

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 transporta-

tion. 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.

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Shareholders on 31 December 2021

	Capital (%)	No. of shares
Rite Ventures	25.1%	4,634,348
Ettfemsju Sjal 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.

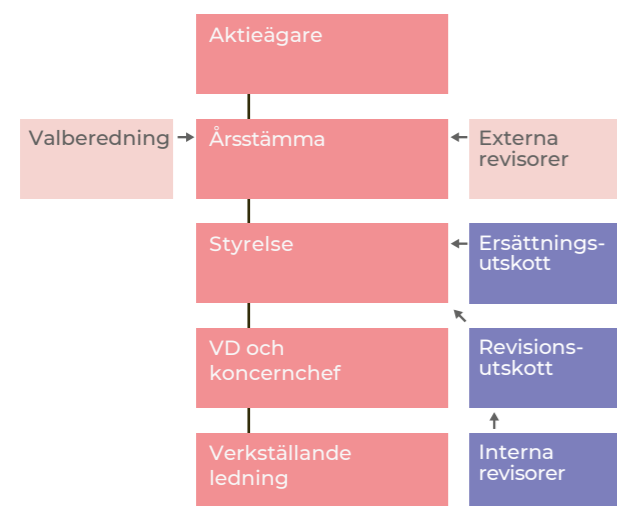
Nelly Group is governed by several bodies. At the annual general meeting, the shareholders exercise their voting rights by electing the Board of Directors and external auditors. Some of the Board's duties are prepared by the President and CEO of Nelly. The CEO oversees the day-to-day management of the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