

Corporate governance report

Corporate governance in Nelly Group is based on Swedish legislation and generally accepted good practice in the securities market. Nelly Group follows the Swedish Code of Corporate Governance ("the Code") and applied the Code with no exceptions in 2022.

General meetings

General meetings are the highest decision-making body in Nelly Group, at which shareholders exercise their voting rights. 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. There are no restrictions on the number of votes each shareholder may cast at meetings. The company has ordinary shares and class C shares, both of which carry one (1) vote per share. The Board of Directors may also decide that shareholders may exercise their voting rights at general meetings by postal voting in advance.

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 auditors and certain other matters provided for by law and the Articles of Association. The annual general meeting for the 2022 financial year will be held in Stockholm on 31 May 2023. More information about the annual general meeting, including instructions on how to register, are included in the notice published in a press release on 28 April 2023 and is available on the website at www.nellygroup.com.

Shareholders

Information on Nelly's ownership structure, share capital and shares is available on page 53 and pages 90–91.

Information to shareholders includes interim and full-year financial reports, financial statements and press releases on significant events. All such reports, press releases and other information can be found on the website at www.nellygroup.com.

Nomination Committee

Instructions for the Nomination Committee were adopted at the AGM on 12 May 2021. According to the instructions, which apply until a decision to amend the instructions for the Nomination Committee is made by a general meeting, the Nomination Committee must have at least three members appointed by the largest shareholders in the company who wished to appoint a member. The largest shareholder must convene the Nomination Committee and, within ten trading days after the information about the largest shareholders on the last trading day of the month in which the AGM was held has been published, contact the three largest shareholders to establish whether they want to appoint members of the Nomination Committee. If one of the three largest shareholders in terms of votes does not exercise their right to appoint a member, the shareholder convening the

committee must request the next shareholder, up to the tenth largest shareholder, to appoint a member within one (1) week. If only two shareholders wish to appoint a member to the Nomination Committee after the tenth largest shareholder has been contacted, the third member of the Nomination Committee may also be appointed by these two shareholders. A member of the Nomination Committee who is appointed in this way may not be a member of the Board of Directors of the company or the company management. The members of the Nomination Committee must appoint a chair at their first (statutory) meeting. The Chair of the Board of Directors must be invited to the meetings of the Nomination Committee when the Nomination Committee deems this appropriate. If a member resigns prematurely, the Nomination Committee may decide to appoint a new member. Provided that the shareholder who appointed the member who resigned prematurely is one of the largest shareholders in the company, the shareholder must be asked to appoint a new member. If this shareholder refrains from appointing a member, the Nomination Committee may ask the next shareholder in size who has not previously appointed a member of the Nomination Committee. If the ownership structure of the company changes, the Nomination Committee may decide to change its composition so that the Nomination Committee appropriately reflects the ownership of the company. Even if changes are made to the company's ownership structure, no changes need be made to the composition of the Nomination Committee if the changes are minor or if a change occurs less than three months before the AGM, unless a change is justified by special circumstances. The task of the Nomination Committee is to prepare proposals for the election of the Board of Directors and auditor, remuneration for them, the Chair of general meetings and any necessary amendments to the instructions for the Nomination Committee. The current instructions for the Nomination Committee are available on the website at www.nellygroup.com.

In accordance with the nomination committee instructions, a representative of the largest shareholder, Rite Ventures, convened a nomination committee to prepare proposals for Nelly Group's 2023 AGM. The nomination committee for the 2023 AGM consists of Jonathan Sundqvist, appointed by Rite Ventures, Stefan Palm, appointed by ettfemsju själ AB, and Alexander Antas, appointed by Mandatum Life Insurance Company. Jonathan Sundqvist was appointed chair of the Nomination Committee. The full proposals by the Nomination Committee for the 2023 AGM are included in the notice published in a press release on 28 April 2023 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. Further information is available in the Nomination Committee's reasoned statement to the 2023 AGM, which is available on the website at www.nellygroup.com.

Board of Directors

The Board of Directors is elected at the AGM for the period up to and including the end of the following AGM. The 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. The AGM on 12 May 2022 decided to re-elect Mathias Pedersen, Maj-Louise Pizzelli and Josephine Salenstedt and to elect Sandra Backlund, Daniel Hörnqvist and Stefan Palm for the period until the end of the 2023 AGM. The AGM also decided to re-elect Mathias Pedersen as Chair of the Board. In 2022, the Board met the requirements of the Code for the majority of its members to be independent of the company and its management and for at least two members to also be independent of the company's largest shareholders. Further information on the Board members is available on pages 60–61.

Responsibilities and duties of the Board

The Board is the company's highest management body and its duties are governed by the Swedish Companies Act, the Articles of Association and the Code. The Board is responsible for the organisational structure of the company and management of the company's affairs. The Board must also monitor financial trends, ensure the quality of financial reporting and internal controls and evaluate operations against targets and guidelines established by the Board. The Board also makes decisions on major investments and changes to the Group's organisational structure and operations. In the course of the year, it also discusses reports from the Audit and Remuneration Committees and reports on internal control, liquidity and financing. The work of the Board is based on rules of procedure that are adopted every year. The rules of procedure govern the allocation of duties and responsibilities between Board members, the Chair of the Board and the CEO, and contain procedures for financial reporting and other instructions for the CEO. The Board also adopts instructions for the Board's committees.

The Board's duties

The Board held twelve meetings during the year, of which one statutory meeting. Board members receive a written agenda before each ordinary Board meeting. The agenda is based on the rules of procedure adopted by the Board. They also receive full documentation for the purposes of information and to enable them to make informed decisions. The CEO reports to the meetings, as does the company's Chief Financial Officer. Other members of the company management also attend and report on particular matters. Attendance by the Board members at Board and committee meetings is shown in the table below. Important issues discussed by the Board of Nelly Group during the year include the company's liquidity and financing, purchasing strategy, cost savings and continued streamlining of internal procedures and governance processes.

Name	Board meetings	Audit committee	Remuneration committee
Total meetings in 2022	12	4	4
Mathias Pedersen	12/12	4/4	4/4
Sandra Backlund*	9/12	2/4	2/4
Daniel Hörnqvist*	9/12		
Stefan Palm*	9/12		
Maj-Louise Pizzelli	12/12		
Josephine Salenstedt	11/12	2/4	1/4
Christoffer Häggblom**	3/12		2/4
Stina Westerstad**	2/12	2/4	

* Sandra Backlund, Daniel Hörnqvist and Stefan Palm were elected as Board members at the 2022 AGM. In addition to the information in the table above, Daniel Hörnqvist and Stefan Palm attended two further Board meetings as co-opted members.

** Christoffer Häggblom and Stina Westerstad were Board members until the 2022 AGM.

Assessment of the Board of Directors and the CEO

The Chair of the Board of Directors initiates an annual assessment of the work of the Board, including the effectiveness of its working methods and how they can be improved. The assessment of the Board's work in 2022 was carried out by the Chair of the Board by means of a survey. The results of the assessment were presented to the Nomination Committee by the Chair of the Board and also reported in writing to the Nomination Committee. The Board also regularly assesses the work of the CEO. An assessment is performed at least once a year in the absence of the CEO.

Board committees

The Board has established two internal committees, an audit committee and a remuneration committee. These committees are preparatory bodies for the Board of Directors and do not limit the Board's responsibility for managing the company and the decisions made. Committee meetings are minuted and reported to the Board at the next Board meeting.

Remuneration Committee

The Remuneration Committee consists of Sandra Backlund (Chair) and Mathias Pedersen. The Remuneration Committee's tasks are described in section 9.1 of the Code. The principal task of the Remuneration Committee is to assist the Board with proposals, advice and preparation in matters relating to the remuneration and other terms of employment of the company's CEO and remuneration principles for the company management. The committee's tasks also include monitoring and assessing the outcome of variable remuneration programmes and Nelly Group's compliance with the guidelines for remuneration of senior executives adopted by the AGM.

Audit Committee

The Audit Committee consists of Mathias Pedersen (Chair) and Sandra Backlund. The Audit Committee assists the Board in the performance of its role supervising audit matters. The committee's principal tasks are described in Chapter 8, Section 49b, of the Swedish Companies Act. These include overseeing the company's financial reporting and risk management, the effectiveness of internal control and governance, and maintaining contact with and assessing

Corporate governance report

the work, qualifications and independence of the external auditor. The committee must also help prepare proposals for the AGM's resolutions on the election and remuneration of auditors. The results of the committee's work in the form of observations, recommendations and proposals for decisions or action are reported to the Board as they arise.

Remuneration of Board members

The AGM on 12 May 2022 resolved that the fee for ordinary Board duties and duties on a Board committee for the period up to the end of the 2023 AGM would be a total of SEK 1,675,000, of which SEK 450,000 for the Chair of the Board, SEK 200,000 for each of the other five Board members, SEK 75,000 for the Chair and SEK 30,000 for each of the other two members of the Audit Committee, and SEK 50,000 for the Chair and SEK 20,000 for each of the other two members of the Remuneration Committee. As the Board's Audit and Remuneration Committees only have one (1) member in addition to the Chair, the total fee for ordinary Board duties and duties on the Board's committees for the period up to the end of the 2023 AGM totals SEK 1,625,000.

For additional information on remuneration of Board members, see Note 21 on page 100.

External auditors

Under the Articles of Association, the company must have at least one and at most three registered accountancy firms as its auditors. The duties of the auditor apply until the end of the AGM held after the year in which the auditor was appointed. At the AGM on 12 May 2022, KPMG AB was re-elected as auditor up to the end of the 2023 AGM. KPMG AB has been the company's external auditor since 1997. Mathias Arvidsson, authorised public accountant, has been auditor in charge since May 2021. 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. The auditor reports its findings to the shareholders by means of the auditor's report, which is presented to the AGM. In addition, the auditor reports its findings to the audit committee twice a year and to the full Board once a year, and annually provides written assurance of its impartiality and independence to the Audit Committee. KPMG also provided certain other services in 2022 in addition to the audit. These services comprised consultation on accounting and tax issues and other audit-related engagements. See Note 22 on page 109 for more information.

CEO and company management

The CEO is responsible for the ongoing administration of the company in accordance with the guidelines and directions established by the Board. In consultation with the Chair of the Board, the CEO prepares the information and documentation required for the Board's work and to enable the Board to make well-informed decisions. The CEO is supported by the company management. The CEO and company management, supported by various staff functions, are responsible for the Group's adherence to overall strategy, financial

and business controls, Group financing, capital structure, risk management and acquisitions. Among other tasks, this includes preparation of financial reports, communication with the investors etc. The company management consists of Helena Karlinder-Östlundh, Acting Chief Executive Officer, Lotta Fermén, Chief Assortment Officer, Ola Wahlström, Interim Chief Financial Officer, and Stefan Svensson, Chief Operating Officer. Further information on the members of the company management is available on page 62.

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 Nelly Group's CEO and other members of the company management (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 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.

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.

Corporate governance report

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 company 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.

Internal control of financial reporting

Nelly Group's procedures for internal control, risk assessment, control activities and monitoring regarding financial reporting are designed to ensure reliable overall financial reporting 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

The Board's rules of procedure and instructions to the CEO and Board committees are designed to ensure 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 on various issues such as monitoring internal auditing and the 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. Managers at different levels in the Group have this responsibility in their areas of responsibility. The company

management regularly reports 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 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 improvements emerging from the external audit. The external auditors report to the Audit Committee at ordinary committee meetings, where relevant.

Internal audit

The Board annually assesses the need for a specific internal audit function to ensure that the company complies with adopted policies, standards and other applicable laws relating to internal control and financial reporting. Against the background of the company's organisational structure, existing processes and internal control work, the Board has concluded that there is no need to establish an internal audit function. The matter of an internal audit function will be reviewed in 2023.