



SUSTAINABILITY REPORT 2020

NELLY

Sustainability report

Nelly Group AB 'Nelly' takes responsibility for sustainable development. The Group sees it as both an opportunity and obligation to act from an economic, social and environmentally sustainable perspective. Through these efforts we aim to take even more responsibility for sustainable development.

THE SUSTAINABILITY REPORT contains non-financial information, including work relating to environmental issues, human rights, staff and anti-corruption. .

The Group distributed the shares in subsidiaries CDON and Qliro AB in 2020. The Group previously reported consolidated sustainability data for all three subsidiaries. CDON and Qliro AB are included in this annual report as discontinued operations. Like the annual report, the sustainability report covers the remaining operations, i.e. Nelly. Historical data has been adjusted for comparability.

Nelly has reported on sustainability initiatives focused on the four areas defined in 2017. These were listed as environmental responsibility, responsible value chain, attractive employer and business ethics. In 2020, the Group's sustainability initiatives changed as Nelly became the only operational unit in the Group. Sustainability initiatives now cover the focus areas 'Planet', 'Product' and 'People', and this is reflected in this year's report. An important element in the company's brand positioning is to encourage young people to express themselves and be the best version of themselves. In 2021, the company will look at how this can develop its sustainability initiatives.

Nelly Group AB is the parent company of the Group and its management team is responsible for sustainability initiatives. The sustainability initiatives are implemented by the sustainability manager in partnership with the sustainability group, which consists of key individuals from several departments.

Nelly's management team consists of the CEO, Chief Financial Officer, Chief Commercial Officer, Chief Assortment Officer, Chief Technology Officer, Chief Operating Officer and Chief Human Resources 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, reports and other tasks. For more information, please see annual report page 43.

“We are now intensifying our sustainability initiatives to reduce our negative impact and enhance our competitiveness.”

Kristina Lukes, CEO of Nelly

Nelly's sustainability initiatives

Nelly's sustainability initiatives in 2020 were implemented as part of the 'Good Together' strategy, based on the following values: Passion, Innovation, Smartness and Together. The key driver of this approach is that impact needs collaboration.

NELLY SELLS CLOTHING and accessories online, mainly to young women in the Nordic region. The 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 external brands. The own brand products are purchased from manufacturers in China, Turkey, India, the UK, Morocco and Bangladesh. The clothing is transported to the logistics center in Sweden, marketed digitally and sold mainly in the Nordic region on Nelly.com and NLYman.com. Manufacture, transport and storage have an impact on the environment and people, which means that the company has a responsibility for contributing to a more sustainable society.

The company's sustainability strategy was adopted at the end of 2019 and was implemented and refined in 2020, with clearer objectives. The planning horizon extends to 2030.

The strategy has three focus areas:

- Planet – to reduce environmental and climate impact
- Product – to offer good, sustainable products
- People – how the company treats and influences people through the value chain

The main focus in 2020 was on climate initiatives and on offering more sustainable textile products. The company also increased its transparency in relation to sustainability on Nelly.com and NLYman.com, where there is information on sustainable materials and the factories that make Nelly's own brand products.

In 2017, Nelly carried out an analysis of stakeholders, involving interviews and surveys of stakeholders who directly or indirectly affect or are affected by our business. These included customers, employees, shareholders, board members, trade associations, partners, financial analysts and suppliers. The insights gained from this analysis have formed the basis of the sustainability initiatives. The company intends to renew this stakeholder dialog in the years to come.

The materiality analysis was renewed in 2020. The aim was to identify the most important sustainability issues and chart the sustainability-related risks that may affect the company. The work was started by representatives of management and the sustainability group. A number of sustainability issues were charted 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. These are listed below with links to the 17 UN Sustainable Development Goals.

“We have started a sustainability journey with our customers, suppliers and partners. There is no quick fix. Sustainability involves working together in multiple arenas over the long term.”

Camilla Olofsson, sustainability manager at Nelly

Collaboration between all actors from the public sector, the business community and society will be needed to achieve the global goals by 2030. Nelly's day-to-day work mainly concerns six of the UN Sustainable Development Goals.

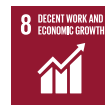
Focus area	Sustainability issues	Link to UN Sustainable Development Goals
Planet	<ul style="list-style-type: none"> • Carbon emissions • Transport • Packaging • Returns 	Goals 12, 13 and 17
People	<ul style="list-style-type: none"> • Psychosocial working environment • Gender equality, diversity and equal treatment • IT security and customer privacy • Anti-corruption and transparency • Responsible supply chain 	Goals 3, 5, 8 and 17
Product	<ul style="list-style-type: none"> • Chemicals management • Choice of materials • Product quality • Product life cycle 	Goal 12



GOAL 3: GOOD HEALTH AND WELL-BEING.
Nelly takes an active approach to staff well-being, including exercise during working hours, a preventive health care allowance, height-adjustable desks for all, and regular recreational activities. Read more about good health and well-being on page 19.



GOAL 5: GENDER EQUALITY.
Nelly attaches great importance to ensuring that all employees are treated equally, with respect and dignity, and are given equal opportunities for development. Read more about gender equality work on page 21.



GOAL 8: DECENT WORK AND ECONOMIC GROWTH.
Nelly works to maintain long-term supplier relationships and create economic growth with decent working conditions. Read more about this work on page 23.



GOAL 12: RESPONSIBLE CONSUMPTION AND PRODUCTION.
By striving to offer more environmentally-friendly packaging and increase the proportion of sustainable materials, the company contributes to more sustainable consumption and production. Read more about the work for more sustainable consumption on page 9.



GOAL 13: CLIMATE ACTION.
Nelly works to reduce its climate impact and collaborates with the STICA initiative. Carbon emissions are calculated for its own operations and parts of the value chain. The aim is to do this for the entire value chain eventually. Read more about climate work on page 9.



GOAL 17: PARTNERSHIPS FOR THE GOALS.
The global goals are being realized through global partnership and collaboration. Nelly contributes to global partnership through involvement in the international initiatives Amfori, BCI and STICA. Read more about collaboration on page 7.

Nelly's collaborations

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

Swedish Textile Initiative for Climate Action

Swedish Textile Initiative for Climate Action (STICA) supports the Swedish textiles industry in its work to reduce climate impact through cooperation, knowledge sharing and shared tools. Nelly has undertaken to reduce its climate impact and report emissions.

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. Nelly has been a member since 2018 and requires its suppliers to sign Amfori's code of conduct.

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.

Better Cotton Initiative

Better Cotton Initiative (BCI) works for a better future for cotton production and for industries in which cotton plays an important role. Nelly sees BCI as an important standard for improving the sustainable materials in its range.

Scandinavian Shoe Environmental Initiative

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 organizes seminars and network activities to permit discussion between actors in the industry.

Human Bridge

Human Bridge is an aid organization 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.

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 organizations with the focus on exchange of experience.

Planet focus area

Nelly works to make its actions greener for a better future. This is called its Planet focus area. This work is done to reduce climate impact, have greener packaging and reduce the volume of returns.

NELLY'S RISKS IN ITS ENVIRONMENTAL work include risks that measures taken in production, warehousing and transportation are insufficient. Production, warehousing and transportation affect the environment through energy consumption, resource use, waste and carbon emissions. Investors and customers are increasingly demanding that climate impact be recorded and reported. Another challenge facing e-merchants is managing returns. As products cannot be tried on before they are purchased, there is a risk of them being sent back and forth, resulting in higher carbon emissions. As products have to be packaged to cope with transportation, there is a risk that packaging cannot be recycled or reused, leading to unnecessary resource use. The company works systematically to manage these risks.

The environmental and travel policies form the basis of the company's environmental work and include provisions relating to travel, waste management, use of renewable materials, reduction in paper documents etc. They are available on the intranet and must be regularly reviewed by managers in all departments. In 2020, an environmental coordinator was appointed at the office in Borås to ensure that environmental issues are prioritized.

Climate impact

In 2020, Nelly decided to focus on the climate and defined climate impact as the highest priority sustainability issue. Nelly has an indirect environmental impact through emissions from suppliers in the value chain and a direct impact through emissions from its own operations. With the Swedish Textiles Initiative for Climate Action (STICA), during the year the company gained greater understanding of its total climate impact, developed tools for measurement and data collection and shared knowledge about how to reduce climate impact. STICA recently released its members' first joint climate report, showing emissions from own operations (Scope 1 and 2). The next step in 2021 is to chart and set climate targets for the value chain, where approximately 80 percent of the climate impact takes place.

Nelly's climate goals

Nelly's goal for its own operations (Scope 1 and 2) is to be carbon neutral by 2023. Nelly currently has a warehouse in Falkenberg, but this will be relocated to new premises in Borås in 2021. In the warehouse, there is daily monitoring to make processes more efficient, reduce energy consumption and ensure efficiency in fork-lift usage, time use and filling of trucks. The new warehouse in Borås is a newly built, energy-efficient plant that has been planned for efficient logistics and will be powered by renewable energy. The new warehouse is closer to the office, which will reduce internal transportation.

Nelly also plans to relocate its Stockholm office to Borås in the first half of 2021, which will reduce the need for domestic travel. The travel policy urges employees to use trains and public transportation where possible to reduce climate impact.

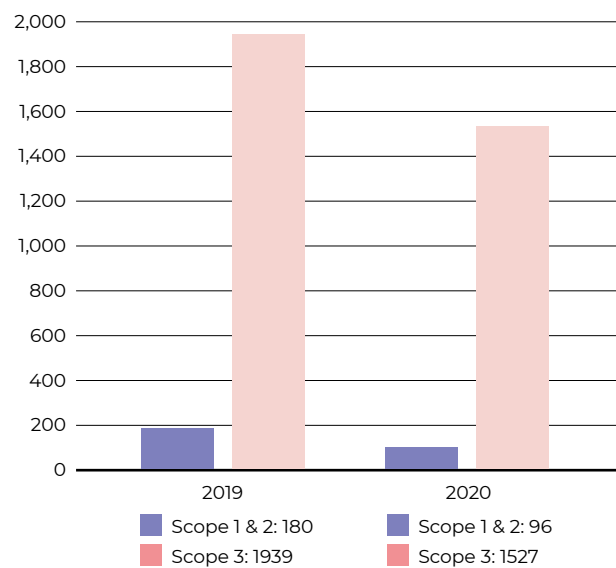
Nelly measured the emissions from its own operations according to the Greenhouse Gas (GHG) Protocol's Scope 1 and 2 for 2020. Emissions in Scope 1 and 2 amounted in 2020 to 96 tonnes of CO₂ equivalents, a reduction of 46 percent on the previous year. The reduction is partly due to a greater mixture of renewable fuel in company vehicles and an increase in

the proportion of electric company cars, plus lower consumption of district heating in the warehouse.

The Group measured emissions from transportation and business travel in 2020 and prepared for measurement of emissions from products and production. Emissions from business travel and shipments are reported according to the Greenhouse Gas (GHG) Protocol's Scope 3 and amounted in 2020 to 1,527 tonnes of CO₂ equivalents. This is a reduction of 21 percent, which is mainly due to much less business travel during the pandemic and also emission reductions in shipments.

In the wake of the pandemic in 2020, many trips were replaced with digital meetings with suppliers and partners, leading to dramatically reduced emissions for 2020. Nelly depends on travel to promote sales in several countries, manage purchases of goods and safeguard the value chain, which means that travel will probably increase again once the pandemic is over. However, the ambition is to continue to use digital tools as a supplement to in-person meetings. The reduction in emissions from business travel of 90 percent in 2020 is, therefore, mostly an effect of the pandemic and not a new long-term level.

Total emissions, ton CO₂e



“We are focusing on the climate and our ambition is to limit our carbon footprint. We are working with other brands in our industry to find the best way forward!”

Kristina Lukes, CEO of Nelly

Returns and shipments

Returns are an important issue at Nelly in terms of both costs and the environment. The development work involves improving the efficiency of processes, developing system support and reducing shipments, while also engaging customers. A lower return rate can reduce transportation costs and carbon emissions and make it possible to purchase the right quantities.

ONLINE CLOTHES SALES have a higher return rate than many other products. This is natural buying behavior for the online fashion segment, but also results in costs and negative impact on the environment and may be open to abuse. In all commerce, customers are entitled to return the goods they have purchased. This has increased in e-commerce, partly because it is difficult to predict sizes and because some customer groups buy several garments to try on at home. Nelly works to reduce its return rate in several ways.

In 2018, a project began to create a smoother return process for customers and obtain solid data on returns for analysis. In the new process, the customer gives the reason for the return digitally, which simplifies follow-up and makes it easier for the purchasing department to reach a decision. As part of this work, the company identified customers who were abusing the returns system according to carefully selected criteria. In 2020, the company blocked customers with negative return behavior in order to reduce unnecessary returns.

The pandemic has affected purchasing behavior and, thus, the return rate. The company has sold more products with a simpler fit for home use and less of the product groups that tend to be returned frequently, for example, party dresses.

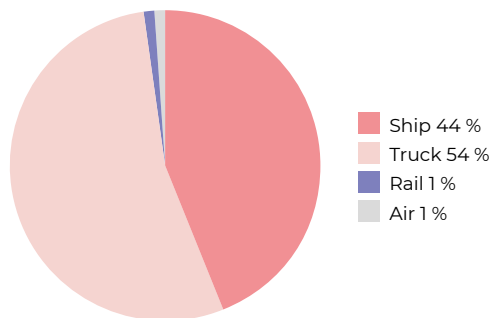
The return rate fell by 4 percentage points to 34 percent in 2020. This was due to the company's focus on the Nordics, fewer party dresses, a digitalized, simplified returns process and the banning of certain customers.

Nelly prioritizes freight forwarders who actively work to reduce environmental impact. The transportation market continuously develops more eco-efficient alternatives and Nelly follows developments carefully.

Shipments to and from customers are called outbound. In 2020, emissions from these shipments were 13 percent lower than the year before. This is due to fewer shipments outside the Nordic region and a lower return rate. The ambition in 2021 is to offer customers a fossil-free shipment option.

Shipments from the factory to the company's own warehouse are called inbound. Ships and trucks are primarily used for shipments of own brand products to Nelly's warehouse. During the year, the company also tested delivery by rail from China. 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 2020, emissions from inbound shipments were 13 percent lower than in the year before, which is primarily explained by a reduction in the proportion of shipments by air.

Breakdown inbound transportation 2020



Packaging

Nelly works to minimize resource use for packaging and materials in connection with manufacturing and shipment. This promotes cost-effectiveness, environmental consideration and satisfied customers.

THERE ARE DEMANDS FROM both public authorities and customers to increase the recyclability of packaging and reduce the occurrence of single-use plastic. Nelly requires in its supplier agreements that products that are delivered be packed in recyclable plastic. The goal for 2022 is for all packaging sent to customers to consist of recycled, reusable or compostable material.

Optimized use of packaging materials is important for cost-effectiveness, profitability and environmental impact. This means that packages are tailored to the size of the product to minimize packaging materials and empty space.

In 2020, the use of plastic in sample management was reduced by the company demanding that suppliers pack all samples together. In addition, the company worked to increase the proportion of recycled materials in e-commerce bags. Approximately 61 percent of e-commerce boxes and bags sent to customers in 2020 were made of recycled material.

“Climate is one of the big challenges of our age. We are determined to do our bit to limit our carbon footprint. Together, we can take action to slow the heating of our planet.”

Camilla Olofsson, sustainability manager at Nelly

Product focus area

Nelly works with sustainable materials, safe products and better animal living conditions. This is called the Product focus area. The aim is to offer products of the right quality made of sustainable materials without banned, unhealthy or environmentally harmful chemicals.

NELLY WANTS TO INCREASE the proportion of sustainable materials at Nelly and NLY MAN. Ensuring that garments are good quality and last a long time is essential to reducing environmental impact. To achieve this, there are third-party inspections of the factories manufacturing Nelly's own brand products to ensure uniform production. Suppliers undertake to comply with the chemicals restrictions under the EU REACH Regulation, national law and Textilimportörerna's chemicals guide.

Sustainability labels are becoming more common among competitors and there is a risk of Nelly not offering sufficient sustainable alternatives to customers and business partners. Increased demand for more sustainable materials risks creating a shortage of these materials and higher prices. Chemicals requirements are becoming ever stricter and there is a risk of Nelly not meeting the stricter requirements for safe products.

Sustainable materials

Increasing the proportion of sustainable materials is a key component of Nelly's sustainability strategy. The manufacture of textiles is resource intensive in terms of water and chemicals and has a negative impact on the environment through climate emissions. Increasing the proportion of sustainable fibers reduces the need for water, chemicals and energy.

Long-term goal for sustainable products:

The goal is for 50 percent of textile products to be made of more sustainable materials by 2025. The materials used today that are classified as sustainable are: Better Cotton, EcoVero®, TENCEL®, organic cotton and recycled fibers. Read more about these materials at: <https://nelly.com/se/hållbarhet/hållbara-material/>.

Nelly offers both own brand clothing and external brands. Success depends on external suppliers and their development. Many of the bestselling external brands are making progress with their sustainability work.

Nelly charts sustainable materials and has established clear frameworks and procedures for the purchase of clothing and materials for both its own and external brands. The company has also begun to communicate about sustainability on its website. By marketing 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.

During the year, Nelly inspired its employees to make more sustainable material choices and place demands on suppliers. Among other things, this took the form of internal training for the purchasing department on sustainable materials, certifications and manufacturing processes. The company also made its objectives clear and created the conditions for follow-up. The proportion of sustainable materials in textile products was 9 percent in 2020. For own brand products, the proportion was 11 percent, which is primarily due to a 50 percent increase in cotton products produced with Better Cotton since 2019. The goal for 2021 is to increase the total proportion of sustainable materials in the range to 20 percent.

Product quality and product safety

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

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

Suppliers undertake, by signing agreements, to comply with relevant chemicals restrictions. Textilimportörerna's chemicals guide is used as an aid. 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

“We see it as a matter of course that fashion can and must be made of more sustainable materials. We want to contribute to the transition!”

Nelly's Chief Assortment Officer, Maria Segergren

products in terms of risk, decides which products should be tested and inspected and follows up on the results. Random samples are also tested and inspected.

Nelly has boosted its resources for ensuring quality and chemicals contents through more chemicals tests and increased quality control in production.

In 2020, the company improved its tools for managing quality and complaint statistics. It conducts a continuous dialog with suppliers to monitor their products and production and achieve constant improvements. Examples of improvement measures are better lighting, more frequent cleaning of machines, more quality testing and improved production routines. No products needed to be recalled from customers because they contained banned chemicals. The products that contained excessive contents of a substance were stopped before delivery or replaced with other materials.

The complaint rate was 1 percent in 2020, which is in line with company targets.

Animal ethics

Nelly takes a stand on animal welfare and the requirements for products of animal origin are, therefore, important. The company has endorsed Swedish animal rights organization Djurens Rätt's Fur Free Retailer Program. Nelly's animal policy can be read at <https://nelly.com/se/hållbarhet/produkter/>

End-of-life

Nelly is working towards a Zero Waste target, with the aim of not throwing any products away and reusing or recycling unsold products to contribute to a circular economy. Garments that are returned are cleaned and repaired in the returns warehouse. Anything that cannot be resold via the usual channels goes firstly to buyers and also to charitable organizations and materials recycling. Garments that are withdrawn due to quality problems are donated to the charitable organization Human Bridge for reuse or recycling. Only products that are harmful to health or the environment are sent for incineration, for example, if they contain mold.

In 2020, 4,600 kg of clothes and shoes were donated to Human Bridge and 1,350 kg were sent from the warehouse in Falkenberg for incineration.

“We are grateful that, despite the pandemic, we have been able to conduct quality controls in production.

We have used third-party companies as our eyes and ears out in the world when we were not able to visit factories ourselves in 2020.”

Sanijeta Smajlagic, Quality Coordinator at Nelly

People focus area

Nelly works hard to ensure that all employees are proud of the company's social responsibility. Nelly must always follow the principles of good business ethics. Employees and manufacturers must be able to feel proud of their joint work to contribute to a transparent, fair industry. This work is called the People focus area.

NELLY MAINTAINS A HEALTHY workplace through systematic working environment initiatives, promoted by consideration and sound values. Processes for employee appraisals, management by objectives and monitoring of the physical and psychosocial working environment are well established. These are systematically maintained by the HR department and implemented by managers in the organization. The entire company is subject to collective agreements.

Nelly is a member of Amfori BSCI, which aims to improve working conditions in the supply chain. Own brand suppliers must sign the Amfori BSCI Code of Conduct, which contains requirements for health, safety, fair pay and good working conditions. Nelly believes that greater transparency in the supply chain will contribute to a more sustainable future.

For Nelly, diversity and gender equality are important, both to offer an attractive workplace, and to ensure understanding of customer needs. 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.

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

Nelly's value chain includes a large number of brands, suppliers and factories. There is a risk of violations of human rights and failure to provide decent working conditions in the supply chain. Therefore, there is also a risk that people or the environment may be harmed during manufacturing. This may lead to reputational risks for the Group and, in the long run, lower profitability.

Nelly conducts digital marketing and sales. Protection of customers' data and privacy is paramount. Data breaches and loss of customer data may affect confidence in security and adversely affect business. They can also pose a risk of exposure of individual customer data. The Group works in a structured manner with data security issues and safe handling of personal data.

“We help our customers and employees express themselves and celebrate their ‘fab you!’”

Kristina Lukes VD på Nelly

Employees

Nelly works to foster a productive, healthy workplace. A good working environment is a prerequisite for good health among employees, higher employee satisfaction and better performance.

*"We want to create
a workplace in
which employees
perform well, thrive
and develop"*

Therese Knutsson, Chief Human Resources Officer at Nelly

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

The ability to attract new employees and offer an attractive workplace where people thrive, remain and progress is a success factor. Risks in this area include the inability to attract and retain the right staff and the risk of employees suffering stress-related health issues in the workplace or having workplace accidents.

In 2020, the company continued its work to create understanding or enhance knowledge of diversity, gender equality, non-discrimination, safety at work and psychosocial issues. This was done in connection with onboarding and via internal training, for example, training for managers in health and safety work and rehab. This training was carried out in Falkenberg in 2020.

The Group strives for a sound employee turnover. Employee turnover was highest for persons under 30. This is natural since Nelly employs many young people at the beginning of their careers who move on to further education or other challenges.

The year was, of course, dominated by the pandemic. To deal with the new situation, a number of measures were introduced to create a safe workplace, including remote working and ergonomic aids for those working from home. Measures at company premises included enhanced cleaning, provision of hand sanitizer, clear social distancing instructions, restrictions on visitors and fewer business trips. Conferences and meetings have largely taken place digitally. Examples of benefits include flexible working hours, supple-

mentation of parental leave pay, salary switching opportunities, agreements with occupational health service providers, preventive health care allowance and exercise sessions during working hours. Bikes are also available as an alternative means of transport to and from work. Nelly attaches great importance to activities to promote job satisfaction and community. These are provided in part through the Nelly Fun Squad. These benefits contribute in part to the work to prevent social ill-health in the workplace and to creating balance between work and well-being.

As part of the onboarding plan, employees are informed about the Group's values regarding gender equality, diversity and discrimination. The Group has a policy and an action plan for gender equality and diversity that complement the Code of Conduct. The Group also has a health and safety policy, and a policy and an action plan to combat bullying and harassment. These policies are important in the work to prevent social ill-health and are available on the company's intranet.

Nelly has begun a long-term initiative to develop its managers, primarily in relation to management by objectives, coaching and feedback. The company's long-term goal is to enhance its staff by active development of leadership and employee participation.

The office was renovated in 2020 to create an inspiring workplace and to improve opportunities for collaboration. In the work to renovate the office and create a new warehouse, the company paid great attention to safety issues to prevent accidents at work.

Nelly conducts pulse surveys every week on issues affecting the working environment. Despite the pandemic and the new conditions, employees rated the working environment highly. This was a consequence of the Group's ability to switch to new working methods quickly.

Number of employees in Nelly NLY AB and Nelly Logistics AB, excluding discontinued employments

	2020			2019		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	372	230	62	382	242	64
Under 30	142	90	63	158	104	66
30-50	197	121	61	187	116	62
Over 50	33	19	58	37	22	59

Nelly Group Board

Gender distribution, employees	2020			2019		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	6	4	67	6	2	33
Under 30						
30-50	5	3		5	2	
Over 50	1	1		1		

Nelly Group Management

Gender distribution, employees	2020			2019		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	6	4	67	4	1	25
Under 30						
30-50	5	3		3	1	
Over 50	1	1		1		

Responsible supply chain

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

NELLY'S OWN BRAND PRODUCTS are made by 23 suppliers that, in turn, use 55 production units (Tier 1 factories). 53 of these are in the medium risk countries China, Turkey, India, Bangladesh and Morocco, and 2 are in the UK, classified by Amfori as a low risk country. Nelly's ambition is have long-term relationships with its suppliers to achieve a uniform quality level and ensure that they maintain high standards in relation to human rights and the environment. In 2020, Nelly published a list of the production units (Tier 1 factories) used for its own brand products to increase transparency in its value chain.

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

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

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

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

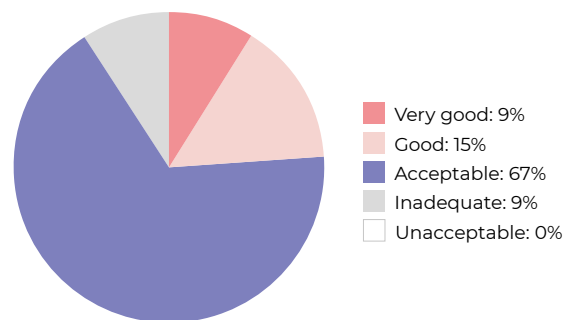
Nelly accepts auditing based on the Amfori BSCI Code of Conduct and Sedex audits. For external brands, compliance with human rights is ensured using purchasing agreements with clauses on working conditions and human rights.

In 2020, a number of factories were fully or partially closed at times on account of Covid-19. This had some impact on deliveries to Nelly and meant that some audits were postponed to 2021. Development work such as training had to be accorded lower priority or postponed in some cases. In India, special training measures were implemented via an Amfori webinar on hygiene training to prevent the spread of Covid-19.

In 2020, 62 percent of the factories making Nelly's own brand products were audited based on BSCI or Sedex, i.e. with third-party inspections within the period for the valid audit cycle.

Measures to improve health and safety have mainly been introduced at factories where the result was inadequate. No zero tolerance action was required at these factories in 2020.

Audit results



“We want to work with suppliers that share our respect for human rights and are willing to work with us to improve their operations.”

Camilla Olofsson, sustainability manager at Nelly

Business ethics

Nelly creates value by being a trusted business partner. Initiatives aim to create an open and responsible culture with clear, established practices that ensure ethical and secure business relationships. The Group has zero tolerance for corruption and bribery.

NELLY WORKS WITH MANY suppliers and partners and good business relationships are crucial. As an e-commerce company, data security and privacy protection are also business critical. Nelly uses personal data to fulfill its obligations to customers such as delivering goods and for billing, customer surveys, marketing etc.

Nelly makes systematic efforts to ensure that personal data is managed responsibly in accordance with the EU's General Data Protection Regulation (GDPR) and has a data protection officer. The personal data processing policy specifies the requirements made at Nelly and ensures that the Group complies with laws and rules linked to the processing of personal data.

In 2020, there was a strong focus on the work following the Schrems II case. Nelly mapped all third-country systems and suppliers, entered new SCC (standard contractual clauses) for all systems and made a risk assessment. Nelly also worked on an internal control framework for GDPR. Progress was made in 2020 and the work continues in 2021.

Nelly responds actively to personal data breaches and classifies them as low, medium or high risk breaches. In 2020, Nelly had a total of 74 personal data breaches, 73 of which were classified as low risk and one as medium risk. Breaches that are classified as high risk must be reported to the Swedish Authority for Privacy Protection. In 2020, Nelly reported no incidents to the Swedish Authority for Privacy Protection.

Nelly works actively to raise awareness of data security. Nelly's data security policy ensures that data is used securely by all employees, including external resources.

In 2020, Nelly carried out a data security analysis covering general data security and selected systems. This resulted in a number of action points that are being dealt with in 2021.

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

The whistleblower policy aims to ensure that employees and business partners feel confident about raising suspicions of impropriety. Whistleblowing is expected of employees when necessary. Suspicions can be reported anonymously, and the information will be investigated.

In 2020, 90 percent of all employees signed the Employee Code of Conduct.

AUDITOR'S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of the shareholders in Nelly Group AB (publ), corporate identity number 556035-6940

Engagement and responsibility

It is the board of directors who is responsible for the sustainability report for the year 2020 on pages 10-33 in the annual report and that it is prepared in accordance with the Annual Accounts Act.

The scope of the examination

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm 8th of April
KPMG AB

Mårten Asplund
Authorized Public Accountant