

# Corporate governance report

This report describes Nelly Group AB's (Nelly's) policies for corporate governance. Nelly Group AB is a Swedish public limited liability company. The company's governance is based on its Articles of Association, the Swedish Companies Act, the Annual Accounts Act, Nasdaq Stockholm's regulations for listed companies and other relevant regulations. The company also applies the Swedish Code of Corporate Governance (the Code).

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

## Shares and shareholders

According to the share register held by Euroclear Sweden AB, there were 17,951 shareholders at the end of 2020. Shareholdings by its 15 largest shareholders correspond to some 58.4 percent of the share capital.

The share capital consists of two share types: ordinary shares and C shares. There are no restrictions on the number of votes each shareholder can cast at the AGM. For more information, please see page 81.

In August 2020, a directed share issue was held which increased the number of shares and votes by 29,954,951 and the share capital by SEK 29,954,951.

In December 2020, a reverse share split was carried out, resulting in ten existing shares being consolidated into one new share (1:10 reverse split). The aim of the reverse split was to achieve a number of shares appropriate to the company. As a result, the quotient value of the shares increased from SEK 1 to SEK 10.

As of December 31, 2020, Nelly Group AB had 18,494,973 shares issued, of which 17 972,973 were ordinary shares and 522,000 were C shares. Share capital totaled SEK 184,949,730. The Class C shares are held by Nelly Group and may not be represented at general meetings.

Shareholders are regularly provided with information, including interim and full-year financial reports, financial

statements and press releases on significant events. All reports, press releases and other information can be found on the website at [www.nellygroup.com](http://www.nellygroup.com).

## Annual General Meeting

The annual general meeting (AGM) is a limited company's highest decision-making body. It is there that all shareholders can exercise their voting rights to decide on issues affecting the company and its operations. The Swedish Companies Act and the Articles of Association detail procedures on how notice is given of the AGM and extraordinary general meetings, along with who is entitled to participate and vote at the meetings.

The authority of the AGM and its rules of procedure are primarily based on the Swedish Companies Act and the Swedish Corporate Governance Code, as well as on the Articles of Association adopted by the AGM. The AGM must be held within six months of the end of the financial year. The AGM makes decisions on adoption of the income statement and balance sheet for the company and the consolidated income statement and balance sheet, appropriation of the company's earnings according to the adopted balance sheet, discharge of liability for the Board and CEO, election of the Board and its chairman, election of the company's auditors, and certain other matters provided for by law and the Articles of Association. The AGM for the 2020 financial year will be held on May 12, 2021, in Stockholm, Sweden.

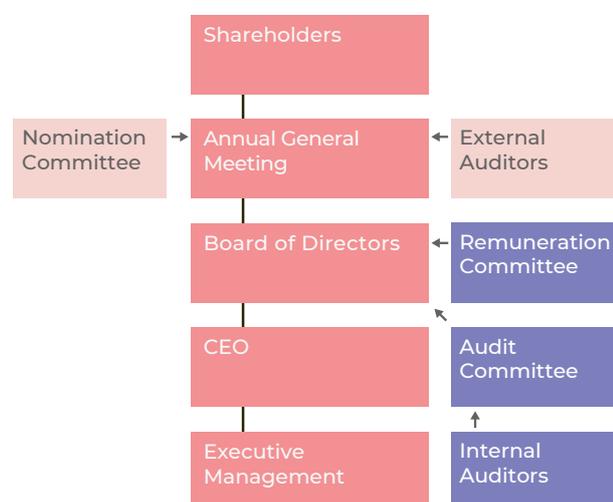
## Nomination committee

Tasks of the nomination committee include:

- Evaluating the Board's work and composition
- Submitting proposals to the AGM regarding the election of Board members and the Chairman of the Board
- Preparing proposals for the election of auditors in consultation with the audit committee (when appropriate)
- Presenting proposals for the setting of remuneration for the Board and the auditors
- Preparing proposals for the Chairman of the annual general meeting
- Preparing proposals to the AGM regarding the nomination Committee's composition and work during the following year

In accordance with the Nomination Committee Rules (adopted at Nelly Group's 2018 AGM), a representative of the largest shareholder, Rite Ventures, convened a nomination committee to prepare proposals for Nelly Group's 2021 AGM.

The members of the nomination committee for the 2021 AGM are Christoffer Häggblom, appointed by Rite Ventures, Alexander Antas, appointed by Mandatum, and Martin Jonsen, appointed by Catella Fonder. At their first meeting, the members of the nomination committee appointed Christoffer Häggblom to be chairman of the nomination committee, which deviates from the provisions of the Swedish Corporate Governance Code. The other members of the nomination committee stated that the decision on the choice of chairman is in the interests of the company and all shareholders and a natural consequence of the fact that Christoffer Häggblom represents the company's largest shareholder. The members of the nomination committee receive no separate remuneration for their work.



The nomination committee will submit draft resolutions regarding the election of Board members and Chairman of the Board, auditors, remuneration of the Board and Chairman of the Board etc. at the company's 2021 AGM.

In its work, the nomination committee applies Rule 4.1 of the Swedish Corporate Governance Code and the company's policy regarding the diversity and suitability of board members. The nomination committee considers the importance of increased diversity on the Board, in terms of gender, age and nationality, as well as experience, occupational background and business areas. As part of its efforts to find the most competent Board members, the nomination committee strives for an even gender balance.

### Board of Directors

Nelly Group's Board of Directors is elected at the AGM for the period up to and including the end of the following AGM. Nelly Group's Articles of Association do not include any restrictions regarding the eligibility of Board members. According to the Articles of Association, the Board should consist of a minimum of three and a maximum of 9 members.

### Responsibilities and duties of the Board

The Board has overall responsibility for the organization and management of Nelly Group. The Board has adopted working procedures for its internal activities that include rules pertaining to the number of regular Board meetings, which issues are to be discussed at regular Board meetings, the duties of the Chairman and instructions regarding division of duties between Nelly Group's Board, the CEO and the rest of the management team. The work of the Board is also governed by rules and regulations, including the Swedish Companies Act, Articles of Association and Swedish Code of Corporate Governance.

In order to carry out its work more effectively, the Board has appointed a remuneration committee and an audit

committee with special tasks. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions. However, all members of the Board have the same responsibility for decisions made and actions taken, irrespective of whether issues have been reviewed by such committees or not.

The Board has also issued instructions to be followed by the CEO. The instructions require that major investments in fixed assets must be approved by the Board. The Board must also approve major transactions, including acquisitions and divestments or closure of businesses. In addition, the Board has also issued written instructions specifying when and how information that is required for the Board to evaluate the Group's and its subsidiaries' financial positions should be reported.

The rules of procedure that are adopted annually by the Board include instructions on which financial reports and what financial information shall be submitted to the Board. In addition to the year-end report, interim reports and the annual report, the Board also examines and evaluates extensive financial information related to both the Group and various entities within the Group. The Board also examines, primarily through the audit committee, the most significant accounting policies applied in the Group regarding financial reporting, as well as any key changes to these policies. The audit committee is also tasked with examining reports on internal controls and the processes for financial reporting, along with internal audit reports compiled by the Group's external function for internal auditing. The Group's auditor reports to the Board as required, but at least once a year. At least one of these reporting occasions occurs without the CEO or any other member of executive management being present. The Group's auditor also participates in the meetings of the audit committee. The audit committee meetings are minuted and the minutes are made available to all Board members and the auditors.

### Composition of the Board as of December 31, 2020

Name	Position	Date of birth	Citizenship	Appointed	Independent of major shareholders	Independent of the company and its management	Remuneration committee	Audit committee
Mathias Pedersen	Chairman	1971	Swedish	2020	Yes	Yes	Member	Chairman
Christoffer Häggblom	Board member	1981	Finnish	2017	No	Yes	Chairman	Member
Josephine Salenstedt	Board member	1984	Swedish	2020	No	Yes	Member	
Maj-Louise Pizzelli	Board member	1963	Swedish	2020	Yes	Yes		
Louise Nylén	Board member	1976	Swedish	2020	Yes	Yes		
Stina Westerstad	Board member	1974	Swedish	2020	Yes	Yes		Member

Nelly Group's Board composition during the year fulfilled the requirements of Nasdaq Stockholm and the Code on the independence of board members. This means that most Board members appointed by the AGM are independent of the company and its management. At least two of these members are also independent of the company's major shareholders.

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### Composition of the Board

The Board of Nelly Group AB comprises six members. The Board members are Mathias Pedersen (Chairman since December 2020), Christoffer Häggblom, Josephine Salenstedt, Maj-Louise Pizzelli, Louise Nylén and Stina Westerstad. For more information, see page 48.

### Remuneration committee

The remuneration committee consists of Christoffer Häggblom, Chairman, Josephine Salenstedt, and Mathias Pedersen.

The remuneration committee's tasks are described in section 9.1 of the Code. The main tasks of the remuneration committee are to: (i) prepare decisions for the Board on matters regarding remuneration principles, remuneration and other employment terms for the CEO and senior executives; (ii) monitor and evaluate ongoing programs and programs concluded during the year for variable remuneration (e.g. long-term share-based incentive plans) for the CEO, senior executives and other key individuals within Nelly Group; and (iii) monitor and evaluate application of the guidelines for remuneration of senior executives that the AGM, in accordance with the law, must decide upon, along with applicable remuneration structures and remuneration levels in the company.

### Audit committee

The audit committee consists of Mathias Pedersen, Chairman, Christoffer Häggblom, and Stina Westerstad.

The audit committee's tasks are described in Chapter 8, Section 49b of the Swedish Companies Act. The audit committee's responsibilities are to: (i) monitor the company's financial reporting, make recommendations and suggestions to ensure reporting accuracy; (ii) in respect of the financial reporting, monitor the efficiency of the company's internal controls, internal audits and risk management; (iii) stay informed on the audit of the annual report and consolidated accounts as well as the conclusions of the Supervisory Board of Public Accountants' quality control; (iv) inform the Board about the results of the audit and the manner in which the audit contributed to the reliability of financial reporting as well as on the role the Committee had; (v) review and monitor the impartiality and independence of the auditor, paying special attention to whether the auditor provides the company with services other than auditing; and (vi) assist with preparation of proposals for the AGM's resolution on election of an auditor. The audit committee's work focuses on evaluating the quality and accuracy of the financial reporting, internal controls, internal audits and risk assessments.

### Remuneration of Board members

The fixed remuneration for the Board (decided at an extraordinary general meeting held on December 16, 2020) for the period until the close of the 2021 AGM totals SEK 1,675,000 per annum, of which:

- SEK 450,000 to the Chairman of the Board,
- SEK 200,000 to each of the five other Board members,
- SEK 75,000 to the chairman and SEK 30,000 to each of the two other members of the audit committee,
- SEK 50,000 to the chairman and SEK 20,000 to each of the two other members of the remuneration committee.

The remuneration of the Board members is proposed by the nomination committee, which represents the company's largest shareholders, and approved by the AGM (or an extraordinary general meeting in certain cases). The nomination committee's proposal is based on benchmarking of peer group company remuneration and company size.

### The Board's work in 2020

During the year, the Board regularly reviewed Nelly Group's consolidated earnings, financial position, organization and administration. During its meetings the Board dealt with matters involving the division of the Group into three separate companies and Nelly Group's strategy, budget and other financial forecasting, capital structure and financing, investments in fixed assets, potential establishment of new operations and divestments and continued streamlining of internal procedures and control processes. An annual structured evaluation of the Board's work is conducted with the aim of further developing the Board's effectiveness and proactive involvement in the company. The result of this evaluation was also reported to the nomination committee. The Board had a total of 23 meetings in 2020, including eight meetings per capsulam.

### Attendance of the Board and Committee meetings during 2020

Name	Board meetings	Audit Committee	Remuneration Committee
Number of meetings in 2020	23	4	6
Mathias Pedersen (Board member from 2020-09-28; Chairman of the Board from 2020-12-16)	8/8		
Christoffer Häggblom (Chairman of the Board until 2020-12-16)	23/23	1/1	6/6
Josephine Salenstedt (Board member from 2020-09-28)	8/8		1/1
Maj-Louise Pizzelli (Board member from 2020-12-16)	2/2		
Louise Nylén (Board member from 2020-12-16)	2/2		
Stina Westerstad (Board member from 2020-12-16)	2/2		
Daniel Mytnik (Board member until 2020-12-16)	21/21	4/4	6/6
Lennart Jacobsen (Board member until 2020-12-16)	21/21	2/2	
Andreas Bernström (Board member until 2020-09-18)	11/14		
Jessica Pedroni Thorell (Board member until 2020-09-18)	12/14	3/3	4/5
Erika Söderberg Johnson (Board member until 2020-05-12)	7/7	2/2	

### External auditors

KPMG AB was elected as Nelly Group AB's auditor at the 2020 AGM for a period of one year. KPMG has been the company's external auditor since 1997. Mårten Asplund, authorized public accountant at KPMG, has overseen the company's audits since May 2017. An auditor election will take place at the 2021 AGM.

The auditor reports its findings to the shareholders by means of the auditor's report, which is presented to the AGM. In addition, the auditors report detailed findings to the audit

committee twice a year and to the full Board once a year, and annually provide written assurance of their impartiality and independence to the audit committee.

KPMG also provided certain additional services in 2019 and 2020. These services comprised consultation on accounting and tax issues and other audit-related engagements.

Audit engagements involve examination of the annual report and financial accounting, administration by the Board and CEO, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other engagements. See Note 25 for more information.

### CEO and executive management

The Group's executive management consists of Kristina Lukes, CEO, Mimi Darin, Chief Commercial Officer, Maria Segergren, Chief Assortment Officer, Andreas Drougge, Chief Technology Officer, John Afzelius, CFO (David Granath left his position as CFO on March 31, 2021), Stefan Svensson Chief Operating Officer (from summer 2021) and Therese Knutsson, Chief Human Resources Officer. For more information, please see page 50.

The CEO is responsible for the ongoing administration of the company in accordance with the guidelines and directions established by the Board.

The CEO and executive management team, supported by various staff functions, are responsible for adhering to the Group's overall strategy, financial and business controls, financing, capital structure, risk management and acquisitions. Among other tasks, this includes preparation of financial reports, communication with the investors etc.

### Applicable guidelines for remuneration of senior executives

The extraordinary general meeting held on December 16, 2020 resolved to adopt the following guidelines for remuneration of senior executives. The guidelines are valid until further notice.

#### Guidelines for remuneration of senior executives

Guidelines for remuneration of Nelly Group's CEO and other members of the management team (together the 'senior executives') and of Board members, where they receive remuneration for tasks other than Board duties.

The guidelines must be applied to remuneration that is agreed, and changes made to remuneration already agreed, after the guidelines were adopted by the extraordinary general meeting on December 16, 2020. The guidelines do not include remuneration adopted by the annual general meeting such as ordinary Board fees and long-term share/share price-related incentive plans.

#### How the guidelines promote Nelly Group's business strategy, long-term interests and sustainability

Nelly Group's only operational subsidiary Nelly has one of the strongest online fashion brands for young women in the Nordic region. Nelly's business model is based on a core of its own designs and brands and a supplementary range of curated fashion and beauty products from 300 other brands. Nelly will continue to strengthen its own brands and remain at the forefront of digital marketing and sales. The company

will continue to inspire its target group with selected trends and fashion.

For Nelly Group to be able to realize its business strategy and safeguard the Group companies' long-term interests, including their sustainability, it is essential that it can attract, motivate and retain senior executives in competition with comparable Nordic companies, primarily Nordic companies operating in e-commerce and retail with consumer brands. These guidelines must, therefore, make it possible for senior executives to be offered a competitive package of remuneration. At the same time, Nelly Group's remuneration system must be compatible with and promote sound, effective risk management and discourage excessive risk-taking.

Remuneration of the senior executives in Nelly Group must, in both the short and long terms, reflect the individual's performance and responsibilities and the earnings of Nelly Group and its subsidiaries and must also align the interests and rewards of senior executives with those of the shareholders. Consequently, the senior executives must be remunerated according to the principle of reward for performance.

The Board considers that the option of variable remuneration and participation in any long-term incentive plans, plus carefully balanced fixed remuneration, create the conditions for Nelly Group to be a competitive employer, while the design of and conditions for the variable remuneration promote responsible, sound risk-taking and the company's growth strategy, long-term interests and sustainability.

#### Types of remuneration

The remuneration must be market-based and may consist of the following components:

- fixed cash salary,
- variable cash remuneration,
- the option to participate in long-term (i) share/share price-related incentive plans adopted by the annual general meeting and/or (ii) cash-based incentive plans,
- pension benefits, and
- other customary benefits.

#### Fixed cash salary

Senior executives' fixed cash salaries are revised each year. They must be competitive and based on the individual's skills, responsibilities and performance.

#### Variable cash remuneration

Senior executives' cash variable remuneration must be based on performance in meeting established targets for growth and value creation for their areas of responsibility and for Nelly Group. The outcome must be linked to measurable targets (qualitative, quantitative, general and individual) that are measured during one year. The targets within the senior executives' respective areas of responsibility are intended to promote Nelly Group's performance in both the short and long terms and thus promote Nelly Group's business strategy and long-term interests, including the company's sustainability. The variable cash remuneration may not exceed 100 percent of the senior executive's fixed annual salary.

Additional cash variable remuneration may be paid in extraordinary circumstances, provided that such extraordinary arrangements are only made at individual level either

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to recruit or retain an executive or as remuneration for extraordinary performance above and beyond the person's ordinary duties. Such remuneration may not exceed an amount equivalent to 100 percent of fixed annual cash salary. Any decision on such remuneration must be made by the Board of Directors following a proposal by the remuneration committee.

The Board must also consider deciding that part of senior executives' variable cash remuneration must be invested in shares or share-related instruments in Nelly Group.

### **Long-term share-related and cash-based incentive plans**

The senior executives may be offered incentive plans which must, in general, be share/share price-related and are therefore not subject to these guidelines but may also be cash-based. Long-term share/share price-based incentive plans must be designed to ensure the participants' long-term commitment to value growth in Nelly Group and align the interests of the senior executives with those of the shareholders.

### **Establishment of criteria for payment of cash variable remuneration and long-term cash-based incentive plans and the right to demand repayment of such remuneration in certain cases**

When the measurement period for meeting criteria for payment of variable cash remuneration and long-term cash-based incentive plans has ended, it is necessary to decide/establish the extent to which the criteria have been met. The remuneration committee is responsible for such assessment. Where financial criteria are concerned, the assessment must be based on the financial information most recently published by Nelly Group. The remuneration committee must, in its assessment, ensure that the remuneration is linked to Nelly Group's earnings. When determining the remuneration, the remuneration committee must also take relevant circumstances into account in relation to the environment, social conditions, corporate governance and anti-corruption (ESG criteria).

To ensure that performances on which the remuneration has been based are sustainable over time, Nelly Group must be entitled, by law or contract, with the restrictions that may be stipulated by law or contract, to demand repayment of all or part of remuneration other than fixed cash salary, pension and other customary benefits that has been paid incorrectly as a result of information that turns out to be obviously incorrect (claw-back).

### **Pension and other customary benefits**

Pension commitments are defined contribution and secured through premiums paid to insurance companies. The amount of pension premiums is specified by Nelly Group's pension plan and must generally correspond to the provision levels applicable under the ITP 1 plan with the resulting restrictions in relation to fixed annual salary. No provisions are made for salary components in excess of 60 income base amounts calculated on an annual basis. Variable cash remuneration must generally not be pensionable. The retirement age is normally 65.

Other benefits should be customary and contribute to facilitating the executives' ability to perform their duties, for example company car, occupational health services and medical expense insurance. The total of such benefits may not exceed 30 percent of the fixed annual cash salary.

### **Notice of termination and severance pay**

On termination of employment, the notice period may not exceed twelve months. The total of fixed cash salary during the notice period and severance pay may not exceed an amount equivalent to the fixed cash salary for eighteen months for the CEO and twelve months for other senior executives. On termination by the employee, the notice period may not exceed six months and the employee is not entitled to severance pay.

### **Salary and terms of employment for employees**

The salary and terms of employment of Nelly Group's employees were taken into consideration in the preparation of the Board's proposal for these remuneration guidelines. The guidelines do not deviate from the remuneration systems that are generally applied in Nelly Group to other employees. The remuneration, types of remuneration and development of salary of the senior executives are deemed to be in accord with salaries and terms of employment of other employees in Nelly Group in other respects as well. The development of the gap between remuneration of senior executives and remuneration of other employees will be reported in future remuneration reports.

### **Remuneration of Board members**

Members of the Board of Directors of the parent company, who are appointed at the annual general meeting, may, in special cases, receive remuneration for services performed within their respective specialist areas that fall outside their ordinary Board duties for the parent company. Remuneration for such services must be market-based and approved by the Board.

### **Decision-making process**

The Board has established a remuneration committee. The duties of the committee include preparing the Board's decisions on proposals for guidelines for remuneration of senior executives. At least every four years, the Board must submit a proposal for guidelines for remuneration of senior executives to the annual general meeting for resolution. The guidelines must apply until new guidelines have been adopted by the annual general meeting.

The remuneration committee must also monitor and assess plans for variable remuneration of the executive management, the application of these guidelines for remuneration of senior executives and the remuneration structures and levels of remuneration in the company.

The members of the remuneration committee are independent of the company and the executive management. Senior executives do not take part in the Board's discussions and decisions on issues related to remuneration where the issues affect them personally.

### **Deviations from the guidelines**

Where the Board finds that there are particular reasons in a particular case and to safeguard the company's long-term interests, including its sustainability, or to safeguard the company's financial position, the Board is entitled to deviate from the guidelines. If the Board deviates from the guidelines, it must report the reasons for this at the following AGM. For more information, please see Note 24.

### **Share-based long-term incentive plans**

Nelly Group has three outstanding share-based long-term incentive plans that were adopted at the AGMs in 2018 and 2019 and at the extraordinary general meeting in December 2020.

See Note 24 for more information.

### **Evaluation of the guidelines and auditor's opinion on whether the guidelines have been complied with**

In accordance with the Swedish Corporate Governance Code, the Board's remuneration committee follows and evaluates the application of the AGM's guidelines for remuneration of executives. In accordance with Chapter 8, Section 54, of the Swedish Companies Act, the company's auditor has provided an opinion on whether the guidelines for remuneration of senior executives in force in 2020 were adhered to. The remuneration committee's evaluation and the auditor's review have concluded that in 2020 Nelly Group followed the guidelines adopted by the AGM. The opinion and the Board of Directors' report on the outcome of the remuneration committee's evaluation are available on the company's website at [www.nellygroup.com](http://www.nellygroup.com), and at company headquarters at Lundbygatan 1, 506 30 Borås, Sweden, and are sent to the shareholders who request them, stating their mailing or email address.

### **Internal control of financial reporting etc.**

The processes for internal control, risk assessment, control activities and monitoring regarding financial reporting are designed to ensure reliable overall and external financial reporting in accordance with International Financial Reporting Standards (IFRS), applicable laws, regulations and other requirements for listed companies on Nasdaq Stockholm. This work involves the Board, executive management and other staff.

### **Control environment**

In addition to the Board's rules of procedure and instructions to the CEO, Board committees and the boards of the subsidiaries, there is a clear division of roles and responsibilities for effective management of operational risks. The Board also has several established basic guidelines that are important to its work with internal control activities. This includes control and monitoring of results as compared with plans and prior years.

The audit committee assists the Board in overseeing various issues such as internal audit and accounting policies applied by the Group.

The responsibility for maintaining an effective control environment with risk assessment of ongoing activities and internal control over financial reporting is delegated to the

CEO. The boards of the subsidiaries and managers at different levels in the Group have this responsibility in their areas of responsibility. Executive managers regularly report to the Board according to established procedures and in addition to the audit committee's reports. The control environment is made up of defined responsibilities and authority, instructions, guidelines, manuals and policies, together with laws and regulations. All employees are accountable for compliance with these guidelines.

### **Risk assessment and control activities**

The company has prepared a model for assessing risks in all areas, in which several parameters are identified and measured. These risks are reviewed regularly by the Board and the audit committee and include both the risk of loss of assets as well as irregularities and fraud. Special attention was paid to designing controls for preventing and discovering shortcomings in these areas. There is regular monitoring of important areas such as purchasing, logistics, and inventory processes, development and performance of the web platform, and IT security.

### **Information and communication**

Guidelines, manuals and the like that are significant for financial reporting are regularly updated and distributed to the employees concerned. There are formal as well as informal information channels to the executive management and Board for employees to transmit information of significance. Guidelines for external communication ensure that the company applies the highest standards for providing accurate information to the financial market.

### **Monitoring**

The Board continuously evaluates the information submitted by company management and the audit committee. The Board receives regular updates between meetings as to the Group's development. The Group's financial position, strategies and investments are discussed at every ordinary Board meeting. The audit committee reviews all quarterly reports prior to publication. The audit committee is also responsible for monitoring internal control activities. This work includes ensuring that action is taken to deal with any deficiencies and to implement proposed measures emerging from the internal and external audits. The external auditors participate in the regular meetings of the audit committee.

During the year, Nelly had independent internal audit functions that are responsible for monitoring and evaluating risk management and internal control activities. Internal auditing was performed by external parties, whose work included scrutinizing the application of established guidelines.