ANNUAL REPORT 2022

NELLY

Contents

Comments by the CEO

2022 WAS A YEAR of major change for Nelly. June saw a number of changes to the management of the company and the start of extensive transformation work to create a stronger customer offer, a more efficient organisation and a healthier cost base.

During the year, we focused on optimising our range to make it clearer and better suited to our customers . We revised our purchasing processes to enable us to react faster to high demand, and we refined our visual image to make it more commercial and on trend. Our focus was more clearly set on the core of our business: our products, our own brand and our carefully curated external brands, the three elements that combine to create a fashion destination for young women and men in the Nordic region.

In the second half of the year, we launched an extensive cost-saving programme, one of the results of which was that we have now made substantial changes to the structure of our organisation. The aim of these changes was naturally to considerably reduce our ongoing employee benefit expenses. However, they also helped eliminate unnecessary complexity in our operations and enhance interdepartmental collaboration. In parallel with our saving programme, we also intensified our focus on promoting organic traffic and increasing the efficiency of our paid channels. This resulted in a reduction in our marketing costs for the year, and we will continue to focus on this going forward.

The warehouse project completed in 2021 also continued to have a positive impact on our logistics costs. One result during the year was our lowest cost per item shipped ever, and our variable expenses were in line with our expectations. In 2022, we also created a third-party solution to make better use of our warehouse capacity and cover our fixed expenses, given the reduction in our order volumes. From a customer perspective, we met our high targets for delivery precision.

During the past year, we made great advances towards achieving profitability, even though the effects of these changes are not immediate. We saw a decline in total customer traffic and a decrease in conversion and the gross margin for the full year of 2022, which underlines the fact that we still do not deliver what the customer wants frequently enough, and we need to continue our restructuring work in 2023.

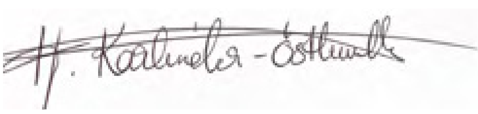
Sustainability is still at the top of our agenda

Nelly continues to strive to make its operations environmentally and socially sustainable. Our move to a narrower range better suited to our customers is key in this respect as well. A carefully curated range that matches what customers demand leads to better stock movement and increases the likelihood of our products becoming much-loved garments that are worn again and again over a long period of time.

We are working actively to reduce our climate impact, both in our own organisation and with our suppliers. In 2022, we continued our commitment to a faster transition to renewable energy at our Turkish partners, which resulted in several of them having improved their energy consumption and aiming to install solar panels. The switch to a higher proportion of more sustainable materials in our own brand products is also a priority area. Last year we increased the proportion of cotton grown according to the principles of Better Cotton in our Nelly products to 66%. From a social perspective, it is important to us to ensure compliance with regulations at the factories we use for our own-brand products. Consequently, it is our aim for them to be inspected by external inspectors every year within the period for the valid audit cycle. In 2022, we saw an improvement in this area to 92% (from 84% in 2021), with all production units in risk countries audited.

A more efficient, less complex company with the focus on the customer

After a year of major change, we have started 2023 as a more efficient, less complex, more customer-focused company. We have a dedicated team in place and have now also boosted our working capital with the new share issue we announced previously. We continue to face a challenging market in which our target group, like others, carefully considers each purchase. However, when the changes we made in the past year take full effect, we are convinced that we will have an attractive customer offer that, in combination with the adaptation of our costs, will give us the right foundation on which to face the tough economic climate and achieve profitability.



Helena Karlinder-Östlundh
Acting CEO of Nelly Group AB

SEK million	2022	2021
Net revenue	1,299.0	1,428.4
Gross profit	566.2	638.7
Gross margin (%)	43.6%	44.7%
Operating profit/loss	-56.1	-38.6
Operating margin (%)	-4.3%	-2.7%

"Always celebrate the fab you!"

Five-year summary

SEK million	2022	2021	2020	2019	2018
Operating income and earnings					
Net revenue	1,299.0	1,428.4	1,394.1	1,452.2	1,384.5
Gross profit	566.2	638.7	612.1	684.5	685.1
Operating profit (EBIT)	-56.1	-38.6	-45.9	-61.7	-6.4
Profit/loss before tax	-71.6	-47.2	-47.5	-73.1	-19.7
Profit/loss for the period	-71.7	-47.8	-71.1	-86.8	-17.2
Profitability and related key ratios					
Gross margin, %	43.6%	44.7%	43.9%	47.1%	49.4%
Operating margin, %	-4.3%	-2.7%	-3.3%	-4.3%	-0.5%
Return on capital employed, %	Neg	Neg	Neg	Neg	Neg
Return on equity, %	Neg	Neg	Neg	Neg	Neg

Nelly

Nelly is one of the best-loved fashion destinations for young women in the Nordics. We offer a vibrant world of fashion and every day we inspire our target group with trends and head-to-toe looks from our own brand Nelly and carefully selected brands from an international portfolio.

NELLY WAS LAUNCHED IN 2004 and was a pioneer in e-commerce and digital marketing. 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. With "Celebrate the fab you" as our core concept, we are determined to always praise women around us and celebrate life, whatever the occasion!

Our success is based on a keen nose for trends and a high level of engagement among the target group. We are the fashion destination for 1.1 million customers in the Nordic region. We are always looking for new ways to inspire our target group and boost our attractiveness to them.

We have 2.4 million members of Nelly.com in the Nordic region and 1.3 million followers of our social media profiles. We offer our community daily inspiration in terms of trends and looks from our own brands, and a portfolio of carefully selected external brands. Our customers continually reach out to us for 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.

Nelly's target group are young fashionistas. Our customers are digital natives and have grown up with social media and e-commerce. We want to inspire them to be nothing but themselves and to shine at all times. From the very start, Nelly has been strong on party wear, and we soon became known for our own-brand party dresses and shoes. We still love party fashion, but our offer also includes fashion for every occasion, covering everything from nights in, down the gym and coffee in town to work and parties. Our message is that life is one long party to be celebrated, no matter what the occasion!

NLYMan

Men's clothes have been part of our range since 2008. In 2014, the men's department was separated off and the NLYMan.com site was launched, a fashion destination for men online. NLYMan offers clothing, shoes and accessories from carefully selected brands, for every occasion.

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 both globally and in local markets. 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 primarily sold via our own stores at Nelly.com and NLYMan.com.

Platform

Nelly's platform is based on our strong brands, combined with our efficient organisation for purchasing, marketing, sales and delivery. We respond to insights from data and are working to automate 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. Continuous improvement is part of our DNA.

"Nelly is an integrated part of the lives of our target group, and our target group is an integrated part of Nelly. With our community's strong engagement with Nelly's brand and offer, we are creating one of the Nordic region's best-loved fashion destinations together."

Helena Karlinder-Östlundh,

Acting CEO of Nelly

1.2
SEK billion in net revenue in the Nordics

96
million visits in the Nordics

2.3
million purchases in the Nordics

1.1
million customers in the Nordics

SEK million	2022	2021	Change, %
Net revenue	1,299.0	1,428.4	-9.1%
of which Nordics	1,245.6	1,340.0	-7.0%
of which outside Nordics	53.4	88.4	-39.6%
Cost of goods sold	-732.7	-789.6	-7.2%
Gross profit	566.2	638.7	-11.4%
Gross margin, %	43.6%	44.7%	-1.1 pp
Warehousing and distribution costs	-205.1	-252.9	-18.9%
Marketing costs	-148.0	-157.7	-6.2%
Administrative expenses	-268.7	-267.9	0.3%
Other operating income	1.0	2.9	-65.5%
Other operating expenses	-1.5	-1.8	-16.7%
Operating profit/loss	-56.1	-38.6	-45.3%
Operating margin, %	-4.3%	-2.7%	-1.6 pp
Opening inventory balance* (see Note 13)	205.0	192.6	6.4%
Closing inventory balance* (see note 13)	225.6	205.0	10.0%
Inventory share of net revenue, rolling twelve-month period* (see Note 13)	17.4%	14.4%	3.0 pp
Percentage of sales of own brands	35.1%	39.4%	-4.3 pp
Return rate	36.0%	34.8%	1.2 pp
No. of active customers in the Nordics, thousand	1,083	1,137	-4.7%
Number of visits in the Nordics, thousand	96,159	103,632	-7.2%
Number of orders in the Nordics, thousand	2,267	2,579	-12.1%
Average order value in the Nordics, SEK	794	749	6.0%
Conversion rate in the Nordics	2.4%	2.5%	-0.1 pp

Sustainability report

Nelly Group AB (Nelly) sees it as both an opportunity and an obligation to act from an economically, socially and environmentally sustainable perspective. The company works to continuously take increased responsibility for sustainable development.

THE 2022 SUSTAINABILITY REPORT includes Nelly Group AB (publ) (Nelly) and its wholly owned subsidiary Nelly NLY AB. This is Nelly's sixth 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 116. Since 2021, Nelly has reported on its sustainability work in the focus areas Respect the Planet, Fair & Equal and Empower Femininity.

Nelly's sustainability work is overseen operationally by the Production, Sourcing and CSR Manager in collaboration with the sustainability team, which consists of key individuals from several departments to ensure that all areas of operations focus on sustainability. 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 and Chief Operations 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.

"Sustainability issues are important for us and our customers, and we focus on sustainability in all areas of our operations. Every department is working with dedication to ensure that we jointly progress towards our objectives and assume ever greater responsibility."

Helena Karlinder-Östlundh, Acting CEO.

Nelly's sustainability initiatives

Nelly sells clothing and accessories via e-commerce, 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 products from external brands. The own brand products are purchased from manufacturers in China, Turkey, India, the UK, Bangladesh and Morocco. Nelly also caters for its male target group via NLYMan.com. The products are transported to Nelly's logistics centre in Borås, marketed digitally and sold at Nelly.com and NLYMan.com. The Nordic region is the primary market.

NELLY'S THREE FOCUS AREAS

Nelly's business model contributes to manufacturing, transport and storage, which have a major impact on people and the environment. This means that Nelly needs to assume responsibility to reduce negative impacts and help build a more sustainable society. The company has adopted a sustainability strategy for the entire value chain. Its approach to sustainability is through the following focus areas:

- **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 people and has an impact on them throughout the value chain
- **Empower Femininity** – to create a community in which the company's principal target group, young women, feels respected and celebrated

The main focus in 2022 was on climate initiatives and on offering more sustainable textile products by means of dedicated work to increase the proportion of more sustainable materials in the products. Good long-term relationships with suppliers for the company's own production are essential to ensure a shared approach to sustainability challenges. During the year, Nelly intensified its dialogue and improvement work with its suppliers and resumed visits by and to suppliers when Covid-related restrictions were largely eased in Europe. Travel to visit suppliers in Asia remains challenging on account of continued Covid-19 restrictions. The pandemic has had the positive effect of an improvement in monitoring and collaboration by digital means, resulting in a fall in the number of physical trips to visit suppliers.

Work began in 2022 to enhance sustainability communication and transparency with customers and other stakeholders via Nelly's online stores going forward.

Nelly's risk and materiality analysis was renewed in 2020 and has formed the basis of the continued sustainability work since then. The aim of the risk and materiality analysis was to identify the most important sustainability issues and define the sustainability-related risks that may affect the company. For Nelly, it is important to understand stakeholders' requirements and expectations in relation to sustainability work to ensure that we focus on the right factors. Investors, customers, suppliers and other partners are examples of stakeholders that are important to the company. Dialogue with stakeholders linked to requirements for and expectations of the company's sustainability work is conducted through forums such as meetings with board members and supplier meetings. The work on the risk and materiality analysis was started by representatives of management and the sustainability team. Risks were identified and the materiality analysis was used to establish important 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.

MATERIAL SUSTAINABILITY ISSUES FOR NELLY

The sustainability issues identified as material for Nelly's operations and their impact are listed below. The sustainability issues are linked to the focus areas Respect the Planet and Fair & Equal and are monitored with KPIs for each issue. Initiatives in the Empower Femininity area are carried out based on one or more of the company's principles for the area and are not measured using fixed KPIs (see page 44, the Empower Femininity chapter).

RESPECT THE PLANET:

Greenhouse gas emissions
Choice of materials
Chemicals management
Packaging
Returns and transport
End-of-life waste

FAIR & EQUAL:

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

EMPOWER FEMININITY

NELLY'S OVERALL SUSTAINABILITY GOALS:

2022 – Nelly's own production will only take place at factories inspected by external inspectors. **2022 result: 92%** (84% in 2021). Read more on page 39 (the Responsible supply chain chapter)

2023 – Achieve net zero in our own operations (Scopes 1&2). Base year 2018. **2022 result: -88%** (-71% in 2021)

2025 – 50% of our textile products must be made of more sustainable materials. **2022 result: 28%** (22% in 2021)

2030 – Reduce absolute greenhouse gas emissions by at least 50% by 2030 (Scope 3). Base year 2020. **2022 result: -16%**

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 work mainly concerns six of the UN Sustainable Development Goals:

Focus area	Sustainability issues	Link to UN Sustainable Development Goals
Respect the Planet	· Greenhouse gas 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 Goals 3 and 5
Empower Femininity		

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, ergonomic workplaces and recreational activities. Regular digital employee surveys are conducted for all employees to monitor health and safety and be able to take rapid action where necessary. See page 35 in the Employees chapter. The company also wants to help boost the self-esteem of its target group (see page 44 in the Empower Femininity chapter).

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 35 in the Employees chapter. Nelly is a member of Amfori BSCI, a key focus of which is to combat discrimination in the production chain. See page 39 in the Responsible supply chain chapter. The company works actively to create a community in which its principal target group, young women, feels respected and celebrated. By designing collections and offering products for different body shapes and sizes, and ensuring diversity in its choice of models, the company aims to offer garments suitable for a wide range of customers. See page 44 in the Empower Femininity chapter.

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 39 in the Responsible supply chain chapter.

GOAL 12: RESPONSIBLE CONSUMPTION AND PRODUCTION.

By increasing the proportion of more sustainable materials and offering more environmentally-friendly packaging, the company contributes to more sustainable consumption and production. See page 25 in the More sustainable materials chapter & page 29 in the Packaging chapter.

GOAL 13: CLIMATE ACTION.

Nelly works with STICA (The Swedish Textile Initiative for Climate Action) to reduce climate impact. Greenhouse gas emissions are calculated for the company's own operations (Scopes 1, 2) and the entire value chain (Scope 3). See page 21 in the Climate impact section.

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, STICA and The International Accord. See page 17 in the Nelly´s collaborations chapter.

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

Focus area	Risk	Action
Respect the Planet	Production, warehousing and transport involve risks of environmental and climate impact, in part as a result of energy consumption, resource usage, waste and greenhouse gas 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.	Nelly applies a continuous environmental strategy to reduce emissions and reports on climate impact in Scopes 1, 2 and 3.
Respect the Planet	Sustainably produced products and associated sustainability labels are becoming increasingly common among competitors and there is a risk of Nelly not offering sufficient more sustainable alternatives to customers and business partners.	Based on its sustainability strategy, Nelly is working to increase the proportion of more sustainable materials in its products and to ensure a sustainable supply chain for the products it produces. It is also working on enhancing the transparency of its sustainability communication.
Respect the Planet	Increased demand for more sustainable materials may result in scarcity, with increased costs as a result.	Nelly has begun work to create a more circular flow of materials. Nelly's Reborn collection was launched in Q1 2022, followed by a further release in Q2.
Respect the Planet	E-commerce means that products cannot be tried on in advance, which may result in returns and increased transport and emissions. In addition, there may be greater use of packaging, leading to unnecessary resource use.	Nelly takes a range of strategic action to reduce unnecessary returns and the use of packaging. Clear product descriptions and presentations, and acting on recurring reasons for returns are a couple of examples of Nelly's continuous strategic work to reduce unnecessary returns.
Respect the Planet	Chemicals requirements are constantly becoming stricter, and there is a risk that they are not complied with by all suppliers. This entails a risk of Nelly not being able to meet the stricter requirements for safe products.	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.
Respect the Planet	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 strikes in the transport sector.	Nelly's production is spread across several countries and continents to reduce the company's vulnerability to unforeseen production disruption or stoppages.
Respect the Planet	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.	Nelly has begun to work towards a more circular business model, for example through redesign collections, and regularly studies new initiatives to ensure a long-term sustainable business model.
Fair & Equal	Nelly's value chain includes a large number of brands, suppliers and factories. Nelly owns no factories, and there is a risk of violations of human rights in the supply chain, for example child labour, forced labour and harassment. In addition to the harm caused to those affected, this may entail risks for Nelly linked to the company's reputation and result in reduced sales.	Nelly communicates regularly and works closely with its suppliers and has a comprehensive Code of Conduct to prevent violations of human rights. To manage risks in the supply chain and ensure that human rights requirements are met, suppliers' operations are regularly subject to third-party inspections (by Amfori and Sedex). If Nelly learns of a breach of human rights by a supplier, action is taken immediately. Partnerships are ended in the event of serious violations.

Focus area	Risk	Action
Fair & Equal	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.	Nelly works continuously on well-being factors, welcomes whistle-blowers and regularly consults its employees to create a good working environment and find out what needs to be improved. This is done through both direct dialogue and anonymous recurring digital employee surveys.
Fair & Equal	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.	Nelly aims to achieve gender equality and diversity in its Board of Directors and management team and among its other employees. The company performs continuous monitoring to ensure that harassment and bullying do not exist in the workplace and so that it can take corrective action if any such behaviour is identified.
Fair & Equal	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.	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).
Fair & Equal	Nelly operates in an international environment with complex regulations. Among other things, there are a growing global focus on and initiatives concerning supervision in areas related to corruption. Many of Nelly's own products are produced in countries in which the risk of corruption may be deemed higher than in the Nordic region. There is a risk of Nelly's corporate governance, internal controls and compliance processes failing to prevent Nelly from being in breach of laws or regulations. If Nelly fails to comply with laws and regulations and other standards, the consequences may include fines and damage to Nelly's reputation. There is also a risk of individual employees not complying with Nelly's policies and guidelines, which may result in Nelly incurring expenses for non-compliance and Nelly's reputation being adversely affected. Nelly also depends on its suppliers and manufacturers complying with local laws and regulations, health and safety standards, human rights and laws to prevent corruption and discrimination, etc.	Nelly's producers of its own products have undertaken to follow Amfori BSCI's code of conduct and thus not be involved in any form of corruption. Suppliers are inspected regularly to ensure compliance with the code, and Nelly communicates continually with its suppliers on the areas contained in the code of conduct. To counteract corruption and promote good business ethics, Nelly has a code of conduct (ethics policy) 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	Empower Femininity as a new sustainability area must be managed carefully and intelligently to avoid the risk of criticism for so-called "Femwashing".	Nelly strives to be responsible, clear and honest in its communication. The company continually evaluates its initiatives and communication to minimise the risk of Femwashing.

Nelly’s collaborations

Global improvements are driven by collaborations between different types of actor in many countries. Initiatives to achieve a more sustainable future have greater impact if they are implemented in collaboration with other actors.

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.

Sustainable Fashion Academy

Sustainable Fashion Academy (SFA) is a non-profit organisation under the Swedish Textile Initiative for Climate Action (STICA). Its mission is to accelerate progress towards science-based sustainability goals and the UN Sustainable Development Goals (SDG) by harnessing the strength and influence of the clothing and textile industries. A number of environmental regulations and social policies are being developed in the EU that set high standards for brands and manufacturers. SFA helps companies enhance their knowledge of future legislation and policies and leading practice in the area of sustainability and accelerate the process to reduce climate impact.

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 been working with Human Bridge since 2018 by donating garments from sample management and/or 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.

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.

The International Accord

The International Accord is an independent, legally binding agreement between brands and trade unions that contains commitments to ensure a safe, healthy textile industry in Bangladesh. The organisation also works to set up worker protection programmes in other countries that produce textiles and garments. The aim is to enable a working environment in which no employee needs fear fire, building collapse or other workplace accidents that can be prevented with adequate health and safety measures.

Respect the Planet

As a company in the fashion industry, Nelly has a great responsibility to reduce its climate and environmental impact. This work is carried out in the Respect the Planet sustainability area, where the focus is on reducing environmental and climate impact and offering more sustainable products. In partnership with other actors, Nelly strives to manage world resources carefully.

THE FASHION INDUSTRY IS ESTIMATED to account for roughly 10% of global emissions and thus a large part of the world's climate impact. Valuable natural resources are used in the production of clothes and risk being 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. Collaboration 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 Respect the Planet sustainability area, Nelly has established time-based targets for reducing its impact on the climate and the environment. This work is based on Nelly's material sustainability issues with clear goals and KPIs that are monitored and improved constantly.

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

Transparency in the production chain is important to achieve more sustainable development. With ever higher demand for more sustainable materials and greater interest in sustainability among consumers and stakeholders, it is in Nelly's interest to encourage its customers to make more sustainable choices. Nelly currently publishes a full list of its factories. Going forward, Nelly plans to publish its production units at product level. In partnership with Amfori, factories are inspected regularly and the audit results for these factories are analysed. Read more on page 39 (Responsible supply chain chapter).

In 2022, Nelly made priority use of its system development resources for an extensive upgrade of its online stores. Nelly also began to prepare the ground to enable it to improve sustainability communication on its websites in the future. Customers will be offered guidance on how they can help extend the life of products and take a more sustainable approach to fashion.

In Nelly's travel policy, employees are encouraged to avoid flying, wherever possible, and to choose greener alternatives for business travel instead. Under the company's vehicle policy, electric vehicles need to be chosen to be approved as company cars.

HIGHLIGHTS OF RESPECT THE PLANET 2022
- Complete climate calculation carried out
- Nelly's total emissions in 2022 fell by 16% on the base year 2020
- With STICA, Nelly continued to be involved in training its Turkish suppliers in energy supply issues and supporting the transition to renewable energy
- Labels and washing instructions on Nelly's own products replaced with recycled material
- District heating for all of Nelly's premises is labelled with the Nordic Ecolabel
- The number of products with more sustainable materials sold increased by 201% on 2020
- 31% of Nelly's own products consist of more sustainable materials

"It feels incredibly important for us to continue our focus on sustainability. To challenge ourselves and others to improve constantly. Collaboration is the key to success!"

Maria Biederbeck, Production, Sourcing & CSR Manager.

RESPECT THE PLANET

Climate impact

Nelly's environmental work mainly involves climate-related issues and analysis and monitoring of our overall climate impact. The foundation of this work is our collaboration with other textile players in the Swedish Textile Initiative for Climate Action, STICA. During the year, Nelly analysed its overall climate impact, evaluated long-term goals and implemented mitigation measures. As a member of STICA, Nelly has the task of reducing its greenhouse gas emissions by 50% by 2030, from the base year 2020. This undertaking is in line with the global requirements to achieve the 1.5 degree target.

IN 2022 Nelly completed a full climate report in which greenhouse gas emissions in Scopes 1, 2 and 3 were reported according to the Greenhouse Gas Protocol. Nelly's climate impact continues to be concentrated most in the production stage of the value chain, primarily in material production. This will continue to form the foundation of Nelly's long-term climate goals for Scope 3 and the development of measures to reduce climate impact.

NELLY'S CLIMATE GOAL

Nelly's goal for its own operations (Scopes 1 and 2) is to reach net zero by 2023. Base year 2018.

Nelly's Scope 3 goal is to reduce absolute greenhouse gas emissions by 50% by 2030. Base year 2020.

IMPACT REDUCTION MEASURES

Nelly works constantly to identify and implement materials with lower climate impact. In this way, Nelly influences its suppliers in the value chain to continue to look for and offer more sustainable materials. Read more about the goals in the strategy in the More sustainable materials and Packaging sections.

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 be supplied with renewable energy. As Turkey is Nelly's largest market for buying its own brand products, the company has decided to continue its involvement in STICA's "renewable energy in the Turkish supply chain" working group. The group allows companies to come together to effect a transition to renewable energy at their suppliers. As a first step in this work, joint suppliers in Tier 1, i.e. product manufacturing units, were identified in 2021. The opportunities to use certified renewable energy and solar cells were also investigated. The work to identify actors in Tier 2, i.e. material manufacturing units, and to identify their energy sources began in 2022. All of Nelly's Turkish suppliers underwent third-party analysis to identify and improve their energy supply and implemented improvements. One improvement is that several of Nelly's suppliers aim to install solar panels in 2023.

In 2021, Nelly relocated its warehouse from Falkenberg to new premises in Borås. The new facility 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 Nordic Ecolabel. As the new warehouse is located near the company's head office, internal transport has been virtually eliminated as it is no longer necessary between Falkenberg and Borås. 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. Nelly's third-party warehouse for returns management plans to install solar panels in 2023. In 2022, Nelly reduced greenhouse gas emissions in its own operations, Scopes 1 and 2, by 88% on the base year 2018.
Global challenges, including the pandemic and war, caused problems for Nelly's shipments by sea in 2022. Closed ports and strikes meant that Nelly was forced to find alternative routes and means of transport, for example, flights, from Asia. Nelly has production units in several parts of the world for both remote and local markets, which results in fewer shipment-related risks. Shipment options with lower environmental impact were prioritised as the first choice for customer purchases.

The volume of domestic travel has been reduced considerably now that the operations formerly carried out in Stockholm are now based at Nelly's head office and following the warehouse location in the previous year. 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 in accordance with the company's vehicle policy, and charging points for both private and company cars were installed.

The pandemic led to most travel being replaced by online meetings with suppliers and partners in 2020 and 2021, contributing to much lower emissions. When the pandemic restrictions were eased, travel increased in 2022. However, the years of the pandemic have taught us that digital tools are a useful supplement to physical meetings and laid the foundations for new strategic decisions on foreign travel. Priority destinations include visits to new and existing suppliers, factory inspections and other important meetings.

In 2021, Nelly began to investigate circular business models and started working with redesign collections. In 2022, Nelly launched two Reborn collections in which unsold jeans were converted into new products, both locally produced in Borås.

CLIMATE RESULTS

The Group's climate results show that total emissions in 2022 were 19,686 tonnes CO2e, a decrease of 16% on the base year 2020. The majority of emissions are in Scope 3, in which the biggest category, purchased products, accounts for 92% of total emissions. This category includes Tier 1 product manufacturing, material and textile production and packaging material. In 2022, Tier 1 product manufacturing fell by 23% and packaging material by 68% on the base year. Nelly increased the proportion of more sustainable materials, with the result that emissions related to material and textile production fell by 6% in 2022. In total, the category of purchased products fell by 11% on the base year.

The second highest emissions category, transport and distribution, accounted for 7.2% of the Group's total emissions and fell by 50% on the base year. The reduction is primarily due to lower emissions from customer transport and a higher proportion of sea and road transport. Emissions related to business travel increased by 81% on the base year, which is explained by a new calculation category having been added in 2021, and the higher number of trips after the pandemic. The result for Scopes 1 and 2 was 28 tonnes CO2e, a fall of 88% versus the base year 2018 and a good start to achieving net zero in 2023. The result is primarily on account of Nelly's energy-efficient new warehouse premises.

GREENHOUSE GAS EMISSIONS

KPI: Direct emissions from sources under the company's control (Scope 1) in tonnes of CO2e: **10.7**

KPI: Indirect emissions from consumption of power, district heating and district cooling (Scope 2) in tonnes of CO2e: **17**

KPI:

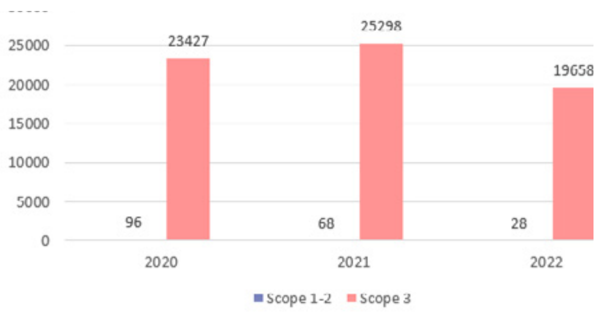
1. Other indirect emissions from the value chain (Scope 3) (total) in tonnes of CO2e: **See chart**

2. Other indirect emissions from the value chain (Scope 3) (purchased products) in tonnes of CO2e: **See chart**

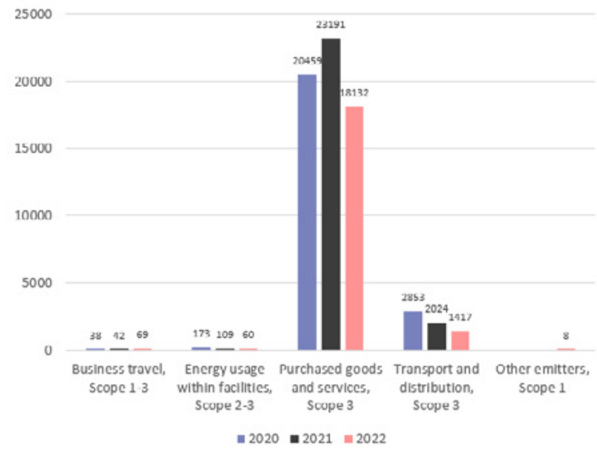
For 2022, the Scope 3 KPI business travel was replaced by purchased products as they account for the highest proportion of Scope 3 emissions.

3. Other indirect emissions from the value chain (Scope 3) (transport) in tonnes of CO2e: **See chart**

Total emissions, tonnes of CO2e



Emissions per category, tonnes of CO2e



Climate calculation method

Nelly's climate calculations have been performed according to the GHG protocol, in which the company's greenhouse gas emissions were divided into 3 scopes (1–3). Scope 1 comprises direct emissions from own operations, in Nelly's case refrigerant leakage and business travel. Scope 2 includes indirect emissions from consumption of power and heating in own operations, in which the climate calculation method is market-based. Scope 3 represents indirect emissions related to production of materials and fuel for purchased products, transport beyond the control of the reporting company, power-related activities not covered by Scope 2 and third-party activities.

The climate calculations were primarily based on actual data and supplemented by estimated sources where a need was identified. Emission factors applied for Scopes 1 & 2 and energy-related and fuel-related emissions in Scope 3 come from the Swedish Transport Administration, the Swedish Energy Markets Inspectorate (Ei), IEA and AIB European residual mixes. Emissions related to material and textile production and packaging material were calculated with emission factors from Higg MSI. For transport-related emissions, emission factors taken from Network of transport Measures (NTM) were applied. Emission factors for business travel come from ICAO Carbon Calculator (adjusted for RFI 2.7), the Swedish Transport Administration, Hertz Sustainability report 2019, the report "Branschläget 2018" (Industry Status 2018) by Svenska Taxiförbundet, NTM, and "Travel and climate, Methodology Report. Version 2.0," by Larsson & Kamb (2019). Emissions related to outsourced warehouse operations were estimated with emission factors from AIB Residual Mixes 2018 and 2020, and Värmevärde: SNV 2018.

RESPECT THE PLANET

More sustainable materials

Nelly is working actively to increase the proportion of more sustainable materials in its textile product range. As the manufacture of textile materials has the greatest climate impact, this was a top priority goal for 2022. Clear goals have been set for Nelly's materials strategy up to 2025. Deciding which materials are beneficial from a sustainability perspective is relative and the answer varies within the industry. When Nelly uses the term 'more sustainable materials', the company means materials produced with less climate and/or social impact than conventional equivalents. The materials that Nelly has currently chosen to classify as more sustainable are recycled fibres, EcoVero®, TENCEL®, organic cotton and cotton grown according to the principles of Better Cotton.

DEVELOPING the textile value chain is the shared aim of everyone involved in the textile industry, which permits unique collaboration between companies. Nelly therefore works with several textile companies to promote change together. Among other things, 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.

Nelly offers both own brand products and external brands. In 2022, own brands accounted for approximately 35% of sales and external bands 65%. Success in the area of sustainability depends not only on Nelly's work in its own operations, but also on that of the external brands and their development. By communicating its sustainability goals and ambitions, Nelly encourages its external brands to promote their own sustainability initiatives. Nelly also exerts influence by requiring more sustainable materials and reducing the purchasing budget for suppliers with a less sustainable range. Many of Nelly's bestselling external brands are making great progress in this area.

In 2022, Nelly increased the total percentage of more sustainable materials from 22% to 28%. However, the 30% target for 2022 was not achieved. Products made of more sustainable materials increased for Nelly's own brands to 31% for 2022. The percentage of cotton grown according to Better Cotton principles for own brand products was 66%, exceeding the target of 60%. As many of Nelly's own brand products contain polyester, the switch from conventional polyester to recycled polyester was given top priority. In 2022, recycled polyester accounted for 20%, with the result that Nelly achieved its interim target of 20% for the year. The company also had the goal of EcoVero® replacing 10% of all viscose for its own brands in 2022. The result for 2022 was 22%, i.e. the target was exceeded.

By marketing more sustainable products, the company helps customers make more sustainable choices. The materials strategy contains criteria for sustainable material choices based on industry standards and international certifications.

Nelly's materials strategy contains the following targets:

2022:

· 30% of all textile products will be made of more sustainable materials (2022 result: 28%)
· 20% of all polyester will be replaced with recycled polyester (own production) (2022 result: 20%)
· 60% of the cotton purchased by Nelly for its own production will be cotton from Better Cotton (2022 result: 66%)
· 10% of all viscose will be replaced with EcoVero® (own production) (2022 result: 22%)

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 cotton grown according to the principles of Better Cotton

CHOICE OF MATERIALS

KPI: Percentage of more sustainable materials in textile products (clothing, underwear/swimwear, textile accessories): **28%**

KPI: Percentage of more sustainable materials in own brand textile products (clothing, underwear/swimwear, textile accessories): **31%**

KPI: Percentage of cotton from Better Cotton in own brand products (clothing, underwear/swimwear, textile accessories): **66%**

RESPECT THE PLANET

Product quality and product safety

Nelly will offer products that are socially and environmentally sustainable. The products must be free of harmful and toxic chemicals with an impact on humans, animals and nature. This requires clear guidelines and close relationships with suppliers. 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 textile production, and it is important that relevant legislation is complied with. Nelly is a member of Textilimportörerna and receives regular information on areas such as chemicals legislation and amendments to such legislation. By communicating and updating requirements in the supply chain, Nelly ensures that the products do not contain prohibited, unhealthy or environmentally harmful chemicals.

Suppliers undertake, by signing agreements, to comply with relevant chemicals restrictions, and an updated chemicals guide with news, test methods and statutory requirements is sent out twice a year. 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 2022 because they contained banned chemicals.

Nelly continues to focus on ensuring quality and chemicals contents through chemicals tests and quality control in production. In 2022, 109 quality control inspections were carried out in production, an increase of 21% on 2021.

"Transparency and collaborative improvement are the key elements of our quality assurance process. It underpins responsible, sustainable business relations."

Maria Biederbeck, Production, Sourcing & CSR Manager.

Nelly conducts a continuous dialogue with all suppliers to monitor their production and achieve constant improvements. Corrective Action Plans are used to ensure development and improvement. Corrective Action Plans ensure that all suppliers are proactive, can guarantee human rights, labour rights and environmental protection and work to prevent corruption. Corrective Action Plans are subject to deadlines and the aim is to work with suppliers transparently and with humility. Examples of improvements made in 2022 are better production procedures to reduce overtime, reviews of power and water supplies to reduce the carbon footprint, better chemicals management procedures and more frequent production quality controls.

The complaint rate was 1% in 2022, 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. Nelly makes requirements for products of animal origin by means of its Animal Welfare Policy. 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 Welfare Policy is available at https://nelly.com/se/hållbarhet.

CHEMICALS MANAGEMENT
KPI: Number of products withdrawn because they contained banned chemicals: **0**

PRODUCT QUALITY
KPI: Number of quality control inspections (own brand): **109**

RESPECT THE PLANET

Packaging

E-commerce involves a large number of packaging units, and 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 usually used to provide effective protection against moisture and mould for long-distance transport. However, there is potential to work more sustainably by improving materials choices and packaging methods.

GARMENTS are currently usually packed individually for protection during transport. In 2022, Nelly continued to test 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. As a result of this, some products are delivered from selected suppliers without plastic around each garment.

Optimized use of packaging materials is important for cost-effectiveness, profitability and environmental impact. This means that the packaging is tailored to the size of the product to minimise packaging materials and empty space. Nelly constantly develops its packing processes to optimise packaging. During the year, the company reduced the size of some plastic bags, saving materials. This was well received by the company's customers. In 2022, recycled plastic accounted for 50% of total plastic consumption, and recycled paper accounted for 100% of total paper consumption.

Work began in 2021 to change the labelling on Nelly's own brand products to 100% recycled material. Since the start of 2022, all labels and care instructions on garments have been made entirely of recycled materials. To make it easier to recycle the paper tags that come with Nelly's own brand products, the company has updated the design and excluded a metal part.

PACKAGING
KPI:
1. kg recycled plastic/total plastic consumed (%): **50%**

2. kg recycled paper/total paper consumed (%): **100%**

RESPECT THE PLANET

Returns and shipments

Returns and shipments are a natural part of e-commerce with clothing. It is important to take a strategic approach to shipments and to minimise the number of unnecessary returns for both financial and environmental reasons. Nelly works actively to reduce the climate impact on shipments and minimise the number of unnecessary returns.

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 some customers buy several garments in the same category so they can try on a range of styles. The company continually takes strategic measures to help customers find the right size, which is the main reason for returns. The work has been intensified in that a dedicated resources was appointed during the year to focus on the returns process. A lower return rate 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 both immediately, for example via the sizing information on product pages, and when new collections are being developed and purchases made.

As part of the work to reduce the number of unnecessary returns, the company applied carefully selected criteria to identify customers who were abusing the returns system. In 2022, the company continued to block customers in this category to reduce unnecessary returns. 4,025 customers were blocked during the year on account of unsustainable return behaviour. Despite measures to achieve reductions, the return rate as a proportion of sales increased by 1.2 percentage points to 36% on 2021. However, the return rate must be seen in relation to the historically low return rate in 2021, when the pandemic was ongoing. The number of products returned in relation to the number of products sold increased by 0.8 percentage points. Returns-related emissions for 2022 fell by a total of 15% on the previous year as a result of more efficient transport.

INCOMING TRANSPORT

Nelly's own brand products are primarily shipped to the distribution centre in Borås by road and sea. 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 2022, flights were used for eight incoming shipments of goods for resale, seven of which were in the first half of the year on account of continued major disruption in global logistics chains. In 2022, emissions from incoming shipments of goods were 33% lower than in the year before, which is explained by a reduction in the emissions for all means of transport. Road transport accounted for the greatest reduction in tonnes of CO2e as a result of both lower volumes and more efficient transport.

OUTGOING TRANSPORT

Nelly maintains a continuous dialogue with its distribution carriers to increase the proportion of fossil-free transport. During the year, the company continued to place fossil-free carriage options higher up the list of options for customers to choose at time of payment, and partly as a result of this emissions from distribution decreased by 29% in 2022 compared with 2021. Fossil-free options include vehicles driven entirely using HVO100. Nelly was also one of the driving forces behind the industry agreement created via the Swedish Trade Federation (Svensk Handel) and ASTER to tidy up the plethora of terms relating to fossil-free shipments to ensure that consumers know exactly what fossil-free delivery means.

RETURNS

KPI: Number of returns as a percentage of sales (return rate): **36%**

KPI: Number of customers blocked as a result of unsustainable return behaviour: **4,025**

TRANSPORT

KPI: Proportion of CO2e emissions per means of transport for incoming shipments, distribution in %: **Air 20%, Sea 26%, Road 54%.**

MINIMISE END-OF-LIFE WASTE

Nelly strives to reuse or recycle unsold products to contribute to a more circular economy. The company works continually to develop the ambition to minimise end-of-life waste.

Garments that are returned are cleaned and repaired in the returns warehouse so they can be resold. Products that cannot be resold via the usual channels go primarily to buyers and also to charitable organisations and materials recycling. Garments in sample management were donated to the charitable organisation Human Bridge for reuse or recycling. 50 kg of garments were donated in 2022. 68 kg of garments needed to be sent for incineration in 2022 on account of mould during transport. Nelly aims to ensure a low proportion of garments are destroyed by working efficiently with producers, and by means of monitoring and inspection of production units.

END OF LIFE

KPI: Clothes (in kg) donated to Human Bridge: **50 kg**

KPI: Products (in kg) sent for destruction: **68 kg**

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. In its Fair & Equal sustainability area, the company aims to create a safe, healthy environment for employees and partners. Nelly must always follow the principles of good business ethics. Employees and manufacturers should feel proud of helping contribute to a transparent, fair industry.

A FAIRER fashion industry is an important part of Nelly's sustainability work. Nelly works with relevant partners to deal with challenges in the fashion industry. Nelly is convinced that transparency in the supply chain will contribute to a more sustainable future. Nelly also assesses and prioritises constant improvement of the conditions for the company's own employees.

Nelly communicates closely and regularly with its suppliers to promote joint achievement of objectives and improvements. The company is a member of Amfori BSCI with the aim of improving working conditions in the supply chain and bases its requirements for suppliers in terms of human rights and decent working conditions on Amfori BSCI's code of conduct. All of Nelly's own brand suppliers must sign the code of conduct, which contains requirements for health, safety, fair pay and good working conditions. 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 regularly by third-party companies.

The company takes a systematic approach to health and safety based on consideration and sound values. Nelly must be a workplace that promotes diversity and gender equality and is free of discrimination. Processes for employee appraisals, management by objectives and monitoring of the physical and psychosocial working environment are managed by the People organisation and implemented by managers in the organisation. The company regularly conducts digital employee surveys to continually monitor employees' well-being and working situation, and to be able to take rapid action if necessary. The entire company is subject to collective agreements.

It is crucial for Nelly that its employees have the right skills and commitment. 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.

The company takes a systematic approach to ensuring good business ethics and IT security. Good business ethics is essential for a company involved in e-commerce, where good business relationships are crucial to gaining customer trust. The company requires personal data to meet its commitments to customers, and it is essential that such data is processed responsibly and in accordance with regulations and laws.

FAIR AND EQUAL HIGHLIGHTS IN 2022

· 92% of the factories used to produce Nelly's own brand products underwent third-party audits
· No zero tolerance cases were reported as per Amfori BSCI inspections
· 65% female workforce
· 50% women on Board and in management team
· In 2022, Nelly received no reports of impropriety (whistleblowing).
• Nelly signed The International Accord for health and safety in the textile and garment industry

Nelly considers it important, as a company, to contribute to its business and social environment. Following Russia's military invasion of Ukraine, Nelly donated money and clothing and assumed other positions in favour of Ukraine and against Russia's actions. In early 2023, the company donated warm clothing to the disaster-hit areas of Turkey and Syria following the destructive earthquakes.

FAIR & EQUAL

Employees

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

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 a safe, attractive working environment in which every employee is treated with respect.

The ability to attract new employees and offer a workplace where people thrive, remain and progress is a success factor. Examples of benefits include flexible working hours for salaried employees, supplementation of parental leave pay, salary switching opportunities, agreements with occupational health service providers, a preventive health care allowance and discounts at several gyms. These benefits contribute in part to reducing social ill-health in the workplace and creating a better work-life balance. Activities to promote job satisfaction and community in the workplace are carried out in part by the Nelly Fun Squad, which consists of representatives of the various departments of the company.

The company has a policy and an action plan for gender equality and diversity that complement the code of conduct (the code of conduct is described in more detail on page 43). Diversity and gender equality are important, both to offer an attractive workplace and to ensure understanding of customer needs. Failure to promote gender equality and non-discrimination may lead to psychosocial problems for employees. The company also has a health and safety policy, and a policy and 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. The company conducts regular digital employee surveys to gauge the mood on and address issues that affect the working environment throughout the company and to be able to take action fast, where necessary. The tool also offers the opportunity to report bullying or harassment and contains the appropriate procedures. In the event of any bullying or harassment, action is taken immediately according to the policy's action plan to investigate the case and put a stop to the bullying or harassment.

There are local union branches at the warehouse in Nordskogen and the office in Knalleland and they work well with the company. There are also health and safety committees in both locations with which the company works on its systematic health and safety work. Safety work, including safety reviews, is an important part of introductions for new employees and the ongoing work to reduce the risk of workplace accidents. 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 suit an employee's height.

The company's long-term goal is to enhance its staff by active development of leadership and employee participation. This work includes both individual initiatives and shared development days. All warehouse employees received training in employee participation in 2022. This focused on how they can jointly create a positive, safe working environment and the responsibility borne by each employee in this work. The company works constantly to support its managers, for example via executive forums and leadership days. A long-term leadership programme has been started to develop managers in leadership, coaching, feedback and management by objectives.

The workforce was reduced between 2021 and 2022 by means of a cost saving programme, including staff cuts. In connection with the staff cuts, the company offered training to new managers to equip them with the tools to manage change. The company's People organisation held individual appraisals with a large number of employees to identify their attitude to and understanding of the journey of transformation the company had undertaken. The first employee appraisal process after the staff cuts was adjusted to include questions linked to the new organisation.

Early 2022 was still dominated by the pandemic and employees who were able to work remotely were recommended to work at home. 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. Since the easing of Covid-19-related restrictions in February 2022, the company urged employees to return to the office but also offered them great leeway to work remotely for part of the time. In spring 2022, a staff party was arranged for all employees to enable them to meet in person again after the long period of working from home and digital meetings. Despite the lifting of restrictions, the company decided to retain hand sanitiser and the possibility of hybrid working for those employees who could do so. While the restrictions applied, the number of business trips was minimised and they were replaced by sustainable digital working methods. These working methods made it possible for Nelly to continue to travel less than before the pandemic and to supplement travel with digital meetings.

GENDER EQUALITY, DIVERSITY AND EQUAL TREATMENT

KPI: Gender distribution, employees: **See table**

KPI: Gender distribution, management team: **See table**

KPI: Gender distribution, Board of Directors: **See table**

KPI: Gender distribution, managers: **See table**

"Our employees are our greatest asset. It is their commitment and drive that creates value for our customers. We are proud of our internal culture, in which we actively discourage complexity and hierarchies and constantly improve the way in which we work with each other. We want to promote a culture in which all opinions are valid and our employees feel that they are trusted to make decisions in their areas."

Agneta Haglund, Head of People.

Age and gender distribution of employees in Nelly Group [1]

	Proportion of women (2022)	Proportion of women (2021)
Total	65%	64%
Under 30	72%	69%
30–50	60%	61%
Over 50	56%	65%

Diversity, Board

	Proportion of women (2022)	Proportion of women (2021)
Total	50%	60%
Under 30		
30–50	67%	67%
Over 50	33%	50%

Diversity, management team

	Proportion of women (2022)	Proportion of women (2021)
Total	50%	50%
Under 30		
30–50	50%	47%
Over 50		100%

Diversity, managers

	Proportion of women (2022)	Proportion of women (2021)
Total	60%	Not measured in 2021
Under 30	75%	
30–50	59%	
Over 50	50%	

[1] Calculated on all employees during the year, reduced by the number of people who left during the year. The calculations are first carried out by month, and then an average is extrapolated for the full year of 2022. Both numbers and percentages have been rounded off.

FAIR & EQUAL

Responsible supply chain

Nelly strives to work closely and efficiently with its suppliers and sets standards for working conditions and human rights. Nelly wants to work with suppliers that, like the company itself, defend human rights and promote good working conditions, and wants to work with them to set joint goals for improving their partnership in the supply chain. Constant enhancement of transparency in the supply chain requires all parties to be open in their dialogues and to understand the importance of transparency.

RESPONSIBLE SUPPLY CHAIN

Nelly is a company in the clothing industry and its value chain includes a large number of brands, suppliers and factories. This means that there is a risk of negative impact in terms of social sustainability in the company's value chain, and Nelly therefore focuses on risk assessment, setting standards, audits and measures linked to the supply chain.

Nelly's own brand products are made by 24 suppliers that, in turn, use 42 production units (Tier 1 factories). 40 of these are in the risk countries China, Turkey, India, Bangladesh 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 level of quality that is as regular and high as possible and to ensure that human rights and decent working conditions are promoted strongly.

Nelly is convinced that transparency in the supply chain will contribute to a more sustainable future. The company has no factories of its own. However, it is responsible for inspecting working conditions, and it demands action be taken if it discovers shortcomings. With its suppliers, Nelly contributes to improvements via motivation, training and monitoring. 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 the future.

RISK ANALYSIS AND ASSESSMENT OF NEW SUPPLIERS

Before new suppliers are contracted for own brand products, they are subject to a risk assessment for human rights that involves obtaining information from them, examining previous audit results and action plans and, if possible, a site visit. Following this risk analysis, an action plan may be established when a partnership begins. For the supplier to be approved, the action plan must be fully implemented by the deadline set. If a supplier is not willing to follow the UN guiding principles on human rights or to work on constant improvement, no partnership begins.

REQUIREMENTS FOR RESPECT FOR HUMAN RIGHTS IN CONDITIONS AND CODE OF CONDUCT FOR SUPPLIERS

Nelly has been a member of Amfori BSCI since 2018. Via its membership, the company works with other purchasing companies. The aim of the partnership is to improve the 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 comply with the code's guidelines in their operations and 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. The code includes a ban on child labour and forced labour, and governs issues such as reasonable pay and working hours, the right to trade union negotiations and health and safety in the workplace.

MONITORING SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN AND HANDLING OF NON-COMPLIANCE

To ensure compliance with the requirements of the code, suppliers are audited regularly by third-party companies. The audit reports indicate both correct objectives and non-compliance and breaches of the code of conduct. If Nelly identifies any breach of human rights and working conditions at a supplier, immediate action is taken by Amfori in partnership with the purchasing company and manufacturer, always with the focus on protecting employees and creating an action plan for improvement. A supplier may be excluded in the event of serious breaches of the code, known as zero tolerance non-compliance. Examples of zero tolerance non-compliance are forced labour, child labour, discrimination, violence, assault or bribery. No zero tolerance non-compliance was identified in the audits in 2022.

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 and a code of conduct with clauses on working conditions and human rights. The majority of the brands with which Nelly works have clear sustainability goals and high ambitions for their operations in terms of human rights and decent working conditions in the supply chain.

During the year, 92% of the factories making Nelly's own brand products were audited with third-party inspections based on BSCI or Sedex within the period for the valid audit cycle. The company's overall target of 100% audited factories was therefore not met. Nelly prioritised the audit of manufacturing units in risk countries and all had a valid audit result in 2022. Nelly's goal for the company's own brand products only to be produced in factories inspected by external inspectors is an ongoing project, and the goal continues to apply annually in the future.

Amfori BSCI inspections are graded on a scale from A (highest) to E (lowest). All manufacturers are expected to strive to improve constantly, and Nelly attaches importance to close dialogue to set joint targets for improvements. Following a grade C or lower, an action plan is required from the manufacturer and this is followed up with another inspection. The purpose of the action plan is to find the root cause of the non-compliance and identify measures or training that may lead to improvement. In the 2022 audits, the non-compliance was mostly in the areas of Decent working conditions, which may mean excessive working hours or too much overtime, and Health & safety, which may mean a lack of fire safety or use of protective equipment. Nelly prioritises the promotion of improvement principally in these areas.

Most factories recovered in 2022 after the pandemic, during which several had been closed or long periods of time. Some areas in China had to close at certain times in 2022, but recovered relatively fast. Consequently, it was possible to return to procedures and continue to work on audits. Development work, training and workshops were largely carried out remotely as Nelly did not travel to supplier countries outside Europe.

PARTNERSHIPS FOR BETTER CONDITIONS IN THE SUPPLY CHAIN

Nelly works with Better cotton, The International Accord and Amfori to promote human rights. In 2022, Nelly began a partnership with a factory in Bangladesh and signed The International Accord for health and safety in the textile and garment industry. The International Accord is an independent, legally binding agreement between brands and trade unions containing commitments to ensure a safe, healthy textile industry in Bangladesh.

RESPONSIBLE SUPPLY CHAIN

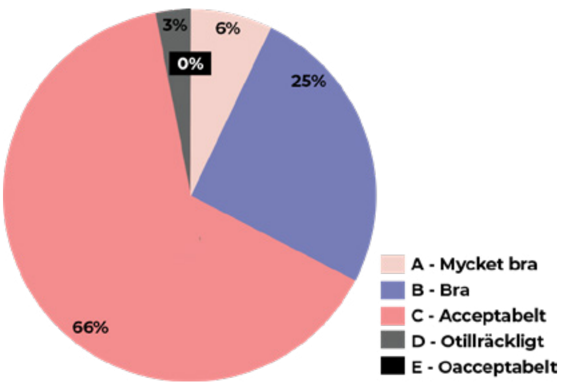
KPI: Percentage of factories with valid social third-party inspections (own brands): **92%**

KPI: Audit results distributed over Amfori BSCI audits conducted (own brands): **See chart**

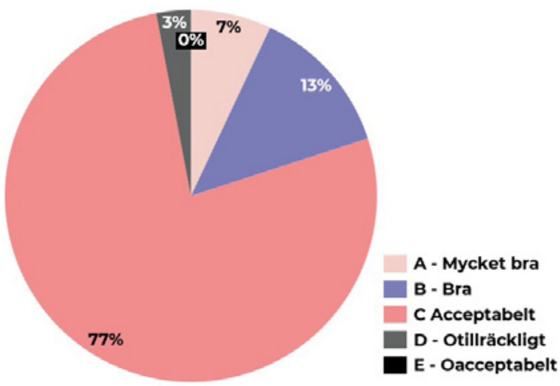
KPI: Number of suppliers (own brands): **24**

KPI: Number of production units (own brands): **42**

Audit results, 2022



Audit results, 2021



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. 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, and to be able to improve offers and services via customer surveys and marketing. 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. By establishing an internal personal data processing policy which specifies the requirements made at Nelly to ensure that the Group complies with laws and rules linked to the processing of personal data, Nelly has raised awareness of and thus also knowledge about how personal data must be processed.

To ensure good internal control of any risks related to personal data processing, Nelly has established a framework in accordance with the provisions of the General Data Protection Regulation with regular reporting of the situation to management and the Board of Directors, and an action plan for any identified action required. Nelly continues to work actively on the internal control framework to continue to maintain the same high level of data protection as in recent years. In addition to the internal control activities, Nelly's data protection work in 2022 focused on ensuring good personal data processing based on supplier audits, regular independent audits to ensure compliance with regulations and action to ensure adequate security in 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 well-established data security policy ensures that data is used securely by all employees, including external resources. Nelly works constantly to improve its approach to data security as the business environment and market change.

Nelly takes an active approach to managing personal data breaches. Depending on the risk posed to the data subject's privacy, such breaches are initially classified as low, medium or high risk breaches. In 2022, Nelly had a total of 73 personal data breaches, 72 of which were classified as low risk and one as medium risk. There were no breaches that led to a report to the Swedish Authority for Privacy Protection in 2022. The most common breaches are when packages are mistakenly sent to the wrong recipient, with the result that data relating to customer purchases is revealed to third parties such as another customer. Nelly constantly learns from the breaches that occur and uses the information to improve its work. Nelly's warehouse processes have been changed and partially automated with the result that the number of manual mistakes and thus personal data breaches classified low risk has greatly decreased.

Nelly aims to practice a high level of business ethics and has zero tolerance for bribery and corruption. The company is aware of the risk of corruption and works to prevent corruption both in its own operations and in the company's international value chain. Nelly's producers of its own brand products have undertaken to follow Amfori BSCI's code of conduct and thus not be involved in any form of corruption. Suppliers are inspected regularly to ensure compliance with the code, and Nelly communicates continually with its suppliers on the areas contained in the code of conduct.

Nelly's code of conduct (ethics policy) for employees and its whistleblower policy are fundamental to the work to prevent corruption. The code of conduct for employees lays the foundation for good business relationships, 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. The code of conduct is sent out for signing with the contract of employment before an employee joins Nelly and 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. Employees are expected to adhere to the code in their work and make sure that business partners know these principles. The format of the work on the code of conduct has changed, and the KPI for the material sustainability issue Anti-corruption and transparency was therefore replaced in 2022 with the number of confirmed whistleblower reports.

To ensure a good internal environment in which employees and business partners feel confident about reporting suspicions of impropriety, Nelly has a whistleblower policy that describes the entire whisteblower process. Suspicions can be reported anonymously, and the information will be investigated. Whistleblowing is expected of employees when necessary. In 2022, Nelly received no reports of impropriety.

ANTI-CORRUPTION AND TRANSPARENCY
KPI: Number of confirmed whistleblower reports: **0**
The format of the working method for signing the code of conduct was changed in 2021, and the KPI for anti-corruption and transparency was therefore updated in 2022.

IT SECURITY & CUSTOMER PRIVACY
KPI: Number of identified data leaks
1. Number of breaches reported to the Swedish Authority for Privacy Protection (IMY) (formerly the Swedish Data Protection Authority): **0**

2. Number of personal data breaches per risk classification: **High: 0, medium: 1, low: 72**

Empower Femininity

Nelly's principal target group is young women, and the company works within the framework of Empower Femininity to create a community in which young women feel respected and celebrated.

EMPOWER FEMININITY has been a specific sustainability area in Nelly's sustainability strategy since the end of 2021, but the company previously also focused on empowering young adults. With Empower Femininity as part of its sustainability strategy, the company wants to take specific, even greater responsibility for its customers. With its position as a fashion destination for young women, Nelly is able to make a difference and help boost the self-esteem of this target group. The inside is just as important as the outside.

NELLY WILL WORK ON THE BASIS OF THE FOLLOWING PRINCIPLES IN THE AREA EMPOWER FEMININITY:
- Adapt the expression and tonality of communication with the target group to communicate joy, warmth and self-esteem to inspire young women to feel good about themselves, dare to be themselves and express themselves as they want
- Help boost and celebrate diversity
- Take a stand on relevant issues concerning the target group, where appropriate
- Support and/or promote initiatives, activities and projects that support the message and are in line with Nelly's values

Nelly does not retouch its models' natural, beautiful features and marks such as stretch marks, scars, birth marks and cellulite. The company wants to contribute to healthy standards for bodies in which such features and marks are normal.
The company promotes diversity in how its products are presented to ensure that more young women recognise themselves. It does so in part by actively promoting greater diversity in the choice of models for campaigns and catalogue photos. In 2022, the company implemented processes for a structured approach to considerably increasing the use of User Generated Content, UGC, in its online stores. UGC is customers' own photos wearing the company's products. This contributes to diversity and offers customers an opportunity to see the products in reality, not only on models in a photographic studio.

In 2022, the company decided to close the Nelly Lounge customer platform. This was a customer forum designed to benefit the target group through initiatives and editorial content and for communication between young women in the target group. The company has decided to focus on creating content and initiatives in its other customer channels such as Instagram, TikTok and newsletters, which reach a larger target group.

Empower Femininity is aimed at the company's principal target group and customer group, young women in the Nordic region.

Promotion of human rights, decent working conditions and gender equality and prevention of discrimination and harassment on the basis of gender affiliation among employees in the supply chain are of great importance to the company and are addressed in the Fair & Equal focus area. See pages 35 (Employees chapter) and 39 (Responsible supply chain chapter). The company communicates actively with its partners based on its sustainability strategy with the aim of inspiring suppliers to pursue their own sustainability work. For example, the company's biggest supplier in Turkey partnered with Nelly to hold a training day for all women in production focusing on women's health.

HIGHLIGHTS OF EMPOWER FEMININITY IN 2022
- More UGC on product pages
- The Nelly Tour took place to spread joy and inspiration to young women in five Swedish cities at various balls and events
- A lunch event for all managers at Nelly with representatives of the target group with the aim of listening to and learning directly from the target group

"Young women are a target group subject to very high expectations from society. Many people think they are entitled to tell them how to look, behave and be. Many young women live part of their social lives online and they sometimes encounter a negative atmosphere. Nelly wants to offer a positive alternative based on our principles by celebrating young women and supporting and inspiring them to be themselves."

Helena Karlinder-Östlundh, Acting CEO.

Future focus

The sustainability work in an organisation must never stand still. To achieve a sustainable future for our planet and all its inhabitants, without wideranging adverse impact from climate change and environmental destruction, everyone needs to do everything they can according to their ability.

NELLY'S SUSTAINABILITY STRATEGY extends to 2030. With clear goals, the sustainability work is an important, integral part of Nelly's operations.

NELLY'S LONG-TERM FOCUS FOR THE FUTURE INVOLVES:

- Working constantly to achieve the company's sustainability goals in the short and long terms
- Continually improving transparency and communication with customers and stakeholders
- Working actively and creatively in all three sustainability areas: Respect the Planet, Fair & Equal and Empower Femininity
- Incorporating and evaluating new business models for long-term sustainable business with greater circularity

"The sustainability work must never stand still. It must be an integral part of all operations and an aspect of all decisions made. With respect for the challenge and a dynamic approach, we are working together to achieve our sustainability goals!"

Maria Biederbeck, Production, Sourcing & CSR Manager.

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 2022, sales were SEK 1,299.0 (1,428.4) million and the operating profit was SEK -56.1 (-38.6) million. Profit after tax amounted to SEK -71.7 (-47.8) million. The sale of own brands amounted to 35.1 (39.4) percent of sales. The return rate amounted to 36.0 (34.8) percent. Nelly had an average of 221 (250) employees during the year, of whom 61 percent (64 percent) were women.

Financial position and earnings

SEK million	2022	2021
Net revenue	1,299.0	1,428.4
Gross profit	566.2	638.7
Gross margin (%)	43.6%	44.7%
Operating profit/loss	-56.1	-38.6
Operating margin (%)	-4.3%	-2.7%
Net financial items	-15.9	-8.6
Profit/loss before tax	-71.6	-47.2
Profit/loss after tax	-71.7	-47.8
Basic and diluted earnings per share (SEK)	-3.98	-2.65
Total assets* See Note 13	837.2	925.4

Sales

Net revenue amounted to SEK 1,299.0 (1,428.4) million. Of net revenue for the year, SEK 625.6 (682.2) million was in Sweden, SEK 620.0 (657.8) million in the rest of the Nordic region and SEK 53.4 (88.4) million in the rest of the world. Exchange rate fluctuations, rounded to the nearest whole figure, had a positive impact on sales of two percent for 2022.

Operating expenses

Cost of goods sold totalled SEK 732.7 (789.6) million. The gross margin was 43.6% (44.7).

Warehousing and distribution expenses amounted to SEK 205.1 (252.9) million in 2022. Marketing expenses amounted to SEK 148.0 (157.7) million. Administrative expenses amounted to SEK 268.7 (267.9) million. Operating profit/loss totalled SEK -56.1 (-38.6) million.

Net financial items

Net financial items totalled SEK -15.9 (-8.6) million.

Tax

Recognised tax expense totalled SEK -0.1 (-0.6) million.

Net profit and earnings per share

Profit after tax amounted to SEK -71.7 (-47.8) million. As of 31 December, the number of shares was 18,494,973, of which 18,026,266 ordinary shares and 468,707 class C shares. Basic and diluted earnings per share amounted to SEK -3.98 (-2.65), 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 -22.4 (-6.8) million for the year. Cash flow from operations after changes in working capital amounted to SEK -65.0 (18.7) million for the year. Investments in non-current assets, primarily IT investments, totalled SEK -11.1 (-22.9) million for the year.

Cash flow from financing activities totalled SEK -25.0 (-29.3) million for the year. At the year-end, total assets amounted to SEK 837.2 (925.4) million and equity amounted to SEK 133.6 (204.4) million. At the year-end, the Group had cash and cash equivalents of SEK 96.8 (197.5) million and no interest-bearing liabilities apart from tax credits and payment respite of SEK 93.8 (39.6) million.

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, exchange rate fluctuations, raw material price fluctuations, friction in the logistics chains and customer behaviour are deemed to have had an impact on operations, but the impact has not been estimated and directly isolated to the conflict. Future effects of the war in Ukraine remain difficult to predict.

Parent company

The parent company, Nelly Group AB, had sales of SEK 2.0 (1.6) million for the year. Profit before tax amounted to SEK -70.0 (-41.9) million for the full year. Cash and cash equivalents in the parent company amounted to SEK 2.3 (4.7) million at year-end. As of 31 December 2022, Nelly Group AB had 18,494,973 shares issued, of which 18,026,266 were ordinary shares and 468,707 were class 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 particular 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 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.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to fulfil 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 96.8 (197.5) million and unutilised credit facilities amounting to SEK 30.0 (30.0) million.

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 litigation
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 221 (250) 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 20 and 21.

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 10. The parent company has the same risks and uncertainties as the Group. Parent company sales totalled SEK 2.0 (1.6) million. Administrative expenses totalled SEK -12.1 (-13.4) million and consist of expenses of a recurring nature, primarily related to running Nelly Group AB as a publicly listed company with expenses for central operations, board fees and auditing fees. The profit from participations in subsidiaries was SEK 0.1 (-0.1) million. Other net financial items totalled SEK 0 (0) million. The parent company made Group contributions to subsidiaries amounting to SEK -60 (-30.0) million. Profit before tax amounted to SEK -70.0 (-41.9) million. Cash and cash equivalents in the parent company amounted to SEK 2.3 (4.7) million at the year-end.

Proposed appropriation of profits
These amounts are at the disposal of the shareholders as at 31 December 2022 (SEK):

Share premium reserve	1,404,969,262.28
Retained earnings	-1,290,620,093.59
Profit for the year	-69,988,494.99
Total	**44,360,673.70**

The Board proposes that the retained earnings, share premium reserve and profit for the year, a total of SEK 44,360,673, be carried forward.

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 2022 was SEK 154 million.

Shareholders on 31 December 2022

	Capital (%)	No. of shares
Rite Ventures	25.1%	4,634,348
Ettfemsju Själ AB	16.4%	3,037,563
Mandatum Life Insurance Company	9.6%	1,767,000
eQ Asset Management Oy	4.3%	792,616
Avanza Pension	3.3%	616,911
Nelly Group AB*	2.8%	511,454
Anders Böös	2.5%	465,131
Nordnet Pensionsförsäkring	2.0%	371,555
Peter Lindell	1.7%	315,000
Olle Sparringsjö	1.4%	255,692
Lars Johannesson	0.9%	175,000
Klas Bengtsson	0.7%	137,000
Swedbank Försäkring	0.7%	121,868
Marcus Lettby U	0.7%	107,830
Ulf Ragnarsson	0.6%	105,000
15 biggest	72.5%	13,414,968
Other	27.5%	5,080,005
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 class 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 2021 and 2022, see note 14. As at 31 December 2022, there were 24,900 (200,983) outstanding share rights attributable to the company's share-based incentive plans. See Note 21 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 2022 and the Board proposes no dividend for the 2022 financial year.

Share data

On the last trading day of the year, the share price was SEK 8.34.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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 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 Ccommittee 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 Ccommittee 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.

Board of Directors

Mathias Pedersen
Chair 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.

Chair of the Audit Committee and member of the Remuneration Committee

Independent of the company, company management and major shareholders.

Shareholding (including any related person's holding): 30,000 shares

Stefan Palm
Board member

Swedish,
born 1970

Stefan Palm has over 30 years of experience in the fashion and textile industries and is the founder, Board member and CEO of Lager 157.

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

Shareholding (including any related person's holding): 3,037,563 shares.

Sandra Backlund
Board member

Finnish,
born 1990

Sandra Backlund is the CFO of Rite Ventures. She previously worked as a management consultant at Centigo and as a consultant in the Business Process Solutions department at Deloitte. Sandra has an MSc in accounting and financial economics from the Hanken School of Economics i Vaasa, Finland.

Chair of the Remuneration Committee and member of the Audit Committee.

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.

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 Chair of the Board of CDON AB, Softco Invest AB and Söder Sportfiske AB. Her previous positions include Chair of the Board of Skincity and Board member of Doro AB and Paradox Interactive AB.

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

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. 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's holding): 0 shares.

Daniel Hörnqvist
Board member

Swedish,
born 1985

Daniel Hörnqvist is the CEO of Frank Dandy and Chair of the Board of Nordic Net Stores, which operates jakt.se,
fiske.se and hund.se. He was previously the CEO of Addnature and Regional Manager Nordic at internetstores.

Daniel has a degree in sports marketing and leadership from IHM.

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

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

The current Board was elected until the AGM, which will be held on 31 May 2023.

Management

Helena Karlinder-Östlundh
Acting CEO of Nelly

Born 1981

Helena Karlinder-Östlundh has been Acting CEO of Nelly Group since 16 January 2023.

She started work at Nelly in March 2022 in the role of Chief Transformation & People Officer. 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's holding): 0 shares.

Ola Wahlström
Interim Chief Financial Officer

Born 1980

Ola Wahlström became Interim CFO of Nelly Group in November 2022. His previous position was with Stampen Media as COO with responsibility for business development, sales (B2C/B2B) for the group and the performance of units including Göteborgs-posten.

Ola Wahlström has many years of experience of the retail trade and its digitisation, and he has held roles as CFO at MQ Holding AB (listed) and in other executive positions at Lindex. His solid experience of major transformations in the market, finance and e-commerce has been built up from a mixture of managerial positions and his background as a consultant at Accenture and EY.

Ola is a graduate in engineering from LiTH.

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

Lotta Fermén
Chief Assortment Officer

Born 1986

Lotta Fermén became Acting Chief Assortment Officer (CAO) in June 2022. Since January 2023, she has held the role of CAO in a permanent capacity.

Lotta's most recent role was as Category Manager at Nelly, in which her responsibilities included the purchasing team for Nelly's own brands, and she has similar experience from Gina Tricot.

Lotta has a degree in textile economics from the University of Borås.

Shareholding (including any related person's holding): 0 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 extensive 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's holding): 6,966 shares.

Consolidated income statement

(SEK million)	Note	2022	2021
Net revenue	4, 5	1,299.0	1,428.4
Cost of goods sold	13	-732.7	-789.6
Gross profit		**566.2**	**638.7**
Warehousing and distribution costs		-205.1	-252.9
Marketing costs		-148.0	-157.7
Administrative expenses		-268.7	-267.9
Other operating income	5	1.0	2.9
Other operating expenses	5	-1.5	-1.8
Operating profit/loss		**-56.1**	**-38.6**
Financial income	6	0.4	0.0
Financial expenses	6	-15.9	-8.6
Profit/loss before tax		**-71.6**	**-47.2**
Tax	7	-0.1	-0.6
Profit/loss after tax		**-71.7**	**-47.8**
Attributable to:			
Parent company owners		-71.7	-47.8
Profit for the year		**-71.7**	**-47.8**
Basic and diluted earnings per share (SEK)	26	-3.98	-2.65

Consolidated statement of comprehensive income

(SEK million)	Note	2022	2021
Profit for the year		**-71.7**	**-47.8**
Other comprehensive income			
Items that have been or can be reclassified to profit or loss			
Translation differences for foreign operations for the year		0.8	1.9
Other comprehensive income for the year	14	0.8	1.9
Comprehensive income for the year		**-70.9**	**-45.9**
Comprehensive income for the year attributable to:			
Parent company owners		-70.9	-45.9
Comprehensive income for the year		**-70.9**	**-45.9**

Consolidated statement of financial position

(SEK million)	Note	2022	2021
ASSETS			
Non-current assets			
Intangible assets	8		
Projects in progress		0.5	5.2
Development expenses		23.4	15.7
Domains		0.1	0.2
Goodwill		39.7	39.7
Total intangible assets		**63.7**	**60.8**
Property, plant and equipment			
Leasehold improvements	9	1.4	1.6
Equipment	9	10.5	13.3
Construction in progress	9	-	0.3
Right-of-use assets	19	284.3	313.5
Total property, plant and equipment		**296.2**	**328.7**
Financial assets			
Deferred tax asset	7	73.8	73.8
Deposits		6.0	6.1
Total financial assets		**79.8**	**79.9**
Total non-current assets		**439.7**	**469.4**
Current assets			
Inventories	13		
Goods for resale		225.6	205.0
Total inventory		**225.6**	**205.0**
Current receivables			
Accounts receivable	11	38.3	28.0
Other current receivables, non-interest-bearing		8.8	3.6
Prepaid expenses and accrued income	12	27.9	21.9
Total current receivables		**75.1**	**53.5**
Cash and cash equivalents	18		
Cash and bank balances		96.8	197.5
Total cash and cash equivalents		*96.8*	*197.5*
Total current assets		**397.5**	**456.0**
Total assets		**837.2**	**925.4**

Financial statements

Consolidated statement of financial position, continued

(SEK million)	Note	2022	2021
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders	14		
Share capital		185.0	185.0
Other capital contributions		1,405.8	1,405.8
Translation reserves		-3.8	-4.6
Retained earnings including profit for the year		-1,453.8	-1,381.8
Total equity attributable to parent company shareholders		**133.6**	**204.4**
Non-current liabilities			
Interest-bearing			
Lease liabilities	19	232.6	266.3
Total non-current interest-bearing liabilities		**232.6**	**266.3**
Non-interest bearing			
Other provisions	15	0.0	0.0
Total non-current non-interest-bearing liabilities		0.0	0.0
Total non-current liabilities		**232.6**	**266.3**
Current liabilities			
Interest-bearing			
Lease liabilities	19	62.0	50.1
Total current interest-bearing liabilities		**62.0**	**50.1**
Non-interest bearing			
Accounts payable – trade		143.2	144.3
Other liabilities		110.0	90.0
Accrued expenses and deferred income	16	155.8	170.3
Total current non-interest-bearing liabilities		**409.0**	**404.6**
Total current liabilities		**471.0**	**454.7**
Total liabilities		**703.6**	**721.0**
Total equity and liabilities		**837.2**	**925.4**

For information on pledged assets and contingent liabilities, see Note 17.

Consolidated statement of changes in equity

		Equity attributable to parent company shareholders				
(SEK million)	Note 14	Share capital	Other capital contributions	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance, 1 January 2021		**185.0**	**1,405.8**	**-6.4**	**-1,334.5**	**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**	**-4.6**	**-1,381.8**	**204.4**
Opening balance, 1 January 2022		**185.0**	**1,405.8**	**-4.6**	**-1,381.8**	**204.4**
Comprehensive income for the year						
Profit for the year					-71.7	-71.7
Other comprehensive income for the year				0.8		0.8
Comprehensive income for the year				**0.8**	**-71.7**	**-70.9**
Incentive plan					0.1	0.1
Closing balance, 31 December 2022		**185.0**	**1,405.8**	**-3.8**	**-1,453.8**	**133.6**

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Consolidated statement of cash flows

(SEK million)	Note	2022	2021
Operating activities			
Profit/loss before tax		-71.6	-47.2
Adjustments for items not included in cash flow	23	48.5	39.2
Income tax paid		0.7	1.2
Cash flow from operating activities before change in operating profit/loss		**-22.4**	**-6.8**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in inventories		-20.6	-13.2
Increase (-)/decrease (+) in other current receivables		-21.2	28.8
Increase (+)/decrease (-) in accounts payable		-1.1	0.5
Increase (+)/decrease (-) in other current liabilities		0.5	9.4
Total cash flow from changes in working capital		**-42.5**	**25.4**
Cash flow from operating activities		**-65.0**	**18.7**
Investing activities			
Investments in intangible assets		-10.6	-11.9
Investments in property, plant and equipment		-0.5	-11.2
Divestment of subsidiaries, net liquidity impact		-	0.2
Cash flow from investing activities		**-11.1**	**-22.9**
Financing activities			
Repayment of lease liability		-25.1	-23.1
Change in financial assets		0.1	-6.1
Cash flow from financing activities		**-25.0**	**-29.2**
Change in cash and cash equivalents		**-101.0**	**-33.4**
Cash and cash equivalents, start of year		**197.5**	**230.1**
Exchange rate difference for cash and cash equivalents		0.3	0.8
Cash and cash equivalents, end of year		**96.8**	**197.5**

Income statement – parent company

(SEK million)	Note	2022	2021
Net revenue		2.0	1.6
Gross profit		**2.0**	**1.6**
Administrative expenses		-12.1	-13.4
Operating profit/loss		**-10.1**	**-11.8**
Profit/loss from shares in subsidiaries		-	-0.1
Interest income and similar items		0.1	0.0
Interest expenses and similar items		0.0	0.0
Profit/loss after financial items	6	**-10.0**	**-11.9**
Group contributions paid		-60.0	-30.0
Profit/loss before tax		**-70.0**	**-41.9**
Tax	7	-	-
Profit for the year		**-70.0**	**-41.9**

Statement of comprehensive income – parent company

(SEK million)	Note	2022	2021
Profit for the year		**-70.0**	**-41.9**
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		**-70.0**	**-41.9**

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Balance sheet – parent company

(SEK million)	Note	2022	2021
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	10	253.1	253.1
Deferred tax asset	7	71.7	71.7
Total financial assets		**324.8**	**324.8**
Total non-current assets		**324.8**	**324.8**
Current assets			
Current receivables			
Other receivables		1.1	0.9
Prepaid expenses and accrued income	12	1.2	1.4
Total current receivables		**2.3**	**2.3**
Cash and bank balances	18	2.3	4.7
Total cash and cash equivalents		**2.3**	**4.7**
Total current assets		**4.6**	**7.0**
Total assets		**329.4**	**331.8**

Balance sheet – parent company, continued

(SEK million)	Note	2022	2021
EQUITY AND LIABILITIES			
Equity	14		
Restricted equity			
Share capital		184.9	184.9
Statutory reserve		0.8	0.8
Total restricted equity		**185.7**	**185.7**
Non-restricted equity			
Share premium reserve		1,405.0	1,405.0
Accumulated profit or loss		-1,290.5	-1,248.7
Profit for the year		-70.0	-41.9
Total non-restricted equity		**44.4**	**114.4**
Total equity		**230.1**	**300.1**
Provisions			
Other provisions	15	0.0	0.0
Total provisions		**0.0**	**0.0**
Current liabilities			
Accounts payable – trade		0.2	0.1
Liabilities to Group companies		98.2	29.5
Other liabilities		0.1	0.2
Accrued expenses and deferred income	16	0.8	1.9
Total current liabilities		**99.3**	**31.7**
Total liabilities		**99.3**	**31.7**
Total equity and liabilities		**329.4**	**331.8**

For information on pledged assets and contingent liabilities for the parent company, see Note 17.

Financial statements

Statement of changes in equity – parent company

		Restricted equity		Unrestricted equity			
(SEK million)	Note 14	Share equity	Statutory reserve	Share premium reserve	Ret-ained earnings	Profit for the year	Total equity
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	0.0
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**
							300.1
Opening balance, 1 January 2022		**185.0**	**0.8**	**1,404.9**	**-1,248.7**	**-41.9**	**300.1**
Comprehensive income for the year							
Profit for the year						-70.0	-70.0
Comprehensive income for the year						**-70.0**	**-70.0**
Appropriation of profits					-41.9	41.9	-
Incentive plan					0.0		0.0
Closing balance, 31 December 2022		**185.0**	**0.8**	**1,404.9**	**-1,290.6**	**-70.0**	**230.1**

Cash flow statement – parent company

(SEK million)	Note	2022	2021
Cash flow from operations			
Profit/loss after financial items		-10.0	-11.9
Adjustments for items not included in cash flow	23	0.0	0.6
Cash flow from operating activities before change in working capital		**-10.0**	**-11.3**
Cash flow from changes in working capital			
Increase (-)/decrease (+) in other current receivables		0.0	2.7
Increase (+)/decrease (-) in accounts payable		0.1	-0.6
Increase (+)/decrease (-) in other current liabilities		7.6	-17.9
Total cash flow from changes in working capital		**7.7**	**-15.8**
Cash flow from operating activities		**-2.3**	**-27.1**
Cash flow from investing activities		**-**	**-**
Financing activities			
Divestment of subsidiaries/operations, net liquidity effect		-	0.3
Cash flow from financing activities		**0.0**	**0.3**
Cash flow for the year		**-2.3**	**-26.8**
Cash and cash equivalents, start of year		4.7	31.6
Cash and cash equivalents, end of year		**2.3**	**4.7**

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 2022 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 27 April 2023.

Note 2 Accounting policies and valuation principles

2.1 Accounting policies
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 2022
The IFRS standards effective as of 2022 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 2022.

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. The Group does not report segments separately.

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.

Compensation transferred in connection with acquisitions 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. 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 recognised separately, the difference is recognised as goodwill. When the difference is negative, it is recognised directly in profit/loss for the year.

Disposals leading to loss of controlling interest but where holdings are retained are assessed either at fair value and the change in value is recognised in profit/loss for the year, or in accordance with the equity method if the remaining interest gives Nelly a significant influence.

Acquisitions of non-controlling interest are recognised as a transaction in equity, that is, between the parent company's

Note 2, continued

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.

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 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 19.

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

Note 2, continued

paid or received by the parties to the contract, transaction costs and all other surplus and deficit values.

2.9 Taxes
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.

2.10.3 Accounts receivable
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

Note 2, continued

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 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 Brands
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 10 years
Brands 10 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 aquisition value 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.

Nelly operates just one cash-generating unit and when a need for impairment has been identified for a cash-generating unit (group of units), the impairment amount is initially

Notes

Note 2, continued

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).

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 2022 or 2021.

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 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 21.

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

Note 2, continued

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. 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 2022 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 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.

Note 8 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 8 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.

Notes

Note 2, continued

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 15 Provisions.

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 revenue 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)	Net revenue		Non-current assets	
	2022	2021	2022	2021
Sweden	625.6	682.2	439.7	469.4
Other Nordics	620.0	657.8	-	-
Rest of world[1)]	53.4	88.4	-	-
Total	**1,299.0**	**1,428.4**	**439.7**	**469.4**

Sales by type of income (SEK million)	2022	2021
Products	1,268.0	1,395.3
Services	31.0	33.1
Total net sales	**1,299.0**	**1,428.4**

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Note 5 Other operating income and expenses

	Group		Parent company	
(SEK million)	2022	2021	2022	2021
Other operating income				
Other operating income	1.0	2.4	2.0	1.6
Exchange gains on operating receivables/liabilities	0.0	0.5	-	-
Total	**1.0**	**2.9**	**2.0**	**1.6**
Other operating expenses				
Loss on sale of non-current assets	0.0	-1.8	-	-
Exchange losses on operating receivables/liabilities	-1.5	0.0	-	-
Other operating expenses	0.0	0.0	0.0	0.0
Total	**-1.5**	**-1.8**	**0.0**	**0.0**
Total other operating income and expenses	**-0.5**	**1.2**	**2.0**	**1.6**

Note 6 Financial items

	Group		Parent company	
(SEK million)	2022	2021	2022	2021
Profit/loss from shares in subsidiaries	-	-	-0.1	-0.1
Profit from shares in subsidiaries, total	**-**	**-**	**-0.1**	**-0.1**
Interest income:				
- Interest income	0.4	0.0	-0.1	-
Financial income	**0.4**	**0.0**	**-0.2**	**-0.1**
Interest expenses:				
- Interest expenses, leases	-12.2	-5.1	-	-
- Interest expenses, other	-0.9	-1.6	0.0	0.0
Net exchange differences	-2.7	-1.7	-	-
Other financial items	-0.1	-0.1	-	-
Financial expenses	**-15.9**	**-8.6**	**0.0**	**0.0**
Net financial items	**-15.4**	**-8.6**	**-0.2**	**-0.1**

Note 7 Taxes

	Group		Parent company	
Distribution of tax expenses (SEK million)	2022	2021	2022	2021
Current tax expense				
Current tax for the period	-0.1	-0.3	-	-
Total	**-0.1**	**-0.3**	**-**	**-**
Deferred tax				
Deferred tax on temporary differences	1.5	0.4	-	-
Deferred tax on temporary loss carry-forwards	-1.5	-0.7	-	-
Total	**0.0**	**-0.3**	**0.0**	**0.0**
Total recognised consolidated tax expense	**-0.1**	**-0.6**	**0.0**	**0.0**

	Group				Parent company			
Reconciliation of tax expense (SEK million)	2022	%	2021	%	2022	%	2021	%
Profit/loss before tax	**-71.6**		**-47.2**		**-70.0**		**-41.9**	
Tax as per applicable tax rate for parent company	14.7	-20.6	9.7	-20.6	14.4	-20.6	8.6	-20.6
Non-taxable income	-	0.0	-	0.0	-	-	-	-
Non-deductible expenses	-0.2	0.3	-0.5	1.0	-	0.0	-	0.0
Increase in loss carry-forward without corresponding capitalisation of deferred tax	-14.6	20.4	-9.8	20.7	-14.4	20.5	-8.6	20.6
Effective tax/tax rate	**-0.1**	**0.1**	**-0.6**	**1.2**	**0.0**	**0.0**	**0.0**	**0.0**

	Group		Parent company	
(SEK million)	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Deferred tax asset				
Loss carry-forwards	71.7	73.2	71.7	71.7
Other	2.1	0.6	-	-
Total	**73.8**	**73.8**	**71.7**	**71.7**
Net deferred tax	**73.8**	**73.8**	**71.7**	**71.7**

Note 7, continued

Change in net temporary differences is recognised below:

Group (SEK million)	2022						
	Opening balance 1 Jan	Deferred tax income	Deferred tax expenses	Divestment of subsidiaries	Recognised in equity	Other	Closing balance, 31 Dec
Temporary differences:							
Loss carry-forwards	73.2	-	-1.5	-	-	-	71.7
Other	0.6	1.5	-	-	-	-	2.1
Total	**73.8**	**1.5**	**-1.5**	**0.0**	**0.0**	**0.0**	**73.8**

Group (SEK million)	2021						
	Opening balance 1 Jan	Deferred tax income	Deferred tax expenses	Divestment of subsidiaries	Recognised in equity	Other	Closing balance, 31 Dec
Temporary differences:							
Loss carry-forwards	73.9	-	-0.7	-	-	-	73.2
Other	0.0	0.6	-	-	-	-	0.6
Total	**73.9**	**0.6**	**-0.7**	**0.0**	**0.0**	**0.0**	**73.8**

Parent company (SEK million)	2022				
	Opening balance 1 Jan	Deferred tax income	Deferred tax expenses	Recognised in equity	Closing balance, 31 Dec
Temporary differences:					
Loss carry-forwards	71.7	-	-	-	71.7
Total	**71.7**	**-**	**-**	**-**	**71.7**

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

At 31 December 2022, recognised consolidated loss carry-forwards without an expiration date amounted to SEK 720.7 (650.9) million. For the year, the Group decided not to accumulate further deficits on recognised losses. The 2022 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 8 Intangible assets

	Group	
Development expenditure and projects in progress (SEK million)	2022	2021
Opening accumulated cost	**95.2**	**85.6**
Investments	10.6	11.9
Sales/disposals	-	-2.3
Closing accumulated cost	**105.8**	**95.2**
Opening accumulated amortisation	**-74.3**	**-69.4**
Sales/disposals	-	2.3
Amortisation for the year	-7.6	-7.2
Closing accumulated amortisation	**-82.1**	**-74.3**
Carrying amounts	**23.9**	**20.9**

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 7.6 (7.2) million are included in consolidated selling and administrative expenses.

Both internal and external expenditures were capitalized. No borrowing costs were capitalised. Projects in progress are not amortised.

	Group	
Domains (SEK million)	2022	2021
Opening accumulated cost	**4.4**	**4.4**
Closing accumulated cost	**4.4**	**4.4**
Opening accumulated amortisation	**-4.2**	**-3.8**
Depreciation for the year	-0.1	-0.4
Closing accumulated amortisation	**-4.3**	**-4.2**
Carrying amounts	**0.1**	**0.2**

This item relates to expenses for registering and maintaining the Group's internet domains. Amortisation costs of SEK 0.1 (0.4) million are included in consolidated selling and administrative expenses.

	Group	
Goodwill (SEK million)	2022	2021
Opening accumulated cost	**39.7**	**39.7**
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 8, continued

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

(SEK million)	2022	2021
The Nelly Group	39.7	39.7
Total	**39.7**	**39.7**

Impairment testing

Impairment testing for goodwill 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 (11.2) 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 9 Property, plant and equipment

	Group	
Leasehold improvements (SEK million)	2022	2021
Opening accumulated cost	**1.7**	**1.1**
Investments	-	1.6
Divestments	-	-1.0
Closing accumulated cost	**1.7**	**1.7**
Opening accumulated depreciation	**-0.1**	**-0.8**
Depreciation for the year	-0.2	-0.2
Divestments	-	0.9
Closing accumulated depreciation	**-0.3**	**-0.1**
Carrying amounts	**1.4**	**1.6**

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

Equipment (SEK million)	Group 2022	Group 2021	Parent company 2022	Parent company 2021
Opening accumulated cost	**16.3**	**18.4**	**-**	**-**
Investments	0.5	9.3	-	-
Sales/disposals	-	-15.3	-	-
Reclassifications	-	3.9	-	-
Closing accumulated cost	**16.8**	**16.3**	**-**	**-**
Opening accumulated depreciation	**-3.0**	**-15.0**	**-**	**-**
Depreciation for the year	-3.3	-1.8	-	-
Sales/disposals	-	13.8	-	-
Closing accumulated depreciation	**-6.3**	**-3.0**	**-**	**-**
Carrying amounts	**10.5**	**13.3**	**-**	**-**

Depre-
ciation costs of SEK 3.3 (1.8) million are included in consolidated selling and administrative expenses.

Construction in progress (SEK million)	Group 2022	Group 2021
Opening accumulated cost	**0.3**	**3.9**
Investments	-	0.3
Sales/disposals	-0.3	-
Reclassifications	-	-3.9
Closing accumulated cost	**-**	**0.3**
Carrying amounts	**-**	**0.3**

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

Note 10 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 2022	Carrying amount 31 Dec 2021
Nelly NLY AB	556653-8822	Borås	172,100	100.0	100.0	247.1	247.1
QGSS AB	556774-1300	Borås	1,000	100.0	100.0	6.0	6.0
Total						**253.1**	**253.1**

Note 10, 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
QGSS AB	**556774-1300**	**Borås**	**1,000**	**100.0**	**100.0**

Shares and participations in subsidiaries (SEK million)	Parent company	
	2022	2021
Opening accumulated cost	**253.1**	**253.5**
Divestment of subsidiaries[1]	-	-0.4
Closing balance, 31 December	**253.1**	**253.1**
Carrying amount, 31 December	**253.1**	**253.1**

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

NLY Logistics AB was merged with Nelly NLY AB as at 13 November 2022.

Note 11 Accounts receivable

Credit exposure

(SEK million)	Group	
	2022	2021
Accounts receivable not overdue or impaired	26.9	17.4
Accounts receivable overdue but not impaired	11.5	10.6
Accounts receivable impaired	1.3	1.5
Provision for bad debts	-1.3	-1.5
Total accounts receivable	**38.3**	**28.0**

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 2022	31 Dec 2021
<30 days	10.0	9.3
30–90 days	1.5	1.2
>90 days	-	-
Total	**11.5**	**10.6**

Overdue accounts receivable with provisions for bad debts (SEK million)	31 Dec 2022	31 Dec 2021
<30 days	-	-
30–90 days	-	-
>90 days	1.3	1.5
Total	**1.3**	**1.5**

Provision for bad debts (SEK million)	31 Dec 2022	31 Dec 2021
Opening balance, 1 January	-1.5	-0.9
Provision for potential losses	-1.3	-1.5
Unutilised amount reversed during the period	1.5	0.9
Actual losses	-	-
Exchange difference	0.0	0.0
Closing balance, 31 December	**-1.3**	**-1.5**

Notes

Note 12 Prepaid expenses and accrued income

	Group		Parent company	
(SEK million)	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Prepaid rent	8.3	3.9	-	-
Prepaid insurance expenses	0.4	0.5	0.4	0.5
Prepaid licensing costs	5.0	5.2	0.7	0.7
Accrued income	1.9	2.0	-	-
Other prepaid expenses and accrued income	12.3	10.3	0.1	0.2
Total	**27.9**	**21.9**	**1.2**	**1.4**

Note 13 Inventories

	Group	
Inventories (SEK million)	2022	2021
Finished goods and merchandise	182.8	168.2
Goods in transit	18.4	11.3
Value of expected returns	24.4	25.5
Total	**225.6**	**205.0**

Consolidated cost of goods sold includes SEK -12,9 (-9.6) million in impairment of inventories to net realisable value. There were no significant reversals of previous impairments in 2022 or 2021.

Up to and including 2021, expected returns were recognised net as a return reserve under liabilities. As of 2022, expected returns are recognised gross as an asset item included in inventories and a liability item included in accrued expenses. As of 2022, comparative figures are also recognised accordingly. It should also be noted that this affected the Group's total assets for the comparative year 2021.

Note 14 Equity

At 31 December 2022, 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 2022		**184,949,730**	**18,494,973**	**184,949,730**	**18,494,973**

[1] On 26 August 2020, Nelly Group held a new share issue for approximately SEK 210 million less rights issue expenses, which increased 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 agreed 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.

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 21 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.

Note 14, continued

The cash issues of C shares in 2011, 2012, 2013 and 2018 were implemented for use in the Group's incentive plans. See Note 21 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)	2022	2021
Opening balance, 1 January	-4.5	-6.4
Translation difference for the year	0.8	1.9
Total accumulated translation differences	**-3.7**	**-4.5**

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 2023 annual general meeting that no dividend be paid to shareholders for the financial year ending 31 December 2022 and that retained earnings for the year be carried forward into the 2023 accounts.

Proposed appropriation of profits

	Parent company	
(SEK million)	2022	2021
Share premium reserve	1,405.0	1,405.0
Retained earnings	-1,290.6	-1,248.7
Profit for the year	-70.0	-41.9
Total	**44.4**	**114.4**

The Board proposes that the retained earnings, share premium reserve and profit/loss for the year of a total of SEK 44.4 (114.4) million be carried forward. The share premium reserve totals SEK 1,405.0 (1,405.0) million as a result of the directed new share issue in the previous year, which changed the share capital to 184,949,730.

Note 15 Other provisions

A provision for employee-related benefits is recognised in accordance with agreements entered into for long-term incentive plans. See Note 21 for further details regarding share-related remuneration.

	Group		Parent company	
Other provisions (SEK million)	2022	2021	2022	2021
Provisions for social security contributions on share-based remuneration	-	-	-	-
Other provisions	-	-	-	-
Total	**-**	**-**	**-**	**-**

	Group		Parent company	
Provisions for share-based remuneration (SEK million)	2022	2021	2022	2021
Carrying amount at start of period	**0.0**	**0.1**	**0.0**	**0.1**
Change in provision during the period	0.0	-0.1	0.0	-0.1
Carrying amount at end of period	**0.0**	**0.0**	**0.0**	**0.0**

See Note 21 for further details regarding share-based remuneration.

	Group		Parent company	
Total provisions (SEK million)	2022	2021	2022	2021
Total carrying amount at start of period	**0.0**	**0.1**	**0.0**	**0.1**
Increase in provision during the period	0.0	0.0	0.0	0.0
Dissolution of provision during the period	0.0	-0.1	0.0	-0.1
Total carrying amount at end of period	**0.0**	**0.0**	**0.0**	**0.0**
Of which total non-current portion of provisions	0.0	0.0	0.0	0.0
Of which total current portion of provisions	-	-	-	-

	Group		Parent company	
Payments (SEK million)	2022	2021	2022	2021
Amount for which payment is expected after more than 12 months	0.0	0.0	0.0	0.0

Note 16 Accrued expenses and deferred income

	Group		Parent company	
(SEK million)	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Accrued employee benefit expenses	48.9	32.9	0.4	0.9
Accrued cost of goods sold	17.4	22.9	-	-
Accrued distribution costs	6.5	17.7	-	-
Accrued marketing costs	13.4	18.3	-	-
Accrued rental expenses	14.2	8.2	-	-
Accrued sales commission	-	2.9		
Return reserve	41.0	47.8		
Accrued income	2.0	0.0		
Other	12.4	19.6	0.4	1.4
Total	**155.8**	**170.3**	**0.8**	**2.3**

Note 17 Pledged assets and contingent liabilities

Contingent liabilities (SEK million)	Group		Parent company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Guarantees and sureties to external parties	25.2	28.8	-	-
Total	**25.2**	**28.8**	**-**	**-**

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		Parent company	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
Floating charges	95.0	95.0	-	-
Total	**95.0**	**95.0**	**-**	**-**

There are no pledged receivables for the year.

Note 18 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 2022	31 Dec 2021
Total equity	133.6	204.4

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 11 for further details regarding accounts receivable.

Note 18, 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 294.5 (316.4) million and were attributable to 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 2022 had increased or decreased by 1 percent (%), it would have affected the Group's net financial items by SEK 0.2 (0.0) million. As at 31 December 2022, 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:

	Group	
Currency flows (SEK million)	2022	2021
NOK	201.9	231.2
DKK	42.3	44.9
EUR	-44.7	-28.0
USD	-111.7	-106.6
GBP	-52.0	-70.6
PLN	0.4	0.4

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

	Group	
Sensitivity analysis (SEK million)	2022	2021
NOK	+/- 10.1	+/- 11.6
DKK	+/- 2.1	+/- 2.2
EUR	+/- 2.2	+/- 1.4
USD	+/- 5.6	+/- 5.3
GBP	+/- 2.6	+/- 3.5
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.

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

	Group			
Currency (SEK million)	2022	%	2021	%
NOK	28.2	100.0	27.1	100.0
Total	**28.2**	**100.0**	**27.1**	**100.0**

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

	Group	
Sensitivity analysis (SEK million)	2022	2021
NOK	+/- 1.4	+/- 1.4

Classification and categorization 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 18, continued

2022 Group (SEK million)	Carrying amount Fair value through profit or loss	 Financial assets that are not measured at fair value	 Financial liabilities that are not measured at fair value	 Total	Fair value Total
Accounts receivable		38.3		38.3	38.3
Other receivables		8.8		8.8	8.8
Accrued income		1.9		1.9	1.9
Cash and cash equivalents		96.8		96.8	96.8
Total financial assets	**-**	**145.9**	**-**	**145.9**	**145.9**
Lease liabilities			294.5	294.5	294.5
Accounts payable – trade			143.2	143.2	143.2
Other liabilities			110.0	110.0	110.0
Accrued expenses			155.8	155.8	155.8
Total financial liabilities	**-**	**-**	**703.6**	**703.6**	**703.6**

2022 Parent company (SEK million)	Carrying amount Fair value through profit or loss	 Financial assets that are not measured at fair value	 Financial liabilities that are not measured at fair value	 Total	Fair value Total
Other receivables		1.1		1.1	1.1
Cash and cash equivalents		2.3		2.3	2.3
Total financial assets	**-**	**3.4**	**-**	**3.4**	**3.4**
Accounts payable – trade			0.2	0.2	0.2
Liabilities to Group companies			98.2	98.2	98.2
Other liabilities			0.1	0.1	0.1
Accrued expenses			1.9	1.9	1.9
Total financial liabilities	**-**	**-**	**100.4**	**100.4**	**100.4**

Notes

Note 18, continued

2021 Group (SEK million)	Carrying amount Fair value through profit or loss	 Financial assets that are not measured at fair value	 Financial liabilities that are not measured at fair value	 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			170.3	170.3	170.3
Total financial liabilities	**-**	**-**	**721.1**	**721.1**	**721.1**

2021 Parent company (SEK million)	Carrying amount Fair value through profit or loss	 Financial assets that are not measured at fair value	 Financial liabilities that are not measured at fair value	 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 18, continued

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

Group (SEK million)	2022 Total	0-6 months	6 months-1 year	1–5	>5 years
Lease liabilities	294.4	25.9	36.1	108.0	124.4
Accounts payable – trade	143.2	143.2			
Other liabilities	110.0	110.0			
Accrued expenses	153.8	153.8			
Total	**701.4**	**432.9**	**36.1**	**108.0**	**124.4**

Parent company (SEK million)	2022 Total	0-6 months	6 months-1 year	1–5	>5 years
Accounts payable – trade	0.2	0.2			
Liabilities to Group companies	98.2	98.2			
Other liabilities	0.1	0.1			
Accrued expenses	0.8	0.8			
Total	**99.3**	**99.3**			

Group (SEK million)[1]	2021 Total	0–6 months	6 months –1 year	1–5	>5 years
Lease liabilities	316.4	20.9	29.2	131.1	135.2
Accounts payable – trade	144.3	144.3			
Other liabilities	90.0	112.0			
Accrued expenses	170.3	170.3			
Total	721.0	447.5	29.2	131.1	135.2

Parent company (SEK million)[1]	2021 Total	0–6 months	6 months–1 year	1–5	>5 years
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			

[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 19 Leases

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 and premises, machines 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.

Notes

Note 19, continued

Group

Property, plant and equipment (SEK million)	2022	2021
Property, plant and equipment that is owned	11.9	15.2
Right-of-use assets, not investment property	284.3	313.5
Total property, plant and equipment	**296.2**	**328.7**

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

Right-of-use asset

2022 Right-of-use asset (SEK million)	Group				
	Premises	Vehicles	IT equipment	Other	Total
Depreciation/amortisation	-17.4	-0.4	-0.4	-14.2	-32.4
Closing balance, 31 December 2022	201.9	0.5	0.5	81.4	284.3

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

Additions to right-of-use assets in 2022 amounted to SEK 3.1 (301.4) 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	
	2022	2021
Current	62.0	50.1
Non-current	232.6	266.3
Lease liabilities included in the statement of financial position	**294.5**	**316.4**

Amounts recognised in profit or loss

Effect on profit (SEK million)	Group	
	2022	2021
Amortisation of right-of-use assets	-32.4	-25.5
Interest on lease liabilities	-12.2	-5.1
Expenses for short-term leases and/or low-value leases	-0.4	-0.6

Note 20 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	
2022	Men	Women	Men	Women
Sweden, men/women	86	135	0	1
Total average no. of employees		**221**		**1**

	Group		Parent company	
2021	Men	Women	Men	Women
Sweden, men/women	90	160	0	1
Total average no. of employees		**250**		**1**

Distribution of men and women in executive management

	Group		Parent company	
2022	Men %	Women %	Men %	Women %
Board of Directors	50	50	50	50
CEO and other executives	50	50	0	100
Total	**50**	**50**	**25**	**75**

	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**

Note 21 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.

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

Note 21, continued

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 2022 AGM decided to adopt a new long-term performance share plan (PSP 2022) for the CEO and other members of Group management.

PSP 2022
To participate in Performance Share Plan 2022, participants were required to make a personal investment in Nelly Group shares (Savings Shares). The savings shares could 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 allotted 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 2022 – 31 March 2026 ('measurement period'), each right entitles the participant to receive one ordinary share in the company at no charge. 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 2026. If a participant's employment with Nelly Group ends during the period 1 April 2025-31 March 2026, the participant is still entitled to a quarter (1/4) of the performance shares provided and to the extent that

Notes

Note 21, continued

the performance-based condition has been met when the employment ends.

The number of performance shares allotted to each participant based on the share rights depends on the extent to which the performance-based condition for PSP 2022 has been met during the measurement period. The performance-based condition is based on the total shareholder return (TSR) on Nelly Group's ordinary shares (including any reinvested dividend) during the measurement period. The total shareholder return is calculated as a TSR index based on the average closing price of Nelly Group's ordinary shares in March 2022 compared with the corresponding price in March 2026.

• If the total shareholder return on Nelly Group's ordinary shares in the measurement period is lower than 200 percent, no share rights will entitle participants to performance shares and all share rights will lapse without value.

• If the total shareholder return on Nelly Group's ordinary shares in the measurement period is equal to or higher than 200 percent but lower than 300 percent, the participants will be allotted three performance shares per share right.

• If the total shareholder return on Nelly Group's ordinary shares in the measurement period is equal to or higher than 300 percent but lower than 400 percent, the participants will be allotted six performance shares per share right.

• If the total shareholder return on Nelly Group's ordinary shares in the measurement period is equal to or higher than 400 percent, the participants will be allotted ten performance shares per share right.

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.

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 at the time), John Afzelius (CFO at the time) and Maria Segergren (CPO at the time). 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
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

Notes

Note 21, continued

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 fulfilment 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.

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 2022 totalled SEK 0.0 (3.1) 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.

	Group		Parent company	
Employee benefit expenses (SEK million)	2022	2021	2022	2021
Salaries	105.2	116.7	2.5	1.5
Social security contributions	33.8	33.7	1.4	0.5
Pension expenses – defined contribution plans	10.8	12.7	0.5	0.2
Expenses for share-based remuneration	0.0	3.1	0.0	3.1
Social security contributions on share-based remuneration	0.0	0.9	0.0	0.9
Total	**149.8**	**167.1**	**4.3**	**6.2**

The cost of share-based remuneration in 2022 totalled SEK 0.0 (3.1) million, excluding social security contributions.

	Group	
Basic salary and variable remuneration (SEK million)	2022	2021
CEO and senior executives, 1 (1) persons	5.8	4.5
Of which variable salary	-	*0.6*

Note 21, continued

Remuneration and other benefits, Group (SEK million)	2022					
	Basic salary	Variable remuneration	Other benefits	Pension expenses	Share right expenses	Total
Kristina Lukes, former CEO	2.9	-	0.1	0.9	0.0	3.9
Ludvig Anderberg, former CEO	0.8	-	0.0	0.2	0.0	1.0
Helena Karlinder-Östlundh, Acting CEO	0.5	-	-	0.1	-	0.6
Senior executives, 1 person	1.6	-	0.0	0.5	0.0	2.0
Total	**5.8**	**-**	**0.1**	**1.7**	**0.0**	**7.5**

The amounts recognised for 2022 are for the full year. Variable remuneration for 2022 paid out in 2023 to the CEO: SEK 0.0 (0.4) million. Remuneration for 2022 paid out in 2023 to other senior executives: SEK 0.0 (0.2) million. Variable remuneration for 2021 paid out in 2022 to senior executives: SEK 0.6 (0.4) million.

Remuneration and other benefits, Group (SEK million)	2021					
	Basic salary	Variable remuneration	Other benefits	Pension expenses	Share right expenses	Total
Kristina Lukes, current 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**	**1.1**	**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.

Parent company (SEK million)	Parent company	
	2022	2021
Board and senior executives, 12 (8) persons	2.5	4.4
Of which variable salary	0.0	0.0
Other employees	0.0	0.3
Total salaries and other remuneration	**2.5**	**4.7**

Notes

Note 21, continued

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
Stefan Palm	0.1						0.1
Sandra Backlund	0.1						0.1
Daniel Hörnqvist	0.1						0.1
Josephine Salenstedt	0.3						0.3
Maj-Louise Pizzeli	0.2						0.2
Christoffer Häggblom	0.1						0.1
Stina Westerstad	0.1						0.1
Remuneration from parent company							
Kristina Lukes, former CEO	0.5						0.5
Ludvig Anderberg, former CEO	0.2						0.2
Helena Karlinder-Östlundh, Acting CEO	0.2						0.2
Other senior executives (1 person)	-						-
Remuneration from subsidiaries							
Kristina Lukes, former CEO	2.4			0.1	0.9		3.4
Ludvig Anderberg, former CEO	0.6			0.0	0.2		0.8
Helena Karlinder-Östlundh, Acting CEO	0.3			0.0	0.1		0.4
Other senior executives (1 person)	1.6			0.0	0.5		2.1
Total	7.4	0.0		0.1	1.7	0.0	9.2

The amounts recognised for 2022 are for the full year. Accrued variable remuneration to be paid after year-end totals SEK 0.0 (0.4) million for the CEO and SEK 0.0 (0.2) million for other senior executives. The Board receives its full remuneration from the 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.

Note 21, continued

	2021						
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							0.0
Kristina Lukes, CEO	0.7				0.2	1.5	2.4
Other senior executives (1 person)	-				-	0.6	0.6
Remuneration from subsidiary							
Kristina Lukes, CEO	1.6		0.4	0.1	0.5		2.5
Other senior executives (1 person)	1.5		0.2	0.0	0.4		2.2
Total	**5.4**	**0.0**	**0.6**	**0.1**	**1.2**	**2.1**	**9.4**

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 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.

Share-based remuneration

Outstanding share rights/shares*	President and CEO	Senior executives	Key employees	Total
Long-term incentive plan, 2022	16,600	0	8,300	24,900
Total outstanding as at 31 December 2022	**16,600**	**0**	**8,300**	**24,900**

* The Owner Plan 2022 consists of share rights that are allotted and may generate performance shares depending on the extent to which performance-based conditions are met during the measurement period up to the end of March 2026.

Notes

Note 21, continued

	2022		2021	
	Number of shares, share rights and options	Weighted redemption price	Number of shares, share rights and options	Weighted redemption price
Outstanding rights and options as at 1 January	200,983	-	316,694	-
Rights and options issued during the year	24,900	-	53,983	-
Rights and options forfeited and redeemed during the year**	-200,983	-	-169,694	-
Total outstanding as at 31 December	**24,900**	**-**	**200,983**	**-**

**PSP 2019 was closed in April 2022. The retention and performance-based conditions were not met. Therefore, the remaining share rights that the company allotted to the participants in PSP 2019 lapsed. PSP 2020 was closed during the year as all share rights lapsed as the participants left the Group.

Specification of long-term incentive plan	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
Total allocation 2019[1]									
2019	1,047,182	16		2022	147,000	0	-147,000	0	0
Total allocation 2020[2]									
2020	53,983	3		2027	53,983	0	-53,983	0	0
Total allocation 2022[3]									
2022	24,900	2		2026	0	24,900	0	0	24,900
Total	**1,126,065**				**200,983**	**24,900**	**-200,983**	**0**	**24,900**

1 During 2022, 147,000 share rights from PSP 2019 were forfeited as the targets and performance-based conditions were not met.

2 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. In 2022, a total of 53,983 shares from PSP 2020 were forfeited when participants left Nelly Group.

3 On 12 May 2022, the meeting decided to establish a long-term incentive plan ("Owner Plan 2022") for certain senior executives of Nelly Group AB. The Board proposed that Owner Plan 2020 include a maximum of 66,400 share rights. The plan may generate performance shares depending on the extent to which performance-based conditions are met during the measurement period between 1 January 2022 and 31 March 2026.

Note 21, continued

	Group		Parent company	
Employee benefit expenses (SEK million)	2022	2021	2022	2021
Granted rights and options 2019	0.0	0.3	0.0	0.3
Granted rights and options 2020	0.0	2.8	0.0	2.8
Granted rights and options 2022	0.0	-	0.0	-
Total expense recognised as employee benefit expenses	**0.0**	**3.1**	**0.0**	**3.1**

The cost of the plans during the year totalled SEK 0.0 (3.1) million, excluding social security contributions.

Note 22 Fees and compensation to auditors

	Group		Parent company	
(SEK million)	2022	2021	2022	2021
KPMG				
Audit engagements	0.9	1.2	0.4	0.6
Audit-related services	0.1	0.0	0.1	0.0
Tax consulting	0.1	0.0	0.0	0.0
Other services	0.0	0.0	0.0	0.0
Total	**1.1**	**1.3**	**0.5**	**0.6**

Audit engagements refer to statutory audits of the annual report and accounting records and the administration by the Board and CEO, as well as other audits and reviews conducted in accordance with agreements or contracts. 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. 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 23 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)	2022	2021	2022	2021
Loss on sale of non-current assets	0.0	1.8	-	-
Depreciation and amortisation of non-current assets	11.5	9.6	-	-
Amortisation of right-of-use assets	32.4	25.5	-	-
Change in other provisions	0.0	0.0	0.0	0.0
Incentive plan	0.0	0.5	0.0	0.5
Unrealised exchange differences	2.7	1.7	0.0	0.0
Other items	1.9	0.1	0.0	0.1
Total	**48.5**	**39.2**	**0.0**	**0.6**
Other supplementary disclosures				
Interest received during the financial year	0.4	0.0	0.1	0.0
Interest paid during the financial year	-13.1	-6.7	0.0	0.0
Total	**-12.6**	**-6.7**	**0.1**	**0.0**

Note 24 Significant events after the end of the financial year

It was announced on 12 January 2023 that the CEO, Ludvig Anderberg, was leaving Nelly Group at his own request. Helena Karlinder-Östlundh has been acting CEO since then.

In connection with the release of the year-end report for 2022 on 3 February, it was announced that the Board had decided on the same day to implement a preferential share issue. The aim of the Rights issue is to secure liquidity and pave the way for the implementation of Nelly's ongoing transformation towards profitability.

An extraordinary general meeting was held on 14 March 2023 and it approved the Board's decision to implement a preferential share issue.

It was announced on 12 April that the rights issue was fully subscribed and Nelly will receive proceeds amounting to approximately MSEK 53 before issue costs.

Note 25 Operating expenses by expense type

	Group	
(SEK million)	2022	2021
Cost of goods sold	-732.7	-789.6
Distribution and warehousing costs	-205.1	-252.9
Employee benefit expenses	-181.1	-215.8
Depreciation/amortisation	-43.7	-35.2
Other expenses	-192.5	-176.6
Total expenses	**-1,355.0**	**-1,470.1**

Note 26 Earnings per share

	Group	
Basic and diluted earnings per share (SEK)	2022	2021
Earnings per share, Group total	-3.98	-2.65

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

	Group	
Basic and diluted earnings per share for the Group in total	2022	2021
Profit for the year attributable to parent company shareholders (SEK million)	-71.7	-47.8
Weighted average number of shares	18,017,359	18,017,359
Earnings per share, total, SEK	**-3.98**	**-2.65**

The parent company's custodial Class C shares attributable to the Group incentive plan (see Note 21) 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 2022 or 2021.

Note 27 Transactions with related parties

Nelly Group AB's Board member Daniel Hörnqvist invoiced SEK 0.3 (0.0) million through his company Hörnqvist Consulting AB for consultancy work performed.

Nelly Group AB's largest shareholder Rite Internet Ventures Holding AB invoiced SEK 0.1 (0.0) million for consultancy work performed.

The Board's attestation

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, 28 April 2023

Mathias Pedersen
Chair of the Board of Directors

Stefan Palm
Board member

Maj-Louise Pizzelli
Board member

Sandra Backlund
Board member

Daniel Hörnqvist
Board member

Josephine Salenstedt
Board member

Helena Karlinder-Östlundh
CEO

Our auditor's report was submitted on 28 April 2023

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 28 April 2023.

KPMG

Translation from the Swedish original

Auditor's Report

To the general meeting of the shareholders of Nelly Group AB (publ), 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 (publ) for the year 2022, except for the corporate governance statement on pages 55-59 and the sustainability report on pages 10-48. The annual accounts and consolidated accounts of the company are included on pages 49-112 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 2022 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2022 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 55-59 and sustainability report on pages 10-48. 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.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

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.

Valuation of deffered tax assets attributable to loss carry forward

See disclosure 7 and accounting principles on pages 76 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, 2022, the Group reported deferred tax assets of SEK 73.8 (73.8) million attributable to loss carry-forwards. As of December 31, 2022, 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 75 and 80 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, 2022 amounted to SEK 1 299,0 (1,428.4) 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 10-48 and 117. The other information comprises also of 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.

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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

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 (publ) for the year 2022 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of 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 (publ) for year 2022.

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

In our opinion, the Esef report 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 (publ) 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 validation that the Esef report has been prepared in a valid XHTML format 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 consolidated statement of financial performance, financial position, changes in equity, cash flow and disclosures in the Esef report have been marked with iXBRL in accordance with what follows from the Esef regulation.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 55-59 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s 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 10-48, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR´s 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.

Göteborg

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 proportion of sales that customers return*

The sales value of returned goods divided by total sales before returns

Inventory share of net revenue 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

Own-brand proportion of sales – *the proportion of sales of Nelly's own brands*

Calculated by dividing total sales of own brands by total B2C and B2B sales

No. of active customers LTM in the Nordics (000) – *a gauge of how well Nelly Group attracts new customers and retains existing ones*

The number of unique customers in the Nordic countries during a rolling twelve-month period

No. of sessions in the Nordics (000) – *an indicator of how well Nelly generates traffic to the website*

The number of unique website visits from Nordic IP addresses to nelly.com or nlyman.com during a given period. Sessions multiplied by the conversion rate translates into customer sales before returns

No. of orders in the Nordics (000) – *a measure of how many orders Nelly generates during a given 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 order value in SEK*

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

Conversion rate in the Nordics – *a gauge of the proportion of customers visiting the website 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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NELLY