ANNUAL REPORT 2021

NELLY

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Comments by the CEO

NELLY celebrated one year as an independent listed company in November. This has given us the opportunity to direct all aspects of our business towards our customers with even more passion. We focused our work by means of an extensive three-part relaunch.

The first part involved creating a new operating platform with a new automated warehouse. In the previous year, we were able to conclude our warehouse project with a new, automated warehouse in operation on time and under budget. We are beginning to see results in the form of lower warehouse expenses and are now fine-tuning processes to achieve our target of SEK 35 million in annual savings and are developing the 'last mile' and returns processes.

The second part involved restructuring our operations. In 2021, around 150 employees left Nelly and around 100 new employees were recruited. A new organisational structure with expertise in e-commerce and data analysis began to take shape and two offices were closed.

The third part involved starting to reposition the Nelly brand with a clear focus on greater customer involvement and higher purchase frequency. We now have an updated range and channel strategy and data-driven analysis in place to help achieve targets, with further activities planned for 2022.

2021 continued to be dominated by the pandemic and presented challenges such as reduced demand for party wear and higher expenses and delays in the logistics chain. At the same time, an increase in e-commerce and higher demand in other categories such as everyday and sports wear partially counteracted the negative effects and accelerated the diversification of our range.

Sustainability work is an integral part of our business

Nelly strives to make its operations financially, socially and environmentally sustainable. It gives us pleasure to note that, in 2021, we delivered on our sustainability goals and accelerated our sustainability drive with new objectives. From small initiatives such as pilot projects to reduce plastic use to major decisions such as target setting for Scope 3, to reduce our total emissions by 50% by 2030. An action that has already been identified is to increase the proportion of recycled materials in our products. We are pleased to report that sales of products with more sustainable materials increased by 120% on 2020.

Kristina Lukes, CEO of Nelly

Positioning with the focus on the customer
We develop Nelly's brand position to enhance our relevance and loyalty in our target group. Nelly inspires young women to express themselves and celebrate their *'fab you'*. The high level of engagement our growing community generates is the basis for future growth focusing on higher purchase frequency.

An updated channel strategy and new initiatives in areas such as TikTok and live shopping contributed to sales, engagement and a higher number of followers in our own channels. In November, we launched our Nelly Lounge customer community, which attracted highly committed members and in which we now also have a secondhand channel for members to buy, sell and exchange Nelly products. Our focus on a position for growth has meant creative and surprising new initiatives to activate our brand and continues in 2022.

A stronger Nelly
Our core business in the Nordics grew by 4.7% in 2021 as a result of a strong focus on the Nordics. With an updated range and channel strategy, we have objectives aimed at boosting the share of our own brands. We continue to optimise our platform with initiatives to improve our online stores and our app and to further leverage our data-driven organisation.

After a year of extensive internal changes, our clear focus is now external: on our brand, market and customers. The foundations are now in place to pay our customers our full attention with a broad range for both everyday and special occasions. With our Nelly community, we look forward to a year of parties, joy and 'fabness', every day!

Finally, I would like to thank you, our customers, employees and shareholders, for joining us on our journey and making it all possible.

Kristina Lukes
VD Nelly Group AB

SEK million	2021	2020
Net revenue	1,428.4	1,394.1
Gross profit	638.7	612.1
Gross margin (%)	44.7%	43.9%
Operating profit or loss	-38.6	-45.9
Operating margin (%)	-2.7%	-3.3%

Qliro AB and CDON AB are recognised as discontinued operations for 2020.

"Always celebrate the fab you!"

Five-year summary

Continuing operations

SEK million	2021	2020	2019	2018	2017
Operating income and earnings					
Net revenue	1,428.4	1,394.1	1,452.2	1,384.5	1,214.7
Gross profit	638.7	612.1	684.5	685.1	668.6
Operating profit (EBIT)	-38.6	-45.9	-61.7	-6.4	62.6
Profit before tax	-47.2	-47.5	-73.1	-19.7	33.4
Profit for the period	-47.8	-71.1	-86.8	-17.2	21.8
Profitability and related key ratios					
Gross margin, %	44.7%	43.9%	47.1%	49.4%	55.0%
Operating margin, %	-2.7%	-3.3%	-4.3%	-0.5%	5.2%
Return on capital employed, %	Neg	Neg	Neg	Neg	42.7%
Return on equity, %	Neg	Neg	Neg	Neg	2.2%

Nelly

Nelly is one of the most-loved fashion destinations for young women in the Nordics. We offer a vibrant world of fashion to young women with the need to look and feel fab. Every day we inspire them with trends and head-to-toe looks from our own brands and carefully selected brands from an international portfolio.

NELLY GROUP

NELLY WAS LAUNCHED IN 2004 and was a pioneer in e-commerce and digital marketing with influencers. Today, we have a vibrant community of customers and are one of the best-loved places for young women in the Nordic region to buy fashion. We have 1.3 million followers on social media and 19% of our target group visit us every week. Nelly is an integral part of their lives. Their idols, icons and friends wear our clothing – in real life and in their social media streams. They reach out to us for continuous inspiration. Not only for a head-to-toe look that doesn't break their bank account – we meet their need to feel fab beyond fashion.

With 'Celebrate the fab you' as our core concept, we are determined to always highlight and empower women around us and celebrate life, whatever the occasion! We challenge and encourage women to leave their comfort zone and dazzle the room. At Nelly, we know party and life is a party worth celebrating.

Our success is based on a keen nose for trends and a high level of engagement by the target group via social media. We are the fashion destination for 1.1 million customers in the Nordic region. Many of our customers visit us frequently, displaying strong engagement and loyalty. We work with some of the most innovative and successful influencers in the Nordics. We are always looking for new ways to inspire our target group and boost our attractiveness to them.

Target group

Nelly's target group are young fashionistas. Our customers have grown up with social media and e-commerce and are digital natives. We want to encourage them to leave their comfort zone, dare to be nothing but themselves and shine at all times.

From the very start, Nelly has been strong on party wear and well known for our own brand party dresses and shoes. We remain strong on party fashion but have grown in multiple categories. Our message is that life is one long party to be celebrated and our range covers all occasions.

NLY Man

Men's clothes have been part of our range since 2008. In 2014, the men's department was separated off and the NLY Man site was launched, a fashion destination for young men online.

Business model

The core of Nelly's business is the collections of our own designs, supplemented with selected products from external brands from an international portfolio. Clothing and accessories are purchased from manufacturers that are mainly in Europe. Relationships with manufacturers are governed in part by the code of conduct for business partners. The products are transported to Nelly's logistics centre in Borås, marketed digitally and sold via our own stores at Nelly.com and NLYMan.com. A selection of Nelly's own brand NLYby-Nelly is also sold to other markets via Zalando.

Platform

Nelly's platform is based on our strong brands, combined with our efficient organisation for purchasing, marketing, sales and delivery. We respond to data-driven insights and are working towards automating all our processes. We sell directly to our target group so we can control the entire customer experience and focus on the Nordics.
Our investments in our brand, range and logistics have allowed us to make things easy for our customers. In 2021, we concentrated our organisation in Borås and invested in an automated warehouse to further enhance efficiency. Continuous improvement is part of our DNA.

> **"The high level of engagement our growing community generates is the basis for future growth"**
>
> Kristina Lukes, CEO of Nelly

1.3 billion SEK in net revenue in the Nordics

104 million visits in the Nordics

2.6 million purchases in the Nordics

1.1 million customers in the Nordics

SEK million	2021	2020	Change, %
Net revenue	1,428.4	1,394.1	2.5%
of which Nordics	1,340.0	1,280.1	4.7%
of which outside Nordics	88.4	114.0	-22.5%
Cost of goods sold	-789.6	-781.9	1.0%
Gross profit	638.7	612.1	4.3%
Gross margin, %	44.7%	43.9%	0.8 pp
Warehousing and distribution costs	-252.9	-254.0	-0.4%
Marketing costs	-157.7	-131.9	19.6%
Administrative expenses	-267.9	-277.1	-3.3%
Other operating income	2.9	7.7	-62.4%
Other operating expenses	-1.8	-2.6	-32.0%
Operating profit or loss	-38.6	-45.9	-15.8%
Operating margin, %	-2.7%	-3.3%	0.6 pp
Opening inventory balance	166.3	245.9	-32.4%
Closing inventory balance	179.5	166.3	7.9%
Percentage of sales of own brands	39.4%	42.4%	-3.0 pp
Inventory share of sales	12.6%	11.9%	0.7 pp
Return rate	34.8%	34.4%	0.4 pp
No. of active customers in the Nordics, thousand	1,137	1,128	0.8%
Number of visits in the Nordics, thousand	103,632	107,625	-3.7%
Number of orders in the Nordics, thousand	2,579	2,564	0.6%
Average order value in the Nordics, SEK	749	712	5.2%
Conversion rate Nordic	2.5%	2.4%	0.1%

Sustainability report

Nelly Group AB (Nelly) takes greater responsibility for sustainable development. The company sees it as both an opportunity and an obligation to act in a financially, socially and environmentally sustainable manner and took important strategic steps in this direction in 2021.

NELLY GROUP

THE 2021 SUSTAINABILITY REPORT includes Nelly Group AB (publ) 'Nelly' and its wholly owned subsidiary Nelly NLY AB. This is Nelly's fifth sustainability report prepared as per Chapters 6 and 7 of the Swedish Annual Accounts Act. The sustainability report contains non-financial information, including work relating to environmental issues, human rights, staff and anti-corruption. The auditor's opinion on the statutory sustainability report is on page 114.
In 2021, Nelly switched from reporting on its sustainability work in the focus areas People, Planet and Product to the new areas Empower Femininity, Respect the Planet and Fair & Equal. Empower Femininity has been identified as an area in which, based on its brand position, Nelly can make a difference for its target group.

Nelly's sustainability work is overseen operationally by the Chief People, Communications and Sustainability Officer and the Production, Sourcing and CSR Manager in collaboration with the sustainability team, which consists of key individuals from several departments. The management team has ultimate responsibility for sustainability work.

Nelly's management team consists of the Chief Executive Officer, Chief Financial Officer, Chief Assortment Officer, Chief Technology Officer, Chief Operations Officer and Chief People, Communications and Sustainability Officer.

The CEO is responsible for administrative compliance with the Board's guidelines. The CEO and management are responsible for strategy, financing, financial control, risk management, internal and external communication, reporting and other tasks.

"The sustainability work at Nelly was intensified in 2021 and is an integral part of our operations."

Kristina Lukes, CEO of Nelly

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Nelly's sustainability initiatives

Nelly sells clothing and accessories online, mainly to young women in the Nordic region. The business model is based on its own designs and brands and a supplementary range of curated fashion and beauty products from external brands. The own brand products are purchased from manufacturers in China, Turkey, India, the UK and Morocco. The products are transported to Nelly's logistics centre in Borås, marketed digitally and sold primarily in the Nordics at Nelly.com and NLYMan.com.

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NELLY'S THREE FOCUS AREAS

Manufacture, transport and storage have a major impact on people and the environment, which means that the company has a responsibility to contribute to a more sustainable society. In recent years, the company has worked to develop a sustainability strategy that covers the full supply chain, including responsibility for customers. In early 2021, Nelly presented the new sustainability areas, which have now been further developed and form the basis of a comprehensive strategy that takes effect in 2022 and extends to 2030. The former sustainability areas, People, Planet and Product, have been replaced by new sustainability areas:

The strategy has three focus areas:

- Empower Femininity - to increase responsibility for the company's target group, young women
- Respect the Planet - to reduce our impact on the environment and climate and to offer more sustainable products
- Fair & Equal - for how the company treats and has an impact on people throughout the value chain

The main focus in 2021 was on climate initiatives and on offering more sustainable textile products. The company also increased its transparency in relation to sustainability on Nelly.com and NLYman.com, where there is information on sustainable materials and the factories that make Nelly's own brand products. In the latter part of the year, circular initiatives were launched, including secondhand sales at Nelly Lounge and Nelly's Reborn collection.

Nelly's risk and materiality analysis was renewed in 2020 and formed the basis of the continued sustainability work in 2021. The aim was to identify the most important sustainability issues and identify the sustainability-related risks that may affect the company. For Nelly, it is also important to understand stakeholders' requirements and expectations in relation to sustainability work to ensure that we focus on the right factors. The work was started by representatives of management and the sustainability group. Risks were identified and the materiality analysis was used to establish goals and KPIs. A number of sustainability issues were identified based on The Textile Exchange, SASB Materiality Map, the company's stakeholders and other actors in the industry. A check was then carried out to ensure that the company was addressing the most important sustainability issues. See the list below with links to the UN Sustainable Development Goals.

PRIORITY MATERIALITY ISSUES FOR NELLY:

RESPECT THE PLANET:

Carbon dioxide emissions
Choice of materials
Chemicals management
Packaging
Returns and transport
Minimise end-of-life waste

FAIR & EQUAL:

Gender equality, diversity and equal treatment
Responsible supply chain
IT security & customer privacy
Anti-corruption and transparency

The past two years were dominated by Covid-19. On account of travel restrictions, it was not possible to monitor suppliers to the extent planned. This largely had to be postponed until 2022.

During the year, the warehouse was relocated from Falkenberg to Borås, where the head office is also located, which has a positive impact on both travel and transport.

NELLY'S OVERALL SUSTAINABILITY GOALS:

- 2022 - Nelly's own production must only take place at factories inspected by external inspectors.
  Base year 2020. 2021 result: 84%
- 2023 - Achieve net zero in our own operations (Scope 1&2).
  Base year 2018. 2021 result: -71% (-59% in 2020).
- 2025 - 50% of our textile products must be made of more sustainable materials.
  Base year 2020. 2021 result: 22% (11% in 2020).
- 2030 - Reduce absolute emissions of greenhouse gases by at least 50% by 2030 (Scope 3).
  Base year 2020. 2021 result: +8%.

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THE UN SUSTAINABLE DEVELOPMENT GOALS
Collaboration between actors from the public sector, the business community and civil society is needed to achieve the UN Sustainable Development Goals. Nelly's day-to-day operations mainly concerns six of the UN Sustainable Development Goals:

Focus area	Sustainability issues	Linked to UN Sustainable Development Goals
Respect the Planet	·Carbon dioxide emissions · Transport ·Packaging ·Returns ·Chemicals management ·Choice of materials ·Product quality ·Product life cycle	Goals 12, 13 and 17
Fair & Equal	·Psychosocial working environment ·IT security and customer privacy ·Anti-corruption and transparency ·Responsible supply chain ·Gender equality, diversity and equal treatment	Goals 3, 5, 8 and 17
Empower Femininity	Coming in 2022	

GOAL 3: GOOD HEALTH AND WELL-BEING.
Nelly actively promotes employee well-being. The company does this in part by offering a contribution to preventive healthcare, exercise at work to some extent, ergonomic workplaces and regular recreational activities. See page 33.

GOAL 5: GENDER EQUALITY.
Nelly carries out both promotion and prevention activities to prevent discrimination in the workplace. The company promotes the equal value of employees and ensures that everyone is treated with respect and dignity, as stipulated by the Swedish Discrimination Act. See page 33.

GOAL 8: DECENT WORK AND ECONOMIC GROWTH.
Nelly works to maintain long-term supplier relationships and create economic growth with decent working conditions. See page 37.

GOAL 12: RESPONSIBLE CONSUMPTION AND PRODUCTION.
By increasing the proportion of sustainable materials and offering more environmentally-friendly packaging, the company contributes to more sustainable consumption and production. See page 23 and 27.

GOAL 13: CLIMATE ACTION.
Nelly works with STICA (The Swedish Textile Initiative for Climate Action) to reduce climate impact. Carbon dioxide emissions are calculated for its own operations (Scope 1, 2) and the entire value chain (Scope 3). See page 19.

GOAL 17: PARTNERSHIPS FOR THE GOALS.
The Sustainable Development Goals are easier to achieve with global partnership and collaboration. Nelly is involved in global partnerships through strong involvement in the international initiatives Amfori, Better Cotton, Textile Exchange and STICA. See page 17.

RISKS
A risk and materiality analysis was carried out in 2020 to identify the sustainability-related risks that may have a negative impact on the company and to establish the main sustainability issues. With additional risks identified, these then formed the basis of the company's continued sustainability work and are reported with the measures taken by the company.

Risks for each sustainability area:

Respect the Planet - Reduced impact on the environment and climate and more sustainable products

· Production, warehousing and transportation affect the environment through energy consumption, resource use, waste and carbon dioxide emissions. Requirements from investors and customers to report on the company's climate impact need to be met. There is a risk of Nelly becoming a less attractive choice unless there is a clear action plan to reduce climate impact in place.
Action: Nelly applies a continuous environmental strategy to reduce emissions and will report on emissions in all three scopes from 2021.

· Sustainably produced products and associated sustainability labels are becoming increasingly common among competitors and there is a risk of Nelly not offering sufficient sustainable alternatives to customers and business partners.
Action: Based on the 2021 strategy work, the work to develop sustainability labelling will be intensified in 2022.

· Increased demand for more sustainable materials may result in scarcity, with increased costs as a result.
Action: In autumn 2021, work began to create a more circular flow of materials, resulting in Nelly's Reborn collection, which was launched in Q1 2022.

· E-commerce means that products cannot be tried on in advance, which may result in returns and increased transport and carbon dioxide emissions. In addition, there may be greater use of packaging, leading to unnecessary resource use.
Action: Nelly takes a range of strategic action to reduce unnecessary returns and the use of packaging.

· Chemicals requirements are becoming ever stricter but are not always met by all suppliers, which entails a risk of Nelly not being able to meet the stricter requirements for safe products.
Action: Suppliers to Nelly make a contractual undertaking to comply with EU chemicals legislation and to ensure that products supplied to Nelly comply with existing legislation. Random sample tests are also carried out for Nelly's own brand products to ensure compliance.

· Nelly's business concept is based on sales of clothes and products made in other countries. There is a risk of production being interrupted on account of unforeseen factors such as pandemics or war.
Action: As Nelly's production is spread across several countries and continents, the company is less vulnerable to production disruption or stoppages.

· Future requirements for reduced clothing production as a result of consumer requirements, statutory requirements or materials shortages may entail risks for the company in its current form.
Action: In 2021, Nelly began working towards a more circular business model with the redesign collection Reborn and secondhand sales at Nelly Lounge. This trend will continue in 2022.

Fair & Equal - how the company treats and has an impact on people throughout the value chain

· Nelly's value chain includes a large number of brands, suppliers and factories. The risk of breaches of human rights in the supply chain may entail risks linked to the company's reputation and result in reduced sales.
Action: Nelly audits its suppliers. These audits include checking whether there have been breaches of human rights. If Nelly learns of a breach of human rights by a supplier, action is taken immediately.

· If the company is unable to attract the right talent, offer them opportunities to develop and provide a good working environment, it may lose employees and individual employees may suffer from stress-related illness.
Action: Nelly works continuously on well-being factors, welcomes whistleblowers and regularly consults its employees to create a good working environment and find out what needs to be improved.

· Lack of gender equality and diversity may lead to less ability to understand the market and customers. There is also a risk of discrimination if initiatives to promote gender equality and non-discrimination fail. This may lead to psychosocial risks for employees.
Action: Nelly aims to achieve gender equality and diversity in its Board of Directors and management team and among its other employees, performs continuous monitoring, where possible, and implements correction action.

· Nelly conducts digital marketing and sales of clothing and other products. Data breaches, loss of customer data or public disclosure of data on individual customers may affect confidence in the company's ability to manage security and adversely affect business.
Action: The company takes a structured approach to data security issues and secure processing of personal data in accordance with the General Data Protection Regulation (GDPR).

· There is a risk of corruption in Nelly's area of activities.
Action: To counteract corruption, Nelly has a code of conduct with which all employees must be familiar. The code of conduct is included in the onboarding training that employees undergo when they are first employed. It is available on the intranet and is used for internal training and lectures.

Empower Femininity - increase responsibility for the company's target group, young women

· Empower Femininity is a new sustainability area for Nelly and may entail a challenge. It must be managed carefully and intelligently to avoid the risk of criticism for so-called 'Femwashing'.
Action: In 2022, Nelly will adopt a new sustainability strategy with clear ambitions and activities related to Empower Femininity.

Nelly's collaborations

Global improvements are driven by collaborations between different types of actor in many countries. Nelly implements its sustainability initiatives in collaboration with a number of initiatives to boost their impact.

NELLY GROUP

Amfori BSCI

Amfori BSCI works to improve the working conditions in the global supply chain. Amfori has 2,000 members and supports companies in their work to create an ethical supply chain through collaboration, knowledge sharing and shared tools. Nelly has been a member since 2018 and requires its suppliers to sign Amfori's code of conduct. Membership gives Nelly the opportunity to influence decision-makers and legislators in the EU on fair trade and human rights.

Better Cotton

Better Cotton is a non-profit organisation that aims to improve global cotton production by making it better for the environment and for the people who work in its production. Better Cotton trains cotton growers worldwide in the use of greener cultivation methods. Nelly has been a member since 2019 and undertakes to report its targets and annual purchase volumes to the organisation.

CSR Västsverige

CSR Västsverige is a network for sustainability that offers its members help with processes for strategic and systematic sustainability work. It offers courses, seminars and network meetings to companies and organisations with the focus on exchange of experience.

Human Bridge

Human Bridge is an aid organisation working to help people worldwide in various crisis situations. Human Bridge collects textiles, which are then sorted. The money generated is donated to various aid initiatives. Nelly has worked with Human Bridge since 2018 by donating garments with production defects.

The Swedish Shoe Environmental Initiative

The Swedish Shoe Environmental Initiative (SSEI) is a network within the Swedish shoe industry. Its aim is to improve knowledge of environmental issues with a focus on shoe production. It organises seminars and network activities to permit discussion between actors in the industry.

The Swedish Textile Initiative for Climate Action

The Swedish Textile Initiative for Climate Action (STICA) supports the Nordic textiles industry in its work to reduce climate impact through cooperation, knowledge sharing and shared tools. Nelly has been a member since the start of 2019 and this membership forms the basis of Nelly's climate work. Nelly has undertaken to reduce its climate impact in line with the 1.5 degree target and report emissions in accordance with the GHG Protocol.

Textile Exchange

Textile Exchange is a non-profit organisation with a focus on increasing the use of more sustainable fibres in the textile value chain. Textile Exchange creates a joint forum in which textile actors can work together on environmental initiatives. As a member of Textile Exchange, Nelly has gained access to the latest research and important data to obtain guidance on identifying, measuring and managing its sustainable materials. Nelly's purchasing department attended the Textile Sustainability Conference 2021, Textile Exchange's annual global conference (this year in partnership with the Sustainable Apparel Coalition, SAC).

Textilimportörerna

Textilimportörerna is a trade association for all companies trading in textiles, leather goods, clothing and shoes. It provides sector-specific service to member companies and helps them keep up to date with all aspects of trade in these goods, with focus areas in sustainability, textile labelling, customs issues and chemicals management.

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Respect the Planet

As a company in the fashion industry, Nelly has a great responsibility to reduce its climate and environmental impact. In partnership with other actors, Nelly strives to manage world resources carefully.

> **"The climate is Nelly's biggest environmental challenge and we assume the task of reducing our climate emissions in line with what science deems necessary with great humility."**
>
> **Camilla Olofsson, Production, Sourcing and CSR Manager**

THE FASHION INDUSTRY ACCOUNTS FOR 10% OF GLOBAL EMISSIONS and thus a large part of the world's climate impact. Valuable natural resources are wasted on garments that have a useful life that is far too short or are discarded prematurely. Nelly wants to help change this unsustainable behaviour.
A broad partnership with other actors in the industry is required to achieve success. The work needs to cover the entire process, from the producer to the means of transport to the customer.

In its sustainability area Respect the Planet, Nelly has established time-based targets for reducing its impact on the climate and the environment:

2022: Nelly's own brand products will only be made by externally inspected factories. Base year 2020
2023: Nelly will achieve net zero in its own operations (Scope 1 and 2). Base year 2018
2025: 50% of textile products will be made of more sustainable materials. Base year 2020
2030: Emissions of greenhouse gases in the value chain will have decreased by 50%. Base year 2020

This work is based on Nelly's priority materiality issues with clear goals and KPIs that are monitored and improved constantly.

Transparency in the production chain is becoming increasingly important, and Nelly gathered product and manufacturer information in 2021 that will be published in 2022. In partnership with Amfori, for example, regular checks are carried out on factory conditions and audit results are mapped. Read more on page 37.

With ever higher demand for sustainable materials, it is in Nelly's interest to inform customers and help them make more sustainable choices. A decision was made in 2021 to create sustainability labelling to make it easier to choose products.

In Nelly's travel policy, employees are encouraged to avoid flying, wherever possible, and to choose greener alternatives for business travel instead.

RESULTS FOR RESPECT THE PLANET IN 2021
· The first overall climate calculation was carried out
· STICA initiative to increase the use of renewable energy in Turkish factories
· Hard copy invoices ended – 3 million fewer per annum
· District heating for Nelly's premises in Borås is labelled with the Swedish Ecolabel - Good Environmental Choice
· Sales of products with more sustainable materials increased by 120% on 2020
· The use of Better Cotton in own brand products increased to 56% of total sales volume.

CLIMATE IMPACT
In 2021, Nelly's top priority in relation to the environment was our climate initiatives and identifying our overall climate impact. A cornerstone of this work is our collaboration with other textile actors in the Swedish Textiles Initiative for Climate Action, STICA. During the year, we worked together to identify our overall climate impact, set long-term climate goals and define impact reduction measures. As a member of STICA, Nelly undertakes to reduce its absolute greenhouse gas emissions by 50% by 2030, from the base year 2020. This undertaking is in line with what science says is required to achieve the 1.5 degree target.

In the second half of the year, Nelly completed its first full climate report covering greenhouse gas emissions in Scope 1, 2 and 3, reported according to the Greenhouse Gas Protocol. For the first time, the report included emissions from purchased products. The report showed that our greatest climate impact is in the manufacturing stage, primarily materials manufacturing. The result laid the foundation for Nelly's long-term climate goals for Scope 3 and the process to define measures to reduce climate impact, which was started during the year.

Nelly's climate goals
Nelly's goal for its own operations (Scope 1 and 2) is to reach net zero by 2023.
Nelly's Scope 3 goal is to reduce absolute greenhouse gas emissions by 50% by 2030.

Impact reduction measures
Nelly identified textile materials with a lower climate impact during the year and drew up a materials strategy to steer purchasing towards more sustainable choices (read more about the goals in the strategy under 'Sustainable materials and packaging').

As the manufacturing of textile materials and products has a high climate impact, one significant climate measure is for actors in the value chain to use renewable energy. Turkey is the biggest purchasing market for Nelly's own brand products. Consequently, the company has decided to be involved in STICA's 'renewable energy in the Turkish supply chain' working group to apply joint pressure to encourage the transition to renewable energy at suppliers. As a first step in this work, joint suppliers in Tier 1, i.e. product manufacturing units, were identified. The opportunities to use certified renewable energy and solar cells were also investigated. The plan for 2022 is to identify actors in Tier 2, i.e. material manufacturing units and to identify their energy sources.

In 2021, Nelly relocated its warehouse from Falkenberg to new premises in Borås. The new warehouse is environmentally certified and energy-efficient and is designed for efficient logistics. The warehouse is run on renewable energy and district heating certified with the Swedish Ecolabel - Good Environmental Choice. The new warehouse is close to the head office, which has reduced internal transportation between Falkenberg and Borås. In the warehouse, there is daily monitoring to make processes more efficient, reduce energy consumption and ensure efficiency in fork-lift usage, time use and capacity utilisation of trucks. In addition to this, Nelly's third-party warehouse for return handling has also switched to certified renewable energy.

As 2021 was a challenging year with major disruption in international sea freight, Nelly was forced to use alternative means of transport such as air and rail to import goods from Asia. In these cases, rail was prioritised over air, where possible. For deliveries to customers, carriage options with a low climate impact were prioritised.

In the first half of 2021, much of the Stockholm office was relocated to Borås, reducing the volume of domestic travel. Nelly's internal travel policy urges employees to use trains and public transport where possible to reduce climate impact. In 2021, all company cars were electric cars and charging points for both private and company cars were installed outside the head office.

The pandemic has led to most travel being replaced by online meetings with suppliers and partners, contributing to much lower emissions for both 2020 and 2021. Nelly depends on travel to promote sales in several countries, manage purchases of goods and safeguard the value chain, which means that travel will probably increase again once the pandemic is over. However, the ambition is to continue to use digital tools as a supplement to in-person meetings.

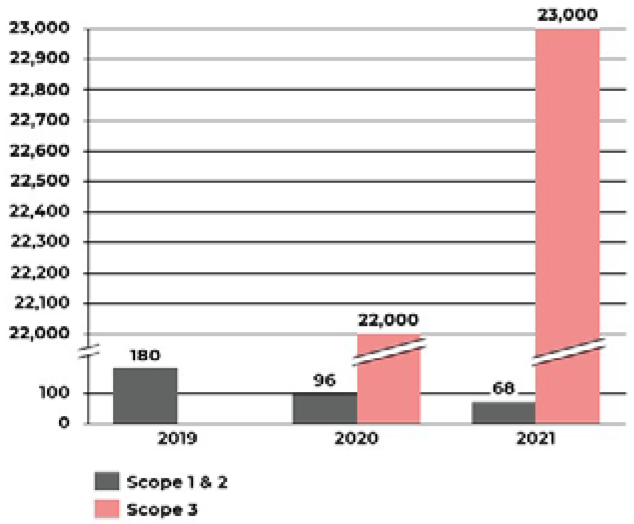
Nelly has started to explore various circular business models and work on the Reborn collection was initiated in 2021. Nelly's unsold jeans were turned into new garments that were offered for sale on the site in early 2022. The collection was produced locally in Borås and the initiative will continue in 2022.

The Group has produced climate results showing that total emissions in 2021 were 25,366 tonnes CO^{2}e, an increase of 8% on the previous year. The majority of emissions are in Scope 3, in which the biggest category, purchased products, accounts for 91% of total emissions. This category includes material and textile production and packaging materials. Despite an increase in the proportion of material with lower climate impact such as polyester and organic cotton in 2021, the figure for total emissions was higher, primarily due to a 15% increase in purchased products.

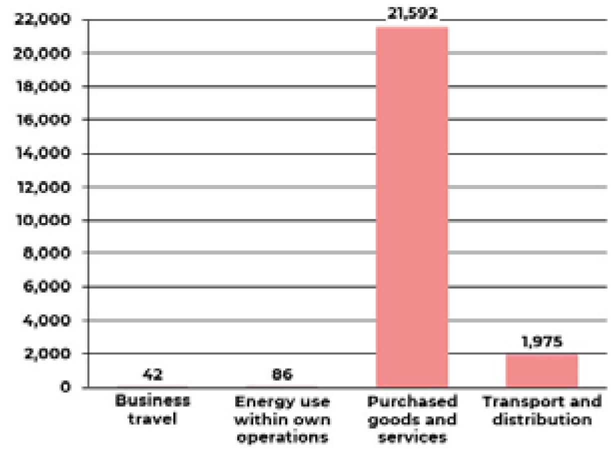
The second highest emissions category, transport and distribution, accounted for 8% of the Group's total emissions and fell by 29% on the previous year. The reduction is primarily due to lower emissions from customer transport and a higher proportion of rail transport. The Group's emissions from business travel increased by 12%. This is due to the inclusion of an additional category in the calculation (which was not included in 2020) and to the fact that there was very little travel in 2020 on account of the pandemic. Emissions in Scope 1 and 2 amounted to 68 tonnes of CO_2e, a reduction of 30% on the previous year. The reduction is primarily due to switching to electric company cars and to Nordic Ecolabel-certified district heating at the warehouse and at the head office in Borås.

PRIORITY MATERIAL ISSUE:
CARBON DIOXIDE EMISSIONS
KPI: Direct emissions from sources under the company's control (Scope 1)
KPI: Indirect emissions from consumption of power, district heating and district cooling (Scope 2)
KPI: Other indirect emissions from the value chain (Scope 3) (total)
Other indirect emissions from the value chain (Scope 3) (business travel)
Other indirect emissions from the value chain (Scope 3) (transport)

Total emissions, tonnes CO_2e



Emissions per category, tonnes CO_2e



NELLY GROUP

ANNUAL REPORT 2021

RESPECT THE PLANET

Sustainable materials

Nelly attaches great importance to increasing the percentage of more sustainable materials in its textile products. As the manufacture of textile materials has the greatest climate impact, the transition to more climate-friendly material choices was a top priority goal for 2021. This is something the industry must do together, which is why Nelly is working with other actors to drive change. Clear goals for the materials strategy have been established for 2025.

IN 2021, Nelly joined Textile Exchange, a non-profit organisation with the focus on increasing the use of more sustainable materials in the textile value chain. Textile Exchange creates a joint forum in which textile actors can work together on better choices of materials. The partnership has granted access to the latest research and important data that have helped define and ensure the traceability of sustainable materials. The materials used today that Nelly classifies as sustainable are recycled fibres, EcoVero®, TENCEL®, organic cotton and cotton grown according to the principles of Better Cotton. By marketing sustainable products, the company helps customers make more sustainable choices. The materials strategy (see below) contains criteria for sustainable material choices based on industry standards and international certifications.

Nelly is a proud member of Better Cotton, the aim of which is to improve cotton production worldwide. In 2021, Better Cotton launched its climate strategy with the aim of reducing greenhouse gases for all cotton grown according to its principles by 50% by 2030. This is entirely in line with Nelly's climate ambitions. Consequently, all cotton purchased for own brand products will be replaced with cotton grown according to Better Cotton principles by 2025.
In 2021, Nelly increased the total percentage of sustainable materials from 11% to 22%, thus achieving the overall target of 20% for 2021. The percentage of cotton grown according to Better Cotton principles for own brand products was 56%, exceeding the target of 55%. As many of Nelly's own brand products contain polyester, the switch from conventional polyester to recycled polyester was given top priority.

Nelly's materials strategy contains the following targets:

2022:
· 30% of all textile products will be made of more sustainable materials
· 20% of all polyester will be replaced with recycled polyester (own production)
· 60% of the cotton purchased by Nelly for its own production will be more sustainable cotton from Better Cotton
· 10% of all viscose will be replaced with EcoVero®

2025:
· 50% of textile products will be made of more sustainable materials
· 80% of all polyester will be replaced with recycled polyester (own production)
· All cotton purchased for own brand products will be grown according to Better Cotton principles

Nelly offers own brand products and external brands. In 2021, own brands accounted for approximately 40% and external bands 60%. Success in the area of sustainability depends not only on Nelly's own work but also on that of the external brands and their development. By communicating its sustainability goals, Nelly encourages external brands to implement their own sustainability initiatives. Many of the bestselling external brands at Nelly are making great progress in this area.

PRIORITY MATERIAL ISSUE: CHOICE OF MATERIALS
KPI: Percentage of more sustainable materials in textile products (clothing, underwear/swimwear, textile accessories) KPI: Percentage of more sustainable materials in own brand textile products (clothing, underwear/swimwear, textile accessories)
KPI: Percentage of more sustainable cotton from the Better Cotton Initiative in own brand products (clothing, underwear/swimwear, textile accessories)

RESPECT THE PLANET

Product quality and product safety

Nelly should sell products that can be used for a long time and are free of harmful, toxic chemicals with a negative impact on humans, animals and nature. The company is responsible for ensuring that its products meet quality and chemicals requirements and sets quality requirements for its suppliers through supplier agreements for business partners.

CHEMICALS ARE USED in the manufacture all types of textile product. The challenge lies in avoiding the harmful and toxic chemicals that have a negative impact on humans, animals and nature. Nelly requires that the products received from its suppliers do not contain prohibited, unhealthy or environmentally harmful chemicals.

Suppliers undertake, by signing agreements, to comply with relevant chemicals restrictions. Textilimportörena's chemicals guide, which is updated twice a year with new information on chemicals, test methods and statutory requirements, is used as an aid for own brand suppliers. Where its own brand products are concerned, the company checks that suppliers meet quality and chemicals requirements through third-party inspections, its own visits to production facilities, tests in external labs and its own tests. The company examines products in terms of risk, decides which products should be tested and inspected and follows up on the results. Random checks are also carried out. No products were withdrawn in 2021 because they contained banned chemicals.

Nelly has boosted its resources for ensuring quality and chemicals contents through more chemicals tests and increased quality control in production. In 2021, 90 quality control inspections were carried out in production, an increase of 40% on 2020, contributing to a fall in the percentage of defective goods from 1% to 0.5% in 2021.

It conducts a continuous dialogue with suppliers to monitor their products and production and achieve constant improvements. Examples of improvement measures are better lighting, more frequent cleaning of machines, more quality testing and improved production routines. No products needed to be recalled from customers because they contained banned chemicals. The products that contained excessive contents of a substance were stopped before delivery or replaced with other materials. The complaint rate was 1 percent in 2021, which is in line with company targets.

Animal ethics

Nelly takes a stand on animal welfare and the requirements for products of animal origin are, therefore, important. The company has endorsed the Swedish animal rights organisation Djurens Rätt's Fur Free Retailer Programme, which means that Nelly does not sell products containing fur. Nelly's animal policy can be read at https://nelly.com/se/håll-barhet/produkter/

PRIORITY MATERIAL ISSUE: CHEMICALS MANAGEMENT
KPI: Number of products withdrawn because they contained banned chemicals

PRIORITY MATERIAL ISSUE: PRODUCT QUALITY
KPI: Number of quality control inspections (own brand)

"We are grateful that, despite the pandemic, we have been able to conduct quality control inspections in production. We have used third-party companies as our eyes and ears out in the world when we were not able to visit factories ourselves to the same extent in 2021."

Sanijeta Smajlagic, Quality Coordinator at Nelly

RESPECT THE PLANET

Packaging

Nelly works actively to reduce the volume of packaging and improve existing packaging. In many cases, packaging is needed to protect goods and products during transport. Plastic is often used to provide effective protection against moisture and mould for long-distance transport. However, there is great potential for the area to become more sustainable as individual garments are currently packed separately.

IN 2021, Nelly tested removing the plastic packaging on individual garments, and the results are promising. For example, neither Nelly nor its customers see any need to protect robust, stable garments with additional plastic. In 2022, more categories will be tested. Based on regular assessments, as much unnecessary plastic as possible will be removed from the supply chain.

Optimised use of packaging materials is also important for cost-effectiveness, profitability and environmental impact. This means that packaging must be tailored to the size of the product to minimise packaging materials and empty space.

In 2021, recycled plastic accounted for 53% of total plastic consumption, and recycled paper accounted for 100% of total paper consumption. For 2023, the target is for 100% of Nelly's e-commerce packaging sent to customers to be made of recycled material.

Work began in 2021 to change the labelling on Nelly's own brand products to 100% recycled material. The labels will be on garments from mid-2022.

PRIORITY MATERIAL ISSUE: PACKAGING
KPI:
1. kg recycled plastic/total plastic consumed (%)
2. kg recycled paper/total paper consumed (%)

RESPECT THE PLANET

Returns and shipments

Returns remain a common feature of e-commerce in clothing. However, there is potential for greater reductions in the return rate. During the year, Nelly developed and continues to develop a number of strategic measures to help customers choose the right size.

NELLY GROUP

CLOTHES SALES have a higher return rate than many other products sold online. This is partly because it is difficult to predict sizes and because many customers buy several garments in the same category so they can try on a range of styles. One example of a strategic measure might be to find solutions to help customers find the right size, which is the main reason for returns. This work will be intensified in the years to come and will mean less transport, lower purchase quantities and thus lower emissions in the long term.

Since 2018, Nelly has been using a digital returns process which provides the company with continuous information about customer returns. The data is analysed and corrections are made immediately and when new collections are being developed and purchases made. As part of this work, the company applied carefully selected criteria to identify customers who were abusing the returns system. In 2021, the company continued to block customers in this category to reduce unnecessary returns. 3,408 customers were blocked in 2021.

Despite active countermeasures, the return rate increased slightly (by 0.7 percentage points) in 2021. This increase may be because 2020 sales involved a higher proportion of garments for home use, which generally have a lower return rate than, for example, party dresses.

INCOMING TRANSPORT

Nelly's own brand products are primarily shipped to the distribution centre in Borås by road and sea. During the year, the company also shipped goods by rail from China, primarily replacing deliveries by air. Since 2018, the company has not used shipment by air in the planning phase for own-produced goods and only ships goods by air in the event of long delays. In 2021, emissions from incoming goods transport were 39% higher than in the year before. This was due to an increase in production in Europe, where a high proportion of transport is by road.

2021 Mode of transport: CO_2 emissions (%)
Air 8%
Sea 28%
Rail 11%
Road 53%

OUTGOING TRANSPORT

Nelly maintains a continuous dialogue with its distribution carriers to increase the proportion of fossil-free transport and added further fossil-free carriage options for customers during the year. Placing fossil-free carriage options higher up the list of options for customers to choose at time of payment resulted in emissions decreasing by 15% for distribution in 2021 compared with 2020. Fossil-free options include vehicles driven entirely using HVO100.

PRIORITY MATERIAL ISSUE: RETURNS
KPI: Number of returns as a percentage of sales (return rate)
Number of customers blocked in 2021 (unsustainable returns behaviour)

PRIORITY MATERIAL ISSUE: TRANSPORT KPI: Mode of transport, distribution in % (air, sea, rail, road)

MINIMISE END-OF-LIFE WASTE

Nelly is working towards a zero waste goal, which involves striving to reuse or recycle unsold products to contribute to a more circular economy. Garments that are returned are cleaned and repaired in the returns warehouse. Products that cannot be resold via the usual channels go primarily to buyers and also to charitable organisations and materials recycling. Garments that are withdrawn due to quality problems are donated to the charitable organisation Human Bridge for reuse or recycling. No garments were withdrawn in 2021. Products that are hazardous to health or the environment are transported straight to incineration plants. In 2021, approximately 53 kg of textile goods and 23 kg of shoes were incinerated on account of mould damage and oil spills.

The zero waste goal will be developed in 2022 into a more extensive initiative with clear KPIs to support the vision of minimising waste.

PRIORITY MATERIAL ISSUE: END OF LIFE
KPI: Clothes (in kg) donated to Human Bridge
KPI: Products (in kg) sent for destruction

ANNUAL REPORT 2021

Fair & Equal

An important part of Nelly's sustainability work is about how the company treats and has an impact on people throughout the value chain. Nelly must always follow the principles of good business ethics. Employees and manufacturers should feel proud of helping contribute to a transparent, fair industry.

NELLY GROUP

A FAIRER FASHION INDUSTRY is another important part of Nelly's sustainability work. Nelly seeks out relevant partners to tackle the challenges facing the fashion industry. It is also important to constantly improve conditions for the company's own employees.

Nelly maintains a healthy workplace by taking a systematic approach to health and safety based on consideration and sound values. Processes for employee appraisals, management by objectives and monitoring of the physical and psychosocial working environment are well established, managed systematically by the People organisation and implemented by managers in the organisation. The entire company is subject to collective agreements.

It is crucial for Nelly that its employees have the right attitude and skills. With diversified, committed staff, the company is able to optimise its offering to its customers. Consequently, the company works strategically to attract, recruit, develop and retain employees.

Nelly is a member of Amfori BSCI with the aim of improving working conditions in the supply chain. Nelly's own brand suppliers must sign the Amfori BSCI code of conduct, which contains requirements for health, safety, fair pay and good working conditions. Nelly is convinced that transparency in the supply chain will contribute to a more sustainable future.

For Nelly, diversity and gender equality are important, both to offer an attractive workplace and to ensure understanding of customer needs. A lack of gender equality and diversity may lead to less understanding of the market and customers. An inadequate approach to gender equality and non-discrimination may lead to psychosocial problems for employees.

Having good business ethics and IT security are essential for a company involved in e-commerce. Good business relationships are crucial to gaining customer trust.

FAIR AND EQUAL RESULTS 2021

- Higher social compliance - 80% of own brand suppliers underwent third-party inspection.
- No zero tolerance cases reported as per Amfori BSCI's checks
- Transparency at product level for customers prepared
- 2/3 female workforce
- The majority of staff at the warehouse are women
- 50% women on Board and in management team

ANNUAL REPORT 2021

FAIR & EQUAL

Employees

Nelly works to foster a productive, healthy workplace. A good working environment is a prerequisite for good health, higher employee satisfaction and better performance. Gender equality and equity must characterise everything Nelly does.

NELLY GROUP

NELLY ATTACHES GREAT IMPORTANCE to ensuring that all employees are treated equally, with respect and dignity and are given equal opportunities for development. Nelly works actively on the concept of employee participation to make clear that everyone is responsible for contributing to an attractive, safe working environment and that every employee deserves respect.

The ability to attract new employees and offer an attractive workplace where people thrive, remain and progress is a success factor. In 2021, Nelly focused on its values to develop the culture that has created a workplace in which employees thrive and feel a sense of community. Activities to promote job satisfaction and community are carried out in part by the Nelly Fun Squad. In 2021, these took place mainly digitally, for obvious reasons. Internal communication and dialogue were enhanced by investing in resources and prioritising channel-building and forums.

Examples of benefits include flexible working hours, supplementation of parental leave pay, salary switching opportunities, agreements with occupational health service providers, a preventive health care allowance and exercise sessions during working hours. These benefits contribute in part to reducing social ill-health in the workplace and creating a better work-life balance.

The company has a policy and an action plan for gender equality and diversity that complement the code of conduct. The company also has a health and safety policy and a policy and an action plan to combat bullying and harassment. These policies are important in the work to prevent social ill-health and are available on the company's intranet.

Digital employee surveys are conducted every week to gauge the mood on issues that affect the working environment and to be able to take action fast, where necessary. For example, the surveys offer the opportunity to report bullying or harassment. Despite the pandemic and the new conditions, employees rated the working environment highly. This was a consequence of the Group's ability to switch to new working methods quickly.

Nelly's workplaces are designed so that they can be adapted ergonomically to the needs of every employee. For example, monitors and workstations can be adjusted to the height of each employee.

A long-term initiative was implemented to train managers on management by objectives, coaching and feedback. The company's long-term goal is to enhance its staff by active development of leadership and employee participation. This work involves both individual initiatives and shared development days.

The workforce was reduced between 2020 and 2021 by giving notice of termination on two occasions. The main reduction was when the warehouse was relocated from Falkenberg to Borås, when Nelly switched from manual picking to an automated warehouse. All permanent employees were offered the opportunity to continue to work at the new warehouse.

The year was dominated by the Covid-19 pandemic. To continue to manage the situation optimally, a number of measures remain in place to create a safe workplace and to improve conditions for those who work from home, including ergonomic equipment. Business travel was minimised and conferences and meetings were largely held online.

For employees who were unable to work from home, for example in the warehouse and studio, all recommended measures were taken such as enhanced cleaning, hand sanitiser, clear instructions about social distancing and restrictions on visitors. For employees working remotely, the company arranged regular online events and digital catch-ups to counteract potential feelings of isolation.

In autumn 2021, an 'back to the office' activity was organised to recreate a sense of community after a long period of working from home. As remote working was recommended again and resumed later in the year, a similar activity was held in early 2022.

PRIORITY MATERIAL ISSUE:
GENDER EQUALITY, DIVERSITY AND EQUAL TREATMENT
KPI: Gender distribution, employees (employees during the year, excl. terminated employment). See age and gender distribution in management team, on Board and among managers.
KPI: Gender distribution, management team
KPI: Gender distribution, Board of Directors
KPI: Gender distribution, managers

"Our internal culture is incredibly important. We must support and listen to our employees to create good conditions for everyone."

Ida Forsén, acting Chief People, Communications and Sustainability Officer

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Average number of employees at Nelly Group

	2021			2020		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	250	160	64	318	191	60
Under 30	86	59	69	122	75	61
30-50	141	86	61	168	100	60
Over 50	23	15	65	28	16	57

Diversity, Board

	2021			2020		
Gender distribution, employees	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	5	3	60	6	4	67
Under 30						
30-50	3	2	67	6	4	67
Over 50	2	1	50			

Diversity, management

	2021			2020		
Gender distribution, employees	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	6	3	50	7	5	60
Under 30						
30-50	5	2	47	5	3	60
Over 50	1	1	100			

FAIR & EQUAL

Responsible supply chain

Nelly places demands on suppliers in relation to working conditions and human rights and aims to continuously increase transparency in its supply chain.

NELLY'S OWN BRAND PRODUCTS are made by 24 suppliers that, in turn, use 43 production units (Tier 1 factories). 41 of these are in the risk countries China, Turkey, India and Morocco. Two are in the UK, classified by Amfori as a low risk country. Nelly's ambition is to have long-term relationships with its suppliers to achieve a uniform quality level and ensure that they maintain high standards in relation to human rights and the environment. Nelly publishes an annual list of the production units (Tier 1 factories) used for its own brand products. To further increase transparency for customers, a project was carried out to register the factory for each purchase order to be able to publish the production unit for own brand products in 2022.

Risks relating to human rights and social conditions include breaches of the right of freedom of association, the risk of child labour, etc. If Nelly identifies violations of human rights and failure to provide decent working conditions at a supplier, it may terminate the working relationship.

Nelly has been a member of Amfori since 2018. As such, the company works with other purchasing companies to improve working conditions in the global supply chain.

All suppliers of Nelly's own brand products have signed Amfori BSCI's code of conduct and undertaken to forward it to their subcontractors when they start working with them. The code is based on the ILO Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

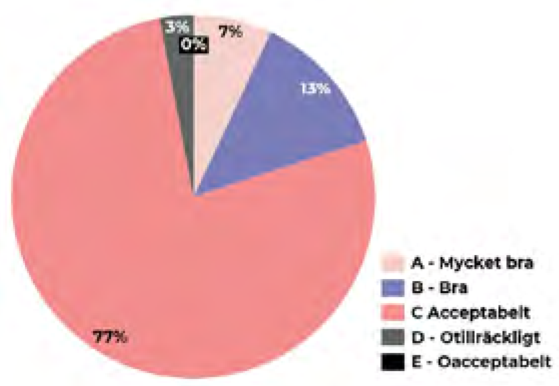
To ensure compliance with the requirements of the code, suppliers are audited by third-party companies. The audit reports indicate non-compliance and breaches of the code of conduct. Examples of breaches are forced labour and child labour. Under a zero tolerance approach, when such serious breaches are discovered, Amfori takes immediate action in collaboration with purchasing companies and the manufacturer. Amfori BSCI inspections are graded on a scale from A (highest) to E (lowest). All manufacturers are expected to strive to improve constantly. Following a grade C or lower, an action plan is required and is followed up with another inspection.

Nelly welcomes auditing based on the Amfori BSCI code of conduct and Sedex audits. For external brands, compliance with human rights is ensured using purchasing agreements with clauses on working conditions and human rights.

In 2021, a number of factories were fully or partially closed at times on account of Covid-19. This had some impact on deliveries to Nelly and meant that some audits were postponed to 2022. Development work such as training had to be accorded lower priority or postponed in some cases.

In 2021, 84 percent of the factories making Nelly's own brand products were audited based on BSCI or Sedex, i.e. with third-party inspections within the period for the valid audit cycle.

Audit results



PRIORITY MATERIAL ISSUE: RESPONSIBLE SUPPLY CHAIN
KPI: Percentage of factories with valid social third-party inspections (own brands)
KPI: Audit results distributed over Amfori BSCI audits conducted (own brands)
KPI: Number of suppliers (own brands)
KPI: Number of production units (own brands)

FAIR & EQUAL

Business ethics and IT security

Business ethics and IT security are crucial to Nelly as a company. Nelly is able to ensure good results by systematically applying policies in this area.

NELLY WORKS WITH many suppliers and partners and good business relationships are crucial in gaining customer trust. A large volume of personal data has to be processed for Nelly to fulfil its obligations to customers such as delivering goods and for billing, customer surveys, marketing, etc. To ensure that personal data is processed responsibly in accordance with the EU General Data Protection Regulation (GDPR), Nelly takes a systematic approach to data protection that is supervised by the data protection officer and supported by the rest of the organisation. The personal data processing policy specifies the requirements made at Nelly and ensures that the Group complies with laws and rules linked to the processing of personal data.

In 2021, the Schrems II judgment and management of the transfer of personal data to countries outside the EU/EEA continued to be a priority issue to ensure good internal control over any risks. Nelly has standing procedures with a framework for internal control for GDPR with status reports to management and the Board plus any action that needs to be taken. 2021 saw a great deal of work done to ensure a good internal overview of internal systems.

For an e-commerce company such as Nelly, data security and privacy protection are business critical, which is why the company works actively to raise internal awareness of data security. Nelly's data security policy ensures that data is used securely by all employees, including external resources. Nelly works actively to constantly improve its approach to data security as the business environment and market change. In 2021, Nelly's operations were analysed with regard to data security and several measures were taken on the basis of the results. The analysis was conducted by an external company.

Nelly responds actively to personal data breaches, which are classified as low, medium or high risk breaches. In 2021, Nelly had a total of 117 personal data breaches, 113 of which were classified as low risk and three as medium risk. Breaches that are classified as high risk must be reported to the Swedish Authority for Privacy Protection. In 2021, Nelly reported one breach to the Swedish Authority for Privacy Protection. The case was closed by the authority with no further action. Nelly constantly learns from the breaches that occur and uses the information to improve its work. The growing number of breaches compared to 2020 may partially be explained by greater awareness among employees.

Nelly has zero tolerance for bribery and corruption. The employee code of conduct lays the foundation for good business relationships. It describes the values employees must embody and discusses issues such as bribery, corruption, stock exchange rules, conflicts of interest, health and safety and human rights. Employees are expected to adhere to the code in their work and make sure that business partners know these principles. Nelly's employees must know the code and how compliance with the code is ensured. The code of conduct is included in the onboarding training that employees undergo when they are first employed. It is available on the intranet and is used for internal training and lectures.

To ensure a good internal environment, Nelly has set up a whistleblower policy to ensure that employees and business partners feel confident about reporting suspicions of impropriety. Whistleblowing is expected of employees when necessary. Suspicions can be reported anonymously, and the information will be investigated. In 2021, Nelly received no reports of impropriety.

**PRIORITY MATERIAL ISSUE:
ANTI-CORRUPTION AND TRANSPARENCY**
KPI: Number of employees who have signed Nelly's code of conduct
In 2021, the work on the code of conduct changed format and will be updated with new KPIs for 2022

PRIORITY MATERIAL ISSUE: IT SECURITY & CUSTOMER PRIVACY
KPI: Number of identified data leaks
1. Number of breaches reported to the Swedish Authority for Privacy Protection (formerly the Swedish Data Protection Authority)
2. Number of personal data breaches per risk classification

Empower Femininity

Nelly's new sustainability area Empower Femininity was launched in early 2021. This will be promoted in 2022 with initiatives linked to goals and KPIs. Empower Femininity will permit Nelly to assume greater responsibility for their customers' well-being.

AT A TIME AT WHICH MENTAL ILL-HEALTH is becoming markedly more widespread among young people, Nelly can make a big difference by taking greater responsibility and boosting the self-esteem of this important target group. The inside is just as important as the outside. To this end, Nelly Lounge was launched in 2021. This is a platform for communication between young women in the target group.

NELLY'S PLANS FOR 2022 INCLUDE:

· Creating dialogue with the target group in Nelly Lounge and using editorial content and initiatives to enhance both he inside and the outside.
· Increasing the diversity of models.
· Supporting projects and people who support this message and are in line with Nelly's values.
· Establishing a number of effective KPIs.

EMPOWER FEMININITY RESULTS 2021

· Nelly Lounge community launched.

"We help our customers express themselves."

Ida Forsén, acting Chief People, Communications and Sustainability Officer

Future focus

The sustainability work in an organisation must never stand still. Requirements are becoming stricter and stricter and the work to achieve climate goals is becoming increasingly important. Everyone has a duty to contribute to sustainable development, which is why Nelly has developed a more comprehensive sustainability strategy for 2022 and appointed a new sustainability manager.

THE NEW SUSTAINABILITY STRATEGY extends to 2030. It will be presented and its implementation will begin in Q2 2022 and it will be reflected in everything Nelly does.

FUTURE OBJECTIVES

· Greater transparency through the publication of factory and product information
· Help customers make sustainable choices through sustainability labelling
· Develop and promote Empower Femininity with measurable activities
· Increase circularity through redesign and reuse
· Switch in focus from product to service

Directors’ report

Directors' report

Nelly Group AB (publ) (Nelly) offers fashion and accessories primarily to young women in the Nordic region. The Board of Directors has its registered office in Borås. The company's postal address is Box 690, 501 13 Borås, Sweden and the street address is Lundbygatan 1, 506 30 Borås, Sweden. The corporate identity number is 556035-6940. Company shares are traded on the Nasdaq Stockholm Small Cap list under the ticker symbol NELLY.

Operations

Nelly offers fashion to trend-conscious young consumers through Nelly.com and NLYMan. In 2021, sales were SEK 1,428.4 (1,394.1) million and the operating profit was SEK -38.6 (-45.9) million. Profit after tax amounted to SEK -47.8 (-71.1) million and to SEK -47.8 (512.1) million including discontinued operations

The sale of own brands amounted to 39.4 (42.4) percent of sales. The return rate amounted to 34.8 (34.4) percent.

Nelly had an average of 250 (318) employees during the year, of whom 64 percent (60 percent) were women.

Discontinued operations

Up to the fourth quarter of 2020, the Nelly Group owned three operational subsidiaries: Nelly NLY AB, CDON AB and Qliro AB. The strategy since June 2018 was to split the Group into three separate companies. This was done by the shares in Qliro AB and CDON AB being distributed to the shareholders of the Nelly Group in the second half of 2020. The aim was to give the companies the opportunity to focus fully on their own operations and, thereby, strengthen their competitiveness.

CDON and Qliro AB are included in this annual report as discontinued operations. Profit after tax for discontinued operations amounted to SEK 0 (583.2) million for the year.

The profit of discontinued operations for 2020 includes profit from the distribution of shares in CDON AB of SEK 528.8 million. The positive impact on profit was due to the fact that at the start of the first trading day CDON AB was valued at SEK 593 million, which was above the carrying amount of the net assets attributable to CDON AB, previously recognised at SEK 64 million in the Group. See Note 5 for more information. The figure recognised has no impact on cash flow or tax for the period, nor does the capital gain effect have an impact on equity.

Financial position and earnings

SEK million	2021	2020
Net revenue	1,428.4	1,394.1
Gross profit	638.7	612.1
Gross margin (%)	44.7%	43.9%
Operating profit or loss	-38.6	-45.9
Operating margin (%)	-2.7%	-3.3%
Net financial items	-8.6	-1.7
Profit before tax	-47.2	-47.5
Profit after tax for continuing operations	-47.8	-71.1
Profit after tax for discontinued operations	-	583.2
Profit after tax for continuing and discontinued operations	-47.8	512.1
Basic and diluted earnings per share, excluding discontinued operations, SEK	-2.65	-4.44
Basic and diluted earnings per share, including discontinued operations, SEK	-2.65	31.97
Total assets	899.9	655.1

Sales

Qliro AB and CDON AB are recognised as discontinued operations for 2020 in this report. Comparative figures refer to the corresponding period in the previous year, unless otherwise stated. Consolidated figures and tables include the effects of IFRS 16.

Net revenue amounted to SEK 1,428.4 (1,394.1) million. Of net revenue for the year, SEK 682.2 (638.9) million was in Sweden, SEK 657.8 (641.2) million in the rest of the Nordic region and SEK 88.4 (114.0) million in the rest of the world. Exchange rate fluctuations affected sales only marginally for the full year of 2021.

Operating expenses

Cost of goods sold totalled SEK 789.6 (781.9) million. The gross margin was 44.7% (43.9).

Warehousing and distribution costs were SEK 252.9 (254.0) million in 2021 and included costs related to warehouse relocation of SEK 14 million.

Marketing expenses amounted to SEK 157.7 (131.9) million.

Administrative and other operating expenses were SEK 266.8 (272.0) million.

Operating profit totalled SEK -38.6 (-45.9) million.

Net financial items

Net financial items totalled SEK -8.6 (-1.7) million.

Tax

Recognised tax expense totalled SEK -0.6 (-23.5) million. Tax expense for the previous year includes a write-down of SEK 9.8 million of a deferred tax asset. The write-down was carried out in connection with the distribution of CDON AB. It had no impact on cash and cash equivalents or on declared tax losses.

Net profit and earnings per share

Profit after tax amounted to SEK -47.8 (-71.1) million. Profit after tax for continuing and discontinued operations in total amounted to SEK -47.8 (512.1) million.

As of 31 December, the number of shares was 18,494,973, of which 18,026,266 ordinary shares and 468,707 C shares. Basic and diluted earnings per share for continuing and discontinued operations amounted to SEK -2.65 (-31.97), based on the weighted average number of shares during the year.

Cash flow and financial position

Cash flow from operating activities before changes in working capital was SEK -6.8 (-45.3) million for the year.

Cash flow from operations after changes in working capital amounted to SEK 18.7 (24.2) million for the year.

Investments in non-current assets (both in relation to the warehouse project and in IT) totalled SEK -22.9 (-6.2) million for the year.

Cash flow from financing activities totalled SEK -29.2 (95.8) million for the year. In 2021, the repayments of the lease liability increased as a consequence of the warehouse project. In the third quarter 2020, SEK 203.4 million was raised via a new issue, of which SEK 125 million was invested in Qliro AB. In 2020, cash flow from financing activities was boosted by SEK 34.2 million from CDON AB.

At the year end, total assets amounted to SEK 899.9 (655.1) million and equity amounted to SEK 204.4 (249.8) million.

At the year end, the Group had cash and cash equivalents of SEK 197.5 (230.1) million and no interest-bearing liabilities apart from Covid-19-related tax credits of SEK 39.6 (39.6) million.

Discontinued operations

Nelly Group AB distributed the shares in Qliro AB in the third quarter of 2020 and CDON AB in the fourth quarter of 2020. These companies are recognised as discontinued operations in the Group.

Qliro AB was admitted to trading on Nasdaq Stockholm and the first trading day was 2 October 2020, whereas CDON AB was admitted to trading on First North Growth Market and the first trading day was 6 November 2020.

Profit after tax for discontinued operations amounted to SEK 0 (583.2) million for the year. The profit of discontinued operations for 2020 was primarily impacted by the distribution of shares in CDON, which resulted in a recognised effect as described above.

The war in Ukraine

At the time of preparation of the annual report, Russia and Ukraine are at war. No significant direct exposure in Ukraine or Russia has been identified. Indirect effects of the war such as inflation, raw material price fluctuation, friction in logistics chains and customer behaviour may change, but it is difficult to assess the extent to which this may affect Nelly. See Note 25.

Parent company

The parent company, Nelly Group AB, had sales of SEK 1.6 (2.7) million for the year. Profit before tax amounted to SEK -41.9 (-7.0) million for the full year. Cash and cash equivalents in the parent company amounted to SEK 4.7 (31.6) million at year end.

As of 31 December 2021, Nelly Group AB had 18,494,973 shares issued, of which 18,026,266 were ordinary shares and 468,707 were C shares. The share capital was SEK 184,949,730 and each share had a quotient value of SEK 10.00. The C shares are held by Nelly Group AB and may not be represented at general meetings.

Risk factors

Nelly is exposed to several risk factors. Some of the risks considered significant to the Group's future development are summarised below, in no relative order.

Industry and market risks
- E-commerce market trends
- Competition
- Seasonal variations
- Risks related to fashion trends
- Economic situation and consumer purchasing power

Operational risks
- Disruption in IT and control systems, including cyberattacks
- Supplier relationships
- Warehousing and distribution
- Expansion into new markets and new segments
- Ability to recruit and retain staff

Financial risks
- Currency risk
- Credit risk
- Interest rate risk
- Liquidity risk

Legal risks
- Legislation, regulations and compliance
- Intellectual property rights

Industry and market risks

The market

The market for e-commerce is undergoing change with continuous growth in recent years. There are no guarantees that the e-commerce market will continue to grow or that Nelly's products will continue to benefit from positive market developments.

Competition
Nelly's operations are highly competitive and the actions of other players could affect demand and the requirements placed on our business. The Group has a strong position in selected segments of Nordic e-commerce and is continuously working to strengthen its competitiveness.

Seasonal variations
Nelly is exposed to seasonal variations and the second and fourth quarters are the strongest. Lower demand during a single quarter can significantly affect sales and earnings negatively.

Risks related to fashion trends
Nelly is exposed to fluctuations in trends and fashion, as well as consumer preferences in terms of design, quality and price. Misjudging consumer preferences can lead to lower sales, surpluses of certain products and price cuts.

Economic situation and consumer purchasing power
Nelly's sales are affected by business cycles, developments in e-commerce and demand for the Group's products and services, especially in the Nordic region. The economy and consumers' purchasing power are affected by factors that are beyond the Group's control, such as interest rates, exchange rates, inflation levels, taxes, unemployment levels and other economic factors. A weakening of the economy with lower consumption may reduce demand for the Group's products, which could adversely affect financial position and earnings.

Operational risks

Disruption in IT and control systems and cyberattacks
Nelly's operations are dependent on reliable IT and control systems that are well suited to the business. The Group has made significant investments in IT and control systems. Even though improvements, maintenance, upgrades and support for these systems and processes are ongoing, it is not inconceivable that the systems may suffer malfunctions that could have a negative impact on financial position and earnings. There is also a risk of Nelly being exposed to cyberattacks which risk disrupting or stopping the company's online operations. The company works constantly to prevent and impede cyberattacks.

Supplier relationships
Nelly is dependent on hundreds of external suppliers. There are, however, alternatives to most of the current suppliers, which means that if the company loses one or more suppliers it will only have a limited negative impact.

Warehousing and distribution
If Nelly's warehouse were to be destroyed or to close, or if its equipment were to be damaged, the company might not be able to deliver products to its customers. The Group is dependent on transportation to and from the warehouse and is exposed to disruptions in its distribution network. In the event of a malfunction, the Group will attempt to repair the warehouse or use alternative warehouses or transportation. If this cannot be guaranteed, it could have a negative effect on financial position and profit.
Nelly works continuously on risk prevention. The Group has insurance policies for property damage and production stoppages, but there is no guarantee that such amounts can be recovered in full or that the amounts recovered would cover potential losses.

Expansion into new markets and new segments
Nelly's long-term strategy is to grow. A careful analysis is made prior to each investment but any establishments in new geographical markets or new segments may lead to unforeseen costs or lower sales than expected.

Ability to recruit and retain staff
Nelly's success is highly dependent on its ability to recruit, retain and develop senior executives and other key individuals. The Group implements programs and initiatives for staff development, talent identification and succession planning for key individuals.

Financial risks

Currency risk
Currency risk consists of risks in transactions in various currencies (transaction exposure) and risks when translating foreign operations into Swedish krona (translation exposure).
The Group's reporting currency is Swedish krona. A significant portion of sales are from outside Sweden, which gives rise to transaction exposure. Translation of foreign operations into Swedish krona means that the Group is also somewhat vulnerable to translation exposure.
Currency risks in operating activities are not normally hedged using financial instruments. However, natural hedges are sought, for example, by purchasing and selling in the same currency. The most important currencies are NOK, DKK and EUR for sales. The most important purchasing currencies are SEK, USD, EUR and GBP.

Credit risk
Credit risk is defined as exposure to losses resulting from one party failing to fulfill its obligations. Exposure is based on the carrying amount of financial assets, of which the majority comprises accounts receivable and cash and cash equivalents.
Credit risk related to accounts receivable is spread over many customers in small amounts, mainly private individuals. Accounts receivable are sold to Qliro AB. Most of these accounts receivable are sold with full transfer of the credit risk to the counterparty.

Interest rate risk
Interest rate risk is the risk that changes in interest rates will affect the Group's financing costs since fair value or future cash flows may fluctuate due to changes in market interest rates.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to fulfill its commitments associated with financial liabilities. This risk is managed by ensuring that there is enough cash and cash equivalents and the ability to increase available financing.
At the year end, the Group had cash and cash equivalents of SEK 197.5 (230.1) million, unutilised credit facilities and no interest-bearing liabilities apart from Covid-19-related tax credits. This will facilitate purchases of collections ahead of coming seasons, as well as investments in the business. The warehouse automation solution will be financed via rent supplements.

Legal risks

Legislation, regulations and compliance
Nelly pursues operations in several countries with different legislation, fiscal regulations and regulations governing some of the goods that the Group sells. If the business is spread to new customers, services or markets, it may be subject to new regulatory requirements. The Group endeavours to comply with laws and regulations and enlists the help of external expertise when required.

Intellectual property rights
Nelly is proactive about protecting its brands, name and domain name in the jurisdictions in which the Group operates. It may, nevertheless, transpire that the measures the Group takes are insufficient, which may have an adverse effect.

Disputes, claims and litigations
Companies within the Nelly Group may be involved in disputes in the normal course of business. Disputes, claims, investigations and legal proceedings can be time-consuming, disrupt normal operations, entail liability for damages and involve significant costs. In addition, it can be difficult to predict the outcome of complex disputes and litigations.

Environmental initiatives
Nelly's ability to take responsibility for sustainable development is the key to strengthening the confidence of our customers, the capital market, employees and the public in us. The business requires warehousing, packaging and transportation. Customers, owners, employees and the public expect environmentally conscious choices and that the business is operated in a manner that is sustainable in the long term. The Group is constantly searching for new ways to further reduce its environmental impact.
Nelly's sustainability efforts focus on three selected areas. Through these efforts we aim to take even more responsibility for sustainable development. The sustainability report is prepared in accordance with Chapters 6 and 7 of the Swedish Annual Accounts Act and can be found on page 10 of this annual report.

Employees
Nelly recognises that its employees are crucial to its operations. Attracting, developing and retaining employees is necessary to achieve success and meet established targets for growth and business development.
The average number of employees was 250 (318) during the year. The sustainability report contains more information (see page 10). Information on average number of employees and payroll expenses is available in Notes 21 and 22.

Parent company
Nelly Group AB (publ) is the parent company of the Nelly Group and owns and manages financial assets in the form of shares in the Group's subsidiaries. The parent company holds shares in the subsidiaries as specified in Note 11.
The parent company has the same risks and uncertainties as the Group. Parent company sales totalled SEK 1.6 (2.7) million. Administrative expenses totalled SEK -13.4 (-37.3) million and consist of costs of a recurring nature, primarily related to operating Nelly Group AB as a publicly listed company with expenses for central functions, board fees, auditing services and, during 2020, project expenses for distributing the shares in CDON and Qliro AB.
The profit from participations in subsidiaries was SEK -0.1 (40.6) million. Other net financial items totalled SEK 0 (-1.0) million. The parent company made Group contributions to subsidiaries amounting to SEK -30.0 (-12.0) million. Profit before tax amounted to SEK -41.9 (-7.0) million. Cash and cash equivalents in the parent company amounted to SEK 4.7 (31.6) million at the year end.

Proposed appropriation of profits
These amounts are at the disposal of the shareholders as at 31 December 2021 (SEK):

Share premium reserve	1,404,969,262
Retained earnings	-1,248,691,694
Profit for the year	-41,943,289
Total	**114,334,279**

The Board proposes that the retained earnings, share premium reserve and profit for the year, a total of SEK 114,334,279, be carried forward. The share premium reserve amounts to SEK 1,404,969,262. As regards the company's earnings and position in general, please refer to the following financial statements with accompanying notes and comments.

Share data
Nelly Group AB's shares are listed on the Nasdaq Stockholm Small Cap under the ticker symbol Nelly. Nelly Group's market capitalisation on Nasdaq Stockholm on the last trading day of 2021 was SEK 584 million.

Shareholders on 31 December 2021

	Capital (%)	No. of shares
Rite Ventures	25.1%	4,634,348
Ettfemsju Själ AB	12.1%	2,243,149
Mandatum Life Insurance Company	9.6%	1,767,000
eQ Asset Management Oy	4.6%	842,616
Avanza Pension	-3.4%	621,997
Nelly Group AB	2.5%	468,707
Anders Böös	2.5%	465,131
Peter Lindell	1.4%	250,000
Nordnet Pensionsförsäkring	1.3%	235,290
Lars Johannesson	0.9%	175,000
Fredrik Palmstierna	0.9%	166,271
SEB Trygg Liv	0.9%	157,853
Dimensional Fund Advisors	0.8%	145,587
Klas Bengtsson	0.7%	137,000
Handelsbanken Fonder	0.7%	131,199
15 biggest	67.3%	12,441,148
Others	32.7%	6,053,825
Total	100.0%	18,494,973

*Includes 468,707 C shares held by Nelly. Own shares that are held by the company may not be represented at general meetings of shareholders.
Source: Modular Finance

Share capital

As of 31 December, the number of shares and votes was 18,494,973, of which 18,026,266 ordinary shares and 468,707 C shares. The share capital was SEK 184,949,730 and each share had a quotient value of SEK 10.00. Each ordinary share and C share entitles the holder to one (1) vote. The C shares held by Nelly Group are not entitled to dividends and may not be represented at a general meeting.

Share capital in the Group amounted to SEK 185.0 million at the year end. For changes in the share capital in 2020 and 2021, see note 15.

As of 31 December 2021, there were 200,983 (316,694) outstanding share rights attributable to the company's share-based incentive plans. See Note 22 for more information.

The company is not aware of any agreements between shareholders that would limit rights to transfer shares.

Dividend

The parent company paid no ordinary dividend in 2021 and the Board proposes no dividend for the 2021 financial year. Two extraordinary general meetings resolved to distribute the shares in CDON and Qliro AB in 2020.

Share data

On the last trading day of the year, the share price was SEK 31.60.

Corporate governance report

This report describes Nelly Group AB's (Nelly) policies for corporate governance. Nelly Group AB is a Swedish public limited liability company. The company's governance is based on its Articles of Association, the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm's regulations for issuers and other relevant regulations. The company also applies the Swedish Code of Corporate Governance (the Code). In 2021, Nelly departed from the Code's rule that a Board member should not chair the nomination committee when Christoffer Häggblom was the Chairman of the nomination committee for the 2021 annual general meeting. The other members of the nomination committee indicated that the decision to choose the Chairman was in the interest of the company and all shareholders and a natural consequence of Christoffer Häggblom representing the company's biggest shareholder on the nomination committee. There was no other departure from the code in 2021. Nelly complied with Nasdaq Stockholm's regulations for issuers and good stock market practice during the year.

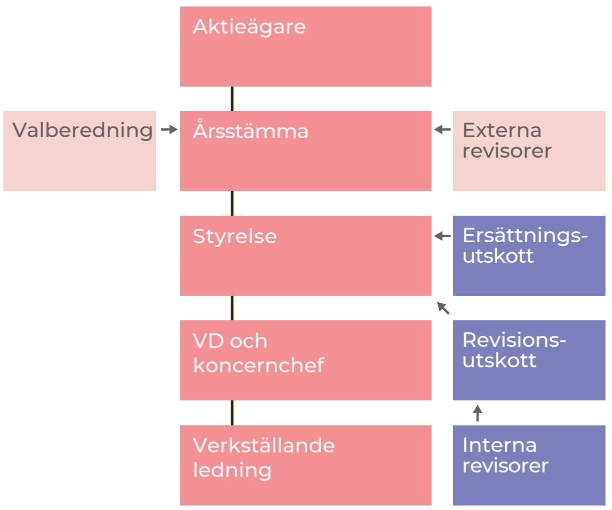
Nelly Group is governed by several bodies. At the annual general meeting, the shareholders exercise their voting rights by electing the Board of Directors and external auditors. Some of the Board's duties are prepared by the President and CEO of Nelly. The CEO oversees the day-to-day management of the Group in accordance with guidelines from the Board.

Shares and shareholders

According to the share register held by Euroclear Sweden AB, there were 15,568 shareholders at the end of 2021. Shareholdings by its 15 largest shareholders corresponded to 67 percent of the share capital.

The share capital consists of two share types: ordinary shares and C shares. There are no restrictions on the number of votes each shareholder can cast at the AGM. See Note 15 for more information.

As of 31 December 2021, Nelly Group AB had 18,494,973 shares issued, of which 18,026,266 were ordinary shares and 468,707 were C shares. Share capital totalled SEK 184,949,730. The Class C shares are held by Nelly Group and may not be represented at general meetings.



Shareholders are regularly provided with information, including interim and full-year financial reports, financial statements and press releases on significant events. All reports, press releases and other information can be found on the website at www.nellygroup.com.

Annual General Meeting

The annual general meeting (AGM) is a limited company's highest decision-making body. It is there that all shareholders can exercise their voting rights to decide on issues affecting the company and its operations. The Swedish Companies Act and the Articles of Association detail procedures on how notice is given of the AGM and extraordinary general meetings, along with who is entitled to participate and vote at the meetings.

The AGM must be held within six months of the end of the financial year. The AGM makes decisions on adoption of the income statement and balance sheet for the company and the consolidated income statement and balance sheet, appropriation of the company's earnings according to the adopted balance sheet, discharge of liability for the Board and CEO, election of the Board and its chairman, election of the company's auditors and certain other matters provided for by law and the Articles of Association. The AGM for the 2021 financial year will be held on 12 May 2022 and voting will be solely by postal vote in advance in accordance with temporary statutory rules.

Nomination committee

Tasks of the nomination committee include:

- Evaluating the Board's work and composition
- Submitting proposals to the AGM regarding the election of Board members and the Chairman of the Board
- Preparing proposals for the election of auditors in consultation with the audit committee (when appropriate)
- Presenting proposals for the setting of remuneration for the Board and the auditors
- Preparing proposals for the Chairman of the annual general meeting
- Preparing proposals to the AGM regarding the nomination committee's composition and work during the following year

In accordance with the nomination committee instructions adopted at Nelly Group's 2021 AGM, a representative of the largest shareholder, Rite Ventures, convened a nomination committee to prepare proposals for Nelly Group's 2022 AGM. The nomination committee for the 2022 AGM consists of Peter Lindell, appointed by Rite Ventures, Alexander Antas, appointed by Mandatum Private Equity Partnership, Mandatum Asset Management and Anders Böös, appointed by AGB Kronlund. At their first meeting, the members of the nomination committee appointed Peter Lindell the Chair of the nomination committee. The members of the nomination committee do not receive any separate payment for their work.

The full proposals by the nomination committee for the 2022 AGM are included in the notice published in a press release on 12 April 2022 and are available on the website at www.nellygroup.com.

In its work, the nomination committee applied rule 4.1 of the Code on diversity policy. The nomination committee thus considered the importance of increased diversity on the Board in terms of gender, age and nationality, as well as experience, occupational background and business areas. As part of its efforts to find the most competent Board members, the nomination committee strives for an even gender balance.

Board of Directors

Nelly Group's Board of Directors is elected at the AGM for the period up to and including the end of the following AGM. Nelly Group's Articles of Association do not include any restrictions regarding the eligibility of Board members. According to the Articles of Association, the Board should consist of a minimum of three and a maximum of ten members.

Responsibilities and duties of the Board

The Board has overall responsibility for the organisation and management of Nelly Group. The Board has adopted working procedures for its internal activities that include rules pertaining to the number of regular Board meetings, which issues are to be discussed at regular Board meetings, the duties of the Chairman and instructions regarding division of duties between Nelly Group's Board, the CEO and the rest of the management team. The work of the Board is also governed by rules and regulations, including the Swedish Companies Act, Articles of Association and Swedish Code of Corporate Governance.

In order to carry out its work more effectively, the Board has appointed a remuneration committee and an audit committee with special tasks. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions. However, all members of the Board have the same responsibility for decisions made and actions taken, irrespective of whether issues have been reviewed by such committees or not.

The Board has also issued instructions to be followed by the CEO. The instructions require that major investments in fixed assets must be approved by the Board. The Board must also approve major transactions, including acquisitions and divestments or closure of businesses. In addition, the Board has also issued written instructions specifying when and how information that is required for the Board to evaluate the Group's and its subsidiaries' financial positions should be reported.

The rules of procedure that are adopted annually by the Board include instructions on which financial reports and what financial information must be submitted to the Board. In addition to the year-end report, interim reports and the annual report, the Board also examines and evaluates extensive financial information related to both the Group and various entities within the Group. The Board also examines, primarily through the audit committee, the most significant accounting policies applied in the Group regarding financial reporting, as well as any key changes to these policies. The audit committee is also tasked with examining reports on internal controls and the processes for financial reporting, along with internal audit reports compiled by the Group's external function for internal auditing. The Group's auditor reports to the Board as required, but at least once a year. At least one of these reporting occasions occurs without the CEO or any other member of executive management being present. The Group's auditor also participates in the meetings of the audit committee. The audit committee meetings are minuted and the minutes are made available to all Board members and the auditors.

Composition of the Board as of 31 December 2021

Name	Position	Date of birth	Citizenship	Appointed	Independent of major shareholders	Independent of the company and its management	Remuneration committee	Audit committee
Mathias Pedersen	Chairman	1971	Swedish	2020	Yes	Yes	Member	Chairman
Christoffer Häggblom	Board member	1981	Finnish	2017	No	Yes	Chairman	
Josephine Salenstedt	Board member	1984	Swedish	2020	No	Yes	Member	Member
Maj-Louise Pizzelli	Board member	1963	Swedish	2020	Yes	Yes		
Stina Westerstad	Board member	1974	Swedish	2020	Yes	Yes		Member

Nelly Group's Board composition during the year fulfilled the requirements of Nasdaq Stockholm and the Code on the independence of board members. This means that most Board members appointed by the AGM are independent of the company and its management. At least two of these members are also independent of the company's major shareholders.

Composition of the Board

The Board of Nelly Group AB comprises five members. The Board members are Mathias Pedersen (Chairman since December 2020), Christoffer Häggblom, Josephine Salenstedt, Maj-Louise Pizzelli and Stina Westerstad. For more information, see page 58.

Remuneration committee

The remuneration committee consists of Christoffer Häggblom (Chairman), Josephine Salenstedt and Mathias Pedersen.

The remuneration committee's tasks are described in section 9.1 of the Swedish Code of Corporate Governance. The main tasks of the remuneration committee are to: (i) prepare decisions for the Board on matters regarding remuneration principles, remuneration and other employment terms for the CEO and senior executives; (ii) monitor and evaluate ongoing programmes and programmes concluded during the year for variable remuneration (e.g. long-term share-based incentive plans) for the CEO, senior executives and other key individuals within Nelly Group; and (iii) monitor and evaluate application of the guidelines for remuneration of senior executives that the AGM, in accordance with the law, must decide upon, along with applicable remuneration structures and remuneration levels in the company.

Audit committee

The audit committee comprises Mathias Pedersen (Chairman), Josephine Salenstedt (who replaced Christoffer Häggblom in autumn 2021) and Stina Westerstad. The audit committee's tasks are described in Chapter 8, Section 49b, of the Swedish Companies Act. The audit committee's responsibilities are to: (i) monitor the company's financial reporting, make recommendations and suggestions to ensure reporting accuracy; (ii) in respect of the financial reporting, monitor the efficiency of the company's internal controls, internal audits and risk management; (iii) stay informed on the audit of the annual report and consolidated financial statements as well as the conclusions of the Supervisory Board of Public Accountants' quality control; (iv) inform the Board about the results of the audit and the manner in which the audit contributed to the reliability of financial reporting as well as about the role the Committee had; (v) review and monitor the impartiality and independence of the auditor, paying special attention to whether the auditor provides the company with services other than auditing; and (vi) assist with preparation of proposals for the AGM's resolution on election of an auditor. The audit committee's work focuses on evaluating the quality and accuracy of the financial reporting, internal controls, internal audits and risk assessments.

Remuneration of Board members

The fixed remuneration for the Board (decided at the AGM held on 12 May 2021) for the period until the close of the 2022 AGM totals SEK 1,475,000 per annum, of which:

- SEK 450,000 to the Chairman of the Board,
- SEK 200,000 to each of the five other Board members,
- SEK 75,000 to the chairman and SEK 30,000 to each of the two other members of the audit committee,
- SEK 50,000 to the chairman and SEK 20,000 to each of the two other members of the remuneration committee.

The remuneration of the Board members is proposed by the nomination committee, which represents the company's largest shareholders and is approved by the AGM (or an extraordinary general meeting in certain cases). The nomination committee's proposal is based on benchmarking of peer group company remuneration and company size.

The Board's work in 2021

During the year, the Board regularly reviewed Nelly Group's consolidated earnings, financial position, organisation and administration. During its meetings, the Board dealt with matters involving the investment in a new warehouse and Nelly Group's strategy, budget and other financial forecasting, capital structure and financing, investments in non-current assets, potential establishment of new operations and divestments and continued streamlining of internal procedures and control processes. An annual structured evaluation of the Board's work was conducted with the aim of further developing the Board's effectiveness and proactive involvement in the company. The result of this evaluation was also reported to the nomination committee. The Board of Directors held nine meetings in 2021, one of which was held by correspondence.

Attendance at Board and committee meetings in 2021

Name	Board meetings	Audit committee	Remuneration committee
Total meetings in 2021	**9**	**4**	**4**
Mathias Pedersen	9/9	4/4	4/4
Christoffer Häggblom	8/9	3/4*	4/4
Josephine Salenstedt	8/9	1/4*	3/4
Maj-Louise Pizzelli	8/9		
Stina Westerstad	8/9	4/4	
Louise Nylén**	3/9		

** Josephine Salenstedt replaced Christoffer Häggblom on the audit committee in autumn 2021*
*** Louise Nylén was a Board member until the 2021 AGM*

External auditors

KPMG AB was elected as Nelly Group AB's auditor at the 2021 AGM for a period of one year. KPMG has been the company's external auditor since 1997. Mathias Arvidsson, authorised public accountant at KPMG, has been auditor in charge since May 2021. An auditor election will take place at the 2022 AGM.

The auditor reports its findings to the shareholders by means of the auditor's report, which is presented to the AGM. In addition, the auditors report detailed findings to the audit committee twice a year and to the full Board once a year and annually provide written assurance of their impartiality and independence to the audit committee.

KPMG also provided certain additional services in 2020 and 2021. These services comprised consultation on accounting and tax issues and other audit-related engagements.

Audit engagements involve examination of the annual report and financial accounting, administration by the Board and CEO, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other engagements. See Note 23 for more information.

CEO and executive management

The Group's executive management consists of Kristina Lukes, CEO, Maria Segergren, Chief Assortment Officer, Andreas Drougge, Chief Technology Officer, John Afzelius, Chief Financial Officer, Stefan Svensson, Chief Operating Officer and Helena Karlinder-Östlundh, Chief People, Communications and Sustainability Officer (from spring 2022). For more information, please see page 60.

The CEO is responsible for the ongoing administration of the company in accordance with the guidelines and directions established by the Board.

The CEO and executive management team, supported by various staff functions, are responsible for adhering to the Group's overall strategy, financial and business controls, financing, capital structure, risk management and acquisitions. Among other tasks, this includes preparation of financial reports, communication with the investors etc.

Applicable guidelines for remuneration of senior executives

The extraordinary general meeting held on 16 December 2020 resolved to adopt the following guidelines for remuneration of senior executives. These guidelines apply until further notice.

Guidelines for remuneration of senior executives

Guidelines for remuneration of Nelly Group's CEO and other members of the management team (together the 'senior executives') and of Board members, where they receive remuneration for tasks other than Board duties.

The guidelines must be applied to remuneration that is agreed, and changes made to remuneration already agreed, after the guidelines were adopted by the extraordinary general meeting on 16 December 2020. The guidelines do not include remuneration adopted by the annual general meeting such as ordinary Board fees and long-term share/share price-related incentive plans.

How the guidelines promote Nelly Group's business strategy, long-term interests and sustainability

Nelly Group's only operational subsidiary Nelly has one of the strongest online fashion brands for young women in the Nordic region. Nelly's business model is based on a core of its own designs and brands and a supplementary range of curated fashion and beauty products from external brands. Nelly will continue to strengthen its own brands and remain at the forefront of digital marketing and sales. The company will continue to inspire its target group with selected trends and fashion.

For Nelly Group to be able to realize its business strategy and safeguard the Group's long-term interests, including their sustainability, it is essential that it can attract, motivate and retain senior executives in competition with comparable Nordic companies, primarily Nordic companies operating in e-commerce and retail with consumer brands. These guidelines must, therefore, allow senior executives to be offered a competitive package of remuneration. At the same time, Nelly Group's remuneration system must be compatible with and promote sound, effective risk management and discourage excessive risk-taking.

Remuneration of the senior executives in Nelly Group must, in both the short and long terms, reflect the individual's performance and responsibilities and the earnings of Nelly Group and its subsidiaries and must also align the interests and rewards of senior executives with those of the shareholders. Consequently, the senior executives must be remunerated according to the principle of reward for performance.

The Board considers that the option of variable remuneration and participation in any long-term incentive plans, plus carefully balanced fixed remuneration, create the conditions for Nelly Group to be a competitive employer, while the design of and conditions for the variable remuneration promote responsible, sound risk-taking and the company's growth strategy, long-term interests and sustainability.

Types of remuneration

The remuneration must be market-based and may consist of the following components:

– fixed cash salary,
– variable cash remuneration,
– the option to participate in long-term (i) share/share price-related incentive plans adopted by the annual general meeting and/or (ii) cash-based incentive plans,
– pension benefits, and
– other customary benefits.

Fixed cash salary

Senior executives' fixed cash salaries are revised each year. They must be competitive and based on the individual's skills, responsibilities and performance.

Variable cash remuneration

Senior executives' cash variable remuneration must be based on performance in meeting established targets for growth and value creation for their areas of responsibility and for Nelly Group. The outcome must be linked to measurable targets (qualitative, quantitative, general and individual) that are measured during one year. The targets within the senior executives' respective areas of responsibility are intended to promote Nelly Group's performance in both the short and long terms and thus promote Nelly Group's business strategy and long-term interests, including the company's sustainability. The variable cash remuneration may not exceed 100 percent of the senior executive's fixed annual salary.

Additional cash variable remuneration may be paid in extraordinary circumstances, provided that such extraordinary arrangements are only made at individual level either to recruit or retain an executive or as remuneration for extraordinary performance above and beyond the person's ordinary duties. Such remuneration may not exceed an amount equivalent to 100 percent of fixed annual cash salary. Any decision on such remuneration must be made by the Board of Directors following a proposal by the remuneration committee.

The Board must also consider deciding that part of senior executives' variable cash remuneration must be invested in shares or share-related instruments in Nelly Group.

Long-term share-related and cash-based incentive plans

The senior executives may be offered incentive plans which must, in general, be share/share price-related and are, therefore, not subject to these guidelines but may also be cash-based. Long-term share/share price-based incentive plans must be designed to ensure the participants' long-term commitment to value growth in Nelly Group and align the interests of the senior executives with those of the shareholders.

Establishment of criteria for payment of cash variable remuneration and long-term cash-based incentive plans and the right to demand repayment of such remuneration in certain cases

When the measurement period for meeting criteria for payment of variable cash remuneration and long-term cash-based incentive plans has ended, it is necessary to decide/establish the extent to which the criteria have been met. The remuneration committee is responsible for such assessment. Where financial criteria are concerned, the assessment must be based on the financial information most recently published by Nelly Group. The remuneration committee must, in its assessment, ensure that the remuneration is linked to Nelly Group's earnings. When determining the remuneration, the remuneration committee must also take relevant circumstances into account in relation to the environment, social conditions, corporate governance and anti-corruption (ESG criteria).

To ensure that performances on which the remuneration has been based are sustainable over time, Nelly Group must be entitled, by law or contract, with the restrictions that may be stipulated by law or contract, to demand repayment of all or part of remuneration other than fixed cash salary, pension and other customary benefits that has been paid incorrectly as a result of information that turns out to be obviously incorrect (claw-back).

Pension and other customary benefits

Pension commitments are defined contribution and secured through premiums paid to insurance companies. The amount of pension premiums is specified by Nelly Group's pension plan and must generally correspond to the provision levels applicable under the ITP 1 plan with the resulting restrictions in relation to fixed annual salary. No provisions are made for salary components in excess of 60 income base amounts calculated on an annual basis. Variable cash remuneration must generally not be pensionable. The retirement age is normally 65.

Other benefits should be customary and contribute to facilitating the executives' ability to perform their duties, for example, company car, occupational health services and medical expense insurance. The total of such benefits may not exceed 30 percent of the fixed annual cash salary.

Notice of termination and severance pay

On termination of employment, the notice period may not exceed twelve months. The total of fixed cash salary during the notice period and severance pay may not exceed an amount equivalent to the fixed cash salary for eighteen months for the CEO and twelve months for other senior executives. On termination by the employee, the notice period may not exceed six months and the employee is not entitled to severance pay.

Salary and terms of employment for employees

The salary and terms of employment of Nelly Group's employees were taken into consideration in the preparation of the Board's proposal for these remuneration guidelines. The guidelines do not deviate from the remuneration systems that are generally applied in Nelly Group to other employees. The remuneration, types of remuneration and development of salary of the senior executives are deemed to be in accord with salaries and terms of employment of other employees in Nelly Group in other respects as well. The development of the gap between remuneration of senior executives and remuneration of other employees will be reported in future remuneration reports.

Remuneration of Board members

Members of the Board of Directors of the parent company, who are appointed at the annual general meeting, may, in special cases, receive remuneration for services performed within their respective specialist areas that fall outside their ordinary Board duties for the parent company. Remuneration for such services must be market-based and approved by the Board.

Decision-making process

The Board has established a remuneration committee. The duties of the committee include preparing the Board's decisions on proposals for guidelines for remuneration of senior executives. At least every four years, the Board must submit a proposal for guidelines for remuneration of senior executives to the annual general meeting for resolution. The guidelines must apply until new guidelines have been adopted by the annual general meeting.

The remuneration committee must also monitor and assess plans for variable remuneration of the executive management, the application of these guidelines for remuneration of senior executives and the remuneration structures and levels of remuneration in the company.

The members of the remuneration committee are independent of the company and the executive management. Senior executives do not take part in the Board's discussions and decisions on issues related to remuneration where the issues affect them personally.

Deviations from the guidelines

Where the Board finds that there are particular reasons in a particular case and to safeguard the company's long-term interests, including its sustainability, or to safeguard the company's financial position, the Board is entitled to deviate from the guidelines. If the Board deviates from the guidelines, it must report the reasons for this at the following AGM. See Note 22 for more information.

Share-based long-term incentive plans

Nelly Group has three outstanding share-based long-term incentive plans that were adopted at the AGMs in 2018 and 2019 and at the extraordinary general meeting in December 2020. See Note 22 for more information.

Evaluation of the guidelines and auditor's opinion on whether the guidelines have been complied with

In accordance with the Code, the Board's remuneration committee follows and evaluates the application of the AGM's guidelines for remuneration of executives. In accordance with Chapter 8, Section 54, of the Swedish Companies Act, the company's auditor has provided an opinion on whether the guidelines for remuneration of senior executives in force in 2021 were adhered to. The remuneration committee's evaluation and the auditor's review have concluded that in 2021 Nelly Group followed the guidelines adopted by the AGM. The opinion and the Board of Directors' report on the outcome of the remuneration committee's evaluation are available on the company's website at www.nellygroup.com, and at company headquarters at Lundbygatan 1, 506 30 Borås, Sweden and are sent to the shareholders who request them, stating their mailing or email address.

Internal control of financial reporting etc.

The processes for internal control, risk assessment, control activities and monitoring regarding financial reporting are designed to ensure reliable overall and external financial reporting in accordance with International Financial Reporting Standards (IFRS), applicable laws, regulations and other requirements for listed companies on Nasdaq Stockholm. This work involves the Board, executive management and other staff.

Control environment

In addition to the Board's rules of procedure and instructions to the CEO, Board committees and the boards of the subsidiaries, there is a clear division of roles and responsibilities for effective management of operational risks. The Board also has several established basic guidelines that are important to its work with internal control activities. This includes control and monitoring of results as compared with plans and prior years.

The audit committee assists the Board in overseeing various issues such as internal audit and accounting policies applied by the Group.

The responsibility for maintaining an effective control environment with risk assessment of ongoing activities and internal control over financial reporting is delegated to the CEO. The boards of the subsidiaries and managers at different levels in the Group have this responsibility in their areas of responsibility. Executive managers regularly report to the Board according to established procedures and in addition to the audit committee's reports. The control environment is made up of defined responsibilities and authority, instructions, guidelines, manuals and policies, together with laws and regulations. All employees are accountable for compliance with these guidelines.

Risk assessment and control activities

The company has prepared a model for assessing risks in all areas, in which several parameters are identified and measured. These risks are reviewed regularly by the Board and the audit committee and include both the risk of loss of assets as well as irregularities and fraud. Special attention was paid to designing controls for preventing and discovering shortcomings in these areas. There is regular monitoring of important areas such as purchasing, logistics and inventory processes, development and performance of the web platform and IT security.

Information and communication

Guidelines, manuals and the like that are significant for financial reporting are regularly updated and distributed to the employees concerned. There are formal as well as informal information channels to the executive management and Board for employees to transmit information of significance. Guidelines for external communication ensure that the company applies the highest standards for providing accurate information to the financial market.

Monitoring

The Board continuously evaluates the information submitted by company management and the audit committee. The Board receives regular updates between meetings as to the Group's development. The Group's financial position, strategies and investments are discussed at every ordinary Board meeting. The audit committee reviews all quarterly reports prior to publication. The audit committee is also responsible for monitoring internal control activities. This work includes ensuring that action is taken to deal with any deficiencies and to implement proposed measures emerging from the internal and external audits. The external auditors participate in the regular meetings of the audit committee.

During the year, Nelly had independent internal audit functions that are responsible for monitoring and evaluating risk management and internal control activities. Internal auditing was performed by external parties, whose work included scrutinising the application of established guidelines.

Board of Directors

Mathias Pedersen
Chairman of the Board

Swedish, born 1971

Mathias Pedersen has been a Board member since September 2020 and Chairman since December 2020. Mathias is the CFO of Niam AB. Mathias was CFO of Nelly Group from August 2016 to June 2020 and then CEO until November 2020. His position before that was at Kinnevik AB where he was Investment Director. Prior to this, his positions included CFO for East Capital Group, East Capital Explorer and ETAC and share analyst at Investor AB and the Wallenberg foundations.

Mathias Pedersen holds a Master's degree from the Stockholm School of Economics and a PMD in General Management from Harvard Business School.

Chairman of the audit committee and member of the remuneration committee

Independent of the company, company management and major shareholders.

Shareholding (including any related person holding): 23,999 shares

Christoffer Häggblom
Board member

Finnish, born 1981

Christoffer Häggblom has been a Board member since 2017 and was Chairman between May 2018 and December 2020. Christoffer is the founder and managing partner of Rite Ventures and has more than 20 years of experience with technology-focused growth companies, as both entrepreneur and investor.

Christoffer is Vice Chairman of the Board of Verkkokauppa.com (Finland's biggest e-commerce company listed on the Nasdaq Helsinki Main Market), Chairman of the Board of Lemonsoft (a software company listed on the Nasdaq First North Growth Market)) and a Board member of CDON (a leading Nordic online marketplace listed on the Nasdaq First North Growth Market) and Acervo (an investment company focusing on listed shares and bonds).

Christoffer is a graduate in business administration from Hanken School of Economics in Helsinki.

Chairman of the remuneration committee.

Independent of the company and executive management, but not independent of major shareholders.

Shareholdings (including related parties): Rite Ventures holds 4,634,348 ordinary shares

Stina Westerstad
Board member

Swedish, born 1974

Stina Westerstad has been a member of the Board of Nelly Group since December 2020. Stina is CEO of BabyBjörn AB and a Board member of SkinCity. She was previously a Board member of Nelly Group's subsidiary Nelly NLY AB and CEO of Afound. In 1999-2018, she held several senior positions in the H&M Group, most recently as Global Buying Director for H&M.

Stina is a graduate in business administration from Lund University.

Member of the audit committee.

Independent of the company, executive management and major shareholders.
Shareholding (including any related person holding): 1,500 shares.

Josephine Salenstedt
Board member

Swedish, born 1984

Josephine Salenstedt has been a member of the Board of Nelly Group since September 2020. Josephine is a partner in Rite Ventures. She is Chairman of the Board of CDON AB and Söder Sportfiske AB and serves on the boards of companies including Paradox Interactive AB and Doro AB. In the past, she was the Chairman of the Board of Skincity.

Josephine is a graduate in business administration from the Stockholm School of Economics.

Member of the remuneration and audit committees.

Independent of the company and executive management, but not independent of major shareholders.

Shareholding (including any related person holding): Rite Ventures holds 4,634,348 shares

Maj-Louise Pizzelli
Board member

Swedish, born 1963

Maj-Louise Pizzelli has been a member of the Board of Nelly Group since December 2020. Maj-Louise is the founder, CEO and Board member of ATP Atelier (All Tomorrows Parties AB) and HOW Fashion Industry Aktiebolag and Board member of the Swedish Fashion Association. Previous positions include Board member of Nelly Group' subsidiary Nelly NLY AB and Stutterheim Raincoats (2017-2019), Assortment Director of JC / Brothers (2012-2013), Director Axstores Far East of Åhlens AB (2009-2012) and Product Director of Filippa K (1995-2008).

Maj-Louise studied at the Swedish School of Textiles in Borås.

Independent of the company, executive management and major shareholders.

Shareholding (including any related person holding): 0 shares.

The current Board was elected until the end of the next AGM, which will be held on 12 May 2022.

Management

Kristina Lukes
CEO of Nelly

Born 1977

Kristina Lukes took over as CEO of Nelly in April 2020. Kristina has a solid background in business development, marketing, sales, innovation and product development of fast-moving consumer goods, primarily with Unilever and Orkla, where she has held executive positions during the past 15 years. She was also CEO of one of McCann's communication and advertising agencies in Gothenburg. Her most recent position was with Paulig, where she held global responsibility for business development, marketing and innovation of Santa Maria and Risenta.

Kristina is a graduate in business administration from the School of Business, Economics and Law at the University of Gothenburg.

Shareholdings (including related parties): 69,750 shares.

John Afzelius
Chief Financial Officer from 1 April 2021

Born 1978

John Afzelius became CFO of Nelly Group in April 2020. John had been CFO at subsidiary Nelly NLY from August 2019. He was previously at Transtema Group AB, where he was a member of the management team as CFO. Before that, from 2013 to 2016, he was CFO at Thin Film Electronics ASA. The company is listed on the Oslo Stock Exchange. John also worked at Orkla in strategy and M&A and at Nordea Investment Management and Catella Kapitalförvaltning in asset management.

John is a graduate in engineering from KTH and economics from Stockholm University, a chartered financial analyst from CFA Institute and an officer in the naval reserve.

Shareholding (including any related person holding): 30,820 shares.

Maria Segergren
Chief Assortment Officer

Born 1972

Maria Segergren became Chief Assortment Officer (CAO) of Nelly Group's subsidiary Nelly NLY AB in May 2019 and was appointed CAO of Nelly Group in December 2020. Her previous position was at KappAhl, where she had been Assortment and Design Director since September 2016. She was also Global Assortment Manager at & Other Stories. Between 2000 and 2014, she had several senior roles in assortment and purchasing at H&M.

Maria is a graduate in business administration and textiles from the University of Borås.

Shareholding (including any related person holding): 10,600 shares.

Andreas Drougge
Chief Technology Officer

Born 1980

Andreas Drougge became CTO of Nelly Group's subsidiary Nelly NLY AB in August 2020 and was appointed CTO of Nelly Group in December 2020. He was previously a co-founder of the companies Ayo and Suavoo. He has also been CTO of Jetshop, Development Manager at Amazon, Head of IT at Lovefilm, as well as other positions.

Andreas has a BSc and MSc in IT from the University of Jönköping.

Shareholding (including any related person holding): 13,065 shares.

Stefan Svensson
Chief Operations Officer

Born 1980

Stefan Svensson took up his position in August 2021. He has solid experience of logistics in e-commerce and fast-moving consumer products. Since 2015, he has been behind the development of logistics at NetOnNet and head of logistics. He was previously head of logistics and IT at Focus Nordic AB for five years. He also has great experience of development projects in logistics and transport from his time as a logistics consultant at ProFlow AB.

Stefan has Bachelor's and Master's degrees in logistics from the University of Borås.

Shareholding (including any related person holding): 54 shares.

Helena Karlinder-Östlundh
Chief People, Communications & Sustainability Officer

Born 1981

Helena Karlinder-Östlundh took up her post as Chief People, Communications & Sustainability Officer at Nelly in March 2022. Helena has worked on issues relating to human resources and organisational development since 2005, first as a consultant at McKinsey & Company and then in senior positions in retail and the music industry. Her most recent role was as Chief People Officer at MECCA Brands in Australia and she previously also worked in the UK. She already has solid experience of transformation work, both in turnarounds and in hypergrowth companies.

Helena has a Masters of Science in organisational psychology from the London School of Economics and Political Science.

Shareholding (including any related person holding): 0 shares.

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Consolidated income statement

(SEK million)	Note	2021	2020
Net revenue	4, 5	1,428.4	1,394.1
Cost of goods sold	14	-789.6	-781.9
Gross profit		**638.7**	**612.1**
Warehousing and distribution costs		-252.9	-254.0
Marketing costs		-157.7	-131.9
Administrative expenses		-267.9	-277.1
Other operating income	6	2.9	7.7
Other operating expenses	6	-1.8	-2.6
Operating profit or loss		**-38.6**	**-45.9**
Financial income	7	0.0	3.7
Financial expenses	7	-8.6	-5.4
Profit before tax		**-47.2**	**-47.5**
Tax	8	-0.6	-23.5
Profit after tax for continuing operations		**-47.8**	**-71.1**
Profit after tax for discontinued operations	5	**-**	**583.2**
Profit after tax for continuing and discontinued operations		**-47.8**	**512.1**
Attributable to:			
Parent company owners		-47.8	512.1
Profit for the year		**-47.8**	**512.1**
Basic and diluted earnings per share (excluding discontinued operations), SEK	27	-2.65	-4.44
Basic and diluted earnings per share (including discontinued operations), SEK	27	-2.65	31.97

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Consolidated statement of comprehensive income

(SEK million)	Note	2021	2020
Profit for the year		**-47.8**	**512.1**
Other comprehensive income			
Items that have been or can be reclassified to profit or loss			
Translation differences for foreign operations for the year		1.9	-7.1
Other comprehensive income for the year	15	1.9	-7.1
Comprehensive income for the year		**-45.9**	**505.0**
Comprehensive income for the year attributable to:			
Parent company owners		-45.9	505.0
Non-controlling interests		-	-
Comprehensive income for the year		**-45.9**	**505.0**

Consolidated statement of financial position

(SEK million)	Note	2021	2020
ASSETS			
Non-current assets			
Intangible assets	9		
Projects in progress		5.2	1.3
Development expenses		15.7	15.0
Domains		0.2	0.6
Goodwill		39.7	39.7
Total intangible assets		**60.8**	**56.7**
Property, plant and equipment			
Leasehold improvements	10	1.6	0.3
Equipment	10	13.3	3.4
Construction in progress	10	0.3	3.9
Lease assets	20	313.5	39.0
Total property, plant and equipment		**328.7**	**46.6**
Deferred tax asset	8	73.8	74.0
Deposits		6.1	-
Total non-current assets		**469.4**	**177.2**
Current assets			
Inventories	14		
Finished goods and merchandise		168.2	156.3
Advances to suppliers		11.3	10.0
Total inventory		**179.5**	**166.3**
Current receivables			
Accounts receivable	12	28.0	47.3
Other current receivables, non-interest-bearing		3.6	14.8
Prepaid expenses and accrued income	13	21.9	19.5
Total current receivables		**53.5**	**81.5**
Cash and cash equivalents	19		
Cash and bank balances		*197.5*	*230.1*
Total cash and cash equivalents		**197.5**	**230.1**
Total current assets		**430.5**	**477.9**
Total assets		**899.9**	**655.1**

Consolidated statement of financial position, continued

(SEK million)	Note	2021	2020
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders	15		
Share capital		185.0	185.0
Reserves		1,401.3	1,399.4
Retained earnings including profit for the year		-1,381.9	-1,334.5
Total equity attributable to parent company shareholders		**204.4**	**249.8**
Non-current liabilities			
Interest-bearing			
Lease liabilities	20	266.3	19.0
Total non-current interest-bearing liabilities		**266.3**	**19.0**
Non-interest-bearing			
Other provisions	16	-	0.1
Total non-current non-interest-bearing liabilities		-	0.1
Total non-current liabilities		**266.3**	**19.1**
Current liabilities			
Interest-bearing			
Lease liabilities	20	50.1	20.5
Total current interest-bearing liabilities		**50.1**	**20.5**
Non-interest-bearing			
Accounts payable – trade		144.3	143.7
Other liabilities		90.0	69.4
Accrued expenses and deferred income	17	144.8	152.5
Total current non-interest-bearing liabilities		**379.1**	**365.7**
Total current liabilities		**429.2**	**386.2**
Total liabilities		**695.5**	**405.2**
Total equity and liabilities		**899.9**	**655.1**

For information on pledged assets and contingent liabilities, see Note 18.

Consolidated statement of changes in equity

		Equity attributable to parent company shareholders				
(SEK million)	Note 15	Share capital	Other contributed capital	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance, 1 January 2020		**155.0**	**1,232.4**	**0.8**	**-499.6**	**888.5**
Comprehensive income for the year						
Profit for the year					512.1	512.1
Other comprehensive income for the year				-7.1		-7.1
Comprehensive income for the year		**-**	**-**	**-7.1**	**512.1**	**504.9**
New share issue		30.0	173.4			203.4
Distribution of operations					-1,345.0	-1,345.0
Incentive plan					-2.0	-2.0
Closing balance, 31 December 2020		**185.0**	**1,405.8**	**-6.4**	**-1,334.6**	**249.8**
Opening balance, 1 January 2021		**185.0**	**1,405.8**	**-6.4**	**-1,334.6**	**249.8**
Comprehensive income for the year						
Profit for the year					-47.8	-47.8
Other comprehensive income for the year				1.9		1.9
Comprehensive income for the year		**-**	**-**	**1.9**	**-47.8**	**-45.9**
Incentive plan					0.5	0.5
Closing balance, 31 December 2021		**185.0**	**1,405.8**	**-4.5**	**-1,381.9**	**204.4**

2020
A directed new share issue was held in August 2020 for approximately SEK 210 million less transaction costs.

In 2020, Nelly Group distributed all shares in Qliro AB and CDON to ordinary shareholders and listed these companies on the stock exchange. The shares in the companies were distributed in October and November 2020.

In December 2020, the number of shares and votes in Nelly Group decreased from 184,949,730 to 18,494,973. The change in the number of shares and votes was the result of a reverse split of Nelly Group's shares decided by an extraordinary general meeting on 16 December 2020. The reverse split had no impact on Nelly Group's total share capital.

Consolidated statement of cash flows

(SEK million)	Note	2021	2020
Operating activities			
Profit before tax		-47.2	-47.5
Adjustments for items not included in cash flow	24	39.2	3.1
Income tax paid		1.2	-0.8
Cash flow from operating activities before change in operating profit/loss		**-6.8**	**-45.3**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-13.2	79.4
Increase (-)/decrease (+) in other current receivables		28.8	-9.7
Increase (+)/decrease (-) in accounts payable		0.5	15.9
Increase (+)/decrease (-) in other current liabilities		9.4	-16.2
Total cash flow from changes in working capital		**25.4**	**69.5**
Cash flow from operating activities		**18.7**	**24.2**
Investing activities			
Investments in intangible assets		-11.9	-6.1
Investments in property, plant and equipment		-11.2	**-0.1**
Divestment of subsidiaries, net liquidity impact		0.2	-
Cash flow from investing activities		**-22.9**	**-6.2**
Financing activities			
New share issue*		-	203.4
Shareholder contribution, net change**		-	-125.0
Internal loan, net change		-	-50.2
Repayment of lease liability		-23.1	-16.8
Distribution of participations in subsidiaries***		-	84.4
Change in financial assets		-6.1	-
Cash flow from financing activities		**-29.2**	**95.8**
Change in cash and cash equivalents from continuing operations		**-33.4**	**113.8**
Cash flow from discontinued operations	5		
Cash flow from operating activities		-	-343.2
Cash flow from investing activities		-	-74.2
Cash flow from financing activities		-	80.5
Change in cash and cash equivalents from discontinued operations		**-**	**-336.9**
Change in cash and cash equivalents		**-33.4**	**-223.1**
Cash and cash equivalents, start of year		230.1	553.9
Exchange rate difference for cash and cash equivalents		0.8	-0.4
Less cash from discontinued operations	**5**	**-**	**-100.2**
Cash and cash equivalents, end of year		**197.5**	**230.1**

*) 2020 A directed new share issue for approximately SEK 210 million less transaction costs.
**) Investment of SEK 125 million in Qliro AB through unconditional shareholder contribution.
***) Additional dividend from previously wholly owned subsidiary CDON of SEK 84.4 million.
The Group also repaid a loan of SEK 50.2 million to CDON before distribution of participations in subsidiaries.

Income statement – parent company

(SEK million)	Note	2021	2020
Net sales		1.6	2.7
Gross profit		**1.6**	**2.7**
Administrative expenses		-13.4	-37.3
Operating profit		**-11.8**	**-34.6**
Profit from shares in subsidiaries		-0.1	40.6
Interest income and similar items		-	1.9
Interest expenses and similar items		0.0	-2.9
Profit after financial items	7	**-11.9**	**5.0**
Group contributions paid		-30.0	-12.0
Profit before tax		**-41.9**	**-7.0**
Tax	8	-	-23.0
Profit for the year		**-41.9**	**-30.0**

Statement of comprehensive income – parent company

(SEK million)	Note	2021	2020
Profit for the year		**-41.9**	**-30.0**
Other comprehensive income			
Items that have been or can be reclassified to profit or loss		-	-
Other comprehensive income for the year		**-**	**-**
Comprehensive income for the year		**-41.9**	**-30.0**

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Balance sheet – parent company

(SEK million)	Note	2021	2020
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	11	253.1	253.4
Deferred tax asset	8	71.7	71.7
Total financial assets		**324.8**	**325.1**
Total non-current assets		**324.8**	**325.1**
Current assets			
Current receivables			
Other receivables		0.9	3.4
Prepaid expenses and accrued income	13	-1.4	1.5
Total current receivables		**2.3**	**5.0**
Cash and bank balances	19	4.7	31.6
Total cash and cash equivalents		**4.7**	**31.6**
Total current assets		**7.0**	**36.5**
Total assets		**331.8**	**361.6**

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Balance sheet – parent company, continued

(SEK million)	Note	2021	2020
EQUITY AND LIABILITIES			
Equity	15		
Restricted equity			
Share capital		184.9	184.9
Statutory reserve		0.8	0.8
Total restricted equity		**185.7**	**185.7**
Unrestricted equity			
Share premium reserve		1,405.0	1,405.0
Accumulated profit or loss		-1,248.7	-1,219.2
Profit for the year		-41.9	-30.0
Total non-restricted equity		**114.4**	**155.8**
Total equity		**300.1**	**341.6**
Provisions			
Other provisions	16	-	0.1
Total provisions		**-**	**0.1**
Current liabilities			
Accounts payable – trade		0.1	0.8
Liabilities to Group companies		29.5	13.6
Other liabilities		0.2	0.9
Accrued expenses and deferred income	17	1.9	4.8
Total current liabilities		31.7	20.0
Total liabilities		**31.7**	**20.0**
Total equity and liabilities		**331.8**	**361.6**

For information on pledged assets and contingent liabilities for the parent company, see Note 18.

Statement of changes in equity – parent company

(SEK million)	Note 15	Restricted equity: Share capital	Restricted equity: Statutory reserve	Unrestricted equity: Share premium reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Profit for the year	Total equity
Opening balance, 1 January 2020		**155.0**	**0.8**	**1,231.5**	**-196.7**	**-81.6**	**1,109.0**
Comprehensive income for the year							
Profit for the year						-30.0	-30.0
Comprehensive income for the year		-	-	-	-	-30.0	**-30.0**
Appropriation of profits					-81.6	81.6	-
New share issue		30.0		173.4			203.4
Distribution of participations in subsidiaries					-938.8		-938.8
Incentive plan					-2.0		-2.0
Closing balance, 31 December 2020		**185.0**	**0.8**	**1,404.9**	**-1,219.1**	**-30.0**	**341.6**
Opening balance, 1 January 2021		**185.0**	**0.8**	**1,404.9**	**-1,219.1**	**-30.0**	**341.6**
Comprehensive income for the year							
Profit for the year						-41.9	-41.9
Comprehensive income for the year		**-**	**-**	**-**	**-**	**-41.9**	**-41.9**
Appropriation of profits					-30.0	30.0	-
Incentive plan					0.4		0.4
Closing balance, 31 December 2021		**185.0**	**0.8**	**1,404.9**	**-1,248.7**	**-41.9**	**300.1**

A directed new share issue was held in August 2020 for approximately SEK 210 million less transaction costs. In 2020, Nelly Group distributed all shares in Qliro AB and CDON to ordinary shareholders and listed these companies on the stock exchange. The shares in the companies were distributed in October and November 2020. In December 2020, the number of shares and votes in Nelly Group also decreased from 184,949,730 to 18,494,973. The change in the number of shares and votes was the result of a reverse split of Nelly Group's shares decided by an extraordinary general meeting on 16 December 2020. The reverse split had no impact on Nelly Group's total share capital.

Financial statements

Cash flow statement – parent company

(SEK million)	Note	2021	2020
Cash flow from operations			
Profit after financial items		-11.9	5.0
Adjustments for items not included in cash flow	24	0.6	-76.1
Cash flow from operating activities before change in working capital		**-11.3**	**-71.2**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in other current receivables		2.7	-1.4
Increase (+)/decrease (-) in accounts payable		-0.6	-2.9
Increase (+)/decrease (-) in other current liabilities		-17.9	12.9
Total cash flow from changes in working capital		**-15.8**	**8.6**
Cash flow from operating activities		**-27.1**	**-62.5**
Cash flow from investing activities		**-**	**-**
Financing activities			
Divestment of subsidiaries/operations, net liquidity effect		0.3	-
New share issue	5, 11	-	203.4*
Dividend from subsidiaries		-	84.4**
Shareholder contribution paid out	11	-	-147.0***
Group contributions paid out		-	-9.9
Internal loans, net		-	-45.1**
Cash flow from financing activities		**0.3**	**85.8**
Cash flow for the year		**-26.8**	**23.3**
Cash and cash equivalents, start of year		31.6	8.3
Cash and cash equivalents, end of year		**4.7**	**31.6**

*) Directed new share issue for approximately SEK 210 million less transaction costs.
**) Dividend and repayment of internal loan from previously wholly owned subsidiary CDON.
***) Unconditional shareholder contribution, primarily to previously wholly owned subsidiary Qliro AB.

Notes

Note 1 General information

Nelly Group AB has its registered office in Borås, Sweden. The company's address is c/o Nelly NLY AB, Box 690, SE-501 13 Borås, Sweden. The consolidated income statement and balance sheet as at 31 December 2021 include the parent company and its subsidiaries. Nelly Group is a limited company listed on the Nasdaq Stockholm exchange under the ticker symbol 'NELLY'.

This annual report was approved for publication by the Board and CEO on 12 April 2022.

Note 2 Accounting policies and valuation principles

2.1 The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), as adopted by the EU. The Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Regulations for Groups was also applied when preparing the consolidated financial statements.

The parent company applies the same accounting policies as the Group, except where otherwise stated below in the parent company accounting policies section.
The parent company's functional currency is the Swedish krona, which is also the reporting currency for the parent company and the Group. The financial statements are, therefore, presented in Swedish krona. All amounts are rounded off to the nearest million, unless otherwise specified.

The accounting policies specified below, with their detailed exceptions described below, were applied consistently to all periods presented in the consolidated financial statements.

2.1.1. Information on IFRS standards or interpretations that came into effect in 2021
The IFRS standards effective as of 2021 had no impact on the consolidated financial statements.

2.1.2 Information on IFRS standards or interpretations that have not yet come into effect
No changes in IFRS with future application are expected to have any significant effect on the consolidated accounting. IASB has not published any new standards that have been adopted by the EU for application as of 1 January 2021.

2.2 Classification
Non-current assets and non-current liabilities are essentially expected to be recovered or paid 12 months or more after the end of the reporting period. Current assets and current liabilities essentially comprise amounts expected to be recovered or paid within 12 months of the end of the reporting period.

2.3 Operating segment reporting
An operating segment is a Group entity that engages in activities that may generate income and incur expenses, and for which separate financial information is available. An operating segment's earnings are regularly reviewed by the company's chief operating decision maker to assess performance and allocate resources to the operating segment. See Note 4 for further information on the division and presentation of operating segments.

2.4 Consolidation principles and business combinations
Subsidiaries
Subsidiaries are companies over which Nelly Group AB has a controlling interest. Controlling interest means, directly or indirectly, the right to formulate a company's financial and operational strategies with the aim of receiving economic benefits. When assessing whether there is a controlling interest, potential voting shares that can be used or converted immediately are considered.

Acquisitions
Subsidiaries are recognised using the acquisition method. With this method, acquisition of a subsidiary is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis establishes the fair value of acquired identifiable assets and assumed liabilities on the acquisition date, as well as any non-controlling interest. Transaction expenses, except for those transaction expenses attributable to issued equity or debt instruments, are recognised directly in profit/loss for the year.

In business combinations in which the transferred payment, any non-controlling interest, and fair value of previously held interest (for step acquisitions) exceeds the fair value of acquired assets and assumed liabilities that are recognized separately, the difference is recognised as goodwill. When the difference is negative, it is recognised directly in profit/loss for the year.

Compensation transferred in connection with the acquisition does not include payments for the settlement of past business relationships. This type of settlement is recognised in profit/loss.
Contingent considerations are recognised at fair value on the date of acquisition. In cases where contingent considerations are presented as equity instruments, no revaluation is done, and adjustments are made in equity. Other contingent considerations are revalued at each reporting date and the change is recognised in profit/loss for the year.
Non-controlling interest arises in cases where the acquisition does not include 100% of the subsidiary. There are two options for recognising non-controlling interest: (1) recognize the non-controlling interest's share of proportional net assets, or (2) recognise non-controlling interest at fair value, which means that non-controlling interest is part of goodwill. Choosing between the two options for recognising non-controlling interest can be done individually for each acquisition.

For step acquisitions, goodwill is determined on the date control is taken. Previous holdings are assessed at fair value and changes in value are recognised in profit/loss for the year.

Disposals leading to loss of controlling interest but where holdings are retained are assessed at fair value and the change in value is recognised in profit/loss for the year.

Acquisition of non-controlling interest
Acquisitions of non-controlling interest are recognised as a transaction in equity, that is, between the parent company's owners (in retained earnings) and the non-controlling interest. Therefore, no goodwill arises in these transactions. The change in non-controlling interest is based on its proportional share of net assets.

Note 2, continued

Transactions eliminated at consolidation
Intra-group receivables and liabilities, income or expenses, and unrealised gains or losses that arise from intra-group transactions between Group companies are eliminated in the preparation of the consolidated accounts.

2.5 Foreign currency
2.5.1 Foreign currency transactions
Foreign currency transactions are translated into the functional currency at the exchange rate that applied on the transaction date. The functional currency is the currency used in the primary economic environments in which the companies operate. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate applicable at the end of the reporting period. Non-monetary assets and liabilities are translated at the exchange rate applicable when the asset or liability was first recognised. Exchange differences arising from the translations are recognised in profit/loss for the year.

2.5.2 Financial statements of foreign operations
Assets and liabilities in foreign operations, including goodwill and other consolidated surpluses and deficits, are translated from the functional currency of the foreign operation to the Group's reporting currency, the Swedish krona, at the exchange rate applicable at the end of the reporting period. Income and expenses in foreign operations are translated to the Swedish krona at an average rate that approximates the exchange rates on the respective transaction date. Translation differences that arise from currency translation of foreign operations are otherwise recognised in comprehensive income and are accumulated in a separate component of equity called the translation reserve. If the foreign operation is not wholly owned, the translation difference is allocated to non-controlling interest based on its proportional participating interest. When divesting foreign operations, they are realised in the operation for accumulated translation differences, where they are reclassified from the translation reserve in equity to profit/loss for the year. In cases where divestment occurs but controlling interest is retained, the proportional share of cumulative translation differences is transferred from other comprehensive income to non-controlling interest.

2.6 Revenue
2.6.1 Sale of goods and rendering of services
Revenue from the sale of goods is recognised in accordance with the terms of sale, that is, when the goods are submitted to the transport agent, net of returns. Since most sales are made to consumers who, depending on the country, most often have a legal right to return goods in connection with distance selling, the deduction for returns is a relatively significant item. Consolidated revenue reflects seasonal variations. Fourth-quarter revenue significantly exceeds the other quarters due to major e-commerce days and Christmas shopping.
Revenue from the sale of services is recognised when services are delivered.

2.6.2 Bartering
Bartering refers to the exchange of gift vouchers for other goods or services. Bartering is recognised at the fair value of the goods or services. The fair value is determined from existing contracts for the same type of services with other customers. Revenue from bartering is recognised when the gift voucher is redeemed, and expenses are booked at the same time.

2.7 Leasing
In the recognition of leases, the asset is recognised as property, plant and equipment in the consolidated statement of financial position and measured initially at cost, which consists of the initial value of the lease liability plus lease payments paid on or before the start date plus any initial direct expenses.
The lease liability, which is divided into a non-current part and a current part, is measured initially at the present value of outstanding lease payments during the estimated lease term. The lease liability comprises the present value of the following payments during the estimated lease term:

- Fixed payments
- Variable lease payments linked to an index or price (rate)
- Any residual value guarantees that are expected to be paid

The value of the debt increases by the interest expense for each period and decreases by the lease payments. The interest expense is calculated as the value of the debt multiplied by the discount rate. The lease liability for the Group's premises with index-linked rent is calculated on the rent payable at the end of each reporting period. At this time, the debt is adjusted by the corresponding adjustment of the carrying amount of the right of use asset.

The lease payments are discounted by the Group's marginal borrowing rate. However, where implicit interest can easily be established, that rate is used, and this is the case for some of the Group's vehicle leases.

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities as separate items in the statement of financial position. No right-of-use asset or lease liability is recognised for leases that have a term of 12 months or less or an underlying asset of low value, under SEK 50 000. Lease payments for these leases are recognised as an expense in a straight line over the lease term. For more information about the Group's leases, see note 20.

2.8 Financial income and expenses
Financial income comprises interest income on invested funds. Financial expenses comprise interest expenses on loans. Borrowing costs are recognised in profit/loss using the effective interest method.
Exchange gains and exchange losses are recognised net, with operating-related in operating profit/loss and finance-related with financial items.
Effective interest is the interest that discounts estimated future payments and disbursements during a financial instrument's expected term at the financial asset's or liability's recognised net value. The calculation includes all fees paid or received by the parties to the contract, transaction costs and all other surplus and deficit values.

2.9 Taxes

Note 2, continued

Income taxes comprise current and deferred tax. Income taxes are recognised in profit/loss for the year, except when the underlying transaction is recognised in other comprehensive income or equity, in which case the related tax effect is recognised in other comprehensive income or equity.

Current tax is tax that is payable or receivable for the current year, according to the tax rates enacted or for all practical purposes enacted at the end of the reporting period. Current tax also includes adjustment of current tax attributable to previous periods.

Deferred tax is calculated using the balance sheet method, based on temporary differences between the carrying amounts and tax bases of assets and liabilities. Temporary differences are not considered in consolidated goodwill or for differences that arise in initial recognition of assets and liabilities that are not business combinations, which at the time of the transaction affect neither recognised nor taxable earnings.

Also not considered are temporary differences that are attributable to interests in subsidiaries that are not expected to be reversed within the foreseeable future. Measurement of deferred tax is based on how underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated using the tax rates and regulations enacted or for all practical purposes enacted at the end of the reporting period.

Deferred tax assets related to deductible temporary differences and loss carry-forwards are only recognised if it is deemed probable that they can be used. The value of deferred tax assets is reduced when their use is no longer deemed probable.
Any additional income tax that arises in conjunction with dividends is recognised as a liability when the dividend is recognised.

2.10 Financial instruments
Financial instruments recognised in the statement of financial position include cash and cash equivalents, loans receivable, and accounts receivable among the assets and accounts payable and loans payable among the liabilities.

2.10.1 Recognition in and derecognition from the statement of financial position
A financial asset or financial liability is recognised in the statement of financial position when the company becomes party to the contractual provisions of the instrument. A receivable is carried when the company has rendered a service or supplied a product and there is a contractual obligation on the counterparty to pay, even if an invoice has not yet been sent. Accounts receivable are carried in the statement of financial position when an invoice is sent. Liabilities are carried when the counterparty has rendered a service or supplied a product and there is a contractual obligation to pay, even if an invoice has not yet been received. Accounts payable are carried when an invoice is received.
Financial assets are removed from the statement of financial position when the entitlements of agreements are realised, fall due or the company loses control of them. The same applies to part of a financial asset. Financial liabilities are removed from the statement of financial position when contractual obligations are fulfilled or are otherwise extinguished. The same applies to part of a financial liability.

In some cases, the Group sells receivables to external factoring companies. Normally, a full transfer of credit risk occurs, which means that all significant risks and rewards are transferred to the external party. The sold receivables are then derecognised from the statement of financial position. The difference between the carrying amount of the sold receivable and the price paid for the receivable by the factoring company is recognised in the income statement.

Financial assets and financial liabilities are offset and recognised at the net amount in the statement of financial position only when there is a legal offset right for the amounts and the intention is to (1) settle the items at a net amount, or (2) realise the asset and settle the liability simultaneously.

Acquisitions and disposals of financial assets are recognised on the settlement date, which is the date the asset is delivered to or from the company.

2.10.2 Classification and measurement
Financial instruments that are not derivatives are initially recognised at cost corresponding to the fair value of the instrument, plus transaction costs for all financial instruments apart from those in the category of financial assets at fair value through profit or loss; these are recognised at fair value excluding transaction costs. A financial instrument is classified at initial recognition based in part on the purpose for which it is acquired. The classification determines how the financial instrument is valued after initial recognition, as described below.
Cash and cash equivalents consist of cash resources.

2.10.3 Loans receivable and accounts receivable
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are valued at amortised cost, which is determined based on the effective rate as calculated at acquisition. Accounts receivable are recognised at the amounts expected to be received, that is, less bad debts.
2.10.4 Financial liabilities
This category contains loans and other financial liabilities, such as accounts payable. Liabilities are valued at amortised cost.

Consolidated financial assets and liabilities are allocated to the categories described in Note 19 Financial instruments and financial risk management. Recognition of financial income and expenses is also described in section 2.8 above.

2.11 Property, plant and equipment
Property, plant and equipment are recognised in the consolidated accounts at cost, less accumulated depreciation and any impairment losses. Cost includes the purchase price and expenses directly attributable to ensuring the asset is in place and in the right condition to be used as intended. Borrowing costs that are directly attributable to the purchase, construction, or production of assets that require a substantial

Note 2, continued

amount of time to ready for their intended use or sale are included in the cost.

The carrying amount of an item of property, plant or equipment is derecognised from the statement of financial position upon retirement or sale or when no future economic benefits are expected from the asset's retirement/sale. Gains or losses that arise from an asset's retirement or sale comprise the difference between the selling price and the carrying amount, less direct selling expenses. Gain and loss are recognised as other operating income/expense.

2.11.1 Depreciation principles for property, plant and equipment

Depreciation occurs on a straight-line basis over the estimated useful life of the asset. Depreciation methods, residual values and useful lives are reassessed at each year-end.

Estimated useful lives:

Equipment 3-5 years

2.12 Intangible assets
2.12.1 Intangible assets with indefinite useful lives
2.12.1.1 Goodwill
Goodwill arising in connection with a business combination is the difference between the cost of the business acquisition and the fair value of identifiable net assets, assumed liabilities and recognised contingent liabilities.
Goodwill is valued at cost, less any accumulated impairment losses. Goodwill is divided between the cash-generating units and tested at least once a year for impairment, or when there is an indication of a need for impairment. Impairment of goodwill is not reversed. For more information about impairment, see accounting policy 2.14.

2.12.1.2 Trademarks
Trademarks are carried at cost, less any accumulated impairment losses. Trademarks are allocated to cash-generating units and are tested at least once a year for impairment. For more information about impairment, see accounting policy 2.14.
2.12.2 Intangible assets with defined useful lives
2.12.2.1 Development expenses
Development expenses for creating new or improved products or processes are recognised as assets in the statement of financial position if the product or process is technically and commercially viable and the Group has the resources to complete the development. The carrying amount includes direct costs and, where applicable, expenses for salaries and share of indirect expenses. Other expenses are recognised in the income statement as expenses when they arise. In the statement of financial position, capitalised development expenses are carried at cost, less accumulated amortisation and any impairment losses. Capitalized expenses refer mainly to software and software platforms.

2.12.2.2 Domains
Domains are recognised at cost less accumulated amortisation (see below) and impairment loss (see accounting policy 2.14).

2.12.2.3 Customer relationships
Customer relationships are recognised at cost less accumulated amortisation (see below) and impairment loss (see accounting policy 2.14).

2.12.3 Amortisation method for intangible assets
Amortisations are recognised in profit for the year on a straight-line basis over the estimated useful life of the intangible asset, provided such useful life is indefinite. Useful lives are reassessed at least once a year. Goodwill and trademarks with indefinite useful lives are tested for impairment annually and when there are indications that the asset has lost value. Intangible assets with determinable useful lives are amortised from the date on which they become available for use.

Estimated useful lives:

Development expenditure 3–5 years
Domains 5 years
Customer relationships 4–5 years

2.13 Inventories
Inventories are valued according to the lowest value principle, which means the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and sale. The cost of inventory is based on weighted averages and includes expenses incurred in the acquisition of goods and bringing the goods to their present state and location.

2.14 Impairment losses
The Group's recognised assets are assessed at the end of every reporting period to determine whether indications of impairment exist. IAS 36 is applied to impairment of assets other than financial assets, which are recognised as per IFRS 9.
2.14.1 Impairment of property, plant and equipment and intangible assets
The recoverable amount of the asset is calculated if there is indication of impairment (see below). The recoverable amount is also calculated annually for goodwill, trademarks and intangible assets that are not yet ready for use.
If substantially independent cash flows to an individual asset cannot be established, and if the asset's fair value less selling expenses cannot be used, then assets are grouped in impairment testing at the lowest level at which substantially independent cash flows can be identified – this grouping is called a cash-generating unit (CGU).
An impairment charge is recognized when the carrying amount of an asset or CGU (group of units) exceeds the recoverable amount. Impairment loss is recognised in profit for the year as an expense.

When a need for impairment has been identified for a cash-generating unit (group of units), the impairment amount is initially allocated to goodwill and, if the difference is higher than the goodwill amount, it is allocated proportionally to other assets in the unit (group of units).

Note 2, continued

The recoverable amount is the higher of fair value less selling expenses and value in use. When calculating value in use, future cash flows are discounted using a discount rate that accounts for risk-free interest and the risk associated with the specific asset.

2.14.2 Presentation of credit losses
For financial assets measured at amortised cost, provisions for credit losses are presented in the balance sheet as a reduction in the recognised gross value of the asset to obtain the recognised net value.
Changes in provisions for credit losses and write-offs are presented in the income statement as credit losses. Repayments of write-offs and recoveries of provisions are recognised as income in credit losses.

2.14.3 Reversal of impairment losses
Impairment losses on assets included in the scope of IAS 36 are reversed if there is (1) an indication that impairment has ceased and (2) a change in the assumptions that formed the basis of calculating the recoverable amount. Impairment losses on goodwill are never reversed. A reversal only occurs to the extent that the asset's carrying amount (after reversal) does not exceed the carrying amount that would have been recognised (less depreciation or amortisation, where applicable), had no impairment loss been recognised.
Impairment losses on loans and accounts receivables recognised at amortised cost are reversed if the previous reasons for impairment no longer exist and full payment from the customer is expected to be received.

2.15 Capital payments to shareholders
2.15.1 Dividends
Dividends are recognised as a liability after approval at the AGM.

2.15.2 Purchase of treasury shares
Acquisition of treasury shares is recognised as a deductible item from equity. Payment from divestment of such equity instruments is recognised as an increase in equity. Transaction expenses are recognised immediately in equity.

2.16 Earnings per share
The calculation of earnings per share is based on consolidated profit/loss for the year attributable to the parent company's shareholders and the weighted average number of shares outstanding during the year. In calculating diluted earnings per share, earnings and the average number of shares are adjusted to account for effects of diluted potential ordinary shares. For the reported periods, the parent company had one class of instrument that may generate potential dilution in the future: custodial C shares attributable to the Group incentive plan. These have not been included in the calculation of earnings per share since they contributed no dilutive effect in either 2021 or 2020.

2.17 Employee benefits
2.17.1 Short-term employee benefits
Short-term employee benefits are calculated without discounting and are recognised as a cost when the related services are rendered.

A provision is recognised for the expected cost of bonus payments when the Group has an applicable legal or constructive obligation to make such payments due to services being rendered by employees, and the commitment can be reliably calculated.

2.17.2 Defined contribution pension plans
Defined contribution plans are plans wherein the company's obligation is limited to the contributions the company has undertaken to pay. In such cases the size of the employee's pension depends on the contributions the company pays to the plan or to an insurance company and the contributions' return on capital. The employee thus bears the actuarial risk (that the remuneration will be lower than expected) and the investment risk (that the invested assets will not suffice to pay out the expected remuneration). The company's obligations for contributions to defined contribution plans are recognized as an expense in profit/loss for the year at the rate earned by the employee performing services for the company over a period.

2.17.3 Termination benefits
An expense for remuneration paid on termination of employment is only recognised if the company is demonstrably committed – without realistic option of withdrawal – to a detailed formal plan to terminate an employment contract before the normal end date. If benefits are offered to encourage voluntary redundancy, an expense is recognised if it is probable that the offer will be accepted and that the number of employees who will accept the offer can be reliably estimated.

2.17.4 Share-based remuneration
The Group has long-term performance share plans directed to certain employees that consist of share rights. The fair value of the plans is measured as of the grant date. The fair value includes social security contributions and is distributed over the vesting period, based on the Group's estimate of the number of share rights that will eventually be redeemed. The fair value expense is reported in the income statement as employee benefit expenses including the corresponding equity increase. Fair value is revalued each month for social security contributions and is adjusted in future periods to eventually reflect the number of share rights that will be redeemed. See Note 22.

The Group also had synthetic call option plans directed at employees of the former subsidiary Qliro AB. The plans gave employees the right to acquire the synthetic call options from the parent company (Nelly Group AB) at market prices. The market value of the options was calculated by an independent valuation institute, applying a standard model for the valuation of options (Black-Scholes). The change in value of the options is linked to the long-term change in value of Qliro AB. Participants in the synthetic call option plans were able to exercise their options three years after the options were issued or if Nelly Group divested Qliro AB. One (1) synthetic call option gives the holder the right to receive an amount from Nelly Group calculated based on the change in value of Qliro AB, provided that the established value of Qliro AB at exercise of the option is at least 152 percent of the established value when the option was issued (exercise

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Note 2, continued

price). Payment of this amount to participants will be made, in accordance with the terms of the synthetic call options, as a rule through the parent company Nelly Group AB's transference of its own ordinary shares to the participants. Because the plan was aimed at employees and the payment is made with shares in the parent company, it is recognised as an equity compensation benefit. Payment from the employees is recognised as an increase in equity.

On 28 September 2020, the Board of Nelly Group decided to distribute all shares in Qliro AB. In connection with this, the value of Qliro AB was established. At exercise, it was not at least 152 percent of the established value of Qliro AB at the time of issue of the option. Premiums paid previously by employees are recognised as financial income and a reduction in equity.

2.18 Provisions
A provision differs from other liabilities because of prevailing uncertainty about payment date or the amount required to settle the provision. A provision is recognised in the statement of financial position when there is an existing legal or informal obligation due to a past event, and it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated. The amount allocated to a provision is the best estimate of what is required to settle the existing obligation on the reporting date. When the payment date has a material impact, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects (1) current market estimates of the time value of money and (2) where applicable, the risks associated with the liability.

2.19 Discontinued operations
A discontinued operation is a component of a company's operations that represents an independent business or a significant business within a geographical area or is a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs upon divestment or at an earlier date when the business meets the criteria for classification as held for sale.

Profit/loss after tax from discontinued operations is recognized on a separate line in the income statement and statement of other comprehensive income. When operations are classified as discontinued, the design of the comparative year's income statement and statement of other comprehensive income is changed so that recognition is as if the discontinued operations had been sold off at the start of the comparative year. The design of the statement of financial position for the current and previous year is not changed in the same way.

2.20 Contingent liabilities
A contingent liability is recognised when there is a possible obligation from past events, and the occurrence of the obligation is only confirmed by one or more uncertain future events, or when there is an obligation that is not recognised as a liability or provision since it is not probable that an outflow of resources will be required.

2.21 Parent company accounting policies
The parent company prepared its annual accounts as per the Swedish Annual Accounts Act (1995:1554) and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. The Swedish Financial Reporting Board's statement on listed companies is also applied. RFR 2 means that, in the annual report for the legal entity, the parent company must apply all EU-approved IFRS and interpretations as far as possible within the framework of the Annual Accounts Act and the Act on Safeguarding of Pension Commitments, and regarding the connection between accounting and taxation. The recommendation states which exceptions from and additions to IFRS must be applied.

2.21.1 Differences between accounting policies of the Group and parent company
The differences between Group and parent company accounting policies are stated below.

2.21.1.1 Changes to accounting policies
Unless otherwise indicated below, changes to the parent company's accounting policies in 2021 were the same as stated above for the Group.

2.21.1.2 Subsidiaries
The parent company recognises participations in subsidiaries at cost, including transaction costs. Transaction costs are recognised as expenses in the consolidated financial statements when they arise.
Contingent considerations are valued based on the probability that the purchase price will be paid. Any changes to the recognised additional purchase price is added to/deducted from the cost. In the consolidated financial statements, contingent considerations are recognised at fair value and changes in value are recognised in profit when they take place.

2.21.1.3 Group contributions and shareholder contributions for legal entities
The parent company recognises Group contributions received and paid as balance sheet appropriations in accordance with RFR 2. Shareholder contributions are recognised directly in the equity of the recipient and are capitalised in shares and participating interests of the issuer, to the extent impairment is not required.

Note 3 Estimates and assessments

Preparation of the financial statements using IFRS requires that the Board and company management make assessments, estimates and assumptions that affect application of the accounting policies and the recognised amounts of assets, liabilities, income and expenses. These estimates and assumptions are mainly based on historical experience and other factors that are judged to be reasonable taking current conditions into consideration. The actual outcome may differ from these estimates and assessments.
The estimates and assumptions are reviewed regularly. Changes to estimates are recognised in the period when the change is made – if the change only affected that period. If the change affects current and future periods, it is recognised in the period when the change is made and in future

Note 2, continued

periods. The development of, selection of and disclosures regarding the Group's significant accounting policies and estimates and the application of these policies and estimates, are reviewed by Nelly Group's audit committee.

Key sources of uncertainties in estimates
Note 9 contains information about the assumptions and risk factors regarding impairment testing of goodwill and other intangible assets with indefinite useful lives.

Goodwill and other intangible assets
Goodwill and other intangible assets with indefinite useful lives are tested annually for impairment or when evidence demonstrates a need for impairment. The impairment test requires that management determine the fair value of cash-generating units based on projected cash flows and internal business plans and forecasts. Estimates and assessments are shown in Note 9 Intangible assets.

Deferred tax asset
The Group's deferred tax assets are based on loss carry-forwards in the Swedish operations. Management has made assumptions and assessments about the company's future earnings potential and, based on this, the scope for future utilisation of these loss carry-forwards is evaluated.

Inventory valuation
Inventories are evaluated at the close of accounts each month to determine their net realisable value. An impairment loss is recognised in cost of goods sold at the amount by which the net realisable value is lower than cost. If the actual decrease in value differs from estimates or if management make future adjustments to the assumptions, changes in valuation may affect the period's earnings and financial position.

Income - Assessment of return rate
At the close of accounts each month, the provision requirement associated with future returns is assessed. The assessment is carried out based on historic outcome and actual sales. The provision requirement is recognised as a reduction in net sales, with the equivalent adjustment being made to cost of goods sold.

Provisions and contingent liabilities
Liabilities are recognised when there is a present obligation resulting from a past event, when it is probable that an outflow of economic benefits will occur, and a reliable assessment of the amount can be made. In these cases, a calculation of the provision is made and recognised in the statement of financial position. A contingent liability is recognised in the notes when a possible obligation is incurred, but whose existence can only be confirmed by one or more uncertain future events beyond the Group's control, or when it is not possible to calculate the amount. Realisation of contingent liabilities that are not recognised or not included in the annual report can have a material effect on the Group's financial position.
The Group regularly reviews significant outstanding disputes to determine the need for provisions. Among the factors considered in such an assessment are the type of litigation or summons, the amount of any damages, the development of the case, perceptions of legal and other advisers, experience from similar cases and decisions of Group management regarding the Group's actions concerning these disputes. Estimates do not necessarily reflect the outcome of pending litigation and differences between outcome and estimate may significantly affect the company's financial position and have an unfavourable impact on operating profit and liquidity. For additional information, see Note 16 Provisions.

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Note 4 Sales by country and type

The Group's net sales and non-current assets are recognised below by geographical area because the countries have different business conditions. The geographical breakdown into Sweden, rest of the Nordics and rest of the world reflects where income is generated.

Net sales mainly comprises online sales of products. Sales are recognised by country of sale, that is, the country in which the consumer is located. No individual customer represents more than 10 percent of consolidated accounts receivable.

Geographical distribution (SEK million)[1]	Net sales		Non-current assets	
	2021	2020	2021	2020
Sweden	682.2	638.9	469.4	177.2
Other Nordics	657.8	641.2	-	-
Rest of world[2]	88.4	114.0	-	-
Total	**1,428.4**	**1,394.1**	**469.4**	**177.2**

Sales by type of income (SEK million)	2021	2020
Products	1,395.3	1,359.7
Services	33.1	34.3
Total net sales	**1,428.4**	**1,394.1**

[1] In connection with Nelly being an independent fashion company, the segment reporting has been updated to better reflect reality. The figures in the above table have been adjusted historically as a result of this.

[2] Primarily concerns sales in Germany and the Netherlands

Note 5 Discontinued operations

Discontinued operations 2021
No operations were discontinued in 2021.
Discontinued operations 2020
On 28 September, Nelly Group AB's ('Nelly') Board of Directors decided to distribute all shares in the wholly owned subsidiary Qliro AB ('Qliro') to Nelly's ordinary shareholders. Ten (10) ordinary shares in Nelly resulted in one (1) share in Qliro. The first day of trading in Qliro's shares on Nasdaq Stockholm was 2 October at the price of SEK 42.035 per share. The distribution resulted in a non-recurring profit with no effect on cash flow of SEK 154.5 million, which concerns the difference between the market value of Qliro's shares (based on the opening price on the first day of trading) of SEK 755.5 million and the consolidated value of SEK 601.0 million. The capital gain also includes transaction expenses totalling SEK 18.0 million.
On 26 October, Nelly Group AB's ('Nelly')' Board of Directors decided to distribute all shares in the wholly owned subsidiary CDON AB ('CDON') to Nelly's ordinary shareholders. Thirty (30) ordinary shares Nelly resulted in one (1) share in CDON. The first day of trading in CDON's shares on Nasdaq First North Growth Market was 6 November at the price of SEK 99.000 per share. The distribution resulted in a non-recurring profit with no effect on cash flow of SEK 528.8 million, which concerns the difference between the market value of CDON's shares (based on the opening price on the first day of trading) of SEK 593.1 million and the consolidated value of SEK 64.3 million. The capital gain includes no transaction expenses.

Profit from discontinued operations (SEK million)	2021	2020
Income	-	881.3
Expenses	-	–972.6
Profit before tax	**-**	**–91.3**
Tax	-	12.4
Profit or loss after tax but before capital gain on the distribution of discontinued operations	**-**	**–78.9**
Capital gain on the distribution of Qliro AB and CDON[1]	-	662.1
Profit after tax from discontinued operations	**-**	**583.2**
Basic and diluted earnings per share for discontinued operations (SEK)[2]	**-**	**36.41**

Net cash flows from discontinued operations (SEK million)	2021	2020
Cash flow to/from operating activities	-	-343.2
Cash flow to/from investing activities	-	-74.2
Cash flow to/from financing activities	-	80.5
Net cash flow from discontinued operations	**-**	**-336.9**

Effect of distributed operations on individual Group assets and liabilities (SEK million)	31 Dec 2021	31 Dec 2020
Intangible assets	-	-249.1
Property, plant and equipment	-	-17.3
Lease assets	-	-16.6
Deferred tax asset	-	-27.2
Inventories	-	-29.4
Loans to the public	-	-2,200.7
Current investments	-	-375.1
Trade and other receivables	-	-86.9
Cash and cash equivalents	-	-100.5
Loan facility	-	127.7
Deposits from the public	-	1,958.5
Bond	-	100.0
Lease liabilities	-	16.8
Trade and other payables	-	234.4
Net divested assets and liabilities[3]	**-**	**-665.3**
Less: Cash and cash equivalents in divested operations	-	-100.2
Translation difference, cash and cash equivalents	-	-0.3
Effect on cash and cash equivalents	**-**	**-100.5**

1) SEK 18.0 million for the full year of 2020 relating to transaction expenses in connection with the distribution of the shares in Qliro AB and SEK 3.2 million for the full year of 2020 relating to a deduction for consideration in accordance with certain specific provisions in the share transfer agreement in connection with the sale of Health and Sports Nutrition Group HSNG AB

2) Earnings per share are calculated based on adjusted weighted average number of shares, total 16,016,898 for 2020

3) Refers to assets and liabilities distributed for Qliro AB at 30 September 2020 and CDON AB at 31 December 2020

Note 6 Other operating income and expenses

	Group		Parent company	
(SEK million)	2021	2020	2021	2020
Other operating income				
Other operating income	2.4	7.7	1.6	2.7
Exchange gains on operating receivables/liabilities	0.6	-	-	-
Total	**2.9**	**7.7**	**1.6**	**2.7**
Other operating expenses				
Loss on sale of non-current assets	-1.8	-0.3	-	-0.2
Other operating expenses	0.0	-2.3	-	-1.0
Total	**-1.8**	**-2.6**	**-**	**-1.2**
Total other operating income and expenses	**1.2**	**5.1**	**1.6**	**-1.4**

Note 7 Financial items

	Group		Parent company	
(SEK million)	2021	2020	2021	2020
Additional dividend from subsidiaries[1]	-	-	-	84.4
Expenses in connection with divestment of operations[2]	-	-	-	-21.2
Impairment of participations in subsidiaries[3]	-	-	-	-22.6
Profit from shares in subsidiaries[4]	-	-	-0.1	-
Profit from shares in subsidiaries, total	**-**	**-**	**-0.1**	**40.6**
Interest income:				
- Interest income, internal	-	-	-	0.2
- Interest income, other	-	-	-	-
Net exchange differences	-	1.5	-	-
Other	-	2.1	-	1.6
Financial income	**-**	**3.7**	**-0.1**	**42.5**
Interest expenses:				
- Interest expenses, bridging loan	-	-1.3	-	-1.3
- Interest expenses, leases	-5.1	-0.8	-	-
- Interest expenses, internal	-	-	-	-1.5
- Interest expenses, other	-1.6	-3.1	-	-
Net exchange differences	-1.7	-	-	-
Other	-0.1	-0.2	-	-0.1
Financial expenses	**-8.6**	**-5.4**	**-**	**-2.9**
Net financial items	**-8.6**	**-1.7**	**-0.1**	**39.6**

1) On 26 June 2020, CDON's extraordinary general meeting decided to pay a dividend of SEK 71.6 million. On 16 September, CDON's extraordinary general meeting made another decision to pay a further dividend of SEK 12.8 million.
2) During the year, the transaction costs relating to the distribution of the shares in Qliro AB came to SEK 18.0 million. SEK 3.2 million relates to a deduction for a consideration in accordance with certain specific provisions in the share transfer agreement in connection with the sale of Health and Sports Nutrition Group HSNG AB,
3) In connection with the additional dividend from CDON, the Board also decided to write down the book value of the shares related to the subsidiary.
4) The subsidiary Qliro Group Services AB, 559018-1185, was divested on 25 May 2021

Note 8 Taxes

	Group		Parent company	
Distribution of tax expenses (SEK million)	2021	2020	2021	2020
Current tax expense				
Current tax for the period	-0.6	-	-	-
Total	**-0.6**	**-**	**-**	**-**
Deferred tax				
Deferred tax on temporary differences	-	1.3	-	-
Deferred tax on temporary loss carry-forwards[1]	-	-24.8	-	-23.0
Total	**-**	**-23.5**	**-**	**-23.0**
Total recognised consolidated tax expense	**-0.6**	**-23.5**	**-**	**-23.0**

1) In 2020, the Group made use of a loss carry-forward of SEK 24.8 million as a result of the distribution of the shares in Qliro AB and CDON.

	Group				Parent company			
Reconciliation of tax expense (SEK million)	2021	%	2020	%	2021	%	2020	%
Profit before tax	**-47.3**		**-47.5**		**-41.9**		**-7.0**	
Tax as per applicable tax rate for parent company	9.7	-20.6	10.2	-21.4	8.6	-20.6	1.5	-21.4
Non-taxable income	-	-	-	-	-	-	-	-
Non-deductible expenses	-0.5	1.0	-9.1	19.1	-	-	-	-0.1
Increase in loss carry-forward without corresponding capitalisation of deferred tax	-9.8	20.7	-24.6	51.8	-8.6	20.6	-24.5	348.4
Effective tax/tax rate	**-0.6**	**1.2**	**-23.5**	**49.5**	**-**	**-**	**-23.0**	**326.9**

	Group		Parent company	
(SEK million)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Deferred tax asset				
Loss carry-forwards	73.2	74.0	71.7	71.7
Other	0.6	-	-	-
Total	**73.8**	**74.0**	**71.7**	**71.7**
Net deferred tax	**73.8**	**74.0**	**71.7**	**71.7**

Note 8, continued

Change in net temporary differences

Group (SEK million)	2021 Opening balance 1 January	Deferred tax income	Deferred tax expenses	Divestment of subsidiaries	Recognised in equity	Other	Closing balance, 31 December
Temporary differences							
Loss carry-forwards	74.0	-	-0.2	-	-	-	73.8
Total	**74.0**	**-**	**-0.2**	**-**	**-**	**-**	**73.8**

Group (SEK million)	2020 Opening balance 1 January	Deferred tax income	Deferred tax expenses	Divestment of subsidiaries	Recognised in equity	Other	Closing balance, 31 December
Temporary differences							
Loss carry-forwards	111.0	1.3	-23.5	-14.7	-	-0.1	74.0
Total	**111.0**	**1.3**	**-23.5**	**-14.7**	**-**	**-0.1**	**74.0**

Parent company (SEK million)	2021 Opening balance 1 January	Deferred tax income	Deferred tax expenses	Recognised in equity	Closing balance, 31 December
Temporary differences					
Loss carry-forwards	71.7	-	-	-	71.7
Total	**71.7**	**-**	**-**	**-**	**71.7**

Parent company (SEK million)	2020 Opening balance 1 January	Deferred tax income	Deferred tax expense	Recognised in equity	Closing balance, 31 December
Temporary differences					
Loss carry-forwards	94.7	-	-23.0	-	71.7
Total	**94.7**	**-**	**-23.0**	**-**	**71.7**

At 31 December 2021, recognised consolidated loss carry-forwards without an expiration date amounted to SEK 650.9 (609.1) million. For the year, the Group decided not to accumulate further deficits on recognised losses. The 2021 annual accounts include the tax value of a deferred tax asset in all countries where it is considered probable that the loss carry-forward will be able to be used against taxable surplus.

Note 9 Intangible assets

Development expenditure and projects in progress (SEK million)	Group 2021	Group 2020
Opening accumulated cost	**85.6**	**564.3**
Distribution of operations	-	-472.9
Investments	11.9	76.5
Sales/disposals	-2.3	-78.4
Reclassification	-	-3.9
Closing accumulated cost	**95.2**	**85.6**
Opening accumulated depreciation	**-69.4**	**-295.9**
Distribution of operations	-	248.3
Sales/disposals	2.3	78.3
Depreciation for the year	-7.2	-84.6
Impairment losses	-	-15.6
Closing accumulated depreciation	**-74.3**	**-69.4**
Carrying amounts	**20.9**	**16.2**

The item 'projects in progress and development' consists of projects in progress, but not yet in service, as well as completed intangible assets. The expenses are mainly attributable to the business' web platform.

Amortisation costs attributable to completed intangible assets of SEK 7.2 (84.6) million are included in consolidated selling and administrative expenses.

Both internal and external expenditures were capitalised. No borrowing costs were capitalised.

Projects in progress are not amortised.

Domains (SEK million)	Group 2021	Group 2020
Opening accumulated cost	**4.4**	**5.1**
Distribution of operations	-	-0.7
Closing accumulated cost	**4.4**	**4.4**
Opening accumulated depreciation	**-3.8**	**-4.0**
Depreciation for the year	-0.4	-0.5
Distribution of operations	-	0.7
Closing accumulated depreciation	**-4.2**	**-3.8**
Carrying amounts	**0.2**	**0.6**

This item relates to expenses for registering and maintaining the Group's internet domains. Amortisation costs of SEK 0.4 (0.5) million are included in consolidated selling and administrative expenses.

Goodwill (SEK million)	Group 2021	Group 2020
Opening accumulated cost	**39.7**	**64.4**
Distribution of operations	-	-23.7
Translation differences	-	-0.9
Closing accumulated cost	**39.7**	**39.7**
Carrying amounts	**39.7**	**39.7**

This items concerns goodwill from Nelly Group's previous acquisition of Nelly.

Note 9, continued

Impairment testing for cash-generating units containing goodwill
The Group's cash-generating unit, Nelly, recognises significant goodwill:

(SEK million)	2021	2020
NLY Group	39.7	39.7
Total	**39.7**	**39.7**

Impairment testing

Impairment testing for goodwill for cash-generating units is based on the recoverable amount (value in use), calculated using a discounted cash flow model. The cash flow is projected over a five-year period and is based on the most recently adopted budgets and forecasts, which are based on actual historical outcomes of the business. The single most important variables associated with the preparation of the impairment tests are net sales, operating margin and working capital. The net sales forecast is the total of estimated performance within each area of operations and the operating margin forecast is an average of the product mix. The cash flows calculated for each unit after the first five years were based on annual growth of 2.0 percent (2.0).

The cash flow is discounted for the cash-generating unit using an appropriate discount rate, taking into consideration the cost of capital and risk. The estimated cash flows were calculated at present value using a discount rate of 11.2 (9.6) percent after tax.

The impairment test does not indicate any impairment requirement. Impairment tests generally have a margin such that reasonable changes in individual parameters would not cause the recoverable amount to fall below the carrying amount. However, the cash flow forecasts are uncertain and may also be influenced by factors beyond the company's control. Even if the estimated growth rate applied after the forecast five (5)-year period had been zero, there would have been no need to recognise a goodwill impairment loss. Even if the estimated discount rate applied to the discounted cash flows had been one (1) percent higher, there would have been no need to recognise a goodwill impairment loss. Nor does the company deem that likely changes in other important assumptions would cause the recoverable amount to fall below the carrying amount.

Note 10 Property, plant and equipment

	Group	
Leasehold improvements (SEK million)	2021	2020
Opening accumulated cost	**1.1**	**1.1**
Investments	1.6	-
Divestments	-1.0	-
Closing accumulated cost	**1.7**	**1.1**
Opening accumulated depreciation	**-0.8**	**-0.5**
Depreciation for the year	-0.2	-0.3
Divestments	0.9	-
Closing accumulated depreciation	**-0.1**	**-0.8**
Carrying amounts	**1.6**	**0.3**

Both internal and external expenditures were capitalized. No borrowing costs were capitalised.

Depreciation costs of SEK 0.2 (0.3) million are included in consolidated selling and administrative expenses.

	Group		Parent company	
Equipment (SEK million)	2021	2020	2021	2020
Opening accumulated cost	**18.4**	**81.7**	**0.0**	**4.4**
Distribution of operations	0.0	-58.7	-	-
Investments	9.3	3.9	-	-
Sales/disposals	-15.3	-8.4	-	-4.4
Reclassifications	3.9	-	-	-
Closing accumulated cost	**16.3**	**18.4**	**0.0**	**0.0**
Opening accumulated depreciation	**-15.0**	**-54.1**	**0.0**	**-4.0**
Distribution of operations	0.0	41.4	-	-
Depreciation for the year	-1.8	-10.5	-	-0.1
Sales/disposals	13.8	8.2	-	4.2
Closing accumulated depreciation	**-3.0**	**-15.0**	**0.0**	**0.0**
Carrying amounts	**13.3**	**3.4**	**0.0**	**0.0**

Depreciation costs of SEK 1.8 (10.5) million are included in consolidated selling and administrative expenses. Depreciation costs for the parent company of SEK 0.0 (0.1) million are included in the parent company's selling and administrative expenses. Discontinued operations in 2020 is related to distribution of all shares in both Qliro AB and CDON.

	Group	
Construction in progress (SEK million)	2021	2020
Opening accumulated cost	**3.9**	**-**
Investments	0.3	-
Reclassifications	-3.9	3.9
Closing accumulated cost	**0.3**	**3.9**
Carrying amounts	**0.3**	**3.9**

The item refers to expenditures on capital investments for the period prior to commissioning.

Note 11 Participations in Group companies

Shares in subsidiaries, parent company (SEK million)	Corporate identity number	Registered office	No. of shares	Share capital (%)	Voting rights (%)	Carrying amount 31 Dec 2021	Carrying amount 31 Dec 2020
Nelly NLY AB	556653-8822	Borås	172,100	100.0	100.0	247.1	247.1
Qliro Group Services AB	559018-1185	Borås	50,000	100.0	100.0	-	0.4
QGSS AB	556774-1300	Borås	1,000	100.0	100.0	6.0	6.0
Total						**253.1**	**253.4**

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Note 11, continued

Shares in subsidiaries, Group (SEK million)	Corporate ID number	Registered office	No. of shares	Share capital (%)	Voting rights (%)
Nelly NLY AB	**556653-8822**	**Borås**	**172,100**	**100.0**	**100.0**
NLY Norge AS	896 508 202	Norway	100	100.0	100.0
NLY Logistics AB	556904-0834	Borås	50,000	100.0	100.0
QGSS AB	**556774-1300**	**Borås**	**1,000**	**100.0**	**100.0**

	Parent company	
Shares and participations in subsidiaries (SEK million)	2021	2020
Opening accumulated cost	**253.4**	**1,068.9**
Capital contribution[1]	-	146.0
Discontinued operations[2]	-	-961.5
Divestment of subsidiaries[3]	-0.4	-
Closing balance, 31 December	**253.1**	**253.4**
Carrying amount, 31 December	**253.1**	**253.4**

1 The capital contribution for the year is primarily attributable to the previously wholly owned subsidiary Qliro AB, with the aim of increasing the company's own funds

2 Discontinued operations is related to distribution of all shares in the previously wholly owned subsidiaries Qliro AB and CDON.

3 Divestment relates to the former wholly owned subsidiary Qliro Group Services AB

Note 12 Accounts receivable

Credit exposure

	Group	
(SEK million)	2021	2020
Accounts receivable not overdue or impaired	17.4	19.5
Accounts receivable overdue but not impaired	10.7	27.8
Accounts receivable impaired	1.5	0.9
Provision for bad debts	-1.5	-0.9
Total accounts receivable	**28.1**	**47.3**

The Group's accounts receivable are mainly in SEK. Thus, no significant currency exposure has arisen in the consolidated accounts receivables.

Credit risk in non-accrued or written-down accounts receivables is considered insignificant. No individual customer represents more than 10 percent of consolidated accounts receivable. See Note 19 for further details regarding credit risk.

Maturity structure

Overdue accounts receivable without provisions for bad debts (SEK million)	31 Dec 2021	31 Dec 2020
<30 days	9.4	25.3
30-90 days	1.2	2.5
>90 days	-	-
Total	**10.7**	**27.8**

Overdue accounts receivable with provisions for bad debts (SEK million)	31 Dec 2021	31 Dec 2020
<30 days	-	-
30-90 days	-	-
>90 days	1.5	0.9
Total	**1.5**	**0.9**

Provision for bad debts (SEK million)	31 Dec 2021	31 Dec 2020
Opening balance, 1 January	-0.9	-1.7
Provision for potential losses	-1.5	-0.9
Unutilised amount reversed during the period	0.9	0.5
Actual losses	-	-
Exchange difference	-	-
Less: Distributed assets	-	1.1
Closing balance, 31 December	**-1.5**	**-0.9**

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Notes

Note 13 Prepaid expenses and accrued income

	Group		Parent company	
(SEK million)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Prepaid rent	3.9	5.9	-	-
Prepaid insurance expenses	0.5	0.7	0.5	0.5
Prepaid licensing costs	5.2	5.7	0.7	0.1
Accrued income	2.0	0.7	-	-
Other prepaid expenses and accrued income	10.3	6.4	0.1	0.9
Total	**21.9**	**19.5**	**1.3**	**1.5**

Note 14 Inventories

	Group	
Inventories (SEK million)	2021	2020
Finished goods and merchandise	168.2	156.3
Goods in transit	11.3	10.0
Total	**179.5**	**166.3**

Consolidated cost of goods sold includes SEK -9.6 (-8.8) million in impairment of inventories to net realisable value. The impairment amount excludes impairment on account of damage during internal or external handling and impairment following fraud. There were no significant reversals of previous impairments in 2021 or 2020.

Note 15 Equity

At 31 December 2021, share capital comprised 18,494,973 (18,494,973) shares. Each share has a quotient value of SEK 10.

Shares issued	No. of shares	Share capital (SEK million)
Ordinary shares	18,026,266	180.3
C shares	468,707	4.7
Total number of shares issued/total share capital at 31 December 2021	**18,494,973**	**184.9**

Change in number of shares/share capital

Date	Event	Change in share capital (SEK million)	Change in no. of shares	Share capital after change (SEK)	No. of shares after change
11 Dec 1936	Establishment	1,000,000	2,000	1,000,000	2,000
24 Sept 2010	Split	-	498,000	1,000,000	500,000
24 Sept 2010	Offset issue	131,090,244	65,545,122	132,090,244	66,045,122
26 Oct 2010	Cash issue	594,004	297,002	132,684,248	66,342,124
31 May 2011	Cash issue C shares	380,000	190,000	133,064,248	66,532,124
30 May 2012	Cash issue C shares	570,000	285,000	133,634,248	66,817,124
14 June 2013	Cash issue	66,342,124	33,171,062	199,976,372	99,988,186
3 Sept 2013	Cash issue C shares	1,400,000	700,000	201,376,372	100,688,186
19 Dec 2014	Cash issue	99,513,186	49,756,593	300,889,558	150,444,779
30 Apr 2018	Cash issue C shares	9,100,000	4,550,000	309,989,558	154,994,779
23 May 2019	Reduction in share capital	–154,994,779	-	154,994,779	154,994,779
26 Aug 2020	Cash issue[1)]	29,954,951	29,954,951	184,949,730	184,949,730
30 Dec 2020	Reverse split of a number of shares[2)]	-	–166,454,757	184,949,730	18,494,973
Number of shares issued/share capital at 31 December 2021		**184,949,730**	**18,494,973**	**184,949,730**	**18,494,973**

[1)] 26 August 2020, Nelly Group held a new share issue for approximately SEK 210 million less transaction expenses, which increases the total number of shares by 29,954,951 ordinary shares. The share capital thus increased by SEK 29,954,951, from SEK 154,994,779 to SEK 184,949,730.

[2)]On 16 December 2020, a reverse split was agree upon for shares and votes in Nelly Group. On 30 December 2020, the number of shares and votes in Nelly Group decreased from 184,949,730, of which 179,729,730 ordinary shares and 5,220,000 C shares, to 18,494,973, of which 17,972,973 ordinary shares and 522,000 C shares. All 522,000 C shares are held by Nelly Group.

Note 15, continued

On 23 May 2019, the Swedish Companies Registration Office registered the reduction in share capital in Nelly Group and the Swedish Financial Supervisory Authority's permission to implement the reduction in share capital.

On 7 May 2019, Nelly Group's AGM decided to reduce the company's share capital.

On 29 April 2019, 80,000 C shares (held by the company) were converted into 80,000 ordinary shares. On 30 May 2018, 425,000 C shares (held by the company) were converted into 425,000 ordinary shares.

C shares were issued for distribution to participants in the Group's long-term incentive plans. See Note 22 for more information.

On 17 November 2014, the extraordinary general meeting of Nelly Group resolved to approve the Board's decision of 21 October 2014 to increase the company's share capital via an issue of new ordinary shares. Nelly Group's share capital increased by SEK 99,513,186 in connection with the cash issue.

On 14 May 2013, the extraordinary general meeting of Nelly resolved to approve the Board's decision of 16 April 2013 to increase the company's share capital via an issue of new ordinary shares. Nelly Group's share capital increased by SEK 66,342,124 in connection with the cash issue.

The cash issues of C shares in 2011, 2012, 2013 and 2018 were implemented for use in the Group's incentive plans. See Note 22 for further details regarding the incentive plan. All C shares are held by Nelly Group.

C shares may be issued in an amount corresponding to the maximum total share capital and do not entitle the holder to dividends. C shares may be converted into ordinary shares at the request of the Board. Customary provisions on primary and subsidiary preferential rights for cash issues apply to C shares. C shares have limited rights to assets on liquidation of the company.

The 2010 offset issue was implemented by offsetting previously issued loans from Modern Times Group MTG AB at a value corresponding to SEK 239,000,000. Nelly Group's share capital thus increased to SEK 132,090,244.

Other capital contributions/Share premium reserve
The share premium reserve is a balance sheet item that arises when shares are issued and subscribed for at a premium, that is, a price higher than the quotient value was paid for the shares.

Translation reserve
The translation reserve includes all translation differences that arise on translation of income statements and balance sheets into SEK in the consolidated accounts.

	Group	
(SEK million)	2021	2020
Opening balance, 1 January	-6.4	0.8
Translation difference for the year	1.9	-7.1
Total accumulated translation differences	**-4.5**	**-6.4**

Retained earnings including profit for the year
Retained earnings recognised in the Group include the year's and prior years' earnings.

Proposed dividend
The Board of Directors will propose to the 2021 annual general meeting that no dividend be paid to shareholders for the financial year ending 31 December 2021 and that retained earnings for the year be carried forward into the 2022 accounts.

Proposed appropriation of profits

	Parent company	
(SEK million)	2021	2020
Share premium reserve	1,405.0	1,405.0
Retained earnings	-1,248.7	-1,219.2
Profit for the year	-41.9	-30.0
Total	**114.4**	**155.8**

The Board proposes that the retained earnings, share premium reserve and profit/loss for the year of a total of SEK 114.4 (155.8) million be carried forward. The share premium reserve for the year totals SEK 1,405.0 (1,405.0) million as a result of the directed new share issue in the year, which changed the share capital to 184,949,730 from 154,994,779.

Note 16, continued

Note 16 Other provisions

A provision for employee-related benefits is recognised in accordance with agreements entered into for long-term incentive plans. See Note 22 for further details regarding share-related remuneration.

	Group		Parent company	
Other provisions (SEK million)	2021	2020	2021	2020
Provisions for social security contributions on share-based remuneration	-	0.6	-	0.6
Other provisions	-	-	-	-
Total	**-**	**0.6**	**-**	**0.6**

	Group		Parent company	
Provisions for share-based remuneration (SEK million)	2021	2020	2021	2020
Carrying amount at start of period	**0.1**	**0.7**	**0.1**	**0.7**
Change in provision during the period	-0.1	-0.6	-0.1	-0.6
Carrying amount at end of period	**-**	**0.1**	**-**	**0.1**

See Note 22 for further details regarding share-based remuneration.

	Group		Parent company	
Total provisions (SEK million)	2021	2020	2021	2020
Total carrying amount at start of period	**0.1**	**0.7**	**0.1**	**0.7**
Increase in provision during the period	-	-	-	-
Dissolution of provision during the period	-0.1	-0.6	-0.1	-0.6
Total carrying amount at end of period	**-**	**0.1**	**-**	**0.1**
Of which total non-current portion of provisions	-	0.1	-	0.1
Of which total current portion of provisions	-	-	-	-

	Group		Parent company	
Payments (SEK million)	2021	2020	2021	2020
Amount for which payment is expected after more than 12 months	-	0.1	-	0.1

Note 17 Accrued expenses and deferred income

	Group		Parent company	
(SEK million)	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Accrued employee benefit expenses	32.9	49.2	0.9	3.4
Accrued expenses for cost of goods sold	22.9	29.2	-	-
Accrued distribution costs	17.7	19.8	-	-
Accrued marketing costs	18.3	17.0	-	-
Accrued rental expenses	8.2	-	-	-
Accrued sales commission	2.9	0.7		
Return reserve	22.3	24.0		
Other	19.6	12.7	1.0	1.4
Total	144.8	152.5	1.9	4.8

Note 18 Pledged assets and contingent liabilities

Contingent liabilities (SEK million)	Group 31 December 2021	Group 31 December 2020	Parent company 31 December 2021	Parent company 31 December 2020
Bank guarantees and sureties to external parties	28.8	28.5	-	-
Parent company guarantees to external parties	-	-	-	-
Total	**28.8**	**28.5**	**-**	**-**

Bank guarantees for external parties relate to bank guarantees and sureties pledged to suppliers and other external parties for subsidiaries in the Group.

Pledged assets (SEK million)	Group 31 December 2021	Group 31 December 2020	Parent company 31 December 2021	Parent company 31 December 2020
Pledged loans receivable	-	-	-	-
Property, plant and equipment	-	-	-	-
Total	**-**	**-**	**-**	**-**

There are no pledged receivables for the year.

Note 19 Financial instruments and financial risk management

Capital management
The Group's aim is to have a solid financial position that helps maintain the confidence of investors, creditors and the market, as well as form a solid foundation for the continued development of business operations and generating long-term investor returns. There are no explicit quantitative objectives for the debt/equity ratio. Capital is defined as total equity.

Inventories (SEK million)	Group 31 Dec 2021	Group 31 Dec 2020
Total equity	204.4	249.8

Finance policy
The aim of the Group's finance policy is to describe and specify common rules, the organisation and the mandate for the Group's general financial activities. The Board has established financial policies for overall management of risks and for specific areas, such as liquidity risk, interest rate risk, currency risk, credit risk, insurance risk, the use of financial instruments and placement of excess liquidity. Nelly is exposed to various types of financial risks through its operations, such as market risk, liquidity risk and credit risk. The parent company is responsible for financing and finance policy and regularly reviews its long-term need for accessible funding sources and strives to always have access to several such sources when needed. Each Group company is responsible for implementing and maintaining an efficient banking structure and bank accounts.

Liquidity risk
Liquidity risk is the risk of not being able to meet payment obligations as a result of a lack of cash and cash equivalents. The risk is managed by ensuring that it is always possible to increase the financing available to the company.

The Group's finance policy stipulates that there must always be at least SEK 50 million in available cash and cash equivalents.

Credit risk
Credit risk is the risk of a contractual counterparty not being able to meet its payment obligations to Nelly. The maximum credit risk at Nelly comprises the carrying amount of financial assets such as accounts receivable and cash and cash equivalents.
The inherent credit risk of accounts receivable is spread over many customers, mainly private individuals. See Note 13 for further details regarding accounts receivable.

Note 19, continued

Market risk – Interest rate risk
Interest rate risk is the risk that the value of a financial instrument may vary due to changes in market interest rates. The Group manages financial assets and liabilities with variable or fixed interest rates. Where fixed interest rates are applied, adequate consideration must be paid to the need for financial flexibility, including the cost of ending a fixed-rate term prematurely. Consolidated interest-bearing liabilities at the year-end amounted to SEK 316.4 (39.5) million and were attributable to finance leases.

In general, interest rate risk should be minimised using matching assets and liabilities. The interest rate risk is reviewed regularly to ensure that no limits have been exceeded. If the variable interest rate on the Group's loans in 2021 had increased or decreased by 1 percent (%), it would have affected the Group's net financial items by SEK 0.0 (0.0) million. As at 31 December 2021, the Group had no utilised credit.

Market risk – Currency risk
Currency risk is the risk of fluctuations in exchange rates affecting recognised net profit, financial position and/or recognised cash flow. Currency risk may be divided into transaction exposure and translation exposure.

Transaction exposure
Transaction exposure is the risk of fluctuations in exchange rates affecting earnings. The transactions are not hedged using financial instruments. However, natural hedges are sought if possible, for example, by purchasing and selling in the same currency.
Net cash flow in foreign currencies was as follows:

Currency flows (SEK million)	Group 2021	Group 2020
NOK	232.2	226.5
DKK	32.9	38.2
EUR	-2.8	-0.5
USD	-12.5	-11.3
GBP	-6.0	-5.0
PLN	0.2	0.3

A 5 percent exchange rate fluctuation for each currency would affect operating profit by the following amounts:

Sensitivity analysis (SEK million)	Group 2021	Group 2020
NOK	+/- 11.6	+/- 11.3
DKK	+/- 1.7	+/- 1.9
EUR	+/- 0.1	+/- 0.0
USD	+/- 0.6	+/- 0.6
GBP	+/- 0.3	+/- 0.2
PLN	+/- 0.0	+/- 0.0

Translation exposure
Translation exposure exists when the equity in a foreign business needs to be translated to the Group's reporting currency. This risk is very limited for Nelly Group. Financial instruments are not used to hedge translation exposure.

Net foreign assets including goodwill and other intangible assets acquired are distributed as follows:

Currency (SEK million)	Group 2021	%	2020	%
NOK	27.1	100.0	24.4	100.0
Total	**27.1**	**100.0**	**24.4**	**100.0**

A 5 percent exchange rate fluctuation for each currency would affect equity by the following amounts:

Sensitivity analysis (SEK million)	Group 2021	Group 2020
NOK	'+/- 1.4	+/- 1.2

Classification and categorisation of financial assets and liabilities in the Group
Fair value may be calculated in different ways, depending on the type of data/information used for the purpose. The fact that different types of information are used for measurement means that financial assets and liabilities may be divided into different levels (a hierarchy), depending on the measurement method and the information used to measure them.
The three measurement levels consist of:
Level 1: Listed prices (unadjusted) on active markets for identical assets or liabilities, which the company has access to at the time of valuation.

Level 2: Other input data than the listed prices included in Level 1, which is directly or indirectly observable for the asset or liability. Level 2 can also include other data than observable listed prices of the asset or liability, such as interest rate levels, yield curves, volatility and multiples.
Level 3: Non-observable data for the asset or liability. At this level, assumptions that market participants would use when pricing the asset or liability must be considered, including risk assumptions. Nelly holds no financial assets and liabilities attributable to level 3. The financial instruments are attributable to levels 1 and 2.
For non-interest-bearing asset and liability items such as accounts receivable and accounts payable, the carrying amount for Nelly Group is deemed to reflect fair value.

The tables below show carrying amount compared with assessed fair value for each type of financial asset and liability.

Note 19, continued

2021 Group (SEK million)	Carrying amount: Fair value through profit or loss	Carrying amount: Financial assets that are not measured at fair value	Carrying amount: Financial liabilities that are not measured at fair value	Carrying amount: Total	Fair value: Total
Accounts receivable		28.0		28.0	28.0
Other receivables		3.6		3.6	3.6
Accrued income		2.0		2.0	2.0
Cash and cash equivalents		197.5		197.5	197.5
Total financial assets		**231.1**		**231.1**	**231.1**
Lease liabilities			316.4	316.4	316.4
Accounts payable – trade			144.3	144.3	144.3
Other liabilities			90.0	90.0	90.0
Accrued expenses			144.8	144.8	144.8
Total financial liabilities			**695.5**	**695.5**	**695.5**

2021 Parent company (SEK million)	Carrying amount: Fair value through profit or loss	Carrying amount: Financial assets that are not measured at fair value	Carrying amount: Financial liabilities that are not measured at fair value	Carrying amount: Total	Fair value: Total
Other receivables		0.9		0.9	0.9
Cash and cash equivalents		4.7		4.7	4.7
Total financial assets		**5.6**		**5.6**	**5.6**
Accounts payable – trade			0.1	0.1	0.1
Liabilities to Group companies			29.5	29.5	29.5
Other liabilities			0.2	0.2	0.2
Accrued expenses			1.9	1.9	1.9
Total financial liabilities			**31.7**	**31.7**	**31.7**

Note 19, continued

2020 Group (SEK million)	Carrying amount: Fair value through profit or loss	Carrying amount: Financial assets that are not measured at fair value	Carrying amount: Financial liabilities that are not measured at fair value	Carrying amount: Total	Fair value: Total
Accounts receivable		47.3		47.3	47.3
Other receivables		14.8		14.8	14.8
Accrued income		0.7		0.7	0.7
Cash and cash equivalents		230.1		230.1	230.1
Total financial assets		**292.9**		**292.9**	**292.9**
Lease liabilities			39.5	39.5	39.5
Accounts payable – trade			143.7	143.7	143.7
Other liabilities			69.4	69.4	69.4
Accrued expenses			152.5	152.5	152.5
Total financial liabilities			**405.2**	**405.2**	**405.2**

2020 Parent company (SEK million)	Carrying amount: Fair value through profit or loss	Carrying amount: Financial assets that are not measured at fair value	Carrying amount: Financial liabilities that are not measured at fair value	Carrying amount: Total	Fair value: Total
Other receivables		3.4		3.4	3.4
Cash and cash equivalents		31.6		31.6	31.6
Total financial assets		**35.0**	**-**	**35.0**	**35.0**
Accounts payable – trade			0.8	0.8	0.8
Liabilities to Group companies			13.6	13.6	13.6
Other liabilities			0.9	0.9	0.9
Accrued expenses			4.8	4.8	4.8
Total financial liabilities		**-**	**20.0**	**20.0**	**20.0**

Note 19, continued

Maturity structure of financial liabilities – undiscounted cash flows
Maturity of future contractual interest payments based on current interest rates and amortisation.

Group (SEK million)	2021 Total	0-6M	6M-1Y	1-5Y	>5Y
Lease liabilities	316.4	20.9	29.2	49.9	216.4
Accounts payable – trade	144.3	144.3			
Other liabilities	90.0	90.0			
Accrued expenses	144.8	144.8			
Total	**695.5**	**400.0**	**29.2**	**49.9**	**216.4**

Parent company (SEK million)	2021 Total	0-6M	6M-1Y	1-5Y	>5Y
Accounts payable – trade	0.1	0.1			
Liabilities to Group companies	29.5	29.5			
Other liabilities	0.2	0.2			
Accrued expenses	1.9	1.9			
Total	**31.7**	**31.7**			

Group (SEK million)[1]	2020 Total	0-6M	6M-1Y	1-5Y	>5Y
Lease liabilities	39.5	8.6	11.9	19.0	
Accounts payable – trade	143.7	143.7			
Other liabilities	69.4	69.4			
Accrued expenses	152.5	152.5			
Total	405.2	374.2	11.9	19.0	

Parent company (SEK million)[1]	2020 Total	0-6M	6M-1Y	1-5Y	>5Y
Accounts payable – trade	0.8	0.8			
Liabilities to Group companies	13.6	13.6			
Other liabilities	0.9	0.9			
Accrued expenses	4.8	4.8			
Total	20.0	20.0			

[1]The maturity structure has been adjusted historically and now shows the measurement period 0–6 months and 6 months–1 year instead of the previous 0–3 months and 3 months–1 year.

Note 20 Leases

Nelly Group has implemented IFRS 16 since 1 January 2019. Contracts that have been signed but have not yet commenced total SEK 0.0 (381.0) million. Please see Note 19 for the maturity structure of the lease liability.

For Nelly Group as a lessee, IFRS 16 means in principle that all leases must be recognised as assets and liabilities in the balance sheet, representing the right to use the leased asset and the commitment to pay future lease charges. For leases, amortisation on the leased asset and interest expenses related to the lease liability are recognised in the income statement. The leases concerned primarily include leases for offices, premises, machinery and vehicles.

Leases that have a term shorter than 12 months or terminate within 12 months of the transition date are classified as short-term leases and are, therefore, not included in the recognised liabilities or rights of use. In addition, Nelly Group has decided not to recognise leases as assets with rights of use or lease liabilities where the underlying asset has low value.
A marginal loan rate of 2.5 percent (%) has been established. Where the implicit interest rate can easily be determined, however, that rate is used.

Lessees
The Group's property, plant and equipment consist of both owned and leased assets.

Note 20, continued

Property, plant and equipment (SEK million)	Group 2021	2020
Property, plant and equipment that is owned	15.2	7.6
Right-of-use assets, not investment property	313.5	39.0
Total property, plant and equipment	**328.7**	**46.6**

The leases concerned primarily include leases for offices, premises, machinery and vehicles. No leases contain covenants or other restrictions apart from the security in the leased asset.

Right-of-use asset

2021 Right-of-use asset (SEK million)	Group Premises	Vehicles	IT equipment	Other	Total
Depreciation/amortisation	-20.5	-0.5	-0.1	-4.5	-25.5
Closing balance, 31 December 2021	216.6	0.8	0.5	95.6	313.5

2020 Right-of-use asset (SEK million)	Group Premises	Vehicles	IT equipment	Other	Total
Depreciation/amortisation	-16.2	-0.2	-	-0.5	-16.9
Closing balance, 31 December 2020	35.8	1.0	-	2.2	39.0

Additions to right-of-use assets in 2021 amounted to SEK 301.4 (22.6) million. This amount includes the cost of rights of use acquired during the year and additional amounts in connection with reviews of lease liabilities on account of changed payments following a change in the lease term.

Lease liabilities

Lease liabilities (SEK million)	Group 2021	2020
Current	50.1	20.5
Non-current	266.3	19.0
Lease liabilities included in the statement of financial position	**316.4**	**39.5**

The Group's total lease liabilities amount to SEK 316.4 (39.5) million, of which SEK 7.0 (6.0) million relates to prepaid lease payments recognised as current assets.

Amounts recognised in profit or loss

Effect on profit (SEK million)	Group 2021	2020
Amortisation of right-of-use assets[1]	-25.5	-16.9
Interest on lease liabilities[1]	-5.1	-0.8
Expenses for short-term leases and/or low-value leases	-0.6	-0.7

[1]Historical figures are adjusted and, like the consolidated income statement, show depreciation/amortisation and/or interest for continuing operations.

Note 21 Average number of employees

The average number of employees was calculated based on the total number of hours worked (including paid leave and short-term absence), divided by normal annual working hours.

	Group		Parent company	
2021	Men	Women	Men	Women
Sweden, men/women	90	160	-	1
Total average no. of employees		**250**		**1**

	Group		Parent Company	
2020	Men	Women	Men	Women
Sweden, men/women	127	191	2	-
Total average no. of employees		**318**		**2**

Distribution of men and women in executive management

	Group		Parent company	
2021	Men %	Women %	Men %	Women %
Board of Directors	40	60	40	60
CEO and other executives	50	50	0	100
Total	**45**	**55**	**20**	**80**

	Group		Parent Company	
2020	Men %	Women %	Men %	Women %
Board of Directors	40	60	33	67
CEO and other executives	40	60	100	0
Total	**40**	**60**	**67**	**34**

Note 22 Salaries, other remuneration and social security contributions

Remuneration of senior executives
Applicable guidelines for remuneration of senior executives
An extraordinary general meeting of Nelly Group AB held 16 December 2020 resolved to adopt the following guidelines for remuneration of senior executives.

Guidelines for remuneration of Nelly Group's CEO and other members of the management team (together the 'senior executives') and of Board members, where they receive remuneration for tasks other than Board duties.

The guidelines must be applied to remuneration that is agreed, and changes made to remuneration already agreed, after the guidelines were adopted by the extraordinary general meeting on 16 December 2020. The guidelines do not include remuneration adopted by the annual general meeting such as ordinary Board fees and long-term share/share price-related incentive plans.

How the guidelines promote Nelly Group's business strategy, long-term interests and sustainability
Nelly Group's only operational subsidiary Nelly has one of the strongest online fashion brands for young women in the Nordic region. Nelly's business model is based on a core of its own designs and brands and a supplementary range of curated fashion and beauty products from 300 other brands. Nelly will continue to strengthen its own brands and remain at the forefront of digital marketing and sales. The company will continue to inspire its target group with selected trends and fashion.

For Nelly Group to be able to realise its business strategy and safeguard the Group's long-term interests, including their sustainability, it is essential that it can attract, motivate and retain senior executives in competition with comparable Nordic companies, primarily Nordic companies operating in e-commerce and retail with consumer brands. These guidelines must, therefore, allow senior executives to be offered a competitive package of remuneration. At the same time, Nelly Group's remuneration system must be compatible with and promote sound, effective risk management and discourage excessive risk-taking.

Remuneration of the senior executives in Nelly Group must, in both the short and long terms, reflect the individual's performance and responsibilities and the earnings of Nelly Group and its subsidiaries and must also align the interests and rewards of senior executives with those of the shareholders. Consequently, the senior executives must be remunerated according to the principle of reward for performance.

The Board considers that the option of variable remuneration and participation in any long-term incentive plans, plus carefully balanced fixed remuneration, create the conditions for Nelly Group to be a competitive employer, while the design of and conditions for the variable remuneration promote responsible, sound risk-taking and the company's growth strategy, long-term interests and sustainability.

Types of remuneration
The remuneration must be market-based and may consist of the following components:
- fixed cash salary,
- variable cash remuneration,
- the option to participate in long-term (i) share/share price-related incentive plans adopted by the annual general meeting and/or (ii) cash-based incentive plans,
- pension benefits, and
- other customary benefits.

Fixed cash salary
Senior executives' fixed cash salaries are revised each year. They must be competitive and based on the individual's skills, responsibilities and performance.

Variable cash remuneration
Senior executives' cash variable remuneration must be based on performance in meeting established targets for growth and value creation for their areas of responsibility and for Nelly Group. The outcome must be linked to measurable targets (qualitative, quantitative, general and individual) that are measured during one year. The targets within the senior executives' respective areas of responsibility are intended to promote Nelly Group's performance in both the short and long terms and thus promote Nelly Group's business strategy and long-term interests, including the company's sustainability. The variable cash remuneration may not exceed 100 percent of the senior executive's fixed annual salary.

Additional cash variable remuneration may be paid in extraordinary circumstances, provided that such extraordinary arrangements are only made at individual level either to recruit or retain an executive or as remuneration for extraordinary performance above and beyond the person's ordinary duties. Such remuneration may not exceed an amount equivalent to 100 percent of fixed annual cash salary. Any decision on such remuneration must be made by the Board of Directors following a proposal by the remuneration committee.

The Board must also consider deciding that part of senior executives' variable cash remuneration must be invested in shares or share-related instruments in Nelly Group.

Long-term share-related and cash-based incentive plans
The senior executives may be offered incentive plans which must, in general, be share/share price-related and are therefore not subject to these guidelines but may also be cash-based. Long-term share/share price-based incentive plans must be designed to ensure the participants' long-term commitment to value growth in Nelly Group and align the interests of the senior executives with those of the shareholders.

Establishment of criteria for payment of cash variable remuneration and long-term cash-based incentive plans and the right to demand repayment of such remuneration in certain cases
When the measurement period for meeting criteria for payment of variable cash remuneration and long-term cash-based incentive plans has ended, it is necessary to decide/

Note 22, continued

establish the extent to which the criteria have been met. The remuneration committee is responsible for such assessment. Where financial criteria are concerned, the assessment must be based on the financial information most recently published by Nelly Group. The remuneration committee must, in its assessment, ensure that the remuneration is linked to Nelly Group's earnings. When determining the remuneration, the remuneration committee must also take relevant circumstances into account in relation to the environment, social conditions, corporate governance and anti-corruption (ESG criteria).

To ensure that performances on which the remuneration has been based are sustainable over time, Nelly Group must be entitled, by law or contract, with the restrictions that may be stipulated by law or contract, to demand repayment of all or part of remuneration other than fixed cash salary, pension and other customary benefits that has been paid incorrectly as a result of information that turns out to be obviously incorrect (claw-back).

Pension and other customary benefits

Pension commitments are defined contribution and secured through premiums paid to insurance companies. The amount of pension premiums is specified by Nelly Group's pension plan and must generally correspond to the provision levels applicable under the ITP 1 plan with the resulting restrictions in relation to fixed annual salary. No provisions are made for salary components in excess of 60 income base amounts calculated on an annual basis. Variable cash remuneration must generally not be pensionable. The retirement age is normally 65.

Other benefits should be customary and contribute to facilitating the executives' ability to perform their duties, for example, company car, occupational health services and medical expense insurance. The total of such benefits may not exceed 30 percent of the fixed annual cash salary.

Notice of termination and severance pay

On termination of employment, the notice period may not exceed twelve months. The total of fixed cash salary during the notice period and severance pay may not exceed an amount equivalent to the fixed cash salary for eighteen months for the CEO and twelve months for other senior executives. On termination by the employee, the notice period may not exceed six months and the employee is not entitled to severance pay.

Salary and terms of employment for employees

The salary and terms of employment of Nelly Group's employees were taken into consideration in the preparation of the Board's proposal for these remuneration guidelines. The guidelines do not deviate from the remuneration systems that are generally applied in Nelly Group to other employees. The remuneration, types of remuneration and development of salary of the senior executives are deemed to be in accord with salaries and terms of employment of other employees in Nelly Group in other respects as well. The development of the gap between remuneration of senior executives and remuneration of other employees will be reported in future remuneration reports.

Remuneration of Board members

Members of the Board of Directors of the parent company, who are appointed at the annual general meeting, may, in special cases, receive remuneration for services performed within their respective specialist areas that fall outside their ordinary Board duties for the parent company. Remuneration for such services must be market-based and approved by the Board.

Decision-making process

The Board has established a remuneration committee. The duties of the committee include preparing the Board's decisions on proposals for guidelines for remuneration of senior executives. At least every four years, the Board must submit a proposal for guidelines for remuneration of senior executives to the annual general meeting for resolution. The guidelines must apply until new guidelines have been adopted by the annual general meeting.

The remuneration committee must also monitor and assess plans for variable remuneration of the executive management, the application of these guidelines for remuneration of senior executives and the remuneration structures and levels of remuneration in the company.

The members of the remuneration committee are independent of the company and the executive management. Senior executives do not take part in the Board's discussions and decisions on issues related to remuneration where the issues affect them personally.

Deviations from the guidelines

Where the Board finds that there are particular reasons in a particular case and to safeguard the company's long-term interests, including its sustainability, or to safeguard the company's financial position, the Board is entitled to deviate from the guidelines. If the Board deviates from the guidelines, it must report the reasons for this at the following AGM.

Share-based remuneration

The 2020 long-term incentive plans

An extraordinary general meeting held on December 16, 2020, resolved to establish a new long-term incentive plan ('Owner Plan 2020') for certain senior executives of Nelly Group AB (three persons) as per item A below.

The purpose of the Owner Plan 2020 is to create the conditions for Nelly Group to retain key individuals in the company's management team who are expected to contribute to the continued development of the company. The remuneration proposed must promote long-term sustainable decisions to achieve earnings in a manner that matches the company's vision and overarching strategy.

The Board wants the plan to give participants greater ownership of the company in order to align the interests of participants with those of shareholders, and has, therefore, proposed share-based remuneration for which it is a condition that the participants invest in the company's shares and remain at the company in the long term. The intention is to create greater incentives for participants to promote the long-term development of Nelly Group's earnings and shareholder value. Greater participation among the company's senior executives is also expected to lead to greater loyalty to the company, which is beneficial to the company and its shareholders.

To ensure that the company can meet its obligations under the Owner Plan 2020, the extraordinary general meeting also resolved to transfer shares as outlined in item B below.

Note 22, continued

A. Resolution to establish a long-term incentive plan for certain senior executives

1. Participants and summary conditions

The meeting resolved to establish the Owner Plan 2020, which is intended for Kristina Lukes (CEO), John Afzelius (who has been appointed Nelly Group's CFO from April 1, 2021; John is currently CFO of the subsidiary Nelly NLY AB) and Maria Segergren (CPO). To participate in the Owner Plan 2020, participants must have invested in the company privately by acquiring shares in Nelly Group ('investment shares'). The investment shares may consist either of shares in Nelly Group that participants already hold (that are not already allocated to Nelly Group's ongoing incentive plans) or shares that participants buy on the market in connection with application to join the Owner Plan 2020. The participants will then be entitled to be allocated shares in the company ('owner shares') under the conditions given below.

2. Allocation

The Board proposes that the Owner Plan 2020 include a maximum of 100,000 owner shares. The maximum number of owner shares per person must be as follows: Kristina Lukes, maximum 61,538 owner shares, John Afzelius, maximum 25 641 owner shares, and Maria Segergren, maximum 12 821 owner shares.

3. Private investment and maximum allocation of investment shares to the Owner Plan 2020

To participate in the Owner Plan 2020, each participant must make a private investment by acquiring investment shares. The investment shares may be either shares in Nelly Group that participants already hold (that are not already allocated to Nelly Group's ongoing incentive plans) or shares that participants buy on the market in connection with application to join the Owner Plan 2020. If a participant has insider information when they apply to join the Owner Plan 2020, the investment shares must be acquired as soon as possible after the participant no longer has insider information, and no later than before the next AGM.

The maximum number of investment shares that all participants may allocate to the Owner Plan 2020 must equate to a total value of SEK 1,950,000 million. The outcome of the Owner Plan 2020 for each participant is limited to the number of owner shares that may be allocated (including any dividend or similar that accrues on such shares during the qualification period).

The maximum number of investment shares that each participant may allocate to the Owner Plan 2020 must be as follows: Kristina Lukes may allocate a maximum number of investment shares equivalent to a value of SEK 1,200,000; John Afzelius may allocate a maximum number of investment shares equivalent to a value of SEK 500,000 and Maria Segergren may allocate a maximum number of investment shares equivalent to a value of SEK 250,000.

The value of the investment shares must be calculated based on the average volume-weighted price paid for Nelly Group's shares on Nasdaq Stockholm over a period of ten days before the date of the AGM.

4. Conditions for retaining owner shares

The participants are only entitled to retain the owner shares under the conditions specified by the Owner Plan 2020. The owner shares are earned during the period from 1 January 2021 to 31 December 2027, both dates inclusive (the 'qualification period'). After the end of the qualification period, allocated owner shares and any dividend or similar that accrues on them may be retained and disposed of freely by the participants, provided that the following conditions are met:

- **The participant acquired investment shares and retained them during the qualification period according to the number of owner shares allocated to the participant. If a participant acquired fewer investment shares than the number of owner shares allocated to them, the number of owner shares must be adjusted accordingly.**

5. Earning owner shares during the qualification period

Earning in connection with termination of employment

The owner shares are earned on a linear basis during the qualification period. This means that a participant earned 1/7 (roughly 14.3 percent) of the total maximum number of owner shares to which they are entitled at the end of each year under the Owner Plan 2020. If a participant was not employed by the company throughout the qualification period, the following conditions apply to the earning of owner shares.

- **If a participant's employment is terminated by the company during the period from 1 January 2021 to 31 December 2021 (i.e. during years 0–1 of the plan), the participant will not be entitled to any owner shares.**
- **If a participant's employment is terminated by the company during the period from 1 January 2022 to 31 December 2027 (i.e. during years 2–7 of the plan), the participant's entitlement to owner shares is earned on a linear basis up to the start of the year in which the employment was terminated.**
- **If a participant terminates their own employment during the period from 1 January 2021 to 31 December 2023 (i.e. during years 0–3 of the plan), the participant will not be entitled to any owner shares.**
- **If a participant terminates their own employment during the period from 1 January 2024 to 31 December 2027 (i.e. during years 4–7 of the plan), the participant's entitlement to owner shares is earned on a linear basis during this period up to the start of the year in which the employment was terminated.**

If the number of shares in the company changes following a stock dividend, reverse split or split of the company's existing shares or any other similar company event, the earning of owner shares must be converted proportionally in accordance with the change.

Notwithstanding the above, if a participant's employment is terminated by the company during the qualification period on account of criminal action or gross impropriety by the participant, the participant will not be entitled to retain any owner shares.

Earning in connection with a public takeover bid

If the company's shares are subject to a public takeover bid (corresponding to or pursuant to the Swedish Act (2006:451) relating to public takeover bids on the stock market), and such a takeover bid is completed, all owner shares must be earned.

Taxation

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Note 22, continued

Receipt of owner shares is a taxable benefit that is taxed in the income year in which the owner shares are received by the participant. The taxable benefit that arises is calculated using the most recent price paid for Nelly Group's shares on Nasdaq Stockholm on the date on which the shares are received. The taxable benefit is taxed for holders/participants as income on employment, meaning that social security contributions will be charged to the employer. Participants will be compensated with a cash salary payment which means that, after tax has been deducted, the owner shares have been acquired at no cost to the participants.

Design and management
The Owner Plan 2020 was developed by the Board in consultation with external consultants.
The Board, or the person appointed by the Board, must be responsible for the detailed design and management of the Owner Plan 2020 within the framework of specific conditions and guidelines. In this connection, the Board must be entitled to make adjustments to meet market conditions or to follow applicable rules. The Board must also be entitled to make other adjustments, including the right to decide on reduced allocation of shares, if significant changes occur in Nelly Group or on the market that, in the opinion of the Board, would mean that the conditions adopted for allocation of shares under the Owner Plan 2020 are no longer appropriate.

Costs of the plan, effects on key ratios and dilution
The Board has had a provisional cost calculation prepared for the Owner Plan 2020. The costs, primarily social security contributions for the value of the owner shares and the costs of salary payment to cover participants' costs under the Owner Plan 2020, are provisionally estimated to be approximately SEK 5.7 million. This cost is equivalent to approximately 5.4 percent of the company's employee benefit expenses in 2020.
The provisional cost calculation is based on the maximum number of owner shares that may be allocated under the Owner Plan 2020 corresponding to allocated investment shares with a maximum total value of SEK 1,950,000.
Based on an assumption that the company's shares are worth SEK 34.7 each, the Owner Plan 2020 entails maximum dilution of approximately 0.3 percent of the share capital and votes in the company. Assuming maximum allocation of owner shares under the Owner Plan 2020, in which 100,000 owner shares are allocated to the participants, the Owner Plan 2020 entails dilution of approximately 0.55 percent of the share capital and votes in the company. If participants leave the company during the qualification period, they may lose their entitlement to owner shares in full or in part, which would then be withdrawn after a resolution to reduce the share capital. Any such withdrawal of shares would reduce dilution.

B. Resolution to approve the transfer of shares to the participants
The extraordinary general meeting resolved that maximum 100,000 C shares held by Nelly Group would be converted to ordinary shares and could then be transferred to the participants under the conditions of the Owner Plan 2020.
The participants' right to receive ordinary shares is contingent on the conditions in Owner Plan 2020 being met, and the shares must be transferred during the period specified by the conditions for Owner Plan 2020. The shares must be transferred at no charge.

The 2019 long-term incentive plans
The 2019 AGM resolved to adopt the following new long-term incentive plans:

(a) a long-term performance share plan ('PSP 2019') for senior executives and other key individuals in the parent company, in the Group's central staff functions and in Nelly Group's (formerly Qliro Group) then subsidiaries CDON and Nelly with a structure similar to that of the long-term incentive plans adopted by the 2011–2018 AGMs; and

(b) a synthetic call option plan ('QOP 2019') for the CEO, management and key employees of Nelly Group's former subsidiary Qliro AB, to be based on the underlying value growth of Qliro AB. For various reasons, the Board decided not to launch QOP 2019.

PSP 2019
The performance share plan (PSP 2019) is intended for about 22 senior executives and other key Nelly Group employees. To participate in the PSP, participants are required to make a personal investment in Nelly Group shares ('savings shares'). The savings shares can either be shares already held or shares purchased on the market in connection with the notification to participate in the PSP. For each savings share, Nelly Group will allot free retention and performance-based share rights to the participants. The share rights are divided into Class A (retention rights) and Class B (performance rights). Subject to fulfilment of certain retention and performance-based conditions during the period 1 April 2019 – 31 March 2022 ('measurement period'), each right entitles the participant to receive one ordinary share in the company. The right to finally be awarded shares is also dependent on the participant retaining the savings shares, and, with certain exceptions, continuing their employment in Nelly Group during the vesting period ending at the release of the interim report for the period January-March 2022.
The number of shares that the participant can be awarded based on the share rights depends partly on the category to which the participant belongs and partly on the fulfillment of the following objectives and performance-based conditions: (a) Class A: total shareholder return (TSR) on Nelly Group's ordinary shares during the measurement period shall exceed 0 percent to reach the entry target; (b) Class B: the average annual TSR on Nelly Group's ordinary shares during the measurement period shall be 10 percent to reach the entry target and 20 percent or more to reach the stretch target. The retention and performance-based rights can be exercised after publication of the interim report for the first quarter of 2022.

The 2018 long-term incentive plans
The 2018 AGM decided to adopt the following long-term incentive plans:

(a) a long-term performance share plan ('PSP 2018') for senior executives and other key employees of the parent company and Nelly Group's then subsidiaries (excluding employees of Qliro AB) with a similar structure to that of the long-term incentive plans adopted at the 2011–2017 annual general meetings, and

Note 22, continued

(b) a synthetic call option plan ('QOP 2018') for Qliro Group's CEO, CFO, management and other key employees of Qliro AB, to be based on Qliro AB's underlying value growth. For various reasons, the Board decided not to launch QOP 2018.

PSP 2018
The performance share plan (PSP 2018) is intended for about 24 senior executives and other key Nelly Group employees. To participate in the PSP, participants are required to make a personal investment in Nelly Group shares ('savings shares'). The savings shares can either be shares already held or shares purchased on the market in connection with the notification to participate in the PSP. For each savings share, Nelly Group will allot free retention and performance-based share rights to the participants. The share rights are divided into Class A (retention rights) and Class B (performance rights). Subject to fulfilment of certain retention and performance-based conditions during the period 1 April 2018 – 31 March 2021 ('measurement period'), each right entitles the participant to receive one ordinary share in the company. The right to finally be awarded shares is also dependent on the participant retaining the savings shares, and, with certain exceptions, continuing their employment in Nelly Group during the vesting period ending at the release of the interim report for the period January-March 2021.
The number of shares that the participant can be awarded based on the share rights depends partly on the category to which the participant belongs and partly on the fulfillment of the following objectives and performance-based conditions: (a) Class A: total shareholder return (TSR) on Nelly Group's ordinary shares during the measurement period shall exceed 0 percent to reach the entry target; (b) Class B: the average annual TSR on Nelly Group's ordinary shares during the measurement period shall be 10 percent to reach the entry target and 20 percent or more to reach the stretch target. The retention-based and performance-based rights can be exercised after publication of the interim report for the first quarter of 2021.

Cost effects of incentive plans
The PSPs are equity-regulated plans. The fair value at the allotment date is expensed over the vesting period. The cost of the plans is recognised in equity and as an operating expense. The cost is based on the fair value of Nelly Group AB's shares at the allotment date and the number of shares that are expected to be earned. The cost of the plans in 2021 totalled SEK 0.3 (0.3) million, excluding social security contributions. When shares are allotted, social security contributions are paid for the value of benefits to the employee. During the vesting period, provisions are made for these estimated social security contributions.
The estimated fair value of services received in return for the employee options granted is based on the Black & Scholes valuation model. The expected volatility is based on historic values. Adjustments are also made in the plans for actual employee turnover during the period. For the retention-based plans, the probability that the targets will be achieved is considered by using adjustment factors for the various targets when the cost is calculated.
The cost of Owner Plan 2020 was SEK 2.8 (0.0) million.

Note 22, continued

Employee benefit expenses (SEK million)	Group 2021	Group 2020	Parent company 2021	Parent company 2020
Salaries	116.7	135.4	1.5	11.3
Social security contributions	33.7	42.6	0.5	4.0
Pension expenses – defined contribution plans	12.7	14.7	0.2	2.0
Expenses for share-based remuneration	3.1	0.3	3.1	0.3
Social security contributions on share-based remuneration	0.9	-0.4	0.9	-0.4
Total	**167.1**	**192.5**	**6.2**	**17.2**

The cost of share-based remuneration in 2021 totalled SEK 3.1 (0.3) million, excluding social security contributions. Of this SEK 3.1 million in employee benefit expenses for the performance share plan (PSP), SEK 0.3 million is for repurchase of Qliro participants' PSP share rights (PSP 2019) at pro-rata adjusted market value.

Basic salary and variable remuneration (SEK million)	Group 2021	Group 2020
CEO and senior executives, 2 (4) persons	4.5	13.5
Of which variable salary	*0.6*	*0.8*

Remuneration and other benefits, Group (SEK million)	2021 Basic salary	Variable remuneration	Other benefits	Pension expenses	Rights issue expenses	Total
Kristina Lukes, CEO	2.3	0.4	0.1	0.7	1.5	5.0
Senior executives, 1 person	1.5	0.2	0.0	0.4	0.6	2.8
Total	**3.9**	**0.6**	**0.1**	**1.2**	**2.1**	**7.8**

The amounts recognised for 2021 are for the full year. Variable remuneration for 2021 paid out in 2022 to the CEO: SEK 0.4 (0.4) million. Remuneration for 2021 paid out in 2022 to other senior executives: SEK 0.2 (0.4) million. Variable remuneration for 2020 paid out in 2021 to senior executives: SEK 0.4 (1.1) million.

Note 22, continued

Remuneration and other benefits, Group (SEK million)	2020 Basic salary	Variable remuneration	Other benefits	Pension expenses	Rights issue expenses	Total
Kristina Lukes, current CEO	0.4	0.4	0.0	0.1	-	0.9
Mathias Pedersen, former CEO	2.5	-	0.1	0.7	-	3.3
Marcus Lindqvist, former CEO	5.3	-	0.1	1.0	-	6.3
Senior executives, 2 persons	4.4	0.4	0.1	0.7	0.1	5.6
Total	**12.7**	**0.8**	**0.2**	**2.5**	**0.1**	**16.1**

The amounts recognised for 2020 are for the full year. Variable remuneration for 2020 paid out in 2021 to the CEO: SEK 0.4 (0.0) million. Remuneration for 2020 paid out in 2021 to other senior executives: SEK 0.4 (0.0) million. Variable remuneration for 2019 paid out in 2020 to other senior executives: SEK 1.1 (0.4) million.

Parent company (SEK million)	Parent company 2021	Parent company 2020
Board and senior executives, 8 (10) persons	4.4	13.8
Of which variable salary	0.0	0.0
Other employees	0.3	-0.2
Total salaries and other remuneration	**4.7**	**13.6**

Remuneration and other benefits Group and parent company (SEK million)	2021 Basic salary/Board remuneration	For Board duties in subsidiaries	Variable remuneration	Other benefits	Pension expenses	Rights issue expenses	Total
Group and parent company (SEK million)	Basic salary/Board remuneration	For Board duties in subsidiaries	Variable remuneration	Other benefits	Pension expenses	Rights issue expenses	Total
Mathias Pedersen, Chairman of the Board	0.5						0.5
Christoffer Häggblom	0.3						0.3
Stina Westerstad	0.2						0.2
Louise Nylén	0.1						0.1
Maj-Louise Pizzeli	0.2						0.2
Josephine Salenstedt	0.2						0.2
Remuneration from parent company							
Kristina Lukes, CEO	0.7				0.2	1.5	
Other senior executives (1 person)	-				-	0.6	
Remuneration from subsidiary							
Kristina Lukes, CEO	1.6		0.4	0.1	0.5		
Other senior executives (1 person)	1.5		0.2	0.0	0.4		
Total	**5.5**	**0.0**	**0.6**	**0.1**	**1.2**	**2.1**	**1.6**

The amounts recognised for 2021 are for the full year. Accrued variable remuneration to be paid after year-end totals SEK 0.4 (0.4) million for the CEO and SEK 0.2 (0.4) million for other senior executives. The Board receives its full remuneration from the

Note 22, continued

parent company.

Notice of termination of the CEO is maximum 12 months when terminated by the company and 6 months when terminated by the employee. The CEO is not entitled to severance pay.

	2020						
Group and parent company (SEK million)	Basic salary/Board remuneration	For Board duties in subsidiaries	Variable remuneration	Other benefits	Pension expenses	Rights issue expenses	Total
Christoffer Häggblom, Chairman of the Board	0.7	0.1					0.8
Daniel Mytnik	0.5	-					0.5
Lennart Jacobsen	0.4	-					0.4
Jessica Pedroni Thorell	0.4	0.1					0.4
Andreas Bernström	0.3	-					0.3
Erika Söderberg Johnson	0.3	-					0.3
Josephine Salenstedt	0.0	-					0.0
Mathias Pedersen	0.0	-					0.0
Remuneration from parent company							
Marcus Lindqvist, CEO	5.3			0.1	1.0		6.4
Mathias Pedersen, CEO	2.5			0.1	0.7		3.3
Kristina Lukes, CEO	0.4		0.4	0.0	0.1	-	0.9
Other senior executives, 2 persons							
Remuneration from parent company	1.3	-	-	0.0	0.2	-	1.5
Remuneration from subsidiaries	3.2	-	0.4	0.0	0.5	0.1	4.2
Total	**15.4**	**0.1**	**0.8**	**0.2**	**2.5**	**0.1**	**18.9**

The amounts recognised for 2020 are for the full year. Accrued variable remuneration to be paid after year-end totals SEK 0.4 (0.0) million for the CEO and SEK 0.4 (0.0) million for other senior executives. The Board will receive its full remuneration from the parent company. Notice of termination of the CEO is maximum 12 months when terminated by the company and 9 months when terminated by the employee. The CEO is not entitled to severance pay.

Share-based remuneration

Outstanding share rights/shares*	President	Senior executives	Key individuals	Total
Long-term incentive plan, 2019	0	105,000	42,000	147,000
Long-term incentive plan, 2020	34,323	14,660	5,000	53 983
Total outstanding as at 31 December 2021	**34,323**	**119,660**	**47,000**	**200,983**

*PSP 2019 consists of share rights that accrue to the participants if certain conditions are met and, therefore, have a potentially dilutive effect. The plan ended in the second quarter of 2022. However, none of the target and performance based conditions in PSP 2019 was met during the measurement period. Therefore, all share rights that the company allocated to participants in PSP 2019 were forfeited. Owner Plan 2020 consists of shares that are allocated but may only be retained if certain conditions are met over a seven-year period and, therefore, already had their maximum dilutive effect in 2021.

	2021		2020	
	Number of shares, share rights and options	Weighted redemption price	Number of shares, share rights and options	Weighted redemption price

Note 22, continued

Outstanding rights and options as at 1 January	316,694	-	1,833,834	-
Rights and options issued during the year	53,983	-	0	-
Rights and options forfeited and redeemed during the year[2]	-169,694	-	-1,517,140	-
Total outstanding as at 31 December	**200,983**	**-**	**316,694**	**-**

[2] PSP 2018 was closed in April 2021. However, none of the target and performance based conditions in PSP 2018 was met during the measurement period. Therefore, all share rights that the company allocated to participants in PSP 2018 were forfeited.

Specification of long-term incentive plan[6]	Number of shares, share rights or options	Number of participants	Maximum redemption price	Redemption period	No. of rights and options at 1 January	Allocated during the year	Forfeited during the year	Redeemed during the year[5]	Outstanding rights and options at 31 December[6]
Total allocation 2018[1]									
2018	503,002	14	53.0[2]	2021	71,694	0	-71,694	0	0
Total allocation 2019[3]									
2019	1,047,182	16	42.9[4]	2022	245,000	0	0	-98,000	147,000
Total allocation 2020[7]									
2020	53,983	3		2021-2027	0	53,983	0	0	53,983
Total	**1,604,167**				**316,694**	**53,983**	**-71,694**	**-98,000**	**200,983**

[1] Refers only to the performance share plan (PSP). In 2020, 431,308 share rights from PSP 2018 were forfeited and repurchased.
[2] Except for two participants with a maximum redemption price of SEK 30.26 and SEK 30.60.
[3] Refers only to the performance share plan (PSP). In 2020, 802,182 share rights from PSP 2019 were forfeited and repurchased.
[4] Except for three participants with a maximum redemption price of SEK 21.00, SEK 22.04 and SEK 22.11.
[5] The rights were redeemed by repurchase of PSP 2019 rights from three participants who were previously employed. The rights were repurchased/redeemed at pro-rata adjusted market value.
[6] Some parameters (such as the number of shares to which each PSP right entitles the holder and the maximum redemption price) in the long-term share-based incentive plans PSP 2018 and PSP 2019 are subject to customary adjustments/recalculations. The recalculations are made on account of Nelly Group's distribution of the shares in Qliro AB and CDON AB and Nelly Group's reverse share split (1:10).
[7] On 16 December 2020, the meeting decided to establish a long-term incentive plan ('Owner Plan 2020') for certain senior executives of Nelly Group AB. The Board proposed that Owner Plan 2020 include a maximum of 100,000 owner shares. The highest number of investment shares that all participants could allocate to Owner Plan 2020 had to equate to a total value of SEK 1.9 million. The owner shares are earned during the period from 1 January 2021 to 31 December 2027, both dates inclusive. The shares in Owner Plan 2020 were allocated to participants in the first quarter of 2021 but may only be retained if certain conditions are met over a seven-year period and therefore already had their maximum dilutive effect in 2021.

The long-term incentive plan PSP 2018 adopted by the 2018 AGM was closed in the second quarter of 2021. However, none of the target and performance based conditions in PSP 2018 was met during the measurement period. Therefore, all share rights that the company allocated to participants in PSP 2018 were forfeited.

The long-term incentive plan PSP 2019 adopted by the 2019 AGM was closed in the second quarter of 2022. However, none of the target and performance based conditions in PSP 2019 was met during the measurement period. Therefore, all share rights that the company allocated to participants in PSP 2019 were forfeited.

On 16 December 2020, the meeting decided to establish a long-term incentive plan ('Owner Plan 2020') for certain senior executives of Nelly Group AB. The Board proposes that the Owner Plan 2020 include a maximum of 100,000 owner shares. The highest number of investment shares that all participants may allocate to the Owner Plan 2020 must equate to a total value of SEK 1.9 million. The owner shares are earned during the period from 1 January 2021 to 31 December 2027, both dates inclusive. Expenses attributable to the Owner Plan 2020 were not charged to the Group during the year.

Note 22, continued

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	Group		Parent company	
Employee benefit expenses (SEK million)	2021	2020	2021	2020
Granted rights and options 2017	-	1.0	0.0	1.0
Granted rights and options 2018	0.0	-1.1	0.0	-1.1
Granted rights and options 2019	0.3	0.4	0.3	0.4
Granted rights and options 2020	2.8		2.8	
Total expense recognised as employee benefit expenses	**3.1**	**0.3**	**3.1**	**0.3**

The cost of the plans during the year totalled SEK 3.1 (0.3) million, excluding social security contributions. Of this SEK 3.1 million in employee benefit expenses for the performance share plan (PSP), SEK 0.3 million is for repurchase of CDON participants' PSP share rights (PSP 2018 and PSP 2019) at pro-rata adjusted market value.

Note 23 Fees and compensation to auditors

	Group		Parent company	
(SEK million)	2021	2020	2021	2020
KPMG				
Audit engagements	1.2	1.2	0.6	0.7
Audit-related services	-	2.4	-	2.4
Tax consulting	-	-	-	-
Other services	0.1	0.1	-	-
Total	**1.3**	**3.7**	**0.6**	**3.1**

'Audit engagement' refers to the statutory audit of the annual report, the accounting records and the management by the Board of Directors and the CEO and audits and other reviews conducted by agreement or under a contract. This includes other duties which it is incumbent upon the company's auditor to carry out, as well as advice and other assistance stemming from observations made during such audits or the execution of such other duties. This includes other duties that are incumbent on the company's auditor, as well as the provision of advice or other assistance resulting from observations in connection with such reviews or the performance of such other duties.

Note 24 Supplementary disclosures regarding the statements of cash flows

Items in profit for the year that do not generate cash flow from operations:

	Group		Parent company	
(SEK million)	2021	2020	2021	2020
Expenses on divestment of operations	-	-21.2	-	-
Loss on sale of non-current assets	1.8	-	-	0.2
Impairment of shares in subsidiaries	-	-	-	22.6
Dividend from subsidiaries	-	-	-	-84.4
Depreciation, amortisation and impairment of non-current assets	9.6	11.5	-	0.1
Amortisation of leases	25.5	16.9	-	-
Change in other provisions	-	-0.6	-	-0.6
Incentive plan	0.5	-2.0	0.5	-2.0
Unrealised exchange differences	1.7	-2.1	-	-
Group contributions made/received	-	-	-	-12.0
Other items	0.2	0.5	0.1	-
Total	**39.3**	**3.1**	**0.6**	**-76.1**
Other supplementary disclosures				
Interest received during the financial year	-	-	-	-
Interest paid during the financial year	-6.7	-3.7	-	-1.3
Total	**-6.7**	**-3.7**	**-**	**-1.3**

Note 25 Significant events after the end of the financial year

There have been no significant events after the end of the financial year.

The Board and management have analysed the effects of the conflict in Ukraine for the Group. No significant direct exposure in Ukraine or Russia has been identified. How inflation, raw material price fluctuation, customer behaviour or freight markets, for example, may change on account of the conflict is difficult to assess. At the time of preparation of the annual report, it is hard to estimate whether such effects are short-term, i.e. a few months, or whether any impact will be more long-term. We (the Board and management) note that there is uncertainty in the wider world, with the result that there is greater uncertainty than normal in relation to the ability to receive supplies and to sell the company's products. There is also uncertainty about future changes in the prices of raw materials. We (the Board and management) are following developments and taking action to limit any negative effects for the Group.

Note 26 Operating expenses by expense type

	Group	
(SEK million)	2021	2020
Cost of goods sold	-789.6	-781.9
Distribution and warehousing costs	-200.9	-212.3
Employee benefit expenses	-215.8	-212.3
Depreciation/amortisation	-35.2	-28.4
Other expenses	-228.5	-207.9
Total expenses	**-1,470.1**	**-1,442.8**

Note 27 Earnings per share

	Group	
Basic and diluted earnings per share (SEK)	2021	2020
Earnings per share, continuing operations	-2.65	-4.44
Earnings per share, discontinued operations	-	36.41
Earnings per share, Group total	-2.65	31.97

The numerator and denominator used in the above calculation are shown below.

	Group	
Basic and diluted earnings per share for continuing operations	2021	2020
Profit for the year attributable to parent company shareholders (SEK million)	-47.9	-71.1
Weighted average number of shares	18,017,359	16,016,898
Earnings per share, continuing operations, SEK	**-2.66**	**-4.44**

	Group	
Basic and diluted earnings per share for discontinued operations	2021	2020
Profit for the year attributable to parent company shareholders (SEK million)	-	583.2
Weighted average number of shares	18,017,359	16,016,898
Earnings per share, discontinued operations, SEK	**-**	**36.41**

	Group	
Basic and diluted earnings per share for the Group in total	2021	2020
Profit for the year attributable to parent company shareholders (SEK million)	-47.9	512.1
Weighted average number of shares	18,017,359	16,016,898
Earnings per share, total, SEK	**-2.66**	**31.97**

Earnings per share for 2020 were calculated considering the new share issue, following which the number of outstanding ordinary shares increased from 149,774,779 to 179,729,730. In 2020, there was also a 1:10 reverse split of the company's shares (both ordinary shares and C shares). Ten (10) existing shares were combined to form one (1) new share.

The parent company's custodial Class C shares attributable to the Group incentive plan (see Note 22) may generate potential dilution in the future. These have not been included in the calculation of earnings per share since they contribute no dilutive effect to either 2021 or 2020.

Certification by the Board

The Board of Directors and CEO declare that the annual report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated financial statements provide a true and fair view of the parent company's and the Group's financial position and earnings. The directors' report for the parent company and the Group provides a true and fair view of the development of the parent company's and the Group's operations, financial position and earnings and describes significant risks and uncertainties to which the parent company and the companies in the Group are exposed.

Borås, 12 April 2022

Mathias Pedersen Chairman of the Board of Directors	**Kristina Lukes** CEO	**Maj-Louise Pizzelli** Board member
Christoffer Häggblom Board member	**Stina Westerstad** Board member	**Josephine Salenstedt** Board member

Our auditor's report was submitted on 12 April 2022

KPMG AB

Mathias Arvidsson
Authorised public accountant

The annual report and the consolidated financial statements were, as shown above, approved for publication by the Board of Directors and the CEO on 12 April 2022.

Translation from the Swedish original

Auditor's Report

To the general meeting of the shareholders of Nelly Group AB , corp. id 556035-6940

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Nelly Group AB for the year 2021, except for the corporate governance statement on pages 52-57 and the sustainability report on pages 10-43. The annual accounts and consolidated accounts of the company are included on pages 46-113 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 the parent company as of 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2021 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 52-57 and sustainability report on pages 10-43. 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 statement of comprehensive income and statement of financial position for the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

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.This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valutaion of defferred tax assets attributabele to loss carry forward

See disclosure 8 and accounting principles on pages 75 and 79 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

As of December 31, 2021, the Group reported deferred tax assets of SEK 73.8 (74.0) million attributable to loss carry-forwards. As of December 31, 2021, the corresponding amount for the Parent Company amounts to SEK 71.7 (71.7) million.

The presentation of deferred tax assets is based on the Group's assessment of the size and timing of taxable gains. The estimation of future profits requires both assessment and estimates of future market conditions as well as interpretation of tax legislation. The carrying amount of deferred tax assets may be over- or understated and may vary if other assumptions are applied when assessing future profits and if the possibilities of using the deficit deductions.

Response in the audit

We have tested and assessed the principles used and the Group's method for forecasting future profits. We have also evaluated the reasonableness of the key assumptions used in the calculation against business plans and taken into account the Group's historical ability to prepare fair forecasts.

We have also verified the information provided in the annual accounts and consolidated financial statements and assessed that it correspond to the information provided under IFRS.

Revenue recognition of goods sales with right of return

See disclosure 4 and accounting principles on pages 74 and 79 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

Net sales for the Group as of December 31, 2021 amounted to SEK 1,428.4 (1,394.1) million. The Group recognises revenue in accordance with the terms of sale, i.e. when the goods have been handed over to transport agents, after deduction of returns.

Revenue recognition includes assessments and estimates of provision for expected returns. The provision is based on historical data and management experience. Hence, the statement of revenue of goods sales with a right of return is considered to be a key audit matter.

Response in the audit

In our audit, we have assessed, among other things, the risks in the processes and procedures for revenue recognition and provision for expected returns. We have evaluated the design and implementation of internal controls and tested the effectiveness of the controls during the year.

Regarding sales, we have also conducted analytical review and random sampling against supporting documents for assessing the time of revenue recognition. Furthermore, we have assessed management's assumptions and model for provisioning returns.

We have also assessed the content of the information on revenue and rights of return presented in the annual accounts and consolidated accounts.

Translation from the Swedish original

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 3-43 and 118. The other information comprises also of the remuneration report which we obtained prior to the date of this auditor's report. 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 Directors 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.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, measures that have been taken to eliminate the threats or related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Translation from the Swedish original

Report on other legal and regulatory requirements

Auditor's audit of the administration and the proposed appropriations of profit or loss

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Nelly Group AB for the year 2021 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors 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 Directors 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's 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the Esef report

Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for Nelly Group AB for year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report x2B/CPXKWZ/nId8= has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 *Examination of the Esef report*. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. We are independent of Nelly Group AB 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the Esef report in accordance with the Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets

the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of the assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e. if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the Esef report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, financial position, changes in equity and cash flow.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 52-57 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is 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.

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

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 10-43, and that it is prepared in accordance with the Annual Accounts Act.

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 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 opinion.

A statutory sustainability report has been prepared.

KPMG AB, was appointed auditor of Nelly Group AB by the general meeting of the shareholders on the 21 May 2021. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 1997.

Gothenburg 12 April 2022

KPMG AB

Mathias Arvidsson

Authorized Public Accountant

Key ratios and alternative performance measures

Gross margin – a measure of how well goods are sourced and sold in relation to net revenue
Gross profit divided by net revenue. Gross margin is what Nelly Group previously described as product margin.

Return rate – a measurement of the value of goods returned by customers
The sales value of returned goods divided by total sales before returns

Inventory share of sales LTM – a measure of how efficiently the sourcing of goods is planned and executed
Closing inventory balance divided by net revenue over a rolling twelve-month period Note that historical inventory balances for CDON AB and
Qliro AB have been excluded to facilitate comparison between periods.

Own brand share of sales – the share of sales of Nelly's own brands
Calculated by dividing total sales of own brands by total sales

No. of active customers LTM Nordic (000) – a gauge of how well Nelly Group attracts new and retains existing customers
The number of unique customers in the Nordic countries during a rolling twelve-month period

No. of sessions Nordic (000) – an indicator of how well Nelly generates traffic to the website
The number of unique site visits from Nordic IP addresses to nelly.com or nlyman.com during a specified period. Sessions multiplied by the conversion rate translates into customer sales before returns.

No. of orders Nordic (000) – a measure of how many orders Nelly generates during a specified period
The number of orders that Nordic customers have placed at nelly.com or nlyman.com during a given period Orders multiplied by the average order value translates into customer sales before returns.

Average order value in the Nordics – the average customer basket value in SEK
The number of items multiplied by average item value for orders placed at nelly.com or
nlyman.com during a given period.

Conversion rate in the Nordics – a gauge of the proportion of customers visiting the site that place an order
The number of Nordic orders divided by the number of Nordic sessions at nelly.com or nlyman.com The conversion rate multiplied by the number of visitors equals the number of orders per customer.

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