SUSTAINABILITY REPORT 2022

NELLY

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 analvsis 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 emis- sions 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

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 materi- als 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 ad- dition, 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 becom- ing 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 pro- duction 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 busi- ness 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 hu- man 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 rep- utation and result in reduced sales.	Nelly communicates regularly and works closely with its suppliers and has a comprehensive Code of Con- duct to prevent violations of human rights. To manage risks in the supply chain and ensure that human rights requirements are met, suppliers' operations are regu- larly 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 recur- ring 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 psycho- social 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 se- curity issues and secure processing of personal data in accordance with the General Data Protection Regula- tion (GDPR).
Fair & Equal	Nelly operates in an international environment with complex regulations. Among other things, there are a growing global focus on and initia- tives 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 stan- dards, the consequences may include fines and damage to Nelly's reputation. There is also a risk of individual employees not complying with Nel- ly'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 in- spected 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 "Femwash- ing".	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 GROUP

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 CHG 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

 \cdot The number of products with more sustainable materials sold increased by 201% on 2020

 \cdot 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 thirdparty 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

K DI

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





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 mater rials 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 Scope estimated sources where a need was identified. Emission factors applied for Scopes I & 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 Swetzinshilt wront 2010, the promet "Paracehideat 2019" (Inductor Stature 2018) her Swetzinshilt wront 2018, the Swedish Transport Administration, Hertz Carbon Calculator (adjusted for RH 27), the Swedish Transport Administration, Hert 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 opera-tions 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:

 \cdot 30% of all textile products will be made of more sustainable materials (2022 result: 28%)

 \cdot 20% of all polyester will be replaced with recycled polyester (own production) (2022 result: 20%)

 \cdot 60% of the cotton purchased by Nelly for its own production will be cotton from Better Cotton (2022 result: 66%)

 \cdot 10% of all viscose will be replaced with EcoVero® (own production) (2022 result: 22%)

2025:

 \cdot 50% of textile products will be made of more sustainable materials

 \cdot 80% of all polyester will be replaced with recycled polyester (own production)

 \cdot 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-oflife 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

 \cdot 92% of the factories used to produce Nelly's own brand products underwent third-party audits

 \cdot No zero tolerance cases were reported as per Amfori BSCI inspections

- · 65% female workforce
- \cdot 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 bullving 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 TREAT-MENT

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.



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.

Audit results, 2022

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 thirdparty 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

66% 66% 66% 66% 7% 7% 7% 7% 7% 7% 7%

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 I. 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.



ANNUAL REPORT 2022

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.





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