



**SUSTAINABILITY REPORT 2021**

**NELLY**

# Sustainability report

**Nelly Group AB (Nelly) takes greater responsibility for sustainable development. The company sees it as both an opportunity and an obligation to act in a financially, socially and environmentally sustainable manner and took important strategic steps in this direction in 2021.**

**THE 2021 SUSTAINABILITY REPORT** includes Nelly Group AB (publ) 'Nelly' and its wholly owned subsidiary Nelly NLY AB. This is Nelly's fifth 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 114.

In 2021, Nelly switched from reporting on its sustainability work in the focus areas People, Planet and Product to the new areas Empower Femininity, Respect the Planet and Fair & Equal. Empower Femininity has been identified as an area in which, based on its brand position, Nelly can make a difference for its target group.

Nelly's sustainability work is overseen operationally by the Chief People, Communications and Sustainability Officer and the Production, Sourcing and CSR Manager in collaboration with the sustainability team, which consists of key individuals from several departments. 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, Chief Operations Officer and Chief People, Communications and Sustainability 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.

**“The sustainability work at Nelly was intensified in 2021 and is an integral part of our operations.”**

Kristina Lukes, CEO of Nelly

# Nelly's sustainability initiatives

Nelly sells clothing and accessories online, 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 fashion and beauty products from external brands. The own brand products are purchased from manufacturers in China, Turkey, India, the UK and Morocco. The products are transported to Nelly's logistics centre in Borås, marketed digitally and sold primarily in the Nordics at Nelly.com and NLYMan.com.

## NELLY'S THREE FOCUS AREAS

Manufacture, transport and storage have a major impact on people and the environment, which means that the company has a responsibility to contribute to a more sustainable society. In recent years, the company has worked to develop a sustainability strategy that covers the full supply chain, including responsibility for customers. In early 2021, Nelly presented the new sustainability areas, which have now been further developed and form the basis of a comprehensive strategy that takes effect in 2022 and extends to 2030. The former sustainability areas, People, Planet and Product, have been replaced by new sustainability areas:

The strategy has three focus areas:

- Empower Femininity - to increase responsibility for the company's target group, young women
- 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 and has an impact on people throughout the value chain

The main focus in 2021 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 the latter part of the year, circular initiatives were launched, including secondhand sales at Nelly Lounge and Nelly's Reborn collection.

Nelly's risk and materiality analysis was renewed in 2020 and formed the basis of the continued sustainability work in 2021. The aim was to identify the most important sustainability issues and identify the sustainability-related risks that may affect the company. For Nelly, it is also important to understand stakeholders' requirements and expectations in relation to sustainability work to ensure that we focus on the right factors. The work was started by representatives of management and the sustainability group. Risks were identified and the materiality analysis was used to establish 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. See the list below with links to the UN Sustainable Development Goals.

## PRIORITY MATERIALITY ISSUES FOR NELLY:

### RESPECT THE PLANET:

Carbon dioxide emissions  
Choice of materials  
Chemicals management  
Packaging  
Returns and transport  
Minimise end-of-life waste

### FAIR & EQUAL:

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

The past two years were dominated by Covid-19. On account of travel restrictions, it was not possible to monitor suppliers to the extent planned. This largely had to be postponed until 2022.

During the year, the warehouse was relocated from Falkenberg to Borås, where the head office is also located, which has a positive impact on both travel and transport.

## NELLY'S OVERALL SUSTAINABILITY GOALS:

- 2022 - Nelly's own production must only take place at factories inspected by external inspectors.  
Base year 2020. 2021 result: 84%
- 2023 - Achieve net zero in our own operations (Scope 1&2).  
Base year 2018. 2021 result: -71% (-59% in 2020).
- 2025 - 50% of our textile products must be made of more sustainable materials.  
Base year 2020. 2021 result: 22% (11% in 2020).
- 2030 - Reduce absolute emissions of greenhouse gases by at least 50% by 2030 (Scope 3).  
Base year 2020. 2021 result: +8%.

**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 operations mainly concerns six of the UN Sustainable Development Goals:

Focus area	Sustainability issues	Linked to UN Sustainable Development Goals
Respect the Planet	<ul style="list-style-type: none"> <li>· Carbon dioxide emissions</li> <li>· Transport</li> <li>· Packaging</li> <li>· Returns</li> <li>· Chemicals management</li> <li>· Choice of materials</li> <li>· Product quality</li> <li>· Product life cycle</li> </ul>	Goals 12, 13 and 17
Fair & Equal	<ul style="list-style-type: none"> <li>· Psychosocial working environment</li> <li>· IT security and customer privacy</li> <li>· Anti-corruption and transparency</li> <li>· Responsible supply chain</li> <li>· Gender equality, diversity and equal treatment</li> </ul>	Goals 3, 5, 8 and 17
Empower Femininity	Coming in 2022	



**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, exercise at work to some extent, ergonomic workplaces and regular recreational activities. See page 33.



**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 33.



**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 37.



**GOAL 12: RESPONSIBLE CONSUMPTION AND PRODUCTION.**  
By increasing the proportion of sustainable materials and offering more environmentally-friendly packaging, the company contributes to more sustainable consumption and production. See page 23 and 27.



**GOAL 13: CLIMATE ACTION.**  
Nelly works with STICA (The Swedish Textile Initiative for Climate Action) to reduce climate impact. Carbon dioxide emissions are calculated for its own operations (Scope 1, 2) and the entire value chain (Scope 3). See page 19.



**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, Textile Exchange and STICA. See page 17.

**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:

Respect the Planet - Reduced impact on the environment and climate and more sustainable products

· Production, warehousing and transportation affect the environment through energy consumption, resource use, waste and carbon dioxide 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.  
Action: Nelly applies a continuous environmental strategy to reduce emissions and will report on emissions in all three scopes from 2021.

· Sustainably produced products and associated sustainability labels are becoming increasingly common among competitors and there is a risk of Nelly not offering sufficient sustainable alternatives to customers and business partners.  
Action: Based on the 2021 strategy work, the work to develop sustainability labelling will be intensified in 2022.

· Increased demand for more sustainable materials may result in scarcity, with increased costs as a result.  
Action: In autumn 2021, work began to create a more circular flow of materials, resulting in Nelly's Reborn collection, which was launched in Q1 2022.

· E-commerce means that products cannot be tried on in advance, which may result in returns and increased transport and carbon dioxide emissions. In addition, there may be greater use of packaging, leading to unnecessary resource use.  
Action: Nelly takes a range of strategic action to reduce unnecessary returns and the use of packaging.

· Chemicals requirements are becoming ever stricter but are not always met by all suppliers, which entails a risk of Nelly not being able to meet the stricter requirements for safe products.  
Action: 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.

· 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 war.  
Action: As Nelly's production is spread across several countries and continents, the company is less vulnerable to production disruption or stoppages.

· Future requirements for reduced clothing production as a result of consumer requirements, statutory requirements or materials shortages may entail risks for the company in its current form.  
Action: In 2021, Nelly began working towards a more circular business model with the redesign collection Reborn and secondhand sales at Nelly Lounge. This trend will continue in 2022.

Fair & Equal - how the company treats and has an impact on people throughout the value chain

· Nelly's value chain includes a large number of brands, suppliers and factories. The risk of breaches of human rights in the supply chain may entail risks linked to the company's reputation and result in reduced sales.  
Action: Nelly audits its suppliers. These audits include checking whether there have been breaches of human rights. If Nelly learns of a breach of human rights by a supplier, action is taken immediately.

· 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.  
Action: Nelly works continuously on well-being factors, welcomes whistleblowers and regularly consults its employees to create a good working environment and find out what needs to be improved.

· 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.  
Action: Nelly aims to achieve gender equality and diversity in its Board of Directors and management team and among its other employees, performs continuous monitoring, where possible, and implements correction action.

· 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.  
Action: The company takes a structured approach to data security issues and secure processing of personal data in accordance with the General Data Protection Regulation (GDPR).

· There is a risk of corruption in Nelly's area of activities.  
Action: To counteract corruption, Nelly has a code of conduct 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 - increase responsibility for the company's target group, young women

· Empower Femininity is a new sustainability area for Nelly and may entail a challenge. It must be managed carefully and intelligently to avoid the risk of criticism for so-called 'Femwashing'.  
Action: In 2022, Nelly will adopt a new sustainability strategy with clear ambitions and activities related to Empower Femininity.

# 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.

## 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 worked with Human Bridge since 2018 by donating garments 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.

## The Swedish Textile Initiative for Climate Action

The Swedish Textile Initiative for Climate Action (STICA) supports the Nordic textiles industry in its work to reduce climate impact through cooperation, knowledge sharing and shared tools. Nelly has been a member since the start of 2019 and this membership forms the basis of Nelly's climate work. Nelly has undertaken to reduce its climate impact in line with the 1.5 degree target and report emissions in accordance with the GHG Protocol.

## Textile Exchange

Textile Exchange is a non-profit organisation with a focus on increasing the use of more sustainable fibres in the textile value chain. Textile Exchange creates a joint forum in which textile actors can work together on environmental initiatives. As a member of Textile Exchange, Nelly has gained access to the latest research and important data to obtain guidance on identifying, measuring and managing its sustainable materials. Nelly's purchasing department attended the Textile Sustainability Conference 2021, Textile Exchange's annual global conference (this year in partnership with the Sustainable Apparel Coalition, SAC).

## 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.

# Respect the Planet

As a company in the fashion industry, Nelly has a great responsibility to reduce its climate and environmental impact. In partnership with other actors, Nelly strives to manage world resources carefully.

**“The climate is Nelly’s biggest environmental challenge and we assume the task of reducing our climate emissions in line with what science deems necessary with great humility.”**

Camilla Olofsson, Production,  
Sourcing and CSR Manager

**THE FASHION INDUSTRY ACCOUNTS FOR 10% OF GLOBAL EMISSIONS** and thus a large part of the world’s climate impact. Valuable natural resources are 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.

A broad partnership 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 sustainability area Respect the Planet, Nelly has established time-based targets for reducing its impact on the climate and the environment:

2022: Nelly’s own brand products will only be made by externally inspected factories. Base year 2020

2023: Nelly will achieve net zero in its own operations (Scope 1 and 2). Base year 2018

2025: 50% of textile products will be made of more sustainable materials. Base year 2020

2030: Emissions of greenhouse gases in the value chain will have decreased by 50%. Base year 2020

This work is based on Nelly’s priority materiality issues with clear goals and KPIs that are monitored and improved constantly.

Transparency in the production chain is becoming increasingly important, and Nelly gathered product and manufacturer information in 2021 that will be published in 2022. In partnership with Amfori, for example, regular checks are carried out on factory conditions and audit results are mapped. Read more on page 37.

With ever higher demand for sustainable materials, it is in Nelly’s interest to inform customers and help them make more sustainable choices. A decision was made in 2021 to create sustainability labelling to make it easier to choose products.

In Nelly’s travel policy, employees are encouraged to avoid flying, wherever possible, and to choose greener alternatives for business travel instead.

## RESULTS FOR RESPECT THE PLANET IN 2021

- The first overall climate calculation was carried out
- STICA initiative to increase the use of renewable energy in Turkish factories
- Hard copy invoices ended – 3 million fewer per annum
- District heating for Nelly’s premises in Borås is labelled with the Swedish Ecolabel - Good Environmental Choice
- Sales of products with more sustainable materials increased by 120% on 2020
- The use of Better Cotton in own brand products increased to 56% of total sales volume.

## CLIMATE IMPACT

In 2021, Nelly’s top priority in relation to the environment was our climate initiatives and identifying our overall climate impact. A cornerstone of this work is our collaboration with other textile actors in the Swedish Textiles Initiative for Climate Action, STICA. During the year, we worked together to identify our overall climate impact, set long-term climate goals and define impact reduction measures. As a member of STICA, Nelly undertakes to reduce its absolute greenhouse gas emissions by 50% by 2030, from the base year 2020. This undertaking is in line with what science says is required to achieve the 1.5 degree target.

In the second half of the year, Nelly completed its first full climate report covering greenhouse gas emissions in Scope 1, 2 and 3, reported according to the Greenhouse Gas Protocol. For the first time, the report included emissions from purchased products. The report showed that our greatest climate impact is in the manufacturing stage, primarily materials manufacturing. The result laid the foundation for Nelly’s long-term climate goals for Scope 3 and the process to define measures to reduce climate impact, which was started during the year.

## Nelly’s climate goals

Nelly’s goal for its own operations (Scope 1 and 2) is to reach net zero by 2023.

Nelly’s Scope 3 goal is to reduce absolute greenhouse gas emissions by 50% by 2030.

## Impact reduction measures

Nelly identified textile materials with a lower climate impact during the year and drew up a materials strategy to steer purchasing towards more sustainable choices (read more about the goals in the strategy under ‘Sustainable materials and packaging’).

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 use renewable energy. Turkey is the biggest purchasing market for Nelly’s own brand products. Consequently, the company has decided to be involved in STICA’s ‘renewable energy in the Turkish supply chain’ working group to apply joint pressure to encourage the transition to renewable energy at suppliers. As a first step in this work, joint suppliers in Tier 1, i.e. product manufacturing units, were identified. The opportunities to use certified renewable energy and solar cells were also investigated. The plan for 2022 is to identify actors in Tier 2, i.e. material manufacturing units and to identify their energy sources.

In 2021, Nelly relocated its warehouse from Falkenberg to new premises in Borås. The new warehouse 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 Swedish Ecolabel - Good Environmental Choice. The new warehouse is close to the head office, which has reduced internal transportation between Falkenberg and Borås. 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 capacity utilisation of trucks. In addition to this, Nelly's third-party warehouse for return handling has also switched to certified renewable energy.

As 2021 was a challenging year with major disruption in international sea freight, Nelly was forced to use alternative means of transport such as air and rail to import goods from Asia. In these cases, rail was prioritised over air, where possible. For deliveries to customers, carriage options with a low climate impact were prioritised.

In the first half of 2021, much of the Stockholm office was relocated to Borås, reducing the volume of domestic travel. 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 and charging points for both private and company cars were installed outside the head office.

The pandemic has led to most travel being replaced by online meetings with suppliers and partners, contributing to much lower emissions for both 2020 and 2021. 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.

Nelly has started to explore various circular business models and work on the Reborn collection was initiated in 2021. Nelly's unsold jeans were turned into new garments that were offered for sale on the site in early 2022. The collection was produced locally in Borås and the initiative will continue in 2022.

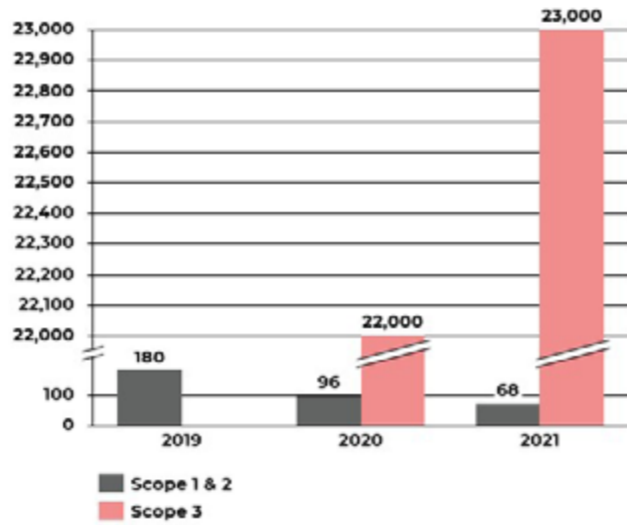
The Group has produced climate results showing that total emissions in 2021 were 25,366 tonnes CO<sub>2</sub>e, an increase of 8% on the previous year. The majority of emissions are in Scope 3, in which the biggest category, purchased products, accounts for 91% of total emissions. This category includes material and textile production and packaging materials. Despite an increase in the proportion of material with lower climate impact such as polyester and organic cotton in 2021, the figure for total emissions was higher, primarily due to a 15% increase in purchased products.

The second highest emissions category, transport and distribution, accounted for 8% of the Group's total emissions and fell by 29% on the previous year. The reduction is primarily due to lower emissions from customer transport and a higher proportion of rail transport. The Group's emissions from business travel increased by 12%. This is due to the inclusion of an additional category in the calculation (which was not included in 2020) and to the fact that there was very little travel in 2020 on account of the pandemic. Emissions in Scope 1 and 2 amounted to 68 tonnes of CO<sub>2</sub>e, a reduction of 30% on the previous year. The reduction is primarily due to switching to electric company cars and to Nordic Ecolabel-certified district heating at the warehouse and at the head office in Borås.

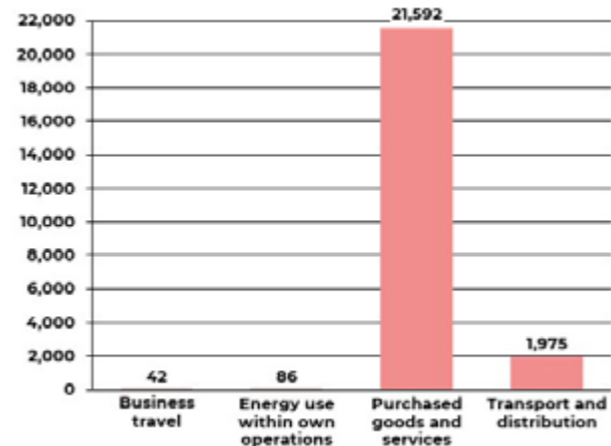
**PRIORITY MATERIAL ISSUE:  
CARBON DIOXIDE EMISSIONS**

- KPI: Direct emissions from sources under the company's control (Scope 1)
- KPI: Indirect emissions from consumption of power, district heating and district cooling (Scope 2)
- KPI: Other indirect emissions from the value chain (Scope 3) (total)
- Other indirect emissions from the value chain (Scope 3) (business travel)
- Other indirect emissions from the value chain (Scope 3) (transport)

**Total emissions, tonnes CO<sub>2</sub>e**



**Emissions per category, tonnes CO<sub>2</sub>e**



## RESPECT THE PLANET

# Sustainable materials

Nelly attaches great importance to increasing the percentage of more sustainable materials in its textile products. As the manufacture of textile materials has the greatest climate impact, the transition to more climate-friendly material choices was a top priority goal for 2021. This is something the industry must do together, which is why Nelly is working with other actors to drive change. Clear goals for the materials strategy have been established for 2025.

**IN 2021**, Nelly joined Textile Exchange, a non-profit organisation with the focus on increasing the use of more sustainable materials in the textile value chain. Textile Exchange creates a joint forum in which textile actors can work together on better choices of materials. The partnership has granted access to the latest research and important data that have helped define and ensure the traceability of sustainable materials. The materials used today that Nelly classifies as sustainable are recycled fibres, EcoVero®, TENCEL®, organic cotton and cotton grown according to the principles of Better Cotton. By marketing sustainable products, the company helps customers make more sustainable choices. The materials strategy (see below) contains criteria for sustainable material choices based on industry standards and international certifications.

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.

In 2021, Nelly increased the total percentage of sustainable materials from 11% to 22%, thus achieving the overall target of 20% for 2021. The percentage of cotton grown according to Better Cotton principles for own brand products was 56%, exceeding the target of 55%. As many of Nelly's own brand products contain polyester, the switch from conventional polyester to recycled polyester was given top priority.

#### **Nelly's materials strategy contains the following targets:**

##### 2022:

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

##### 2025:

- 50% of textile products will be made of more sustainable materials
- 80% of all polyester will be replaced with recycled polyester (own production)
- All cotton purchased for own brand products will be grown according to Better Cotton principles

Nelly offers own brand products and external brands. In 2021, own brands accounted for approximately 40% and external brands 60%. Success in the area of sustainability depends not only on Nelly's own work but also on that of the external brands and their development. By communicating its sustainability goals, Nelly encourages external brands to implement their own sustainability initiatives. Many of the bestselling external brands at Nelly are making great progress in this area.

#### **PRIORITY MATERIAL ISSUE: CHOICE OF MATERIALS**

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

KPI: Percentage of more sustainable cotton from the Better Cotton Initiative in own brand products (clothing, underwear/swimwear, textile accessories)



## RESPECT THE PLANET

# Product quality and product safety

Nelly should sell products that can be used for a long time and are free of harmful, toxic chemicals with a negative impact on humans, animals and nature. 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 the 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. Nelly 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. Textilimportörens chemicals guide, which is updated twice a year with new information on chemicals, test methods and statutory requirements, is used as an aid for own brand suppliers. 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 2021 because they contained banned chemicals.

Nelly has boosted its resources for ensuring quality and chemicals contents through more chemicals tests and increased quality control in production. In 2021, 90 quality control inspections were carried out in production, an increase of 40% on 2020, contributing to a fall in the percentage of defective goods from 1% to 0.5% in 2021.

It conducts a continuous dialogue 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 2021, which is in line with company targets.

**“We are grateful that, despite the pandemic, we have been able to conduct quality control inspections 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 to the same extent in 2021.”**

Sanijeta Smajlagic, Quality Coordinator at Nelly

### Animal ethics

Nelly takes a stand on animal welfare and the requirements for products of animal origin are, therefore, important. 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 policy can be read at <https://nelly.com/se/hållbarhet/produkter/>

#### PRIORITY MATERIAL ISSUE: CHEMICALS MANAGEMENT

KPI: Number of products withdrawn because they contained banned chemicals

#### PRIORITY MATERIAL ISSUE: PRODUCT QUALITY

KPI: Number of quality control inspections (own brand)

## RESPECT THE PLANET

# Packaging

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 often used to provide effective protection against moisture and mould for long-distance transport. However, there is great potential for the area to become more sustainable as individual garments are currently packed separately.

**IN 2021**, Nelly tested 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. In 2022, more categories will be tested. Based on regular assessments, as much unnecessary plastic as possible will be removed from the supply chain.

Optimised use of packaging materials is also important for cost-effectiveness, profitability and environmental impact. This means that packaging must be tailored to the size of the product to minimise packaging materials and empty space.

In 2021, recycled plastic accounted for 53% of total plastic consumption, and recycled paper accounted for 100% of total paper consumption. For 2023, the target is for 100% of Nelly's e-commerce packaging sent to customers to be made of recycled material.

Work began in 2021 to change the labelling on Nelly's own brand products to 100% recycled material. The labels will be on garments from mid-2022.

### PRIORITY MATERIAL ISSUE: PACKAGING

KPI:

1. kg recycled plastic/total plastic consumed (%)
2. kg recycled paper/total paper consumed (%)



## RESPECT THE PLANET

# Returns and shipments

Returns remain a common feature of e-commerce in clothing. However, there is potential for greater reductions in the return rate. During the year, Nelly developed and continues to develop a number of strategic measures to help customers choose the right size.

**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 many customers buy several garments in the same category so they can try on a range of styles. One example of a strategic measure might be to find solutions to help customers find the right size, which is the main reason for returns. This work will be intensified in the years to come and 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 immediately and when new collections are being developed and purchases made. As part of this work, the company applied carefully selected criteria to identify customers who were abusing the returns system. In 2021, the company continued to block customers in this category to reduce unnecessary returns. 3,408 customers were blocked in 2021.

Despite active countermeasures, the return rate increased slightly (by 0.7 percentage points) in 2021. This increase may be because 2020 sales involved a higher proportion of garments for home use, which generally have a lower return rate than, for example, party dresses.

#### INCOMING TRANSPORT

Nelly's own brand products are primarily shipped to the distribution centre in Borås by road and sea. During the year, the company also shipped goods by rail from China, primarily replacing deliveries by air. 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 2021, emissions from incoming goods transport were 39% higher than in the year before. This was due to an increase in production in Europe, where a high proportion of transport is by road.

2021 Mode of transport: CO<sub>2</sub> emissions (%)

Air 8%  
Sea 28%  
Rail 11%  
Road 53%

#### OUTGOING TRANSPORT

Nelly maintains a continuous dialogue with its distribution carriers to increase the proportion of fossil-free transport and added further fossil-free carriage options for customers during the year. Placing fossil-free carriage options higher up the list of options for customers to choose at time of payment resulted in emissions decreasing by 15% for distribution in 2021 compared with 2020. Fossil-free options include vehicles driven entirely using HVO100.

#### PRIORITY MATERIAL ISSUE: RETURNS

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

Number of customers blocked in 2021 (unsustainable returns behaviour)

**PRIORITY MATERIAL ISSUE: TRANSPORT** KPI: Mode of transport, distribution in % (air, sea, rail, road)

#### MINIMISE END-OF-LIFE WASTE

Nelly is working towards a zero waste goal, which involves striving to reuse or recycle unsold products to contribute to a more circular economy. Garments that are returned are cleaned and repaired in the returns warehouse. Products that cannot be resold via the usual channels go primarily to buyers and also to charitable organisations and materials recycling. Garments that are withdrawn due to quality problems are donated to the charitable organisation Human Bridge for reuse or recycling. No garments were withdrawn in 2021. Products that are hazardous to health or the environment are transported straight to incineration plants. In 2021, approximately 53 kg of textile goods and 23 kg of shoes were incinerated on account of mould damage and oil spills.

The zero waste goal will be developed in 2022 into a more extensive initiative with clear KPIs to support the vision of minimising waste.

#### PRIORITY MATERIAL ISSUE: END OF LIFE

KPI: Clothes (in kg) donated to Human Bridge

KPI: Products (in kg) sent for destruction

# 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. 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 another important part of Nelly's sustainability work. Nelly seeks out relevant partners to tackle the challenges facing the fashion industry. It is also important to constantly improve conditions for the company's own employees.

Nelly maintains a healthy workplace by taking a systematic approach to health and safety based on consideration and sound values. Processes for employee appraisals, management by objectives and monitoring of the physical and psychosocial working environment are well established, managed systematically by the People organisation and implemented by managers in the organisation. The entire company is subject to collective agreements.

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

Nelly is a member of Amfori BSCI with the aim of improving working conditions in the supply chain. Nelly's own brand suppliers must sign the Amfori BSCI code of conduct, which contains requirements for health, safety, fair pay and good working conditions. Nelly is convinced that 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. A lack of gender equality and diversity may lead to less understanding of the market and customers. An inadequate approach to gender equality and non-discrimination may lead to psychosocial problems for employees.

Having good business ethics and IT security are essential for a company involved in e-commerce. Good business relationships are crucial to gaining customer trust.

## FAIR AND EQUAL RESULTS 2021

- Higher social compliance - 80% of own brand suppliers underwent third-party inspection.
- No zero tolerance cases reported as per Amfori BSCI's checks
- Transparency at product level for customers prepared
- 2/3 female workforce
- The majority of staff at the warehouse are women
- 50% women on Board and in management team



## FAIR & EQUAL Employees

Nelly works to foster a productive, healthy workplace. A good working environment is a prerequisite for good health, higher employee satisfaction and better 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 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. In 2021, Nelly focused on its values to develop the culture that has created a workplace in which employees thrive and feel a sense of community. Activities to promote job satisfaction and community are carried out in part by the Nelly Fun Squad. In 2021, these took place mainly digitally, for obvious reasons. Internal communication and dialogue were enhanced by investing in resources and prioritising channel-building and forums.

Examples of benefits include flexible working hours, supplementation of parental leave pay, salary switching opportunities, agreements with occupational health service providers, a preventive health care allowance and exercise sessions during working hours. These benefits contribute in part to reducing social ill-health in the workplace and creating a better work-life balance.

The company has a policy and an action plan for gender equality and diversity that complement the code of conduct. The company 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.

Digital employee surveys are conducted every week to gauge the mood on issues that affect the working environment and to be able to take action fast, where necessary. For example, the surveys offer the opportunity to report bullying or harassment. 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.

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 the height of each employee.

A long-term initiative was implemented to train managers on 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. This work involves both individual initiatives and shared development days.

The workforce was reduced between 2020 and 2021 by giving notice of termination on two occasions. The main reduction was when the warehouse was relocated from

Falkenberg to Borås, when Nelly switched from manual picking to an automated warehouse. All permanent employees were offered the opportunity to continue to work at the new warehouse.

The year was dominated by the Covid-19 pandemic. To continue to manage the situation optimally, a number of measures remain in place to create a safe workplace and to improve conditions for those who work from home, including ergonomic equipment. Business travel was minimised and conferences and meetings were largely held online.

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.

In autumn 2021, an 'back to the office' activity was organised to recreate a sense of community after a long period of working from home. As remote working was recommended again and resumed later in the year, a similar activity was held in early 2022.

### **PRIORITY MATERIAL ISSUE: GENDER EQUALITY, DIVERSITY AND EQUAL TREATMENT**

KPI: Gender distribution, employees (employees during the year, excl. terminated employment). See age and gender distribution in management team, on Board and among managers.

KPI: Gender distribution, management team

KPI: Gender distribution, Board of Directors

KPI: Gender distribution, managers

**“Our internal culture is incredibly important. We must support and listen to our employees to create good conditions for everyone.”**

Ida Forsén, acting Chief People, Communications and Sustainability Officer

**Average number of employees at Nelly Group**

	2021			2020		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Total	250	160	64	318	191	60
Under 30	86	59	69	122	75	61
30-50	141	86	61	168	100	60
Over 50	23	15	65	28	16	57

**Diversity, Board**

	2021			2020		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Gender distribution, employees						
Total	5	3	60	6	4	67
Under 30						
30-50	3	2	67	6	4	67
Over 50	2	1	50			

**Diversity, management**

	2021			2020		
	No.	Of whom women	Women, %	No.	Of whom women	Women, %
Gender distribution, employees						
Total	6	3	50	7	5	60
Under 30						
30-50	5	2	47	5	3	60
Over 50	1	1	100			



FAIR & EQUAL

# 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 24 suppliers that, in turn, use 43 production units (Tier 1 factories). 41 of these are in the risk countries China, Turkey, India 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 uniform quality level and ensure that they maintain high standards in relation to human rights and the environment. 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 2022.

Risks relating to human rights and social conditions include breaches of the right of freedom of association, the risk of child labour, 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 breaches are forced labour and child labour. Under a zero tolerance approach, when such serious 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.

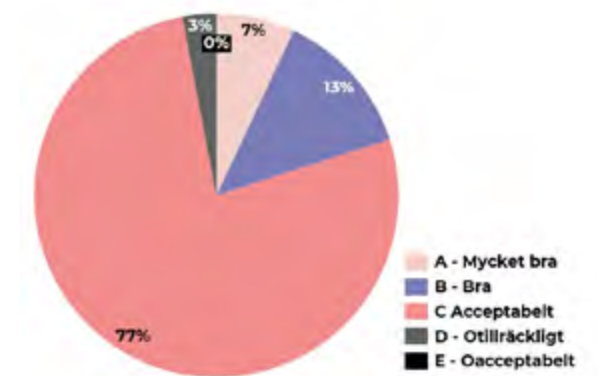
Nelly welcomes auditing based on the Amfori BSCI code of conduct and Sedex audits. For external brands,

compliance with human rights is ensured using purchasing agreements with clauses on working conditions and human rights.

In 2021, 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 2022. Development work such as training had to be accorded lower priority or postponed in some cases.

In 2021, 84 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.

### Audit results



**PRIORITY MATERIAL ISSUE: RESPONSIBLE SUPPLY CHAIN**

- KPI: Percentage of factories with valid social third-party inspections (own brands)
- KPI: Audit results distributed over Amfori BSCI audits conducted (own brands)
- KPI: Number of suppliers (own brands)
- KPI: Number of production units (own brands)

FAIR &amp; 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 in gaining customer trust. 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, customer surveys, marketing, etc. 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. 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 2021, the Schrems II judgment and management of the transfer of personal data to countries outside the EU/EEA continued to be a priority issue to ensure good internal control over any risks. Nelly has standing procedures with a framework for internal control for GDPR with status reports to management and the Board plus any action that needs to be taken. 2021 saw a great deal of work done to ensure a good internal overview of 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 data security policy ensures that data is used securely by all employees, including external resources. Nelly works actively to constantly improve its approach to data security as the business environment and market change. In 2021, Nelly's operations were analysed with regard to data security and several measures were taken on the basis of the results. The analysis was conducted by an external company.

Nelly responds actively to personal data breaches, which are classified as low, medium or high risk breaches. In 2021, Nelly had a total of 117 personal data breaches, 113 of which were classified as low risk and three as medium risk. Breaches that are classified as high risk must be reported to the Swedish Authority for Privacy Protection. In 2021, Nelly reported one breach to

the Swedish Authority for Privacy Protection. The case was closed by the authority with no further action. Nelly constantly learns from the breaches that occur and uses the information to improve its work. The growing number of breaches compared to 2020 may partially be explained by greater awareness among employees.

Nelly has zero tolerance for bribery and corruption. The employee code of conduct lays the foundation for 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 undergo when they are first employed. It is available on the intranet and is used for internal training and lectures.

To ensure a good internal environment, Nelly has set up a whistleblower policy to ensure that employees and business partners feel confident about reporting suspicions of impropriety. Whistleblowing is expected of employees when necessary. Suspicions can be reported anonymously, and the information will be investigated. In 2021, Nelly received no reports of impropriety.

**PRIORITY MATERIAL ISSUE:  
ANTI-CORRUPTION AND TRANSPARENCY**

KPI: Number of employees who have signed Nelly's code of conduct

In 2021, the work on the code of conduct changed format and will be updated with new KPIs for 2022

**PRIORITY MATERIAL ISSUE: IT SECURITY & CUSTOMER PRIVACY**

KPI: Number of identified data leaks

1. Number of breaches reported to the Swedish Authority for Privacy Protection

(formerly the Swedish Data Protection Authority)

2. Number of personal data breaches per risk classification



# Empower Femininity

Nelly's new sustainability area Empower Femininity was launched in early 2021. This will be promoted in 2022 with initiatives linked to goals and KPIs. Empower Femininity will permit Nelly to assume greater responsibility for their customers' well-being.

**AT A TIME AT WHICH MENTAL ILL-HEALTH** is becoming markedly more widespread among young people, Nelly can make a big difference by taking greater responsibility and boosting the self-esteem of this important target group. The inside is just as important as the outside. To this end, Nelly Lounge was launched in 2021. This is a platform for communication between young women in the target group.

#### NELLY'S PLANS FOR 2022 INCLUDE:

- Creating dialogue with the target group in Nelly Lounge and using editorial content and initiatives to enhance both the inside and the outside.
- Increasing the diversity of models.
- Supporting projects and people who support this message and are in line with Nelly's values.
- Establishing a number of effective KPIs.

#### EMPOWER FEMININITY RESULTS 2021

- Nelly Lounge community launched.

**“We help our customers express themselves.”**

Ida Forsén, acting Chief People,  
Communications and Sustainability Officer



## Future focus


The sustainability work in an organisation must never stand still. Requirements are becoming stricter and stricter and the work to achieve climate goals is becoming increasingly important. Everyone has a duty to contribute to sustainable development, which is why Nelly has developed a more comprehensive sustainability strategy for 2022 and appointed a new sustainability manager.

**THE NEW SUSTAINABILITY STRATEGY** extends to 2030. It will be presented and its implementation will begin in Q2 2022 and it will be reflected in everything Nelly does.

### FUTURE OBJECTIVES

- Greater transparency through the publication of factory and product information
- Help customers make sustainable choices through sustainability labelling
- Develop and promote Empower Femininity with measurable activities
- Increase circularity through redesign and reuse
- Switch in focus from product to service





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