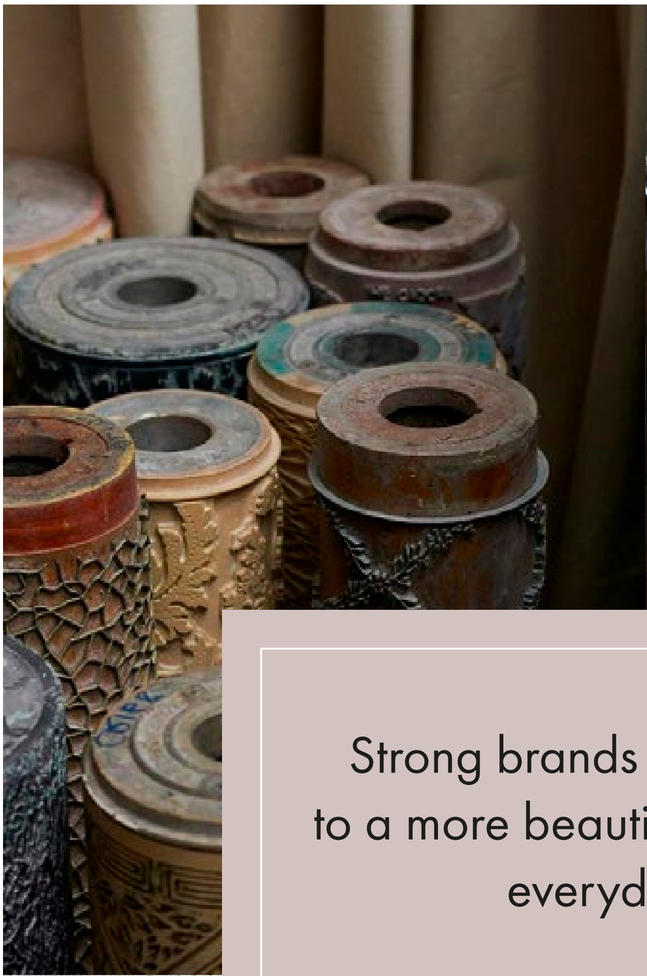
Home-related spending
In the wake of the pandemic, people are spending more time at home, which is driving home-related spending. The expected decline in residential transactions will probably mean that consumers spend more on their existing homes.

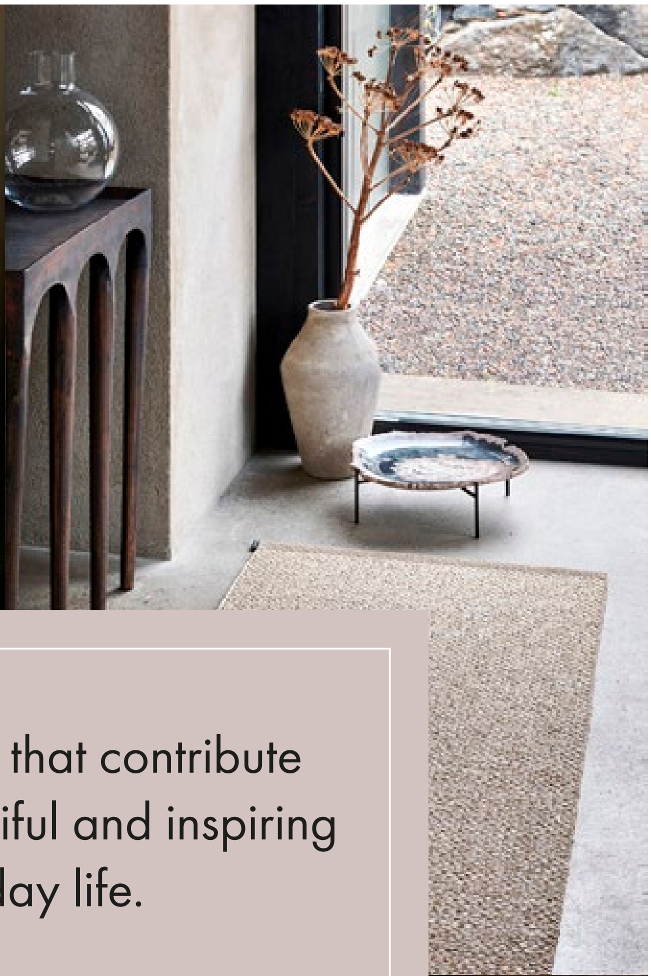
Interior design that reflects a personal style
Interior design makes it possible to reflect personal style and taste. Wallpaper offers an efficient way, in terms of both time and cost, to transform a home into something unique and personal compared with more extensive changes such as renovation.

Continued travel
Despite the current global situation, travel is also expected to continue growing over time. This is driving investment in real estate and hospitality, which is an underlying driver of the interior design market.

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

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





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

BORÅSTAPETER Wall&decò BORÅS TAPETFABRIK

Cole & Son pappelina ARTSCAPE WINDOW FILM DESIGN

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. New designs are developed both internally and in collaboration with renowned designers. The design archive also includes in-licensed designs from such designers as Arne Jacobsen and Alvar Aalto.

Milestones 2022

- Launched Boråstapeter Studio, a digital concept with custom-fit and expressive designs
- Opened digital sales channels in Norway and Finland
- Launch in US with new partner
- Expanded network of digital screens in selected stores
- Expansion into new product categories with best-selling designs
- Launched cost-savings programme to mitigate the challenging business environment

Focus 2023

- Expand the range and develop the offering through Boråstapeter Studio
- Continued expansion in digital sales channels
- Expand and refine international markets
- Focus on profitability through cost control, strong launches and product mix
- Increase operational flexibility to meet changes in external environment

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 His Majesty King Charles III and has a long tradition of furnishing palaces, castles and theatres in the UK as well as outside the domestic market. Cole & Son's wallpapers have been used in, for example, Buckingham Palace, the Palace of Westminster and the White House.

Milestones 2022

- Launched own new online store
- Continued expansion into luxury and ultra-luxury segments, with several high-profile projects
- Relocated head office to Chelsea in central London
- Strong growth in the US and UK resulting from increased sales activities
- Established as one of the top luxury brands in the UK due to several prestigious acknowledgements and distinctions
- Launched a wallpaper collection together with Stella McCartney, based on a new and more sustainable material

Focus 2023

- Launch flagship store in Chelsea, central London
- Continue geographic expansion with a focus on the Middle East
- Expand own online sales into more markets
- Several larger collection launches, including Fornasetti

www.cole-and-son.com

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

Milestones 2022

- Launched a new product – the SOUND system – an innovative wallpaper that improves the acoustics in a room
- Reviewed agent structure and changed agents in some key markets
- Increased focus on growth in the US, which is now a key market
- Campaigns to strengthen and clarify the brand profile
- Completed mitigating measures to address increased prices for input materials and the fall-off in sales linked to the war in Ukraine

Focus 2023

- Launch an updated and improved version of the wetroom collection, WET system 2.0, with even better durability and shorter installation time
- Drive growth by stepping up sales activity in key markets, with an extra focus on the US and Middle East
- Develop digital marketing and sales with a focus on architects, designers and end consumers

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 at Pappelina's own weaving mill in Leksand, Sweden, by dedicated and experienced craftspeople who use exclusively Swedish raw materials in the production. The rugs are non-allergenic, easy to clean, and water and UV-light resistant. In addition to exclusive rugs, Pappelina also offers other home furnishings such as blankets, cushions and trays.

Milestones 2022

- Adapted and increased flexibility in the digital market offering
- Opened digital sales channels in Australia, Japan, South Korea, the UK and the United Arab Emirates
- Successfully integrated acquisition of Dalaslöjden and drove streamlining project
- Deepened sustainability initiatives and launched BIO Edition rug collection, produced from a carbon-neutral bio-attributed PVC from wood-based tall oil, which is PVC derived from fossil-free ingredients

Focus 2023

- Continue to develop the digital market offering and the markets that were launched in 2022
- Continue to focus on sustainability where activities for upcycling materials have been initiated, and the launch of a new BIO Edition collection

www.pappelina.com

ARTSCAPE

WINDOW FILM DESIGN

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

Milestones 2022

- Integration with Embellence Group
- Planned and prepared for European launch
- Initiated creation of new brand profile and new website
- Expanded in Europe and the Middle East through Amazon
- Expanded in the US through store networks of existing customers
- Launched 12 new designs
- Negotiated with suppliers and streamlined to mitigate increased costs for raw materials

Focus 2023

- Launch new brand profile and new website
- Launch in Europe
- Develop a number of updated and new designs

www.artscape-inc.com

·BORÅS TAPETFABRIK·

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

Milestones 2022

- Launched Borås Tapetfabrik as a separate brand with a new website, as well as its own marketing and sales strategy
- Completed significant production-enhancement measures that improved efficiency and reduced waste
- Built a new colour studio to optimise opportunities for customers to test print designs in various shades and with various printing techniques
- Developed new and more sustainable wallpaper material with a higher proportion of recycled input materials, which is now used for all digital-printed wallpapers

Focus 2023

- Continue to develop production and invest in solutions that will improve efficiency
- Develop the customer offering with a focus on digital printing
- Continue to build and establish the brand, brand offering and unique solutions, with the aim of making Borås Tapetfabrik the preferred and natural production partner

www.borastapetfabrik.se

BORÅS TAPETFABRIK

Performance 2022

GROUP

Net sales and earnings

During the year, net sales amounted to MSEK 720.1 (646.9), up 11.3% compared with the year-earlier period. Excluding income from Artscape, which was acquired in the first quarter of 2022, growth was –6.7%. Positive currency effects contributed 1.9%. The full-year effect of suspended deliveries to Russia, a component of organic growth, was –1.7%. Adjusted EBITA was MSEK 102.6 (99.9). The improvement was mainly attributable to increased sales and a higher share of premium.

Net profit for the year amounted to MSEK 57.4 (59.3), resulting in earnings per share before dilution of SEK 2.57 (2.77).

Net financial items

For full-year 2022, net financial items amounted to MSEK –0.6 (–6.0). Net financial items were positively impacted by a write-off of the estimated earnout of MSEK 16.9 related to the acquisition of Artscape Inc, and negatively by interest rates and unrealised exchange-rate losses on interest-bearing liabilities in USD.

Cash flow

Cash flow from operating activities was MSEK 107.9 (62.1). Operating cash flow was positively impacted mainly by the positive development of working capital of MSEK 24.4 (–36.7). During the year, cash flow from investing activities totalled MSEK –156.3 (–53.2) and mainly pertained to the acquisition of Artscape and some minor investments in digital platforms and in premises/equipment by local companies. Cash flow from financing activities was MSEK 54.2 (–2.3), with the year-on-year change attributable to new interest-bearing liabilities that formed part of the financing for the acquisition of Artscape. Cash flow for the year was MSEK 5.8 (6.6).

Financial position

At year-end, total assets amounted to MSEK 853.2 (623.5). The equity ratio was 46.8% (47.0). Cash and cash equivalents amounted to MSEK 66.2 (58.0). The company's net debt was MSEK 233.7, compared with MSEK 125.0 the end of 2021. The change in net debt is primarily due to an increase in interest-bearing liabilities in conjunction with the acquisition of Artscape. The debt/equity ratio (net debt/EBITDA) was 2.1 times at the end of the year (1.2 at 31 December 2021).

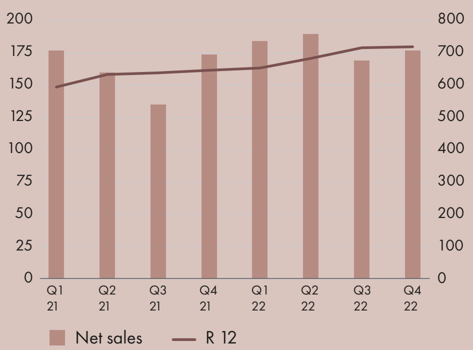
Net sales per segment

MSEK	**2022**	2021
Nordics	294.0	328.3
of which premium	29%	29%
Europe	242.2	241.8
of which premium	84%	80%
Rest of World	183.9	76.8
of which premium	90%	85%
Total	**720.1**	**646.9**

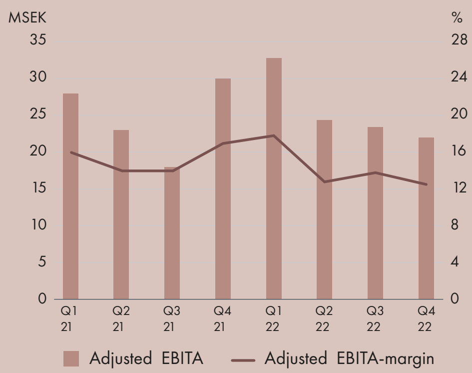
Adjusted EBITA per segment

MSEK	**2022**	2021
Nordics	35.6	52.8
Europe	40.2	37.7
Rest of World	26.8	9.4
Total	**102.6**	**99.9**

Net sales (MSEK)



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



NORDICS

Dampened demand and focus on cost savings

Net sales in the Nordics amounted to MSEK 294.0 (328.3), down 10.5% year-on-year. During the year, sales in all Nordic countries were negatively impacted by the deteriorating macroeconomic situation with high inflation, rising interest rates and high energy prices.

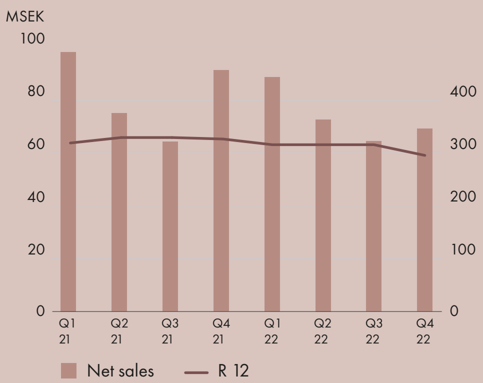
Adjusted EBITA was MSEK 35.6 (52.8). The decrease was due to lower sales, but also to lower cost absorption as a result of lower production volumes, which is partly a consequence of the lower sales volume, but also the ongoing process to optimise the finished goods inventory.

The share of premium totalled 29% (29).

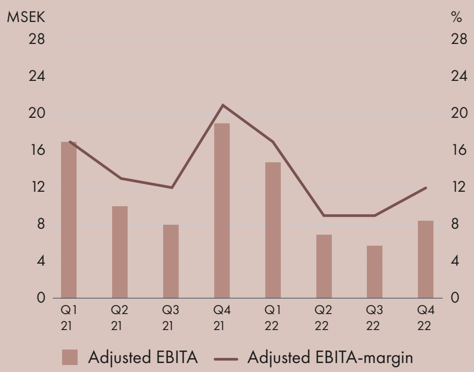
Performance measures

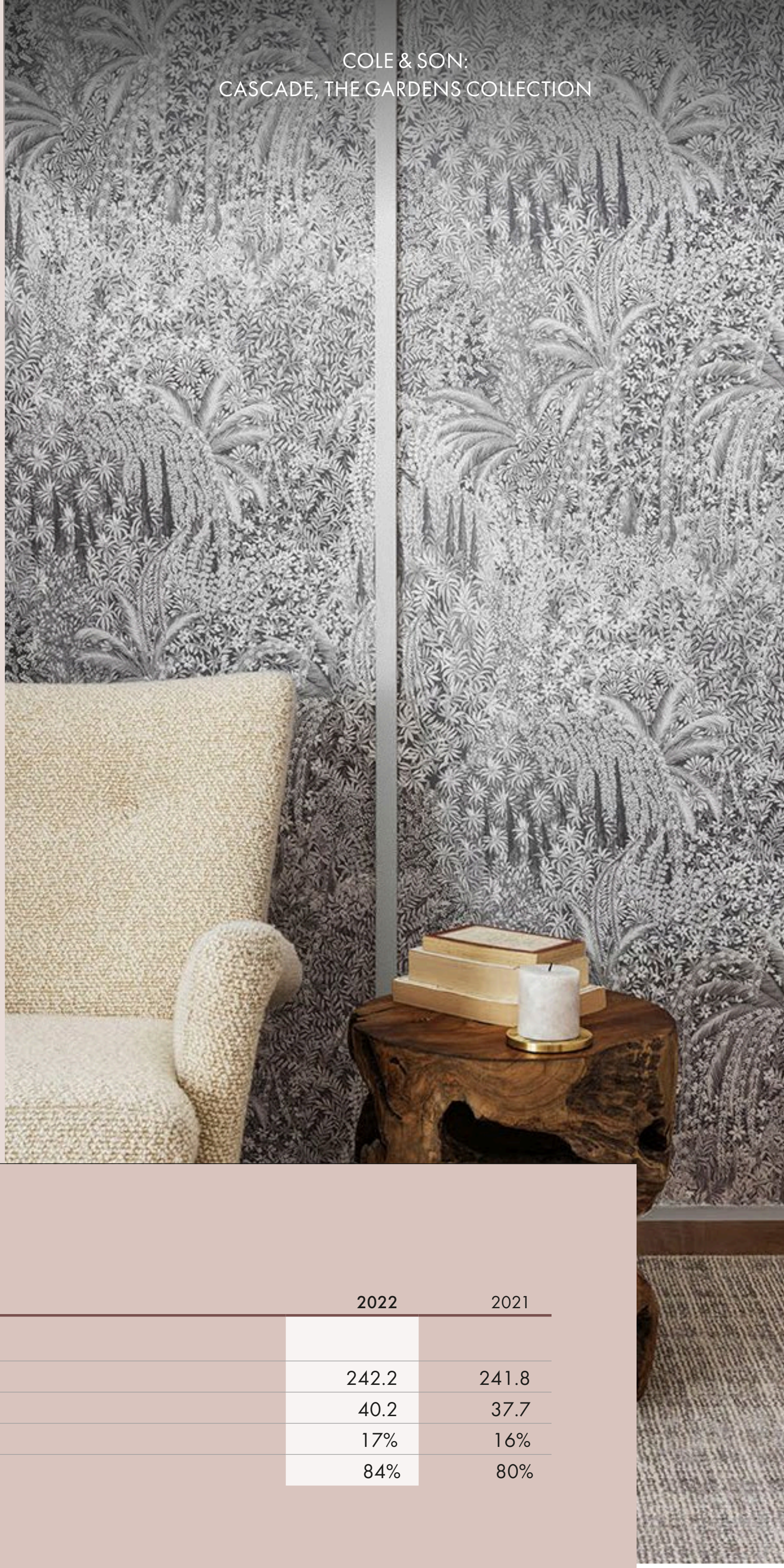
MSEK	**2022**	2021
Nordics		
Net sales	294.0	328.3
Adjusted EBITA	35.6	52.8
Adjusted EBITA margin	12%	16%
Share of premium	29%	29%

Net sales (MSEK)



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





COLE & SON:
CASCADE, THE GARDENS COLLECTION

EUROPE

Stable sales in key markets

Net sales in Europe totalled MSEK 242.2 (241.8).

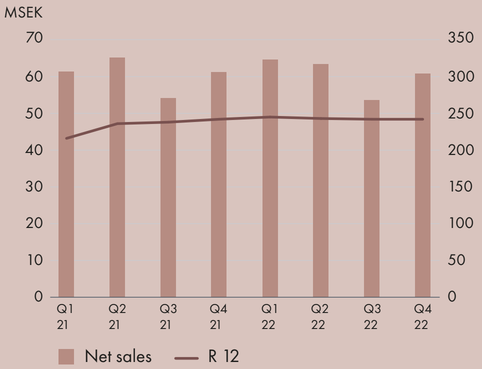
Underlying growth was positive in major European markets, where the UK – which is also the largest country – delivered the strongest performance. Italy also performed well. Sales were negatively impacted by suspended deliveries to Russia. In 2021, sales to Russia amounted MSEK 12.

Adjusted EBITA was MSEK 40.2 (37.7). The stronger performance was partly attributable to a favourable sales mix, which led to a higher gross margin. At the same time, a return to normal marketing activities and increased costs for input materials affected operating expenses. During the year, the share of premium was 84%, compared with 80% in 2021.

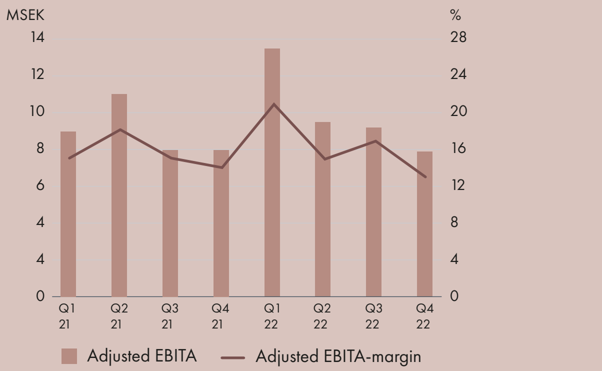
Performance measures

MSEK	**2022**	2021
Europe		
Net sales	242.2	241.8
Adjusted EBITA	40.2	37.7
Adjusted EBITA margin	17%	16%
Share of premium	84%	80%

Net sales (MSEK)



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



REST OF WORLD

Strong growth due to acquisition

Net sales in Rest of World amounted to MSEK 183.9 (76.8). This robust performance was mainly due to the acquisition of Artscape. During the year, organic growth was negative.

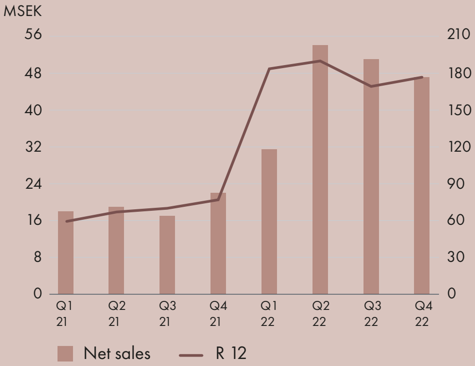
Adjusted EBITA was MSEK 26.8 (9.4). Earnings were positively affected by higher net sales, but also negatively by launches and activities in online sales.

The share of premium was 90%, compared with 85% in the preceding year. The increased share of premium sales was mainly driven by the add-on acquisition.

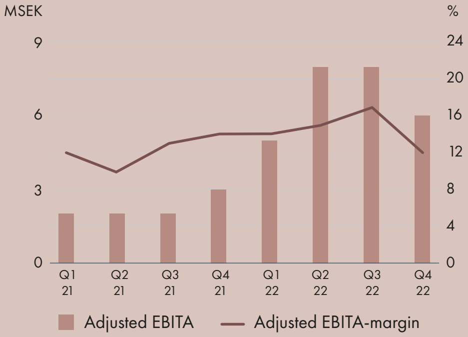
Performance measures

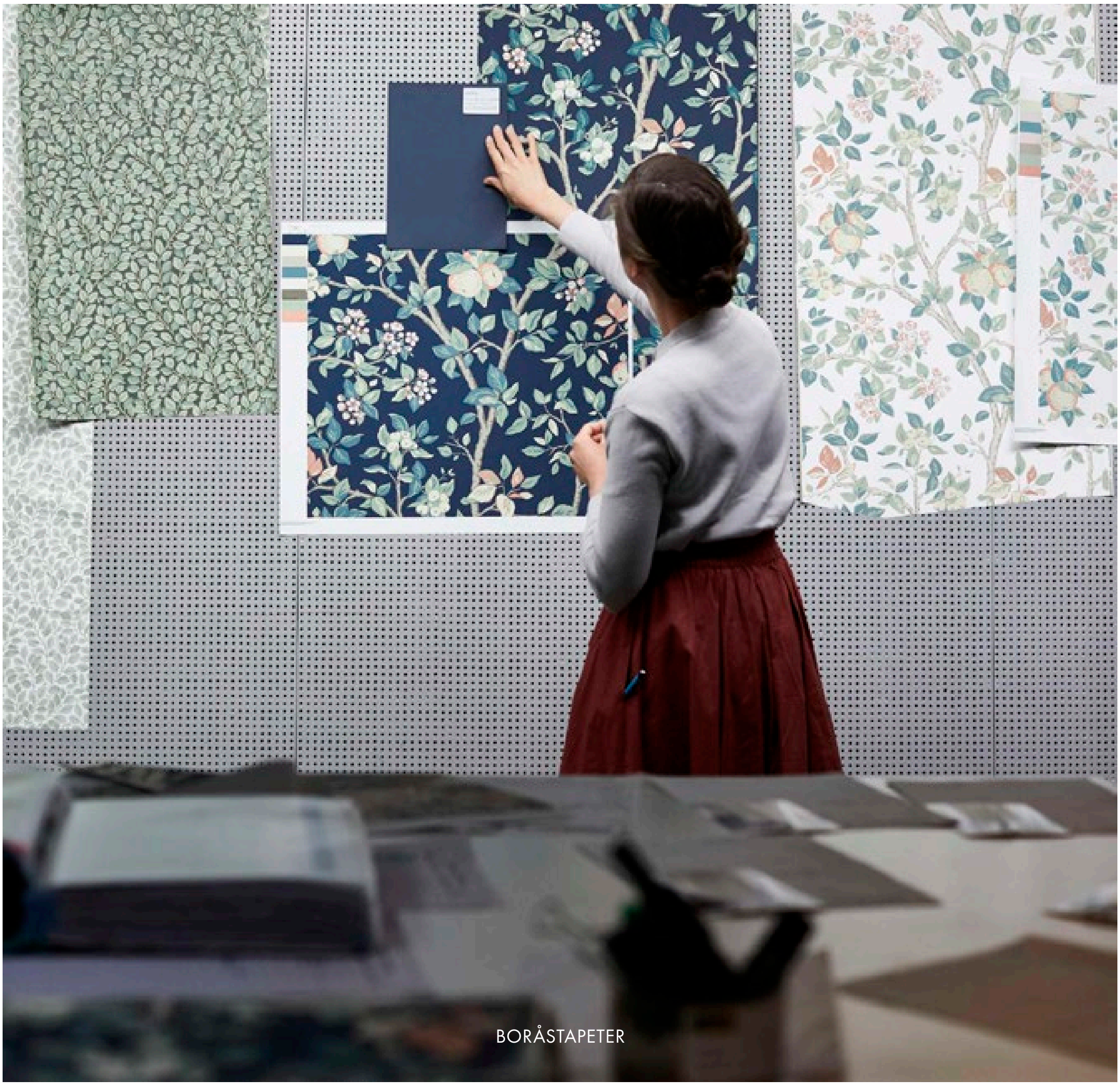
MSEK	**2022**	2021
Rest of World		
Net sales	183.9	76.8
Adjusted EBITA	26.8	9.4
Adjusted EBITA margin	15%	12%
Share of premium	90%	85%

Net sales (MSEK)



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





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. Where the requirements for sustainability information pursuant to Chapter 6, Section 11 of the Swedish Annual Accounts Act are presented in this Annual Report is set out below.

Organisation and responsibilities

The Head of Sustainability is ultimately responsible for the Group's sustainability issues and ongoing sustainability practices. Group Management, under the leadership of the Head of Sustainability, has been tasked with developing the Group's sustainability-related practices. Based on Group Management's proposals, the Board makes decisions regarding prioritized sustainability topics, policies and the revision of existing policies. Like other operational activities, a considerable amount of Embellence Group's ongoing sustainability initiatives are conducted within the respective brands. The fact that the focus of these activities differs partly affects their focus and direction. As part of the process to introduce joint targets and procedures, enable comparability and increase interaction, a Group-wide sustainability organisation was established in 2022 with representatives from various parts of the Group.

EMBELLENCE GROUP'S ESG AGENDA

'Embellish with Excellence'

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

In 2022, several initiatives were implemented to create a structured and professional approach to Group-wide ESG issues, and to incorporate sustainability into the company's overall strategy:

- Based on the GRI reporting framework, the ESG agenda 'Embellish with Excellence' was developed, comprising a framework that will guide the ESG approach of the Group and the brands.
- A sustainability organisation was established in the company with a central Head of Sustainability and sustainability representatives from each of the subsidiaries.
- A platform and processes for reporting, processing and analysing data were implemented.
- KPIs for measuring and monitoring the Group's climate and environmental commitment were defined.
- Continuous improvement processes were established.

To 'Embellish with Excellence'

Embellence Group's ESG agenda 'Embellish with Excellence' includes the Group's most important environmental, social and ethical aspects. The name captures the Group's main objective.
'Excellence' signifies a continuous and long-term commitment to protecting and safeguarding the environment, the climate, people and shared values.

About the focus areas

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

Embellish with Excellence

THREE FOCUS AREAS

A SUSTAINABLE VALUE CHAIN
- MORE EMBELLISHMENT WITH LESS IMPACT
- EFFICIENT AND OPTIMAL MANAGEMENT OF MATERIALS AND RESOURCES

A SUSTAINABLE ORGANISATION AND STIMULATING WORKPLACE
- TAKE CARE OF OUR EMPLOYEES
- PROMOTE EQUALITY, DIVERSITY AND OPENNESS

RESPONSIBLE AND ETHICAL BUSINESS
- LEAD BY EXAMPLE THROUGH INTEGRITY AND ETHICAL BEHAVIOUR

A SUSTAINABLE VALUE CHAIN

– PROTECT THE CLIMATE AND THE ENVIRONMENT

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

1. MORE EMBELLISHMENT WITH LESS IMPACT
   Measure and reduce Scope 1, 2 and 3 GHG emissions in a reliable and continuous manner.
2. EFFICIENT MANAGEMENT OF MATERIALS AND RESOURCES
   Switch to sustainable and renewable, and respect and use the materials, resources and energy used by the Group efficiently.

1. More embellishment with less impact

In 2022, a great deal of focus was placed on improving methods for gathering, processing and analysing climate and environmental data to enable continuous measurement and monitoring of the company's direct and indirect GHG emissions. The goal is to pursue a sustainable change process in an evidence-based and transparent manner.

Examples of key activities completed:

- Introduction of a Group-wide platform and processes for data reporting.
- Expanded measurement of the Group's Scope 3 GHG emissions, with an initial focus on materials, business travel and transport.
- Defined KPIs for measuring and monitoring the reduction of GHG emissions.

FOCUS 2023:

Set targets for the defined KPIs

Investigate a net zero target

Based on data, identify and prioritise improvement areas in each company

Create strategy and plan for value chain sustainability

Emissions relative to sales

Tonnes of CO_2e/SEK million revenue	2020	2021	2022
Scopes 1 and 2	4.28*	2,33*	2.01
Year-on-year change		–46%	–14%
Scopes 1, 2 and 3			16.96

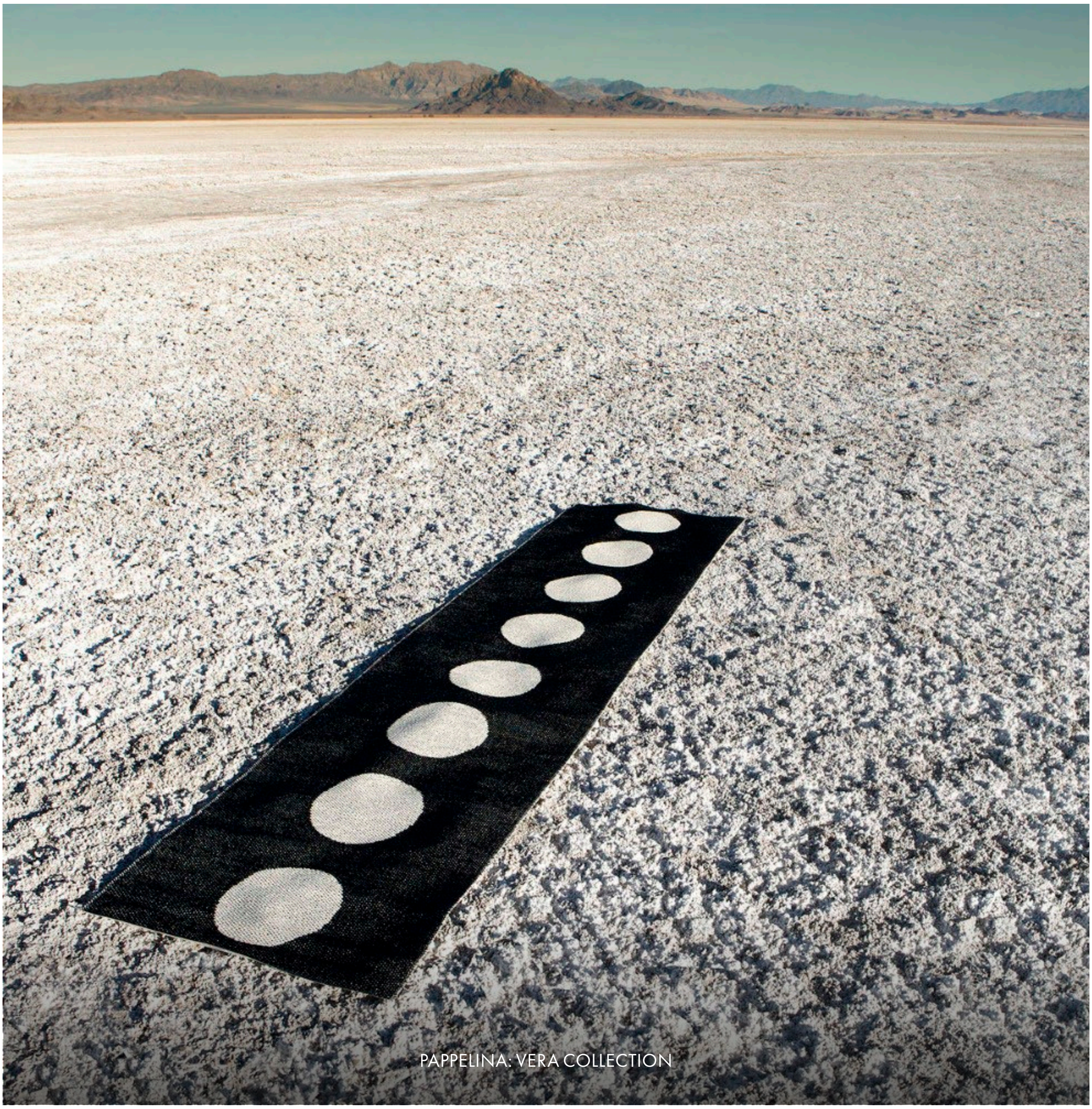
Comments:
Emissions per SEK million revenue will be the Group's leading KPI for measuring performance and setting targets. In 2022, the KPI for Scopes 1 and 2 continued to decline, a result of more efficient energy use. This is the first year that the KPI for Scope 3 has been included in the report.

*Emissions data for electricity was restated for 2020-2021 due to the correction of input data and emission factors.

Greenhouse gas emissions as defined by the Greenhouse Gas Protocol*

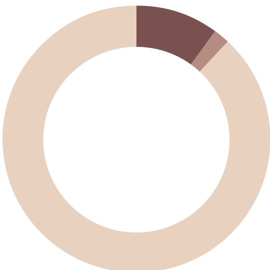
Tonnes of CO_2e	2020	2021	2022
Scope 1	1,278	1,333	1,162
Scope 2	1,162	174	285
Scope 3			10,765

Comments:
The decrease for Scope 1 emissions in 2021-2022 is due to less and more efficient use of LPG in the production process in Borås. The increase in Scope 2 emissions in 2021-2022 is mainly due to the acquisition of Artscape. The decrease in 2020-2021 was mainly due to purchasing wind electricity for production in Borås. Despite the acquisition of Artscape, there was an overall reduction of Scope 1 and 2 emissions in 2021-2022.



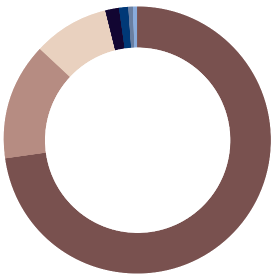
PAPPELINA: VERA COLLECTION

Allocation between scopes, CO_2e



- Scope 1 9.5%
- Scope 2 2.3%
- Scope 3 88.2%

Allocation per emission source, %



- Materials 76.8%
- Transports 9.6%
- Other fuels 9.6%
- Electricity 1.9%
- Business travels 1.1%
- District heating 0.6%
- Company cars 0.5%

2. Efficient and optimal management of materials and resources

The materials and resources that are used to produce the Group's products are the largest source of the Group's GHG emissions. It is vital, therefore, to pursue a transition to sustainable and renewable, and to respect and take advantage of the materials and resources that are used to achieve sustainability success. Better data and facts will enable a more structured, evidence-based and transparent process. The main focus for the Group's work includes a transition to more sustainable materials, minimising waste, optimising waste management, improving energy efficiency and switching to renewable energy.

TRANSITION TO SUSTAINABLE ALTERNATIVES

Involves continuously identifying, evaluating and introducing sustainable alternatives and recycled materials in our products and packaging. The KPI used to measure the Group's performance is CO_2e used materials/kg used materials.

All companies in the Group have initiated processes and activities to identify and evaluate sustainable alternatives in their products and packaging.

FOCUS 2023:

Set target for the defined KPI

Based on data-driven insights, evaluate alternative materials

73%

of total GHG emissions are derived from the materials used by the Group

KPI

	2022
Kg CO_2e/kg used materials	2,375

Comments:
On average, 1 kg of the materials used by the Group corresponds to 2.375 kg of CO_2 equivalents (CO_2e).

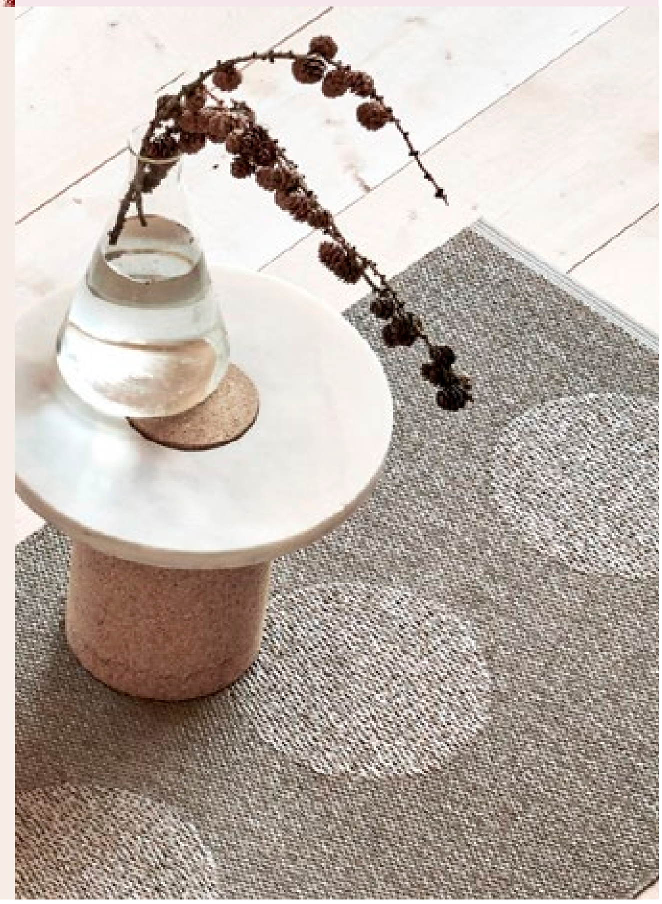
EXAMPLES OF PROJECTS LINKED TO SUSTAINABLE ALTERNATIVES

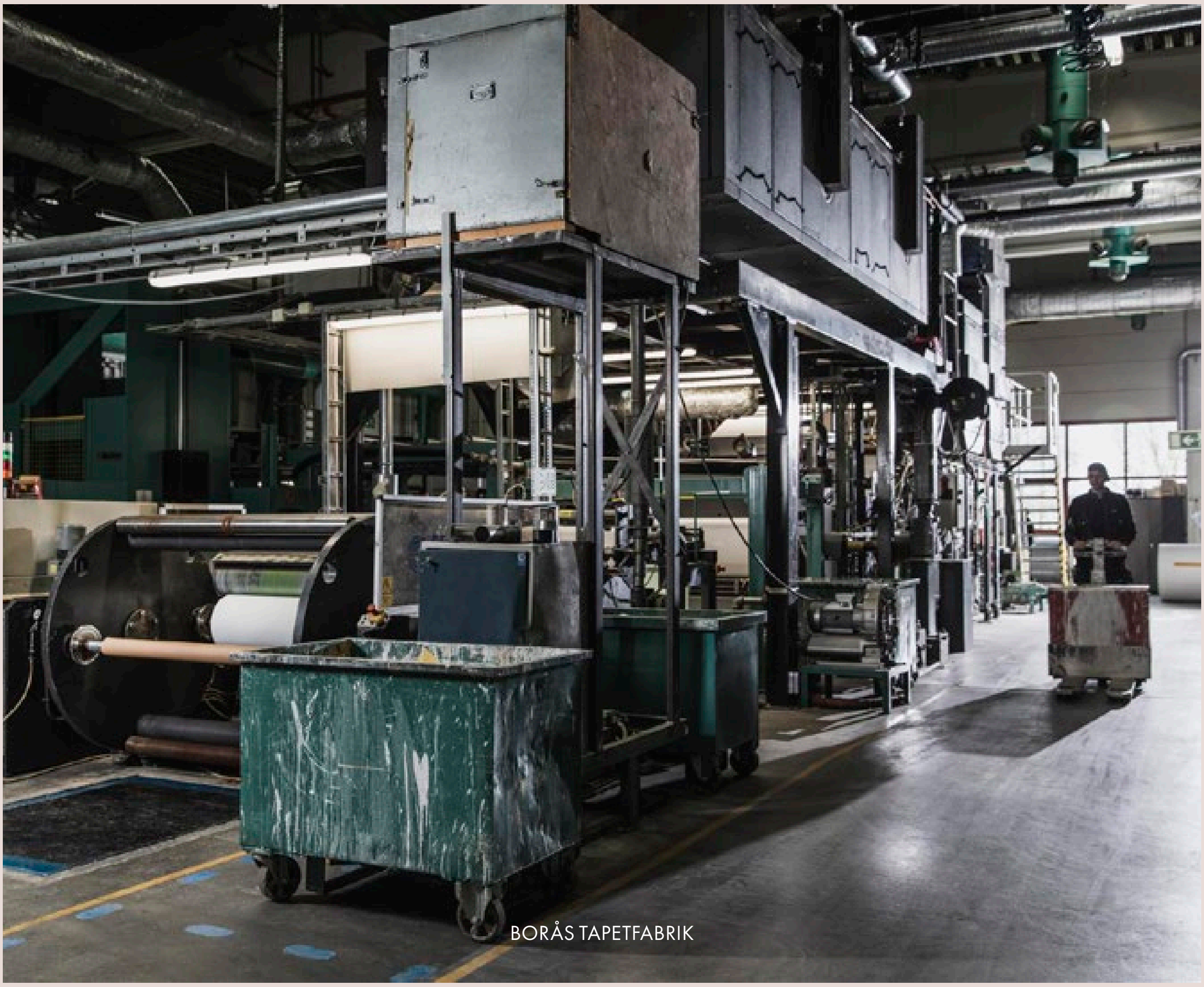
COLE & SON – COLLABORATION WITH STELLA MCCARTNEY

In 2022, Cole & Son initiated a collaboration with the sustainability icon Stella McCartney to produce their most sustainable wallpapers to date – Fungi Forest. The print is inspired by Stella McCartney's Summer 2022 collection and the material is a new ecobase. The base is made from 79% renewable fibres, and the manufacturing process reduces GHG emissions by 30% compared with traditional non-woven based wallpapers. The collaboration and the product are good examples of how Cole & Son is exploring new areas to achieve its sustainability targets, and how Embellence Group is looking into the possibility of switching to sustainable alternatives.

PAPPELINA – BIOVYN

In 2022, Pappelina launched the world's first plastic rug made from BIOVYN™, a bio-attributed PVC based on tall oil. This means that the PVC is derived from fossil-free raw materials, which is estimated to reduce GHG emissions by ~70%. The launch is a result of Pappelina's endeavours to achieve more sustainable production and design, and a perfect example of how Embellence Group is working to identify and test sustainable alternatives. The rug is now available in a limited edition, but the focus is set on continued development.




BORÅS TAPETFABRIK

MINIMISE WASTE AND OPTIMISE WASTE MANAGEMENT

Involves continuous efforts to minimise the waste arising from production and other parts of the business, and ensuring that any waste that does arise is recycled or managed as sustainably as possible. This applies, first and foremost, to our production facilities in Borås, Leksand and Italy. The KPI used to measure the Group's performance is Kg waste generated/kg used materials.

All companies in the Group now measure their waste with the intention of being able to measure at the most detailed level possible. Plans and processes for working with waste reduction and management are under implementation.

FOCUS 2023:

- Set a target for the defined KPI
- Develop the ability to measure waste at a more detailed level
- Establish processes for waste reduction and management, with a focus on recycling and upcycling

KPI

	2022
Total waste generated/total kg used materials, %	27

Comments:
The total amount of waste generated by the Group, which mainly comprises production waste, packaging materials and marketing material, accounts for 27% of the total amount of used materials in kg. All companies are currently looking into how this can be reduced.

IMPROVED ENERGY EFFICIENCY AND TRANSITION TO RENEWABLE ENERGY

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

In 2022, the aim was to implement a project to significantly reduce Scope 1 emissions by switching from LPG to biogas in the production facility at Borås. However, the project was postponed due to uncertainties regarding availability, deliverability and price volatility of biogas. The intention remains firm and efforts to find a functional solution have continued. All companies in the Group are now mapping and analysing their energy use, and exploring renewable alternatives.

FOCUS 2023:

Set targets for the defined KPIs

Develop a strategy and plan for improving energy efficiency

Identify and initiate a switch to renewable alternatives

KPI

	2020	2021	2022
CO_2 emissions from energy consumption, kg/MWh*	274.5	166.3	181.0

Comments:
Despite reduced energy use, the KPI rose slightly for 2021-2022. This was due to a change in the energy mix, since units that purchase electricity with a higher emission factor increased consumption slightly, while units that purchase electricity with a lower emission factor reduced consumption. Moreover, Artscape contributed with a less favourable energy mix.

* Energy consumption includes electricity, district heating, company cars and other fuels


COLE & SON: IDYLL, THE GARDENS COLLECTION

A SUSTAINABLE ORGANISATION AND STIMULATING WORKPLACE

– PROTECTS PEOPLE AND VALUES

The theme of Embellence Group's social sustainability initiative is 'A sustainable organisation and stimulating workplace' with a focus on employee health, well-being and development, and the protection and consolidation of shared values. The Group's ability to identify, attract, develop and retain the right employees, with the right skills and attitude, is absolutely critical for the Group's continued success. Embellence Group believes that satisfied employees in an open and constructive environment fosters a culture that creates success through collaboration and motivation. The aim is that both companies and individuals serve as role models who promote and advocate inclusion, equality, diversity and openness.

To promote social sustainability, the Group initiated a process to establish a Group-wide system for employee satisfaction surveys. The plan is to roll out the tool in 2023. It will enable measurement of social sustainability performance which, in turn, will lead to the right prioritisations and enable definition of KPIs and targets.

Promote equality, diversity and openness

Take a stand and advocate on important social issues

Everyone at Embellence – regardless of sex, gender identity, ethnicity, sexual orientation, age or faith – has the right to be treated equally in recruitment and in the workplace, and there is zero tolerance for discrimination. The Group expects the same approach from players in the value chain, which will be actualised by introducing a Code of Conduct for suppliers. The company is committed to equality and diversity, and a clear position builds brand trust among both customers and employees. The tool for employee satisfaction surveys will provide further insights, and enable definitions of KPIs and targets.

FOCUS 2023:

Implement a tool for employee satisfaction surveys and define measurable KPIs

0

No. of discrimination cases reported

Gender distribution, 31 Dec. 2022

	2021	2022
Total	**236**	**241**
Of whom women	133	129
Of whom men	103	112
No. of senior executives	9	9
Of whom women	3	4
Of whom men	6	5
No. of Board members	5	6
Of whom women	1	3
Of whom men	4	3

Age distribution, 31 Dec. 2022

	2022
Total	**241**
<30	22
30-50	134
50<	85
No. of senior executives	9
<30	0
30-50	4
50<	5
No. of Board members	6
<30	0
30-50	3
50<	3

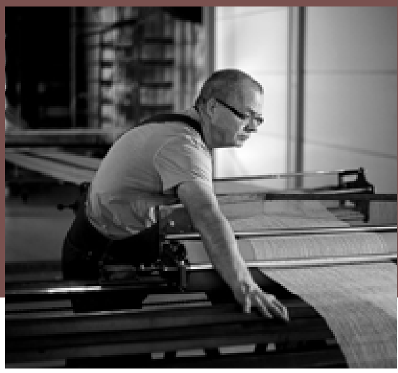
Take care of our employees

Ensure the safety, health and development of all employees

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

FOCUS 2023:

Implement a tool for employee satisfaction surveys and define measurable
KPIs



Good employment terms and conditions
Involves ensuring that employees are satisfied and feel they have what they need in order to perform. Employee turnover is a key factor that is measured and more KPIs will be defined during the year to measure, for example, leadership, company culture and NPS.

Health and safety
Involves proactive efforts to minimise risks that could lead to injury and ill health, and having clear processes for monitoring and action should anything occur. The number of incidents and sickness absence are key factors that are measured. All companies in the Group work in various ways to promote workplace health and safety, including training courses in ergonomics and safety, and by encouraging physical activity. The new tool for employee satisfaction surveys will enable uniform measurement of the effect, and another KPI will be defined and continuously monitored.

Training and development
Focus on offering good opportunities for professional development to employees. In addition to mandatory training in, for example, occupational health and safety, various opportunities for training are now offered by the companies based on position and skills profile. The goal is to continuously create better structures and professional development opportunities for the employees. The KPI for measuring and monitoring performance in this area will be defined in 2023.

Employees

Total no. of employees at 31 Dec 2021	236
Total no. of employees at 31 Dec 2022	241

Accidents and incidents

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

Comments:
Including the acquisition of Artscape, the Group had a total of 259 employees at the start of 2022 and 241 employees at the end of 2022. The decrease is a result of the completed cost-savings programme. Happily, no workplace accidents were reported during the year.

COLE & SON: WOODLAND, BOTANICAL ~BOTANICA~ COLLECTION

RESPONSIBLE AND ETHICAL BUSINESS

– ACT WITH INTEGRITY AS A COMPANY AND AS INDIVIDUALS

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

Code of Conduct

In 2022, the Group's joint Code of Conduct was reviewed and updated. A plan and process for ensuring adequate implementation was also initiated. The Code of Conduct is Group-wide, but also enables local adaptation. It applies to all employees and sets out the guiding principles for ethics, anti-corruption, human rights, and social and environmental accountability. The Code of Conduct applies to all employees and Code of Conduct training is mandatory for all employees.

Code of Conduct for suppliers

Several companies in the Group have introduced a Code of Conduct for suppliers. In 2022, these were compiled in a Group-wide Code of Conduct that will gradually be introduced for the Group's new and existing suppliers. This Code largely reflects the Group's internal Code of Conduct, since Embellence Group expects the companies that it works with to have similar aims and values in relation to sustainability. The Codes set out, for example, the requirement for a minimum wage and regulated working hours and a ban on child labour.

Policy review

An inventory and review of the Group's existing policies and guidelines was initiated in 2022. The policy catalogue is currently being updated and complemented.

WHISTLEBLOWING

In 2022, a Group-wide whistleblowing system was introduced. The system enables employees and external parties to make anonymous reports of suspected misconduct that breaches laws or the Group's Codes of Conduct, values and policies. The system is available via Embellence Group's website, and each company's website.

	2022
No. of whistleblowing cases	0

Auditor's report on the statutory sustainability report

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

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2022 on pages 28-39 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, 29 March 2023
PricewaterhouseCoopers AB

Patrik Resebo
Authorized Public Accountant

The share

The Embellence share has been listed on Nasdaq First North Premier since 24 March 2021. The share price at the beginning of the year was SEK 36.00. At year-end, the price was SEK 20.10, corresponding to a decrease of 44%.

Share performance and return

Embellence Group's share reached its highest price for the year of SEK 36.70 on 30 March 2022. The lowest price was SEK 18.10 on 21 October 2022. At year-end, the share price was SEK 20.10, a decline of 44% in 2022. This corresponds to a market capitalisation of MSEK 454.

Just over 3.9 million Embellence Group shares were traded on Nasdaq Stockholm during the year, with a value of slightly more than MSEK 103.4. Den average daily turnover of just over 15,400 shares, corresponding to an average value of SEK 408,600 per day.

Shareholders

The number of shareholders amounted to 2,076 on 31 December 2022. The largest owner on the same date was Acervo AB, which holds 16.1% of the total number of shares and votes in the company. The remaining 83.9% is owned by institutional investors and private individuals in Sweden and abroad.

Completion of directed issue

In connection with the acquisition of Artscape Inc., a directed issue of 1,183,877 new shares was conducted. The issue was carried out under the mandate granted by the 2021 Annual General Meeting. The issued shares were used as part of the purchase price.

Share capital

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

Dividend

The Board of Directors of Embellence Group proposes a dividend of SEK 0.80 per share for 2022, corresponding to 31% of net profit for the year.

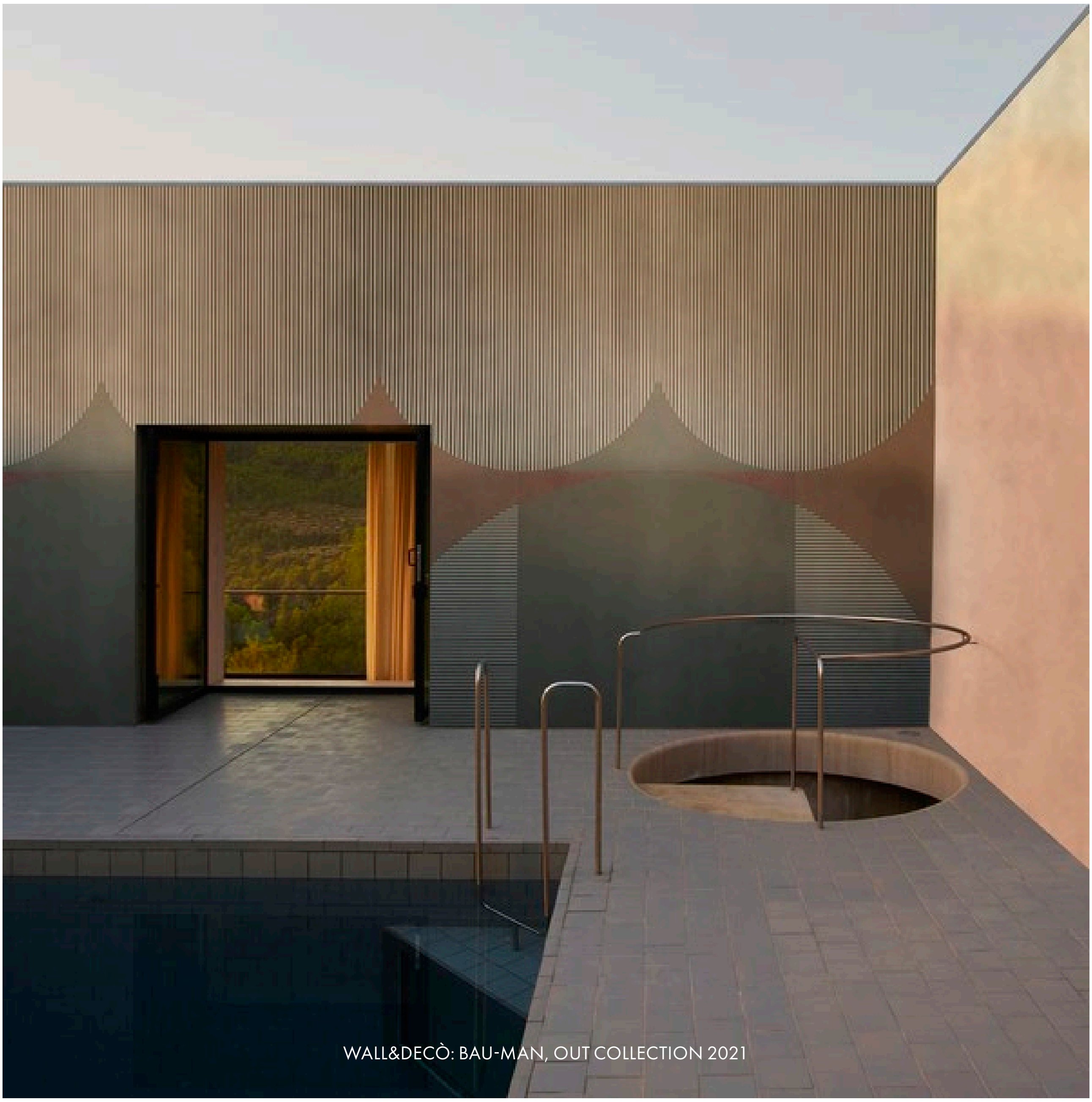
According to the goals adopted by the Board, Embellence Group is to pay an annual dividend to shareholders amounting to 30 to 50% of the profit for the period. When deciding on dividends, the company's financial position, cash flow and future prospects must also be taken into account. The Board's full dividend proposal is presented in the official notice of the Annual General Meeting (AGM).

Largest shareholders on 4 Jan 2023	Holding	Holding, %
Acervo AB	3,643,000	16.1%
JCE Asset Management	2,871,131	12.7%
U.S. Bank National Association, W9	1,136,495	5.0%
Ramhill AB	1,100,000	4.9%
Henrik Nyqvist (incl. companies)	1,054,653	4.7%
Avanza Pension AB	1,054,003	4.7%
Calyptra AB	810,000	3.6%
T-Konsortiet	792,216	3.5%
FE Småbolags Sverige	715,402	3.2%
Nordnet Pensionsförsäkring AB	659,431	2.9%
Other shareholders	8,759,144	38.7%
Total	**22,583,877**	**100.0%**

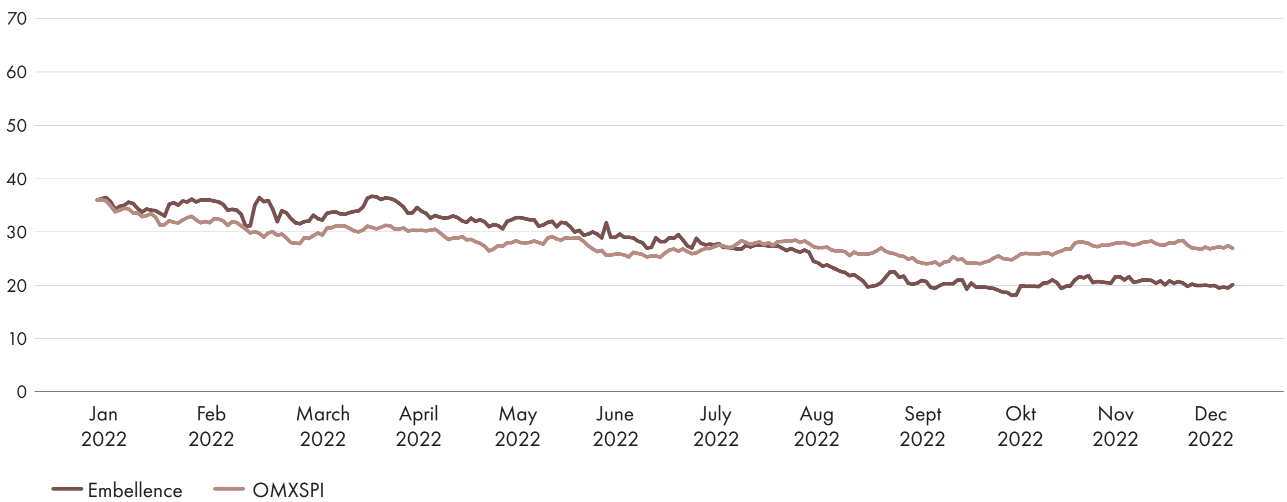
Share information

Trading venue Nasdaq First North Premier	
Ticker	Embell
ICB code	4040
ISIN code	SE0013888831
Trading unit	1
Market capitalisation at 31 December 2022, MSEK	454

Share data	2022
Earnings per share before dilution, SEK	2.57
Earnings per share after dilution, SEK	2.57
Proposed dividend per share, SEK	0.80
Dividend payout ratio, %	31%
Total number of shares outstanding at year-end	22,583,877



Share performance 2022



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 63% of Embellence Group's net sales in 2022.

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 materials produced in Russia.

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

Embellence Group is 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 2022, Embellence Group's largest customer accounted for approximately 7.5% of the company's net sales. Embellence Group has both written and verbal agreements with customers, suppliers and partners. Embellence Group is dependent on its reputation and brand when it comes to attracting new customers, suppliers and business partners as well as maintaining such existing relationships. If Embellence Group loses a long-term or important customer or another customer relationship or fails to maintain its reputation, there is a risk that this could adversely impact the demand for Embellence Group's products and services.

Embellence Group is exposed to risks related to 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 online sales 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

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

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

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

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

Embellence Group is exposed to IT and information handling risks

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

Embellence Group is exposed to risks related to non-compliance

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

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

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

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 2022, the business that is conducted within Embellence Group is not of such a scope or nature that a permit requirement for environmentally hazardous operations, according to locally applicable legislation, exists for any of Embellence Group's production units. Compliance with the laws, permits and regulations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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 four 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 Annual General Meeting (AGM) must be held within six months from the end of the financial year and in addition to the AGM, Extraordinary General Meetings may be convened. According to the Articles of Association, General Meetings are convened through publication of the convening notice in the Swedish National Gazette (Sw. Post- och Inrikes Tidningar) and on the company's website. At the time of the notice convening the Meeting, information regarding the notice shall be published in Svenska Dagbladet.

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

2022 AGM

The AGM was held on 3 May 2022. At the Meeting, decisions were adopted in accordance with the Board's proposals. These included the principles for the composition of the Nomination Committee as well as authorisation to the Board to issue new shares. 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.

The AGM also resolved, in accordance with the Board's proposals, to adopt a long-term incentive programme for certain members of executive management and consultants, a total of eight individuals. The incentive programme includes the issue of a maximum of 176,000 warrants with the right to subscribe for 176,000 new shares in the company.

2023 AGM

Embellence Group's 2023 AGM will be held on 28 April. Each shareholder entitled to vote in Embellence Group may vote for the full number of shares the shareholder holds and represents with no limitation to the number of votes.

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

Nomination Committee

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

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

At the AGM held on 3 May 2022, it was resolved that the following principles shall govern the composition of the Nomination Committee:

The company shall have a Nomination Committee composed of representatives of the three largest shareholders or shareholder groups as well as the Chairman of the Board. The Nomination Committee shall be constituted based on the shareholders' register maintained by Euroclear Sweden as of 30 September every year and other reliable shareholder information that has been provided to the company and the

Chairman of the Board, who will also convene the first meeting of the Nomination Committee. The member representing the largest shareholder shall be appointed Chairman of the Nomination Committee, unless the Nomination Committee unanimously appoints someone else. If earlier than three months prior to the Annual General Meeting, one or more of the shareholders having appointed representatives to the Nomination Committee are no longer among the three largest shareholders, the representatives appointed by these shareholders shall resign and the shareholders who are then among the three largest shareholders may appoint their representatives. Should a member resign from the Nomination Committee before its work is completed and the Nomination Committee considers it necessary to replace him or her, such substitute member is to represent the same shareholder, or, if the shareholder is no longer one of the largest shareholders, the largest shareholder in turn. Shareholders who have appointed a representative to be a member of the Nomination Committee shall have the right to dismiss such a member and appoint a new representative of the Nomination Committee. Changes to the composition of the Nomination Committee must be announced immediately.

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

Nomination Committee ahead of the 2023 AGM

The composition of the Nomination Committee was announced on 13 December 2022. Ahead of the 2023 AGM, the Nomination Committee comprises the following members:

- Ulf Gillberg, appointed by JCE Asset Management
- Jerker Adeberg, appointed by an owner group comprising T-konsortiet AB, NQ Förvaltnings AB and Jerker Adeberg Holding AB
- Magnus Wärn, appointed by an owner group comprising Calyptra AB, Sundling Wärn Capital AB, AB Sergius and AB Sergius Capital
- Morten Falkenberg, Chairman of Embellence Group AB (publ)

The Nomination Committee held four meetings ahead of the 2023 AGM and also a number of follow-up meetings and discussions through other channels. The Nomination Committee's proposal to the 2023 AGM is available on the Group's website, www.embellence-group.se.

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

Board of Directors

The Board of Directors is the second-highest decision-making body of the company after the General Meeting and is responsible for the company's organisation and management of the company's affairs, which means that the Board's responsibilities include setting targets and strategies, establishing procedures and systems for the evaluation of set targets, continuously assessing the company's financial position and profit as well as evaluating the operating management. The Board is also responsible for ensuring that correct information is provided to the company's shareholders, that the company complies with laws and regulations and that the company prepares and implements internal policies and ethical guidelines. The Board of Directors is also responsible for ensuring that annual reports and interim reports are prepared in a timely manner. Moreover, the Board of Directors appoints the CEO. The members of the Board are appointed by the AGM for the period until the end of the next AGM. According to the company's Articles of Association, the Board shall comprise not less than three and not more than ten members.
According to the Code, the Chairman of the Board is to be elected by the AGM. The Chairman of the Board is tasked with leading the work of the Board and ensuring the Board's work is conducted efficiently and that the Board fulfils its duties. The Board follows written rules of procedure which are reviewed annually and adopted by the statutory Board meeting. The rules of procedure regulate the Board's working methods and duties, decision-making procedures in the company, the agenda of Board meetings, the Chairman's duties as well as the distribution of work between the Board and the CEO. Instructions for financial reporting and instructions for the CEO are also established at the statutory Board meeting. The work of the Board is also conducted based on an annual presentation plan, which satisfies the Board's need for information. The Chairman of the Board and CEO maintain a regular dialogue about the management of the company in addition to Board meetings.

The Board of Directors meets according to a predetermined annual schedule and at least five ordinary Board meetings are to be held between each AGM, in addition to the statutory Board meeting. Informal contact also takes place between the Board members. 13 Board meetings were held in 2022.

Board committees

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

Evaluation of the Board

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

Fees to the Board of Directors

The 2022 AGM resolved that fees to the Board should be paid in an amount of SEK 1,750,000, of which SEK 500,000 to the Chairman of the Board and SEK 250,000 to each Board member not employed by the company.

CEO and other executive management

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

Remuneration of executive management

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

Incentive programmes

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

LTIP 2020

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

LTIP 2022

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

Board Programme 2020

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

Internal control and risk management

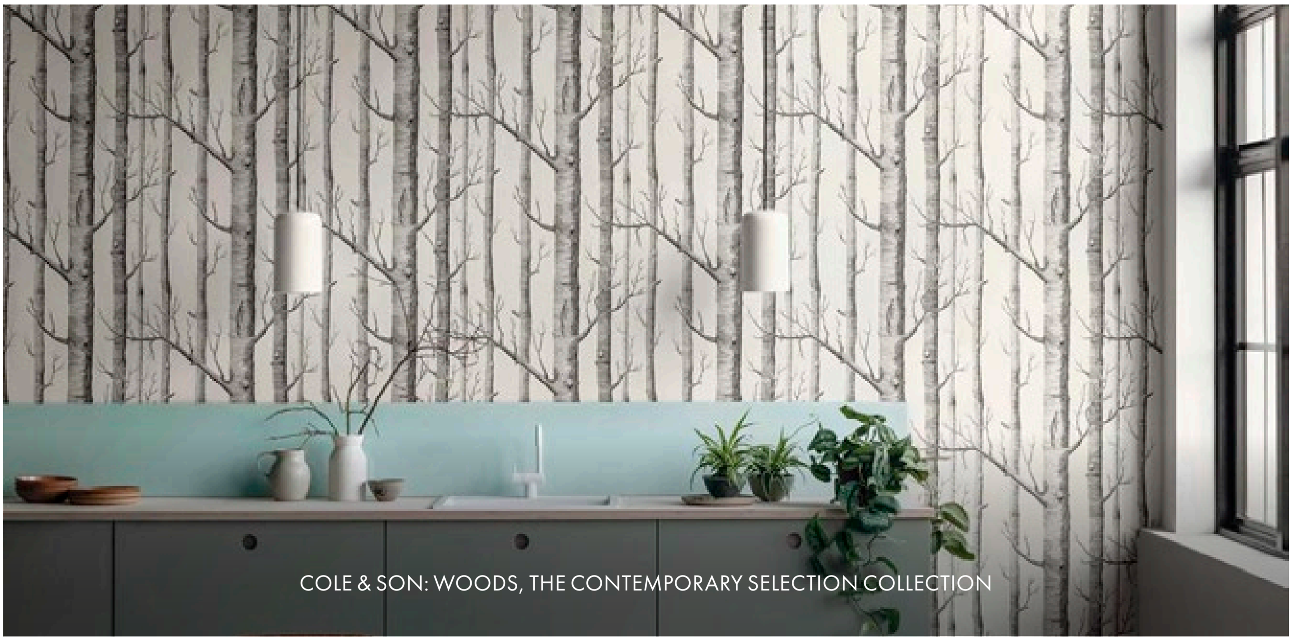
Under the Swedish Companies Act, the Board is responsible for the company's organisation and management of the company's affairs and must regularly assess the company's and the Group's financial position and ensure that the company's organisation is designed so that the accounting, management of assets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

Control environment

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

Responsibility for the day-to-day work of maintaining the control environment lies primarily with the company's CEO, who regularly reports to the Board in accordance with established instructions. The CEO is to regularly and as required keep the Board informed of the status and development of the Group's business, income, earnings, financial position, cash flow and credit position. Furthermore, the CEO is to inform the Board of every business transaction that is material importance for the Group and every event or circumstance that, from the Board's perspective, is not immaterial for the Group.

In addition to internal follow-up and reporting, the company's external auditors report to the CEO and Board during the financial year. Reports


COLE & SON: WOODS, THE CONTEMPORARY SELECTION COLLECTION

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 2022 AGM for period until the close of the 2023 AGM.

Fees to the auditors are to be paid according to approved invoice. Fees to PricewaterhouseCoopers AB totalled KSEK 1,738 for the 2022 financial year and related to the audit engagement for the company, tax advice and other services. For further information, refer to Note 6.

Stock market information and insider trading rules

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

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

Board of Directors

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:
Board member of 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:
224,839 shares and 153,032 warrants on 31 December 2022.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Karin Dennford
Board member

Born: 1976.
Board member since 2022.

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

Other assignments:
Chief investor officer for Chalmers University of Technology Foundation. Board member of OctoFrost Intressenter AB, OctoFrost AB.

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

Shareholding in the company:
0 shares on 31 December 2022.

Attendance at meetings
13/13 meetings

Hanna Graflund Sleyman
Board member

Born: 1978.
Board member since 2022.

Education:
Degree of Master of Science in Economics and Business Administration from Stockholm School of Economics, as well as studies in Industrial Management at Royal Institute of Technology in Stockholm.

Other assignments (selection):
CEO Kicks Group, Board member RugVista AB.

Previous assignments (last five years):
Board member Atrium Ljungberg AB, Brothers AB, Commercial Manager/Head of Vendor Management Amazon Sweden, Executive Director Daniel Wellington APAC, CEO Departments & Stores AB, CEO PDL Group AB.

Shareholding in the company:
11,291 shares on 31 December 2022.

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:
1,054,653 shares on 31 December 2022.

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 2022.

Independent of major shareholders
No

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Christina Ståhl
Board member

Born: 1970.
Board member since 2020.

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

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 2022.

Independent of major shareholders
Yes

Independent of the company and its management
Yes

Attendance at meetings
13/13 meetings

Executive management

Olle Svensk
CEO

Born: 1968. CEO since 2016.

Education:
Studies in management, law and finance.

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

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

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

Karin Lidén
CFO/CIO

Born: 1975.
CFO/CIO since 2022.

Education:
Business Administration from the Stockholm School of Economics.

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

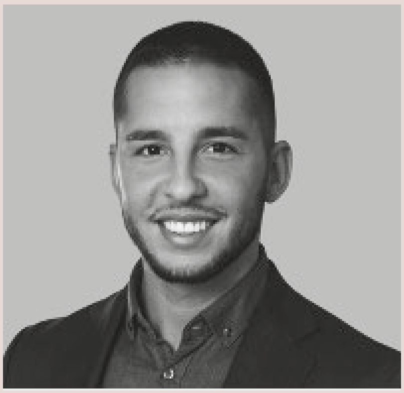
Previous assignments (last five years):
CFO for Powercell Sweden AB, several senior positions within Mölnlycke Healthcare.

Shareholding in the company:
3,000

Management

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

Past experience::
Lamina, Antenna Gallery



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

Past experience::
Management consultant Arthur D. Little

Lotta Samuelson
Managing Director – Borås Tapetfabrik
Within Embellence since 2021

Past experience::
Boxon Systems, Lexit Group Sweden

Lina Rickardsson
Creative Lead – Pappelina
Within Embellence since 2021

Past experience::
Founder, Pappelina

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

Past experience::
Electrolux

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

Past experience::
LaCividina, Moroso

Zurab Akhriev
Managing Director Artscape Inc
Within Embellence since 2022

Past experience::
Artscape

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 2022 on pages 48-55 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

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, 29 March 2023
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 2022.

About the business

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

Embellence Group had seven subsidiaries as of 31 December 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. Window film manufacturing takes place in Portland, Oregon in the US. Wallpapers and textiles are also purchased from external manufacturers in Europe.

Sales and earnings

During the year, net sales amounted to MSEK 720.1 (646.9), corresponding to an increase of 11.3%. Organic growth amounted to –6.7%, acquisition-related income from Artscape corresponded to 16.1% and positive exchange rate effects had an impact of 1.9%. The full-year effect of the suspended deliveries to Russia, a component of organic growth, was –1.7%.

Adjusted EBITA was MSEK 102.6 (99.9). The improvement was mainly attributable to increased sales and a higher share of premium.

Net profit for the year amounted to MSEK 57.4 (59.3), resulting in earnings per share before dilution of SEK 2.57 (2.77).

Cash flow

Cash flow from operating activities was MSEK 107.9 (62.1). Operating cash flow was positively impacted mainly by the positive development of working capital of MSEK 24.4 (–36.7).

During the year, cash flow from investing activities totalled MSEK –156.3 (–53.2) and mainly pertained to the acquisition of Artscape and some minor investments in digital platforms and in premises/equipment by local companies. Cash flow from financing activities was MSEK 54.2 (–2.3), with the year-on-year change attributable to new interest-bearing liabilities which formed part of the financing of the acquisition of Artscape.

Cash flow for the year was MSEK 5.8 (6.6).

Financial position

The company's total assets amounted to MSEK 853.2 (623.5) at the end of the year. The equity ratio was 46.8% (47.0) and cash and cash equivalents at the end of the quarter amounted to MSEK 66.2 (58.0). The company's net debt amounted to MSEK 233.7 at the end of the year, compared with MSEK 125.0 at the end of 2021. The change in net debt is primarily due to an increase in interest-bearing liabilities in conjunction with the acquisition of Artscape. The debt/equity ratio (net debt/EBITDA) was 2.1 times at the end of the year (1.2 at 31 December 2021).

Overview of earnings and financial position for Embellence Group

	2020	2021	2022
Net sales (MSEK)	569.9	646.9	720.1
Operating profit (EBIT) (MSEK)*	77.4	91.9	85.1
EBITA (MSEK)	71.2	88.3	88.5
Adjusted EBITA (MSEK)	82.5	99.9	102.6
Adjusted operating margin (%)**	14.5	15.4	14.3
Operating profit (MSEK)	66.0	80.3	71.0
Employees at year-end	200	236	247
Equity ratio (%)***	41.3	47.1	46.8
Total assets (MSEK)	513.1	623.5	853.2

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

Continued growth, driven by acquisitions

In 2022, sales amounted to MSEK 720.1, corresponding to growth of 11.3%. The acquisition of Artscape and positive currency effects made a positive contribution of 18.0% during the year, while organic growth was –6.7%. The negative organic sales growth was largely the result of significantly lower demand in the Nordics, mainly driven by decreasing disposable incomes due to high inflation. The adjusted operating margin was 14.3%.

Acquisition of Artscape Inc.

In March 2022, the US company Artscape Inc. was acquired. Through this acquisition, Embellence Group is expanding its operations to also include exclusive pattern-based window film ('artwork for windows'). The driving forces behind the acquisition include continued favourable growth potential for Artscape in the US, major potential for the pattern-based window film category in Europe (where Artscape currently has a limited presence), stable cash flows and possible design synergies with Boråstapeter.

A major focus during the year was integration and continued development of the business. As part of this process, preparations for the launch of Artscape's products outside North America also commenced.

In connection with the acquisition, a directed issue of 1,183,877 new shares was conducted, as authorised by the 2021 Annual General Meeting. The issued shares were used as part of the purchase price.

Launch of cost-saving programme in the Nordics

In order to address the prevailing economic situation, including generally higher costs and weaker demand, a cost-savings programme was launched during the year, with an expected annual impact of at least MSEK 3 on EBITA. These initiatives include reducing the number of items, assuring the quality of items in stock and a general reduction of wallpaper in stock. This process will continue in 2023.

Cole & Son opened a flagship store in central London

Early in the year, Cole & Son signed a lease for a new flagship store in Chelsea, London. The new store is scheduled to open in 2023.

Continued investment in online sales

A major focus during the year was development of the brands' online offering. In spring 2022, Pappelina, Cole & Son and Boråstapeter opened up for online sales in new geographic markets. The online sales channel should be viewed as a complement to sales via retailers.

Impact of Russia's war on Ukraine

In 2021, sales in Russia and Ukraine totalled approximately MSEK 12. Deliveries to both countries have been suspended since 24 February 2022. Embellence does not have any producers or sub-contractors in these countries, and the war has not led to any supply chain disruptions.

Outlook

The wallpaper market in Sweden and Europe has historically, and from a value perspective, been relatively stable. During 2022, a decline in demand was still noted, primarily in the Nordic markets, as a direct result of the uncertain macroeconomic situation and inflationary pressure. 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. In recent years, Embellence Group has actively developed its offering in the premium segment, which has higher growth and is more resilient in times of economic turbulence. In addition, higher international sales, which currently account for 60% of sales, offer the company greater stability in these times.

2023 will also be characterised by volatility and it is difficult to predict how demand for interior decoration will be affected in the short term. At the same time, the underlying trends remain. 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 117.9 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 28–39.

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 247 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 2022, the Board held 13 minuted meetings. The Board is responsible for the company's organisation and administration of the company's affairs by establishing Group targets and strategies, ensuring procedures and systems are in place to follow up the established targets, continuously assessing the Group's financial situation and evaluating the operating management. As a general rule, the Board addresses issues that are of material importance to the Group.

In addition to the issues the Board is obliged to address according to the Board's rules of procedure, key topics during the year included issues related to the macroeconomic situation and its impact on the company's various operations, 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 2023 AGM regarding this remuneration, including a proposal that remuneration should be on market terms and competitive. The full proposal will be published in conjunction with the notice of the AGM.

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

Parent Company
Embellence Group AB (publ) is the Parent Company of the Group. The Parent Company's net sales amounted to MSEK 13.4 (11.9) and net profit for the year after tax amounted to MSEK 7.0 (49.1). Net profit for the year was primarily impacted by an increase in interest expense related to liabilities raised in conjunction with the acquisition of Artscape.

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 2023 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	102,177,429
Retained earnings	29,436,467
Net profit for the year	6,965,247
Total	138,579,143

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

Dividend	18,067,102
Carried forward	120,512,041
Total	138,579,143

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	2022	2021
Net sales	2	**720,100**	**646,884**
Cost of goods sold	8	–296,865	–287,834
Gross profit		**423,235**	**359,050**
Selling expenses	8	–245,263	–199,197
Administrative expenses	8	–109,755	–82,948
Other operating income	7	7,209	5,147
Other operating expenses	7	–4,426	–1,795
Operating profit	3–8	**71,000**	**80,257**
Financial income	9	19,308	2,126
Financial expenses	9	–19,942	–8,052
Profit before tax		**70,366**	**74,332**
Tax	11	–12,962	–15,010
Net profit for the year from continuing operations		**57,404**	**59,321**
Profit/loss from discontinued operations	12	**0**	**–6**
Net profit for the year		**57,404**	**59,315**
Other comprehensive income			
Actuarial gains and losses after tax		625	161
Translation differences		26,893	12,705
Total other comprehensive income		**27,518**	**12,866**
Comprehensive income for the year		**84,922**	**72,181**
Earnings per share before dilution	**33**	**SEK**	**SEK**
Calculated on profit from continuing operations		2.57	2.77
Calculated on net profit for the year		2.57	2.77
Earnings per share after dilution	**33**	**SEK**	**SEK**
Calculated on profit from continuing operations		2.57	2.72
Calculated on net profit for the year		2.57	2.72

Consolidated balance sheet

AMOUNTS IN KSEK	Note	31 Dec 2022	31 Dec 2021
ASSETS			
Intangible non-current assets	13	381,836	208,796
Tangible non-current assets	14	72,455	69,786
Right-of-use assets	15	67,557	67,173
Deferred tax assets	16	1,868	634
Financial non-current assets	25	2,662	1,110
Total non-current assets		**526,378**	**347,499**
Inventories	18	129,526	86,864
Accounts receivable – trade	19, 25	98,922	104,763
Current tax assets		6,428	4,766
Other receivables		7,480	6,394
Prepaid expenses and accrued income	20	18,217	15,190
Cash and cash equivalents	25	66,228	57,987
Total current assets		**326,801**	**275,963**
Total assets		**853,179**	**623,462**
EQUITY AND LIABILITIES			
Share capital		56,460	53,500
Other contributed capital		84,677	48,803
Reserves		29,544	2,026
Retained earnings, including net profit for the year		228,378	189,041
Equity attributable to Parent Company shareholders		**399,059**	**293,370**
Provisions for pensions	22	5,932	4,580
Deferred tax liabilities	23	15,336	14,390
Lease liabilities	15, 25, 26	53,309	55,035
Liabilities to credit institutions	25, 26	74,779	–
Other liabilities	25, 26	22,171	–
Total non-current liabilities		**171,527**	**74,005**
Lease liabilities	15, 25, 26	16,946	11,999
Bank overdraft facility	21, 25, 26	117,928	115,997
Liabilities to credit institutions	25, 26	14,758	–
Accounts payable	25	48,925	47,880
Current tax liabilities		7,071	5,310
Other liabilities		20,662	23,763
Accrued expenses and deferred income	27	55,526	50,270
Provisions for warranties	28	777	868
Total current liabilities		**282,593**	**256,087**
Total equity and liabilities		**853,179**	**623,462**

Consolidated equity

AMOUNTS IN KSEK	SHARE CAPITAL	OTHER CONTRIBUTED CAPITAL	RESERVES	RETAINED EARNINGS	TOTAL EQUITY
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
Closing equity 31 Dec 2021	**53,500**	**48,803**	**2,026**	**189,041**	**293,370**
Opening equity 1 Jan 2022	**53,500**	**48,803**	**2,026**	**189,041**	**293,370**
Net profit for the year	–	–	–	57,404	57,404
Other comprehensive income	–	–	27,518	–	27,518
Total comprehensive income	**–**	**–**	**27,518**	**57,404**	**84,922**
Transactions with shareholders in their capacity as owners:					
Issue in kind	2,960	35,575	–	–	38,535
Option premiums received	–	299	–	–	299
Dividend	–	–	–	–18,067	–18,067
	2,960	**35,874**	**–**	**–18,067**	**20,767**
Closing equity 31 Dec 2022	**56,460**	**84,677**	**29,544**	**228,378**	**399,059**

Share capital

The number of shares outstanding is 22,583,877 (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 ratio at year-end was 47% (47). The Board of Directors proposes to the 2023 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	2022	2021
OPERATING ACTIVITIES			
Operating profit from continuing operations		71,000	80,257
Adjustments for non-cash items:			
Depreciation and amortisation		41,280	27,166
Other	30	2,327	7,766
Total		**114,607**	**115,189**
Interest received		219	1,026
Interest paid		–12,717	–8,052
Tax paid		–18,647	–9,372
Cash flow from operating activities before changes in working capital		**83,462**	**98,791**
Cash flow from changes in working capital			
Changes in inventories		4,270	1,617
Changes in receivables		24,327	–19,907
Changes in liabilities		–4,122	–18,469
Cash flow from operating activities from discontinued operations		–	72
Cash flow from operating activities		**107,937**	**62,104**
INVESTING ACTIVITIES			
Acquisition of intangible non-current assets		–4,985	–9,034
Acquisition of tangible non-current assets		–9,884	–9,508
Sales of tangible non-current assets		141	333
Acquisition of Group companies		–140,129	–34,391
Acquisition of other financial non-current assets		–1,552	–628
Cash flow from investing activities from discontinued operations		–	–
Cash flow from investing activities		**–156,409**	**–53,228**
FINANCING ACTIVITIES			
Change in bank overdraft facilities		1,931	8,120
Repayment of lease liabilities		–12,616	–10,431
New borrowing		94,535	–
Repayment of borrowings		–11,875	–
Dividend		–18,067	–
Option premiums received		299	–
Cash flow from financing activities from discontinued operations		–	–
Cash flow from financing activities		**54,207**	**–2,311**
Cash flow for the year		**5,735**	**6,565**
Cash and cash equivalents at beginning of year		**57,987**	**49,007**
Exchange rate differences in cash and cash equivalents		**2,506**	**2,415**
Cash and cash equivalents at end of year		**66,228**	**57,987**
The Group's undrawn credit facilities at year-end amounted to		**57,072**	**59,003**

Parent Company income statement

AMOUNTS IN KSEK	Note	2022	2021
Net sales	5	**13,351**	**11,888**
Operating expenses			
Administrative expenses	8	–25,294	–28,401
Other operating income	7	52	1,848
Other operating expenses	7	–166	–27
Operating loss	3–8	**–12,057**	**–14,691**
Profit from interests in Group companies	9	–	26,872
Other interest income and similar profit/loss items	9	1,308	1,082
Interest expense and similar profit/loss items	9	–19,486	–3,380
Profit after financial items		**–30,235**	**9,883**
Appropriations	10	40,520	45,232
Profit before tax		**10,285**	**55,115**
Tax	11	–3,320	–5,974
Net profit for the year		**6,965**	**49,140**
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR			
Net profit for the year		6,965	49,140
Other comprehensive income		–	–
Comprehensive income for the year		**6,965**	**49,140**

Parent Company balance sheet

AMOUNTS IN KSEK	Note	31 Dec 2022	31 Dec 2021
ASSETS			
Intangible non-current assets	13	1,374	1,595
Interests in Group companies	17	615,947	408,557
Deferred tax assets	16	289	223
Financial non-current assets	25	1,129	870
Total non-current assets		**618,739**	**411,245**
Other receivables		160	339
Prepaid expenses and accrued income		1,487	1,420
Total current receivables		**1,647**	**1,759**
Total current assets		**1,647**	**1,759**
Total assets		**620,386**	**413,004**
EQUITY AND LIABILITIES			
Share capital		56,460	53,500
Statutory reserve		10,000	10,000
Share premium reserve		102,177	66,303
Retained earnings		29,436	–1,637
Net profit for the year		6,965	49,140
Equity attributable to Parent Company shareholders		**205,038**	**177,307**
Untaxed reserves	24	**8,123**	**3,000**
Non-current liabilities			
Provisions for pensions	22	1,129	870
Liabilities to credit institutions	25, 26	74,779	–
Other liabilities	25, 26	22,171	–
Total non-current liabilities		**98,079**	**870**
Current liabilities			
Bank overdraft facility	25, 26	117,928	115,997
Liabilities to credit institutions		14,758	–
Accounts payable		532	464
Current tax liabilities		4,852	2,260
Liabilities to Group companies	25	162,594	105,495
Other liabilities		808	504
Accrued expenses and deferred income	27	7,674	7,107
Total current liabilities		**309,146**	**231,827**
Total equity and liabilities		**620,386**	**413,004**

Parent Company equity

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

Parent Company cash flow

AMOUNTS IN KSEK	Note	2022	2021
OPERATING ACTIVITIES			
Operating loss		–12,057	–14,691
Adjustments for non-cash items:			
Depreciation and amortisation		427	247
Other	30	3,767	223
Total		**–7,863**	**–14,221**
Dividends received from interests in Group companies		–	26,872
Interest received		1,308	1,082
Interest paid		–14,802	–3,100
Tax paid		–794	–
Cash flow from operating activities before changes in working capital		**–22,151**	**10,633**
Cash flow from changes in working capital			
Changes in receivables		112	–1,304
Changes in liabilities		103,680	–77,919
Cash flow from operating activities		**81,641**	**–68,590**
INVESTING ACTIVITIES			
Acquisition of intangible non-current assets		–206	–1,056
Acquisition of Group companies		–147,972	–55,211
Acquisition of other financial non-current assets		–259	–503
Cash flow from investing activities		**–148,437**	**–56,770**
FINANCING ACTIVITIES			
Change in bank overdraft facilities		1,931	115,997
New borrowing		94,508	–
Repayment of borrowings		–11,875	–
Dividend		–18,067	–
Option premiums received		299	–
Cash flow from financing activities		**66,796**	**115,997**
Cash flow for the year		**0**	**–9,363**
Cash and cash equivalents at beginning of year		**0**	**9,363**
Cash and cash equivalents at end of year		**0**	**0**
The Parent Company's undrawn credit facilities at year-end amounted to		**57,072**	**59,003**

Notes

Note 1 Accounting policies and disclosures

General
The consolidated financial statements for Embellence Group AB's financial year ended 31 December 2022 have been approved by the Board of Directors and CEO and will be presented for adoption at the 2023 Annual General Meeting (AGM). The Parent Company is a Swedish limited company with its registered office in the City of Borås, Sweden. All amounts are in thousands of Swedish kronor (KSEK) unless indicated otherwise.

The Group's income statement and balance sheet and the Parent Company's income statement and balance sheet will be presented for adoption at the ordinary AGM on 28 April 2023.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Note 1 Accounting policies and disclosures, cont.

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

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

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

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

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

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

Land is not depreciated.

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

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

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

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

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

Defined-benefit plans
Actuarial calculations are made for all defined-benefit plans for the purpose of establishing the present value of the Group's obligations in respect of vested benefits for current and previous employees. Actuarial calculations are made annually and based on actuarial assumptions established on the closing date. Changes in the present value of the obligations as a result of changed actuarial assumptions as well as experience-based adjustments are presented as remeasurements. Provisions for pensions and similar obligations in the 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 discounts given and returns. Revenue from sales is recognised when control of the goods is transferred and there are no undischarged obligations that may affect the customer's approval of the goods.

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

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

Disclosures concerning related party transactions
Related party transactions are presented in Note 5.

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December 2022, foreign net assets in the consolidated balance sheet amounted to approximately MGBP 12, MUSD 23 and MEUR 8 (31 Dec 2021: MGBP 10 and MEUR 9). No hedging has been conducted in respect of these foreign net assets.

The most significant transaction exposure in the Group is from changes in EUR, USD and GBP against SEK. This is because purchases of materials, mainly paper, are made in EUR. The Group has export revenue in EUR but this does not cover its purchasing requirements since the majority of the Group's products are sold in SEK, GBP and USD. A 10% change in the EUR exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 1.2 (2021: 2.7). A 10% change in the GBP exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 4.6 (2021: 4.3). A 10% change in the USD exchange rate, with all other variables remaining constant, would have affected net profit for the year by MSEK 2.8.

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

The Group has borrowing of MSEK 112 and a committed overdraft facility of MSEK 175, of which MSEK 57 was unutilised as at 31 December 2022. 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 1.3 (1.4).

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 66 and an unutilised overdraft facility of MSEK 57 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.

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 earnout.

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

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

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

Appropriations
Group contributions are recognised as appropriations.

Note 2 Segment information

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

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

	2022				2021			
AMOUNTS IN KSEK	Nordics	Europe	Rest of World	Total	Nordics	Europe	Rest of World	Total
Net sales	293,996	242,186	183,918	720,100	328,303	241,759	76,821	646,884
Adjusted EBITA	35,607	40,186	26,851	102,644	52,771	37,709	9,392	99,872
Items affecting comparability								
Acquisition-related costs				–4,228				–1,365
Listing costs				–60				–6,325
Restructuring costs				–9,217				–3,865
Other non-recurring costs				–625				
EBITA				88,514				**88,317**
Impairment of intangible assets				–17,514				–8,060
Operating profit				71,000				**80,257**
				71,000				
Adjusted EBITA margin	12.1%	16.6%	14.6%	14.3%	16.1%	15.6%	12.2%	15.4%
Share of premium sales*	29.0%	84.3%	90.3%	63.3%	29.5%	79.6%	85.1%	54.8%

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

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

Note 2 Segment information, cont.

AMOUNTS IN KSEK	2022	2021
Net sales by market		
Sweden	242,592	265,697
USA	147,994	45,952
UK	78,286	65,447
Italy	51,502	46,463
Germany	34,314	33,606
Other Nordics	53,693	62,606
Rest of Europe	77,188	96,243
Rest of World	34,531	30,870
Net sales by market total	**720,100**	**646,884**

AMOUNTS IN KSEK	2022	2021
Non-current assets		
Sweden	147,872	151,967
UK	95,810	92,853
Italy	103,897	100,935
USA	174,269	–
Non-current assets total	**521,848**	**345,755**

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

Note 3 Average number of employees

	2022		2021	
	Employees	Of whom women	Employees	Of whom women
Embellence Group AB	3	0	3	0
Boråstapeter AB	54	36	108	44
Borås Tapetfabrik AB	51	6	0	0
Cole & Son Ltd	30	19	36	28
Wall&decò S.rl.	37	20	42	23
Pappelina AB	27	21	9	7
Artscape Inc	34	26	–	–
Group total	**236**	**128**	**198**	**102**

	Group		Parent Company	
	2022	2021	2022	2021
No. of Board members – women	3	1	3	1
No. of Board members – men	3	5	3	5
Total	**6**	**6**	**6**	**6**
No. of members of executive management – women	–	–	–	–
No. of members of executive management – men	2	2	2	2
Total	**2**	**2**	**2**	**2**

Note 4 Salaries, other remuneration and social security contributions

AMOUNTS IN KSEK	2022 Salaries and other remuneration	2022 Social security costs. (of which pension costs)	2021 Salaries and other remuneration	2021 Social security costs. (of which pension costs)
Embellence Group AB	8,143	5,099	7,616	5,543
		(2,272)		(3,052)
Boråstapeter AB	33,388	19,077	59,788	27,279
		(8,632)		(8,829)
Borås Tapetfabrik AB	28,333	12,090	–	–
		(3,504)	–	–
Cole & Son Ltd	15,796	2,527	16,014	2,508
		(1,695)		(887)
Wall&decò S.rl.	16,723	6,093	14,605	5,553
		(4,400)		(1,604)
Pappelina AB	9,903	3,911	3,633	1,571
		(916)		(305)
Artscape Inc	11,366	3,184		
		(304)		
Total	**123,652**	**51,982**	**101,656**	**42,454**
		(21,722)		**(14,677)**

Salaries and other remuneration to the CEO and Board, breakdown by company:	2022 Board and CEO (of which bonuses)	2022 Other employees (of which bonuses)	2021 Board and CEO (of which bonuses)	2021 Other employees (of which bonuses)
Embellence Group AB	5,045	3,098	4,349	3,267
	(747)	(425)	(555)	(487)
Boråstapeter AB	2,025	31,363	1,788	58,000
	(399)	(1,372)	(555)	(1,851)
Borås Tapetfabrik AB	1,004	27,328	–	–
	(2)	(733)	–	–
Cole & Son Ltd	3,134	12,662	2,486	12,605
	(790)	(281)	(476)	(448)
Wall&decò S.rl.	2,828	13,895	1,105	13,500
	(181)	(1,108)	–	–
Pappelina AB	1,545	8,357	–	3,633
	(14)	(139)	–	–
Artscape Inc	3,920	7,446	–	–
	(633)	(–)	–	–
Total	**22,947**	**100,705**	**9,728**	**91,005**
	(3,509)	**(3,184)**	**(1,586)**	**(2,785)**

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

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**	**848**	**4,180**
Other members of executive management (two)	2,236	487	179	1,150	4,152
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 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 8,017, of which remuneration for the CEO amounted to KSEK 3,378. 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

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	**2022**	2021	**2022**	2021
HW Fisher				
Statutory audit	654	337	–	–
Tax advisory services	74	–	–	–
Other services	–	50	–	–
Total	**728**	**387**	**–**	**–**
PWC				
Statutory audit	1,082	1,339	395	555
Other auditing services	200	80	120	–
Tax advisory services	361	49	361	49
Other services	95	526	95	523
Total	**1,738**	**1,994**	**971**	**1,127**
Other				
Statutory audit	347	–	–	–
Tax advisory services	120	–	–	–
Other services	748	236	–	–
Total	**1,215**	**236**	**–**	**–**
Total auditing services	1,844	1,771	262	555
Total tax advisory services	208	49	14	49
Total other services	1,745	812	561	523
Total	**3,797**	**2,632**	**837**	**1,127**

Note 7 Other operating income and expenses

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Other operating income				
Exchange rate differences for operating receivables/liabilities	4,208	1,576	–	52
Government assistance received	2,113	903	–	–
Rental income	600	600	–	–
Gains on sales of tangible non-current assets	–	143	–	–
Other operating income	288	1,925	1,848	–
Total	**7,209**	**5,147**	**52**	**1,848**
Other operating expenses				
Exchange rate differences for operating receivables/liabilities	–4,411	–1,641	–166	–27
Losses on sales of tangible non-current assets	–15	–153	–	–
Total	**–4,426**	**–1,795**	**–166**	**–27**

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

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
By function				
Production costs	10,327	10,214	–	–
Selling expenses	11,495	8,940	–	–
Administrative expenses	19,522	8,033	427	247
Total	**41,344**	**27,187**	**427**	**247**
By asset class				
Brands	7,038	2,458	–	–
Contractual customer relationships	3,902	–	–	–
Other intangible non-current assets	5,902	4,996	247	427
Buildings	2,212	1,879	–	–
Design archive	666	606	–	–
Plant and equipment	6,363	6,759	–	–
Right-of-use assets, real estate	10,943	5,798	–	–
Right-of-use assets, equipment	4,312	4,691	–	–
Total	**41,344**	**27,187**	**247**	**427**
Operating expenses				
Raw materials and consumables	204,137	197,728	–	–
Employee costs	175,679	148,171	14,501	15,810
Depreciation and amortisation	41,344	27,187	427	247
Other expenses	230,723	196,893	10,366	12,350
Total	**651,883**	**569,979**	**25,294**	**28,407**

Note 9 Financial income and expenses

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Profit from interests in Group companies				
Dividend	–	–	–	26,872
Total	**–**	**–**	**–**	**26,872**
Financial income				
Interest income	218	243	1,308	1,082
Exchange rate differences	2,176	1,883	–	–
Fair value measurement of earnout	16,914	–	–	–
Total	**19,308**	**2,126**	**1,308**	**1,082**
Financial expenses				
Interest expense	–12,791	–6,899	–14,802	–3,100
Exchange rate differences	–6,980	–	–4,683	–
Other financial expenses	–172	–1,153	–	–280
Total	**–19,942**	**–8,052**	**–19,486**	**–3,380**
Net financial items	**–635**	**–5,926**	**–18,178**	**–2,298**

Note 10 Appropriations

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Group contributions received	–	–	48,743	48,232
Group contributions paid	–	–	3,100	–
Provision to tax allocation reserve	–	–	–5,123	–3,000
Total	**–**	**–**	**40,520**	**45,232**

Note 11 Tax on net profit for the year

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Current tax				
Current tax on net profit for the year	–13,458	–10,651	–3,386	–1,855
Total current tax	**–13,458**	**–10,651**	**–3,386**	**–1,855**
Deferred tax				
Deferred tax on untaxed reserves	–891	–1,241	–	–
Deferred tax on unused tax loss carryforwards	341	–3,772	–	–4248
Deferred tax on temporary differences and intra-Group profit on inventories	1,046	654	66	129
Total deferred tax	**496**	**–4,360**	**66**	**–4,119**
Total tax on net profit for the year	**–12,962**	**–15,010**	**–3,320**	**–5,974**

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	2022	Percentage	2021
Profit before tax	–	**70,366**	–	**74,332**
Tax rate applicable in Sweden	20.6%	–14,495	20.6%	–15,312
Tax effect of non-taxable income and non-deductible expenses	–4.8%	3,363	0.9%	–677
Tax effect of temporary differences	–0.7%	491	–0.8%	595
Tax effect of tax rate applicable in foreign subsidiaries	1.4%	–965	–0.5%	384
Tax for prior periods	1.9%	–1,356	–	–
Other				
	18.4%	**–12,962**	**20.2%**	**–15,010**

	Parent Company			
AMOUNTS IN KSEK	Percentage	2022	Percentage	2021
Profit before tax		**10,285**		**55,115**
Tax rate applicable in Sweden	20.6%	–2,119	20.6%	–11,354
Tax effect of non-taxable income and non-deductible expenses	10.2%	–1,047	–9.5%	5,251
Tax effect of temporary differences	–0.6%	66	–0.2%	129
Tax for prior periods	2.1%	–220	–	–
Other				
	32.3%	**–3,320**	**10.8%**	**–5,974**

Note 12 Discontinued operations

AMOUNTS IN KSEK	2022	2021
Analysis of profit		
Expenses	–	–6
Profit before tax	–	–6
Loss from discontinued operations	–	**–6**
Analysis of cash flows		
Net cash flow from operating activities	–	72
Net change in cash and cash equivalents from discontinued operations	–	**72**

Note 13 Intangible non-current assets

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Total carrying amounts of intangible non-current assets				
Goodwill	239,690	160,245	–	–
Contractual customer relationships	44,490	–	–	–
Brands	77,857	27,762	–	–
Design archive	3,231	3,753	–	–
Other intangible non-current assets	16,569	17,036	1,374	1,595
Total	**381,836**	**208,796**	**1,374**	**1,595**
Goodwill				
Cost, opening balance	160,245	136,798	–	–
Corporate acquisitions	68,036	18,885	–	–
Translation difference	11,409	4,562	–	–
Accumulated cost, closing balance	**239,690**	**160,245**	–	–
Residual value according to plan, closing balance	**239,690**	**160,245**	–	–
Contractual customer relationships				
Cost, opening balance	–	–	–	–
Corporate acquisitions	45,498	–	–	–
Translation difference	3,014	–	–	–
Accumulated cost, closing balance	48,513	–	–	–
Amortisation and impairment, opening balance	–	–	–	–
Amortisation and impairment for the year	–3,902	–	–	–
Translation difference	–120	–	–	–
Accumulated depreciation, closing balance	**–4,023**	–	–	–
Residual value according to plan, closing balance	**44,490**	–	–	–
Brands				
Cost, opening balance	34,364	18,236	–	–
Purchases	–	90	–	–
Corporate acquisitions	53,039	**15,013**	–	–
Translation difference	4,693	1,025	–	–
Accumulated cost, closing balance	**92,096**	**34,364**	–	–
Amortisation and impairment, opening balance	–6,601	–3,970	–	–
Corporate acquisitions	–31	–	–	–
Amortisation and impairment for the year	–7,037	–2,458	–	–
Translation difference	–570	–173	–	–
Accumulated amortisation and impairment, closing balance	**–14,239**	**–6,601**	–	–
Residual value according to plan, closing balance	**77,857**	**27,762**	–	–
Design archive				
Cost, opening balance	9,383	8,542	–	–
Translation difference	310	841	–	–
Accumulated cost, closing balance	**9,693**	**9,383**	–	–
Amortisation and impairment, opening balance	–5,630	–4,556	–	–
Amortisation and impairment for the year	–640	–606	–	–
Translation difference	–192	–468	–	–
Accumulated amortisation and impairment, closing balance	**–6,462**	**–5,630**	–	–
Residual value according to plan, closing balance	**3,231**	**3,753**	–	–

Note 13 Intangible non-current assets, cont.

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Other intangible non-current assets				
Cost, opening balance	47,568	40,390	1,963	907
Purchases	4,916	7,455	205	1,056
Corporate acquisitions	1,258	–	–	–
Sales/disposals	–	–1,958	–	–
Reclassifications	53	1,529	–	–
Translation difference	487	151	–	–
Accumulated cost, closing balance	**54,282**	**47,568**	**2,168**	**1,963**
Amortisation and impairment, opening balance	–30,531	–27,503	–368	–121
Corporate acquisitions	–994	–	–	–
Amortisation and impairment for the year	–5,934	–4,995	–426	–247
Sales/disposals	–	1,918	–	–
Translation difference	–255	48	–	–
Accumulated amortisation and impairment, closing balance	**–37,714**	**–30,531**	**–794**	**–368**
Residual value according to plan, closing balance	**16,568**	**17,036**	**1,374**	**1,595**

A breakdown of goodwill by segment is given below:

AMOUNTS IN KSEK	2022 Nordics	2022 Europe	2022 Rest of World	2022 Total	2021 Nordics	2021 Europe	2021 Rest of World	2021 Total
Goodwill	42,510	100,570	96,610	239,690	42,485	94,155	23,605	160,245

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 2022:

	Goodwill Nordics	Goodwill Europe	Goodwill Rest of World
Annual growth in volume	2–4%	2–9%	2–15%
Long-term growth rate	2%	2%	2%
Discount rate	12.5%	12.5%	12.5%

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
– estimated growth during the explicit plan would have been 5% lower each year,
– estimated EBITA profitability would have been 10% lower for each year of the forecast.

Note 14 Tangible non-current assets

AMOUNTS IN KSEK	Group 2022	2021
Total carrying amounts of tangible non-current assets		
Land and buildings	36,009	35,726
Leasehold improvements	8,950	7,460
Construction in progress and advances	1,816	191
Plant and machinery	18,448	19,468
Equipment, tools, fixtures and fittings	7,232	6,941
Total	**72,455**	**69,786**
Buildings		
Cost, opening balance	100,258	100,228
Purchases	71	30
Corporate acquisitions	1,007	–
Disposals	–58,806	–
Translation difference	38	–
Accumulated cost, closing balance	**42,568**	**100,258**
Depreciation, opening balance	–62,671	–61,287
Corporate acquisitions	–906	–
Disposals	58,511	–
Depreciation for the year	–1,464	–1,384
Translation difference	–29	–1,383
Accumulated depreciation, closing balance	**–6,559**	**–62,671**
Residual value according to plan, closing balance	**36,009**	**37,587**
Leasehold improvements		
Cost, opening balance	10,853	7,068
Purchases	3,012	155
Corporate acquisitions	–	385
Reclassifications	355	2,806
Translation difference	633	439
Accumulated cost, closing balance	**14,853**	**10,853**
Depreciation, opening balance	–5,253	–4,201
Corporate acquisitions	–	–385
Reclassifications	294	–
Depreciation for the year	–702	–495
Translation difference	–242	–172
Accumulated depreciation, closing balance	**–5,903**	**–5,253**
Residual value according to plan, closing balance	**8,950**	**5,600**
Construction in progress and advances		
Cost, opening balance	191	672
Purchases	1,816	1,751
Reclassifications	–191	–2,233
Accumulated cost, closing balance	**1,816**	**191**

Note 14 Tangible non-current assets, cont.

	Group	
AMOUNTS IN KSEK	2022	2021
Plant and machinery		
Cost, opening balance	184,650	183,144
Purchases	1,752	8,281
Corporate acquisitions	164	34
Sales/disposals	–	–9,239
Reclassifications	–4,467	545
Translation difference	1,185	1,885
Accumulated cost, closing balance	**183,284**	**184,650**
Depreciation, opening balance	–165,182	–168,313
Corporate acquisitions	–164	–34
Sales/disposals	–	9,008
Reclassifications	5,848	–
Depreciation for the year	–4,535	–4,545
Translation difference	–803	–1,297
Accumulated depreciation, closing balance	**–164,835**	**–165,182**
Residual value according to plan, closing balance	**18,448**	**19,468**
Equipment, tools, fixtures and fittings		
Cost, opening balance	30,745	2
Purchases	2,536	839
Corporate acquisitions	2,533	1,615
Sales/disposals	–404	–2,323
Reclassifications	–2,192	158
Translation difference	784	1,290
Accumulated cost, closing balance	**34,002**	**30,745**
Depreciation, opening balance	–23,804	–21,111
Corporate acquisitions	–2,354	–1,404
Sales/disposals	388	2,111
Reclassifications	1,395	–
Depreciation for the year	–1,811	–2,193
Translation difference	–584	–1,207
Accumulated depreciation, closing balance	**–26,770**	**–23,804**
Residual value according to plan, closing balance	**7,232**	**6,941**

Note 15 Leases

AMOUNTS IN KSEK	Group 2022	Group 2021
Right-of-use assets		
Real estate	57,576	56,917
Equipment	9,981	10,255
Total	**67,557**	**67,172**
Lease liabilities		
Non-current	53,309	55,035
Current	16,946	11,999
Total	**70,255**	**67,034**

Right-of-use assets added in 2022 amounted to KSEK 31,797 (40,482).

AMOUNTS IN KSEK	Group 2022	Group 2021
Depreciation of right-of-use assets		
Real estate	10,943	5,798
Equipment	4,312	4,691
Total	**15,256**	**10,490**
Interest expense (included in financial expenses)	3,282	1,260

Total cash flow pertaining to leases in 2022 amounted to KSEK 15,750 (11,493).

Note 16 Deferred tax assets

	Group		Parent Company	
AMOUNTS IN KSEK	2022	2021	2022	2021
Total carrying amounts				
Deferred tax assets	1,868	634	289	223
Total	**1,868**	**634**	**289**	**223**
Deferred tax assets				
At 1 January	634	4,675	223	4,342
Added	1,383	207	66	129
Expired	–149	–4,248		–4,248
At 31 December	**1,868**	**634**	**289**	**223**
Total carrying amounts of deferred tax assets				
Attributable to temporary differences	1,527	634	289	223
Attributable to unused tax loss carryforwards	341	–	–	–
Total	**1,868**	**634**	**289**	**223**

Note 17 Interests in Group companies

AMOUNTS IN KSEK	Parent Company 2022	2021
Interests in Group companies		
At 1 January	408,557	353,346
Corporate acquisitions	207,390	55,211
At 31 December	**615,947**	**408,557**

	Share of equity	Share of voting rights	No. of shares	Carrying amount, 31 Dec 2022	Carrying amount, 31 Dec 2021
Boråstapeter AB	100%	100%	1,000,000	179,651	179,651
Cole & Son Ltd	100%	100%	208,889	68,886	68,886
Wall&decò S.rl.	100%	100%	10,000	104,809	104,809
Pappelina AB	100%	100%	1,000	55,161	55,161
Borås Tapetfabrik AB	100%	100%	250	25	25
Fastighetsbolaget Borosan AB	100%	100%	250	25	25
Artscape Inc	100%	100%	87,451	207,390	–
Group total				**615,947**	**408,557**

Note 18 Inventories

AMOUNTS IN KSEK	Group 2022	2021
Raw materials and consumables	33,675	16,559
Work in progress	18,257	2,985
Finished goods and goods for resale	77,594	67,320
Total	**129,526**	**86,864**

Impairment of finished goods and goods for resale to net realisable value amounts to KSEK 11,000 (18,329). This impairment has been recognised in the statement of comprehensive income as Cost of goods sold. The impact on earnings in 2022 was KSEK +7,329 (–2,495).

Note 19 Accounts receivable – trade

AMOUNTS IN KSEK	Group 2022	2021
Allowance for credit losses		
Allowance at beginning of year	3,099	3,010
Corporate acquisitions	–	216
Added to allowance during the year	2,134	205
Confirmed credit losses	–501	–312
Recovered credit losses	–170	–20
Translation difference	48	–
Allowance at year-end	**4,610**	**3,099**
Ageing report for past due trade receivables		
<30 days	28,212	21,714
30–60 days	3,836	2,293
>60 days	7,146	11,579
Total	**39,194**	**35,587**

On 31 December 2022, the total loss level was 0.07% (0.05%) 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 2022	Group 2021	Parent Company 2022	Parent Company 2021
Accrued bonus income	1,456	1,487	–	–
Accrued energy taxes	0	137	–	–
Prepaid rent	1,112	298	–	–
Prepaid expenses for trade fairs and marketing	2,850	1,796	–	–
Prepaid insurances	970	1,063	276	449
Other	11,829	10,410	1,211	971
Total	**18,217**	**15,191**	**1,487**	**1,420**

Note 21 Bank overdraft facilities

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Committed credit facilities	175,000	175,000	175,000	175,000
Credit drawn	–117,928	–115,997	–117,928	–115,997
Undrawn credit facilities	**57,072**	**59,003**	**57,072**	**59,003**

Current interest rate is 4.176% (2021: 1.75%)

Note 22 Provisions for pensions

AMOUNTS IN KSEK	Group 2022	Group 2021
Provisions for defined-benefit pension plans	3,457	3,499
Pension obligations covered by company-owned endowment policies	2,475	1,081
Undrawn credit facilities	**5,932**	**4,580**

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 2022	Group 2021
Provisions for defined-benefit pension plans	3,457	3,499
Total provisions	**3,457**	**3,499**
Present value of defined-benefit obligations	3,457	3,499
Net value	**3,457**	**3,499**
Changes in defined-benefit obligations		
Opening balance	**3,499**	**3,045**
Service cost in current period	773	694
Interest expense	36	–
Total recognised in the income statement	**809**	**694**

Note 22 Provisions for pensions, cont.

AMOUNTS IN KSEK	Group 2022	Group 2021
Actuarial gains and losses, gross	–625	–161
Total recognised in other comprehensive income	**–625**	**–161**
Exchange rate changes	286	58
Paid remuneration	–512	–137
Closing balance	**3,457**	**3,499**

Actuarial gains and losses are recognised gross. The amount adjusted for tax is KSEK 625 (161), which is recognised in other comprehensive income.

SENSITIVITY ANALYSIS	Group 2022	Group 2021
0.5% increase in discount rate	166	208
0.5% decrease in discount rate	–181	–229
0.25% increase in inflation rate	–35	–39
0.25% decrease in inflation rate	35	38
Actuarial assumptions:		
Discount rate	3.77%	0.98%
Expected wage growth	3.00–6.90%	2.20%
Inflation	2.00–5.90%	1.20%

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 2022 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 5,037 (2021: 5,998). 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 0.01317% and 0.01097% respectively (2021: 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 2022, Alecta's surplus in the form of the collective funding ratio was 172% (2021: 172%).

Note 23 Deferred tax liabilities

AMOUNTS IN KSEK	Group 2022	Group 2021
Deferred tax liabilities		
At 1 January	14,390	8,408
Provisions made during the year	910	5,886
Translation difference	36	96
At 31 December	**15,336**	**14,390**
Total carrying amounts of deferred tax liabilities		
Temporary differences relating to tangible non-current assets	3,528	3,492
Attributable to untaxed reserves	5,408	4,498
Attributable to Group surpluses on intangible non-current assets	6,010	6,493
Other	390	–93
Total	**15,336**	**14,390**

Note 24 Untaxed reserves

AMOUNTS IN KSEK	Parent Company 2022	Parent Company 2021
Tax allocation reserve 2021	3,000	3,000
Tax allocation reserve 2022	5,123	–
Total	**8,123**	**3,000**

Note 25 Financial assets and liabilities

AMOUNTS IN KSEK	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Assets in the balance sheet	Amortised cost	Amortised cost	Amortised cost	Amortised cost
Financial non-current assets	2,662	1,110	1,129	870
Accounts receivable – trade	98,922	104,763	–	–
Cash and cash equivalents	66,228	57,987	–	–
Total	**167,812**	**163,859**	**1,129**	**870**

AMOUNTS IN KSEK	Interest rate	Group 2022	Group 2021	Parent Company 2022	Parent Company 2021
Liabilities in the balance sheet		Amortised cost	Amortised cost	Amortised cost	Amortised cost
Bank overdraft facility	4.18%	117,928	115,997	117,928	115,997
Liabilities to controlling company/Group companies		–	–	–	105,495
Liabilities to credit institutions	4.75–7.04%	89,537	–	74,779	–
Other liabilities	3.50%	22,171	–	22,171	–
Accounts payable		48,925	47,880	532	464
Total		**278,561**	**163,877**	**230,168**	**221,956**

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

Group	2022				2021			
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	16,914	40,029	19,891	76,834	12,002	39,213	23,521	74,736
Bank overdraft facility	117,928	–	–	117,928	115,997	–	–	115,997
Liabilities to credit institutions	14,758	74,779	–	89,537	–	–	–	–
Other interest-bearing non-current liabilities	–	22,171	–	22,171	–	–	–	–
Accounts payable	48,925	–	–	48,925	47,880	–	–	47,880
Total	**198,525**	**136,979**	**19,891**	**355,395**	**175,879**	**39,213**	**23,521**	**238,613**

Parent Company	2022				2021			
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	117,928	–	–	117,928	115,997	–	–	115,997
Liabilities to controlling company/Group companies	–	–	–	–	105,495	–	–	105,495
Liabilities to credit institutions	14,758	74,779	–	89,537	–	–	–	–
Other interest-bearing non-current liabilities	–	22,171	–	22,171	–	–	–	–
Accounts payable	532	–	–	532	464	–	–	464
Total	**133,218**	**96,950**	**–**	**230,168**	**221,956**	**–**	**–**	**221,956**

Note 26 Change in liabilities to credit institutions and other liabilities

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

AMOUNTS IN KSEK	1 Jan 2021	Cash flow		Non-cash		31 Dec 2021
		New borrow-ing	Repayments	Reclassifications	Other	
Non-current lease liabilities	26,316	–	–3,920	–11,999	44,639	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**	**8,120**	**–10,431**	**–**	**44,639**	**183,031**

Note 27 Accrued expenses and deferred income

AMOUNTS IN KSEK	Group		Parent Company	
	2022	2021	2022	2021
Liabilities for salaries and holiday pay, social security contributions	27,198	25,877	4,306	3,456
Bonuses to customers	4,592	2,997	–	–
Restructuring costs	6,395	5,127	2,506	2,477
Other	17,341	16,269	862	1,174
Total	**55,526**	**50,270**	**7,674**	**7,107**

Note 28 Provisions for warranties

AMOUNTS IN KSEK	Group	
	2022	2021
At 1 January	868	650
Corporate acquisitions	–	288
Utilised during the year	777	–650
Provisions made during the year	–868	580
At 31 December	**777**	**868**

Note 29 Pledged assets and contingent liabilities

AMOUNTS IN KSEK	Group		Parent Company	
	2022	2021	**2022**	2021
Pledged assets				
Floating charges	75,250	75,250	–	–
Property mortgages	99,750	99,750	–	–
Shares in Group companies	698,120	439,078	511,138	303,697
Total	**873,120**	**614,078**	**511,138**	**303,697**

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

AMOUNTS IN KSEK	Group		Parent Company	
	2022	2021	**2022**	2021
Translation differences	8,092	4,683	–	–
Change in inventory obsolescence reserves	–7,650	858	–	–
Exchange rate differences of a financial nature	3,200	1,101	3509	–280
Other	–1,315	1,124	258	503
Total	**2,327**	**7,766**	**3,767**	**223**

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.

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

Warrants awarded during the year

	Group	
	2022	2021
At 1 January	1,198,785	1,198,785
Awarded during the year	45,500	–
Forfeited during the year	–	–
At 31 December	1,244,285	1,198,785

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

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

Note 32 Proposed distribution of earnings

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

Share premium reserve	102,177
Retained earnings	29,436
Net profit for the year	6,965
Total	**138,578**

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

Share premium reserve	102,177
Dividend	18,067
Carried forward	18,334
Total	**138,578**

Note 33 Earnings per share

AMOUNTS IN SEK	**2022**	2021
Net profit for the period		
Earnings per share before dilution (SEK)	2.57	2.77
Earnings per share after dilution (SEK)	2.57	2.72
Performance measures used in the calculation of earnings per share before and after dilution (MSEK)		
Net profit for the period	**57.4**	**59.3**
Before dilution Weighted average number of ordinary shares for calculation of earnings per share before dilution	22,321,154	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	22,321,154	21,781,785

Note 34 Events after the closing date

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

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

Borås, 29 March 2023

Morten Falkenberg
Chairman of the Board

Hanna Graflund Sleyman
Board member

Karin Dennford
Board member

Henrik Nyqvist
Board member

Paul Steene
Board member

Christina Ståhl
Board member

Olof Svensk
CEO

Our Audit Report was issued, 29 March 2023
PricewaterhouseCoopers AB

Patrik Resebo
Authorised Public Accountant

Auditor’s report

Unofficial translation

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Embellence Group AB (publ) for the year 2022. The annual accounts and consolidated accounts of the company are included on pages 57-94 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2022 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 2022 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 1-56. 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 2022 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 29 March 2023
PricewaterhouseCoopers AB

Patrik Resebo
Authorized Public Accountant

Definitions

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

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

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

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

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

EBITA margin
EBITA divided by net sales.

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

Adjusted EBITA
EBITA adjusted for items affecting comparability.

Adjusted EBITA margin
Adjusted EBITA divided by net sales.

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

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

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

Net debt/EBITDA excl. 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.

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