

# KAPPAHL 2017

*Successful strategies  
strengthen performance.*

KappAhl



*KappAhl was established in 1953 in Gothenburg and is now one of the leading Nordic fashion chains. We have 360 KappAhl and Newbie stores in Sweden, Norway, Finland and Poland and our Shop Online is available in all our sales markets.*

*Our mission is to offer value-for-money fashion of our own design with wide appeal. Our range is always inspiring and the proportion of sustainability-labelled fashion is increasing steadily. It should feel right for our customer and the rest of the world.*

*In 2016/2017 net sales were SEK 4.9 billion and the number of employees was about 4,000 in nine countries. KappAhl has been listed on Nasdaq Stockholm since 2006.*

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THIS REPORT is an unofficial translation of the corresponding Swedish document. In the event of any discrepancies between the text contained in this document and the Swedish document, the latter shall prevail.

The annual report was prepared in accordance with the Global Reporting Initiative Standards: Core option. The contents are based on our sustainability strategy and materiality analysis. Information on sustainability presented in the annual report has not been externally assured. Ethos International, a consultancy specialising in sustainability, has assisted KappAhl in ensuring that the content of the report follows the GRI Standards Core option.

# THE KAPPAHL SHARE

The KappAhl share has been listed on Nasdaq Stockholm, Mid Cap since 23 February 2006. The KappAhl share is included in the Nasdaq Stockholm Consumer Discretionary Index.

The number of shares in KappAhl is 76,820,380. One share entitles the holder to one vote. All shares have equal rights to a share in KappAhl's assets and profits.

## PRICE PERFORMANCE AND TRADING

From the start of the financial year (1 September 2016) to 31 August 2017 the value of the KappAhl share increased by 5.4 per cent.

This can be compared with the Nasdaq Stockholm All-Share index that increased in value by 9.1 per cent and Nasdaq Stockholm General Retailers that decreased by 20.3 per cent in the same period. The highest price paid was SEK 55.0 on 3 February 2017 and the lowest price paid was SEK 40.8 on 3 October 2016. At the close of the financial year KappAhl's market value was SEK 3,457 million and the P/E ratio estimated on profit for the year was 9.5.

In the period 1 September 2016 to 31 August 2017 a total of 39,109,391 KappAhl shares were traded to the value of SEK 1,824 million, based on the average price of SEK 47.1. This means that each share was traded 0.51 times over the year, corresponding to an average of 154,583 shares traded per day.

## OWNERSHIP STRUCTURE

On 31 August 2017 KappAhl had 15,294 shareholders. The largest shareholder was Mellby Gård AB (Rune Anderson) with a holding of 24.4 per cent and Swedbank Robur Fonder with 5.9 per cent, followed by Handelbanken Fonder with 4.7 per cent.

Of the shareholders, 3.7 per cent own more than 5,000 shares. Shareholdings registered with companies and institutions amounted to 87.3 per cent.

## DIVIDEND

The Board of Directors proposes a dividend of SEK 2,00 (1.25) per share for the 2016/2017 financial year. In addition the Board of Directors proposes a distribution of assets of SEK 6.50 per share by means of a redemption procedure.

## STOCK MARKET INFORMATION

KappAhl's information to the stock market and shareholders is to be characterised by correctness, relevance, transparency and speed.

KappAhl's press releases, quarterly reports and annual reports are available at [www.kappahl.com/ir](http://www.kappahl.com/ir). Here you will also find additional information about the company, financial performance and the KappAhl share and how to subscribe to information from KappAhl.

| Holding as at 31 August 2017<br>(SEK thousand) | Number of<br>shareholders | Number of shares  | Shareholding (%) | Votes (%)    |
|--|---------------------------|-------------------|------------------|--------------|
| 1–500  | 11,557                    | 1,558,949         | 2.03             | 2.03         |
| 501–1,000                                      | 1,545                     | 1,310,216         | 1.71             | 1.71         |
| 1,001–5,000                                    | 1,612                     | 3,756,309         | 4.89             | 4.89         |
| 5,001–10,000                                   | 265                       | 1,984,873         | 2.58             | 2.58         |
| 10,001–15,000                                  | 58                        | 725,417           | 0.94             | 0.94         |
| 15,001– 20,000                                 | 38                        | 669,549           | 0.87             | 0.87         |
| 20,001–  | 219                       | 66,815,067        | 86.98            | 86.98        |
| <b>Total</b>                                   | <b>15,294</b>             | <b>76,820,380</b> | <b>100.0</b>     | <b>100.0</b> |

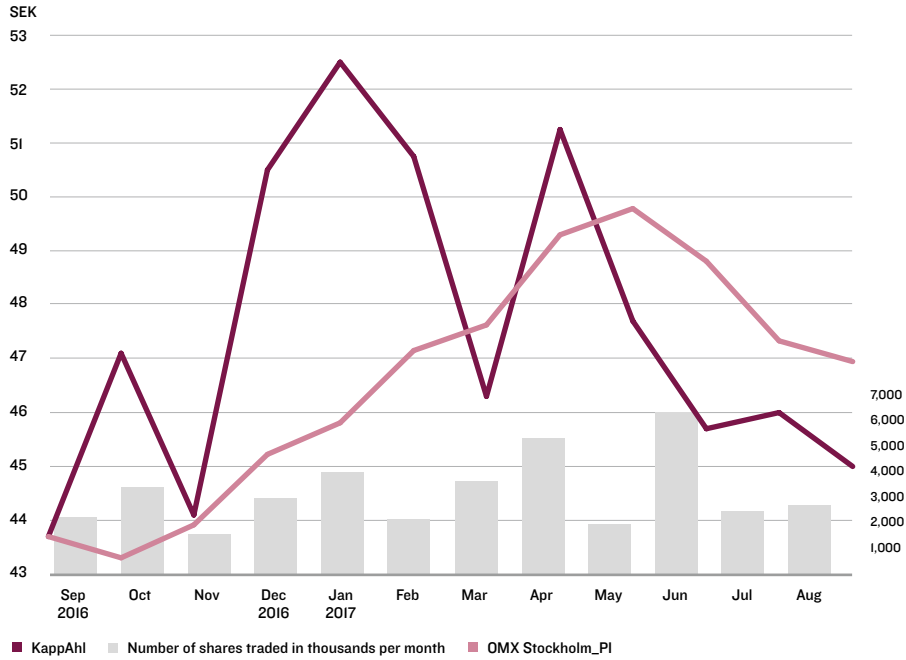
## OWNERSHIP STRUCTURE, GEOGRAPHICAL DISTRIBUTION



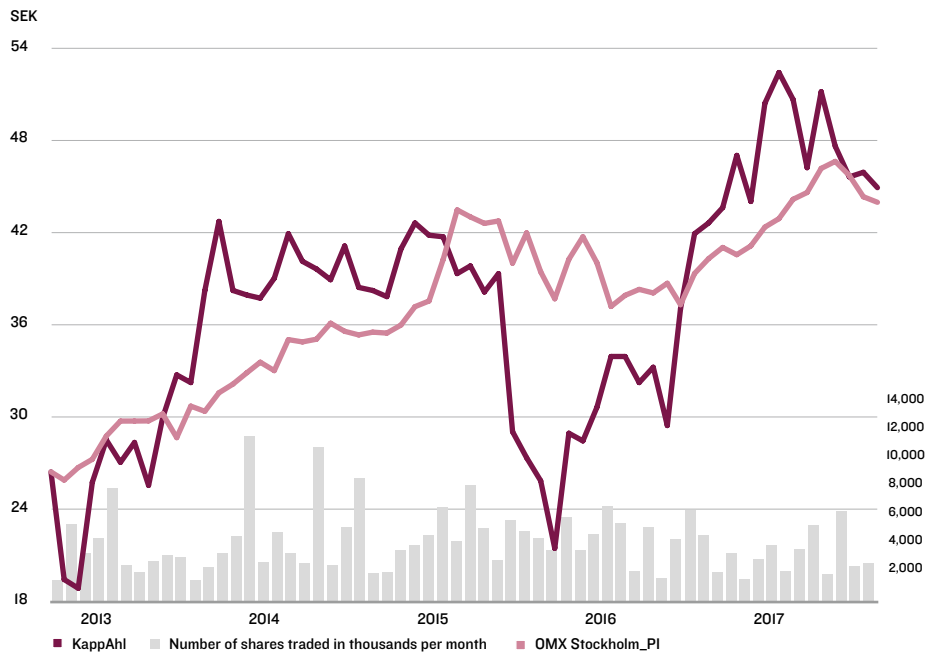
■ Swedish ownership 63.3%  
■ Foreign ownership 36.7%



### KAPPAHL SHARE PERFORMANCE 2016/2017



### KAPPAHL SHARE PERFORMANCE | SEPTEMBER 2012–31 AUGUST 2017



# MULTI-YEAR AND QUARTERLY REVIEW

## THE GROUP'S KEY FIGURES

|   | September–August<br>2016/2017 | September–August<br>2015/2016 | September–August<br>2014/2015 | September–August<br>2013/2014 | September–August<br>2012/2013 |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Net sales, SEK million  | 4,916.2                       | 4,723.6                       | 4,588.2                       | 4,742.9                       | 4,750.9                       |
| Sales growth, %   | 4.1                           | 3.0                           | -3.3                          | -0.2                          | 3.6                           |
| Operating profit (EBIT), SEK million  | 448.6                         | 349.3                         | 197.8                         | 272.1                         | 252.3                         |
| Adjusted operating profit (EBIT), SEK million                               | 448.6                         | 349.3                         | 207.5                         | 295.1                         | 202.3                         |
| Operating profit (EBITDA), SEK million                                      | 579.2                         | 479.8                         | 333.4                         | 400.6                         | 395.9                         |
| Adjusted operating profit (EBITDA), SEK million                             | 579.2                         | 479.8                         | 342.8                         | 423.6                         | 345.9                         |
| Total depreciation/amortisation, SEK million                                | 130.6                         | 130.5                         | 135.3                         | 128.5                         | 140.6                         |
| Gross margin %  | 62.2                          | 61.8                          | 60.1                          | 60.8                          | 59.2                          |
| Operating margin, %   | 9.1                           | 7.4                           | 4.3                           | 5.7                           | 5.3                           |
| Adjusted operating margin, %  | 9.1                           | 7.4                           | 4.5                           | 6.2                           | 4.3                           |
| Interest coverage ratio (multiple)  | 20.2                          | 35.1                          | 9.0                           | 4.0                           | 2.9                           |
| Net interest-bearing liabilities (+)/(Net financial assets) (-) SEK million | -168.2                        | 144.2                         | 282.3                         | 460.0                         | 660.9                         |
| Net interest-bearing liabilities/Adjusted EBITDA (multiple)                 | -0.3                          | 0.3                           | 0.8                           | 1.1                           | 1.7                           |
| Equity-assets ratio, %  | 67.4                          | 58.1                          | 56.6                          | 56.1                          | 49.4                          |
| Equity per share, SEK   | 26.58                         | 23.50                         | 21.36                         | 20.12                         | 18.42                         |
| Equity per share after dilution, SEK  | 26.58                         | 23.50                         | 21.30                         | 19.99                         | 18.42                         |
| Cash flow from operating activities per share, SEK                          | 7.46                          | 3.94                          | 4.75                          | 4.60                          | 3.06                          |
| Market price, SEK   | 45.0                          | 42.7                          | 25.90                         | 38.30                         | 38.34                         |
| Market value, SEK million   | 3,456.9                       | 3,280.2                       | 1,989.6                       | 2,874.0                       | 2,877.0                       |
| P/E ratio (multiple)  | 9.5                           | 13.4                          | 17.9                          | 22.3                          | 31.6                          |
| Dividend yield, %   | 4.4                           | 2.9                           | 2.9                           | 2.0                           | 0.0                           |
| Market price/equity per share, %  | 169                           | 182                           | 82                            | 188                           | 208                           |
| Earnings per share, SEK   | 4.73                          | 3.19                          | 1.45                          | 1.71                          | 1.32                          |
| Dividend per share, SEK (proposed 2016/2017)                                | 2.00                          | 1.25                          | 0.75                          | 0.75                          | 0.00                          |
| Weighted average number of shares   | 76,820,380                    | 76,820,380                    | 76,296,003                    | 75,040,000                    | 68,474,000                    |
| Number of shares at close of period   | 76,820,380                    | 76,820,380                    | 76,820,380                    | 75,040,000                    | 75,040,000                    |
| Number of shares after dilution   | 76,820,380                    | 76,820,380                    | 76,296,003                    | 75,522,814                    | 75,040,000                    |

## CONSOLIDATED INCOME STATEMENT (SEK MILLION)

|                                  | September–August<br>2016/2017 | September–August<br>2015/2016 | September–August<br>2014/2015 | September–August<br>2013/2014 | September–August<br>2012/2013 |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Net sales                        | 4,916.2                       | 4,723.6                       | 4,588.2                       | 4,742.9                       | 4,750.9                       |
| Cost of goods sold               | -1,860.0                      | -1,806.4                      | -1,831.9                      | -1,856.6                      | -1,937.1                      |
| <b>Gross profit</b>              | <b>3,056.2</b>                | <b>2,917.2</b>                | <b>2,756.3</b>                | <b>2,886.4</b>                | <b>2,813.8</b>                |
| Selling expenses                 | -2,402.6                      | -2,356.0                      | -2,384.8                      | -2,468.9                      | -2,486.8                      |
| Administrative expenses          | -205.0                        | -211.9                        | -173.7                        | -145.4                        | -150.2                        |
| Other operating income           | 0.0                           | -                             | -                             | -                             | 75.5                          |
| <b>Operating profit</b>          | <b>448.6</b>                  | <b>349.3</b>                  | <b>197.8</b>                  | <b>272.1</b>                  | <b>252.3</b>                  |
| <b>Adjusted operating profit</b> | <b>448.6</b>                  | <b>349.3</b>                  | <b>207.5</b>                  | <b>295.1</b>                  | <b>202.3</b>                  |
| Financial income                 | 0.9                           | 1.2                           | 0.7                           | 0.4                           | 0.1                           |
| Financial expenses               | -22.3                         | -10.1                         | -21.8                         | -68.1                         | -87.3                         |
| <b>Profit/loss before tax</b>    | <b>427.2</b>                  | <b>340.5</b>                  | <b>176.7</b>                  | <b>204.4</b>                  | <b>165.1</b>                  |
| Taxes                            | -63.5                         | -95.6                         | -65.3                         | -75.1                         | -74.0                         |
| <b>Profit/loss for the year</b>  | <b>363.7</b>                  | <b>244.9</b>                  | <b>111.4</b>                  | <b>129.3</b>                  | <b>91.1</b>                   |

## QUARTERLY INCOME STATEMENTS FOR THE GROUP (SEK MILLION)

|                                  | Q4,16/17   | Q3,16/17   | Q2,16/17   | Q1,16/17   | Q4,15/16   | Q3,15/16   | Q2,15/16   | Q1,15/16   | Q4,14/15   | Q3,14/15   | Q2,14/15   | Q1,14/15   |
|----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Net sales                        | 1,248      | 1,217      | 1,189      | 1,261      | 1,248      | 1,195      | 1,116      | 1,165      | 1,149      | 1,132      | 1,133      | 1,174      |
| Cost of goods sold               | -491       | -442       | -489       | -437       | -524       | -420       | -462       | -401       | -490       | -433       | -478       | -431       |
| <b>Gross profit</b>              | <b>757</b> | <b>775</b> | <b>700</b> | <b>824</b> | <b>724</b> | <b>775</b> | <b>654</b> | <b>764</b> | <b>659</b> | <b>699</b> | <b>655</b> | <b>743</b> |
| Selling expenses                 | -568       | -606       | -602       | -626       | -574       | -614       | -570       | -597       | -563       | -612       | -604       | -606       |
| Administrative expenses          | -50        | -50        | -51        | -54        | -51        | -58        | -53        | -50        | -44        | -45        | -42        | -42        |
| Other operating income           | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          |
| Other operating expenses         | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          |
| <b>Operating profit</b>          | <b>139</b> | <b>119</b> | <b>47</b>  | <b>144</b> | <b>99</b>  | <b>103</b> | <b>31</b>  | <b>117</b> | <b>52</b>  | <b>42</b>  | <b>9</b>   | <b>95</b>  |
| <b>Adjusted operating profit</b> | <b>139</b> | <b>119</b> | <b>47</b>  | <b>144</b> | <b>99</b>  | <b>103</b> | <b>31</b>  | <b>117</b> | <b>62</b>  | <b>42</b>  | <b>9</b>   | <b>95</b>  |
| Financial income                 | 0          | 0          | 4          | 4          | 1          | 0          | 0          | 0          | 1          | 0          | 0          | 0          |
| Financial expenses               | -15        | -9         | 0          | -5         | -5         | 0          | -2         | -2         | -6         | -5         | -3         | -8         |
| <b>Profit/loss before tax</b>    | <b>124</b> | <b>110</b> | <b>51</b>  | <b>143</b> | <b>95</b>  | <b>103</b> | <b>29</b>  | <b>115</b> | <b>47</b>  | <b>37</b>  | <b>6</b>   | <b>87</b>  |
| Taxes                            | 17         | -29        | -17        | -36        | -36        | -14        | -15        | -32        | -17        | -14        | -9         | -26        |
| <b>Profit/loss for the year</b>  | <b>141</b> | <b>81</b>  | <b>34</b>  | <b>107</b> | <b>59</b>  | <b>89</b>  | <b>14</b>  | <b>83</b>  | <b>30</b>  | <b>23</b>  | <b>-3</b>  | <b>61</b>  |

|                                  | Q4,13/14   | Q3,13/14   | Q2,13/14   | Q1,13/14   | Q4,12/13   | Q3,12/13   | Q2,12/13   | Q1,12/13   | Q4,11/12   | Q3,11/12   | Q2,11/12    | Q1,11/12   |
|----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|------------|
| Net sales                        | 1,185      | 1,201      | 1,114      | 1,243      | 1,148      | 1,210      | 1,148      | 1,245      | 1,129      | 1,146      | 1,119       | 1,193      |
| Cost of goods sold               | -482       | -448       | -471       | -456       | -494       | -470       | -516       | -457       | -485       | -469       | -538        | -496       |
| <b>Gross profit</b>              | <b>703</b> | <b>753</b> | <b>643</b> | <b>787</b> | <b>654</b> | <b>740</b> | <b>632</b> | <b>788</b> | <b>644</b> | <b>677</b> | <b>581</b>  | <b>697</b> |
| Selling expenses                 | -598       | -617       | -603       | -651       | -575       | -627       | -636       | -650       | -579       | -615       | -685        | -648       |
| Administrative expenses          | -36        | -35        | -37        | -37        | -36        | -49        | -31        | -34        | -36        | -33        | -34         | -33        |
| Other operating income           | -          | -          | -          | -          | -          | -          | -1         | 77         | -          | -          | -           | -          |
| Other operating expenses         | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -           | -          |
| <b>Operating profit</b>          | <b>69</b>  | <b>101</b> | <b>3</b>   | <b>99</b>  | <b>43</b>  | <b>64</b>  | <b>-36</b> | <b>181</b> | <b>29</b>  | <b>29</b>  | <b>-138</b> | <b>16</b>  |
| <b>Adjusted operating profit</b> | <b>92</b>  | <b>101</b> | <b>3</b>   | <b>99</b>  | <b>57</b>  | <b>76</b>  | <b>-36</b> | <b>105</b> | <b>46</b>  | <b>46</b>  | <b>-55</b>  | <b>16</b>  |
| Financial income                 | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0           | 0          |
| Financial expenses               | -10        | -38        | -8         | -12        | -7         | -21        | -17        | -43        | -59        | -34        | -47         | -26        |
| <b>Profit/loss before tax</b>    | <b>59</b>  | <b>63</b>  | <b>-5</b>  | <b>87</b>  | <b>36</b>  | <b>43</b>  | <b>-53</b> | <b>138</b> | <b>-30</b> | <b>-5</b>  | <b>-185</b> | <b>-10</b> |
| Taxes                            | -27        | -21        | -2         | -25        | -29        | -11        | -11        | -23        | -10        | -5         | 22          | -1         |
| <b>Profit/loss for the year</b>  | <b>32</b>  | <b>42</b>  | <b>-7</b>  | <b>62</b>  | <b>7</b>   | <b>32</b>  | <b>-64</b> | <b>115</b> | <b>-40</b> | <b>-10</b> | <b>-163</b> | <b>-11</b> |

# DEFINITIONS

Some information in this report used by company management and analysts to assess the Group's development has not been prepared in accordance with IFRS. The company management considers that this information makes it easier for investors to analyse the Group's performance and financial structure. Investors should regard this information as a complement to rather than a replacement for financial reporting in accordance with IFRS.

| Key figures  | Definition/calculation  | Purpose  |
|--|---|--|
| <b>Margins</b>   |   |  |
| Gross margin   | Gross profit as a percentage of net sales   | Gross margin is used to measure profitability of goods distribution  |
| Operating margin   | Operating profit as a percentage of net sales   | Operating margin is used to measure operative profitability  |
| Adjusted operating margin                                    | Adjusted operating profit as a percentage of net sales  | Adjusted operating margin is used to measure operative profitability excluding items affecting comparability   |
| <b>Return</b>  |   |  |
| Dividend yield, %  | Dividend / share price  | Dividend yield shows the size of the dividend in relation to the share price.  |
| <b>Capital structure</b>                                     |   |  |
| Net interest-bearing liabilities (Net financial assets)      | Interest-bearing liabilities minus cash and cash equivalents  | Used to measure the capacity for repaying interest-bearing liabilities with available cash and cash equivalents if these fell due on the date of the calculation                   |
| Net interest-bearing liabilities/ adjusted EBITDA (multiple) | Net interest-bearing liabilities / adjusted EBITDA for the immediately preceding twelve-month period                                  | Net debt/ adjusted EBITDA gives an estimate of the company's capacity to pay its interest bearing liabilities  |
| Equity-assets ratio  | Equity / balance sheet total at the close of the period   | This key ratio shows financial risk, expressed as the proportion of total capital that is financed by the owners   |
| <b>Data per share</b>  |   |  |
| Equity per share   | Equity / number of shares   | Equity per share measures the company's net value per share and determines whether a company increases the shareholders' wealth over time  |
| Cash flow from operating activities per share                | Cash flow from operating activities for the period / by number of shares for the period   | Cash flow from operating activities per share measures the cash flow the company generates per share before capital investment and cash flows referring to the company's financing |
| Earnings per share   | Profit after tax / average number of shares   | This key figure is used to assess the development of the investment from the point of view of the owners   |
| Earnings per share after dilution                            | Profits after tax / average number of shares after full dilution  | This key figure is used to assess the development of the investment from the point of view of the owners   |
| Price /equity per share, %                                   | Price / Equity  | This key figure measures how the market values the company at a given point in time  |
| P/E ratio (multiple)   | Market price at year-end / earnings per share   | This key figure shows how high the market values the company's profit  |
| Number of shares after dilution                              | Adjusted for events that have changed the number of ordinary shares   | Number of shares after dilution makes the effect of new issues and reverse split clear   |
| <b>Other definitions</b>                                     |   |  |
| Gross profit   | Net sales less cost of goods sold   | Gross profit is used to measure profitability of goods distribution  |
| Operating profit (EBIT)                                      | Profit before net financial income and income tax (EBIT=earnings before interest and tax)   | This key figure makes it possible to compare profitability regardless of corporate tax rate and independent of the company's financing structure                                   |
| Items affecting comparability                                | Items affecting comparability, such as restructuring and impact of acquisitions   | Separating items affecting comparability increases comparability between periods   |
| Adjusted operating profit (EBIT)                             | Total profit before net financial income and income tax adjusted by items affecting comparability                                     | This key figure increases the comparability of EBIT  |
| Operating profit (EBITDA)                                    | Operating profit before amortisation and impairment   | This key figure is used to measure cash flow from operating activities, regardless of the effects of financing and valuation of non-current assets                                 |
| Adjusted operating profit (EBITDA)                           | Operating profit before amortisation and impairment adjusted by items affecting comparability   | This key figure increases comparability of EBITDA, since items affecting comparability have been excluded  |
| Sales in comparable stores                                   | Change in sales in comparable units (on a like-for-like basis) after adjustment for opened/closed stores and foreign exchange effects | This key figure makes it possible to analyse sales excluding opened /closed stores and foreign exchange effects  |
| Interest coverage ratio (multiple)                           | Operating profit plus interest income / interest expense, for the preceding twelve—month period                                       | This key figure shows the company's capacity to cover its financial expenses   |
| Sales growth   | The Group's total sales during the period compared with the corresponding period in the previous year                                 | This key figure makes it possible to compare sales over time   |
| Market value, SEK million                                    | Number of shares at the end of the period multiplied by the market price at the close of the period                                   | This key figure shows the market value of the shares   |





**HAMPTON REPUBLIC**  
**N.Y. U.S.A**  
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# ADMINISTRATION REPORT

The Board of Directors and the President of KappAhl AB (publ), corporate identity number 556661-2312, with its registered office in Mölndal, hereby submit the annual report and consolidated accounts for the financial year 1 September 2016 to 31 August 2017.

## BUSINESS OPERATIONS

The Group operates in retail sales of clothes and accessories for women, men and children through its own network of 356 stores and online stores in four countries.

In addition to the parent company, KappAhl AB (publ), the Group includes the operating wholly owned companies KappAhl Sverige AB, sales companies in Norway, Finland and Poland and a purchasing company in China. The Group also has production offices in China, Turkey, Bangladesh, India and Myanmar.

KappAhl Sverige AB and the sales companies in Norway, Finland and Poland are responsible for retail sales in their respective countries. A full list of Group companies is given in Note 23.

At KappAhl about 4,000 employees work at almost 400 workplaces in nine countries. More information is available in Part 1 on page 16 and page 45.

The company in China and the foreign production offices are responsible for making contact with new suppliers, quality control and overseeing production and delivery in the markets close to them. The production offices also play an important part in sustainability.

## Sales channels

The Group's sales are both in stores and via online shopping in all countries where KappAhl operates.

Eleven new stores were opened during the financial year; five in Sweden, three in Finland and three in Norway. In the same period thirteen stores in Poland, three in Finland and seven in Norway were closed. Thus the total number of closed stores was 23. The total number of stores was 356 (368) at the close of the financial year. Of these, there are 179 in Sweden, 96 in Norway, 59 in Finland and 22 in Poland.

## NUMBER OF STORES PER COUNTRY

|                | 31/8/<br>2017 | 31/8/<br>2016 | 31/8/<br>2015 | 31/8/<br>2014 | 31/8/<br>2013 | 31/8/<br>2012 | 31/8/<br>2011 | 31/8/<br>2010 | 31/8/<br>2009 |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sweden         | 179           | 174           | 167           | 166           | 165           | 165           | 159           | 153           | 144           |
| Norway         | 96            | 100           | 100           | 101           | 103           | 103           | 99            | 95            | 92            |
| Finland        | 59            | 59            | 61            | 63            | 65            | 62            | 59            | 56            | 53            |
| Poland         | 22            | 35            | 40            | 47            | 52            | 53            | 47            | 40            | 30            |
| Czech Republic | –             | –             | –             | –             | 5             | 5             | 5             | 1             | –             |
| <b>Total</b>   | <b>356</b>    | <b>368</b>    | <b>368</b>    | <b>377</b>    | <b>390</b>    | <b>388</b>    | <b>369</b>    | <b>345</b>    | <b>319</b>    |

## BUSINESS DURING THE YEAR

### Net sales and gross profit

KappAhl's net sales for the financial year were SEK 4,916 (4,724) million, corresponding to an increase of 4.1 per cent compared with the previous financial year. This is explained by the effect of new and closed stores, 0.5 per cent; change in comparable stores, 1.6 per cent and currency translation differences, 2.0 per cent.

Gross profit was SEK 3,056 (2,917) million, which corresponds to an increase of 4.8 per cent. The gross margin was 62.2 (61.8) per cent.

### Operating profit

The Group's operating profit for the financial year was SEK 449 (349) million, an increase of 28.7 per cent. The operating profit corresponds to an operating margin of 9.1 (7.4) per cent. Selling and administrative expenses amounted to SEK 2,607 (2,568) million, meaning that the costs are slightly higher than in the previous year.

### Profit/loss before tax

Profit before tax was SEK 427 (341) million, which is an improvement compared with the previous year of SEK 86 million. Net financial income amounted to SEK –21 (–9) million, which is a deterioration compared with the previous year of SEK 12 million.

### Taxes

Effective tax reported for the financial year was 14.9 (28.1) per cent. The reason for the low effective tax percentage is that previously unmeasured loss carry-forwards on losses in Finland have now been capitalised. During the year the tax rate in Norway was reduced by 1 per cent, from 25 per cent to 24 per cent.

## FINANCIAL POSITION AND CASH FLOW

The Group continues to have a strong financial position with an equity/assets ratio of 67.4 (58.1) per cent. Net financial assets amounted to SEK 168 million at the close of the financial year, compared with net interest-bearing liabilities of SEK 144 million as at 31 August 2016. Net financial assets/Adjusted EBITDA amounted to –0.3 at the close of the period, compared with net interest-bearing liabilities of 0.3 as at 31 August 2016. Cash and cash equivalents amounted to SEK 239 (314) million as at 31 August 2017. At the period close there were unutilised credit facilities of about SEK 975 (590) million.

The company's external financing is primarily in the form of overdraft facilities.

The Group's cash flow from operating activities before changes in working capital was SEK 529 (439) million. The improvement is mainly the result of a better operating profit. Cash flow from

changes in working capital was SEK 44 (-136) million and has mainly been impacted by decreased inventories, SEK 726 (820) million. The change in inventories is mainly related to an increased turnover rate.

Investments of SEK 177 (120) million were made during the year, mainly referring to investments in existing and newly opened stores and process and IT related investments.

#### **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The purpose of the Group's financial policy is to control commercial activities. The policy is to reduce the risks of negative impact on earnings and increase the predictability of future performance. As part of the financial policy, currency policy is a central and critical success factor. To fulfil the policy, inflow of surplus liquidity from subsidiaries and purchases of goods for the Group are hedged. Hedging of flows with 0–6 months' forward planning is through futures, swaps and options. KappAhl is exposed above all to USD for purchasing goods, as well as liquidity surpluses from subsidiaries in NOK and PLN. Further information is available in Note 18.

#### **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

A decision was made in autumn 2017 to expand Newbie Store to a new market, the United Kingdom.

#### **FUTURE DEVELOPMENT**

Over a long period there have been changes in the industry that have affected KappAhl. Some of these are increased competition, changes in consumer behaviour, preferences and technological development. Over the past year and in the immediate future the opinion is that changes in the industry have taken place and will take place faster than before. This will entail greater challenges, while at the same time opportunities will increase. The consensus is that business environment factors offer continued opportunity for growth in the industry in line with the previous year.

#### **MATERIAL RISKS AND UNCERTAINTIES**

KappAhl is exposed to a number of risks, relating both to its own operations and to the industry as a whole. Most risk areas can be managed through internal procedures and controls, while some are governed more by external factors, such as the weather. The risks can be divided into business-related or operational risks and financial risks.

The financial risks and their management are described in more detail in Note 18. The management of risks is also described in the corporate governance report, page 56, under the heading "Internal control regarding financial reporting".

Other material areas of identified risks and uncertainties are described in brief below, together with how KappAhl addresses each of these risk areas.

#### **Competition**

The fashion industry is characterised by great competition, in terms of both range and markets. The main competitors are other chains, department stores and online shopping, selling clothes to women, men and children. There is also competition related to store locations and rental terms.

KappAhl focuses on clear concepts and market positioning through a well-defined target group, combined with a clear fashion expression and message.

#### **Fashion**

KappAhl's success is due to its ability to identify and adapt to constantly shifting fashion trends and customer needs and its timely introduction of new and attractive products. The products must attract a broad range of customers, whose perception of fashion cannot be predicted with certainty. If consumer trends and collections are misread it can lead to a surplus of stock, price cuts and reduced margins.

The brand could be damaged if customers believe that KappAhl is unable to offer them products they perceive as attractive. These risks are offset by recruiting talented designers and buyers who work constantly to spot and predict trends. Moreover, the company has a customer-oriented business model where customer purchase patterns and behaviour are constantly analysed.

#### **Trade restrictions**

About 92 per cent of KappAhl's products are bought from Asia and the rest from Europe. Any trade restrictions, including customs tariffs, protective measures or quotas for clothes and accessories may have an impact on the cost or availability of products and mean that purchasing routines must be changed. It is impossible to predict if any of the countries in which clothes and accessories are manufactured, currently or in the future, will be subject to further trade restrictions and, if so, what the effects will be.

#### **Development of the store network**

KappAhl continues to develop the store network. At the same time, stores are continually being upgraded and developed, which requires considerable investment and management resources. There is no guarantee that investments will generate sufficient return. The ongoing digitalisation of the retail trade may in future affect the store network. The management regularly evaluates the performance of individual stores in relation to targets and ambition. This is done continually to ensure that growth targets and profitability requirements in the store operations are possible to achieve.

### Trademarks and brands

It is KappAhl's policy to register and protect its brand and name. There are, however, no guarantees that these measures are sufficient to protect the brand and property. Moreover, unauthorised use of brands on pirate copies or imitation of KappAhl's stores damage the company's image and reputation.

### Information systems and information security

KappAhl relies on system support to manage the supply chain from purchase to sales in KappAhl's various sales channels, as well as to compile operative and statistical information. The risks include appropriateness of existing systems and safeguarding business-sensitive information. Any long interruption or lack of functionality in the systems can mean the loss of important information or the prevention or delay of actions.

The existing system structure is consequently regularly evaluated for the purpose of ensuring that the systems comply with current requirements. There is also a sharp focus on information security assurance in all parts of the Group. The Group's work also includes developing plans and processes for dealing with disruptions and interruptions. Multi-year plans for measures and action have been drawn up for modernisation and upgrading of the Group's IT support.

### The economy

The industry in which KappAhl operates is affected by changes in the general economic situation that impact total demand and consequently the level of consumption. Consumer patterns are affected by a number of general factors beyond the control of the company, including general business conditions, interest rates, exchange rates, inflation and deflation levels, taxes, access to credit, stock market trends, unemployment levels, uncertainty about the economic outlook for the future and shifts in consumer patterns from consumer discretionary goods to other goods and services.

## PARENT COMPANY

### INFORMATION CONCERNING THE COMPANY'S SHARES

As at 31 August 2017 the total number of outstanding shares was 76,820,380.

The KappAhl share is listed on Nasdaq Stockholm, Mid Cap. Each share carries one vote. A shareholder may vote for all shares he or she owns or represents. All shares have the same dividend entitlement and there are no other rights restrictions attaching to the shares. The General Meeting of Shareholders has not issued any authorisation to the Board to acquire or issue new shares.

### Stock options

KappAhl currently has no outstanding share-based incentive programmes.

### Transferability

There are no restrictions on the transferability of the shares under the articles of association or current legislation.

The company is not otherwise aware of any contracts between shareholders restricting the transferability of shares.

### Shareholding

As at 31/8/2017 the ten largest shareholders of KappAhl AB (publ) were as follows:

|                                     | Number of shares  | Percentage of shares and votes |
|-------------------------------------|-------------------|--------------------------------|
| Mellby Gård AB                      | 18,759,875        | 24.42                          |
| Swedbank Robur fonder               | 4,554,828         | 5.93                           |
| Handelsbanken fonder                | 3,587,851         | 4.67                           |
| Fidelity Funds – Nordic Fund        | 3,311,004         | 4.31                           |
| MSIL IPB Client Account             | 1,614,668         | 2.10                           |
| SEB Investment Management           | 1,466,299         | 1.91                           |
| State Street Bank                   | 1,426,932         | 1.86                           |
| CBNY-DFA-INT SML CAP V              | 1,415,666         | 1.84                           |
| CBLDN-OM GLBAL Investors Series PLC | 1,333,200         | 1.74                           |
| Livförsäkringsbolaget Skandia ÖMS   | 1 206,315         | 1.57                           |
| Other shareholders                  | 38,143,742        | 49.65                          |
| <b>Total</b>                        | <b>76,820,380</b> | <b>100.00</b>                  |

No shares are owned by employees through pension funds or similar. The company does not hold any shares of its own.

### Agreements with clauses on change of ownership

The Group has no agreements, apart from customary rules concerning change of ownership in credit agreements, which can be terminated on change of ownership. Apart from what is stated on page 11 concerning the President's terms of employment, there are no agreements between the company and members of the Board or employees providing for compensation, apart from salary during the period of notice, if their employment or engagement ceases due to a public takeover bid.

## RESULT AND FINANCIAL POSITION

Sales amounted to SEK 30 (23) million and refer for the most part to inter-company invoicing of services. There were no external sales. Net financial income was SEK -408 (22) million, and was impacted by impairment losses on investments in subsidiaries in Norge of SEK 375 million and in Finland of SEK 86 million. The pre-tax profit was SEK -415 (11) million. Regarding the number of employees, wages, salaries and other remuneration and terms of employment, please refer to Note 5.

## EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No events of a material nature have occurred after the close of the financial year.

## GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The company's guidelines for remuneration to senior executives were adopted by the Annual General Meeting on 6 December 2016. The Board of Directors proposes that the 2017 Annual General Meeting adopts guidelines that are by and large unchanged in comparison with 2016 and are worded as follows:

### Basic salary

Pay and other conditions of employment shall be such that KappAhl can attract and retain competent senior executives. Senior executives will be offered a fixed salary that is market related and based on the person's responsibility and performance. Salary will be set per calendar year.

### Variable remuneration

The senior executive may, from time to time, be offered a bonus. For the President/CEO the maximum bonus payable is 50 per cent of the fixed salary and for other senior executives the maximum bonus payable is 33 per cent of the fixed salary. The senior executive may, on his or her own initiative, convert the bonus into extra pension payments. Bonuses will be primarily based on the operating profit (EBIT) of the KappAhl Group. Bonuses will be set per financial year.

### Other benefits

Senior executives are entitled to extra health care insurance as well as all benefits covering the Group's other employees.

### Pension

Apart from the provisions of collective agreements or other agreements, senior management executives are entitled to arrange pension solutions on an individual basis within certain parameters. Salary or bonus waivers can be used to increase allocation to a pension plan, provided the cost to KappAhl is unchanged over the period.

### Notice of termination etc.

Senior executives and KappAhl must observe a period of six months' notice of termination. In the event of notice of termination from the employer, the following applies: the current President retains full salary for six months and receives severance pay, less any salary from other employment.

## Corporate Governance

Information is provided in a separate Corporate Governance report. For further reading, please see page 53.

## Sustainable development

KappAhl takes active responsibility for people and the environment and contributes to development in the countries where the company operates. More information can be found at [www.kappahl.com/sustainability](http://www.kappahl.com/sustainability).

## THE BOARD OF DIRECTORS' PROPOSED APPROPRIATION OF PROFITS

|   |                   |
|---|-------------------|
| The following profits are at the disposal of the Annual General Meeting                   | SEK 1,689,948,486 |
| The Board of Directors proposes the following dividend to shareholders SEK 2.00 per share | SEK -153,640,760  |
| To be carried forward   | SEK 1,536,307,726 |

### Transfer to shareholders

The Board of Directors proposes that a dividend of SEK 153,640,760, equivalent to SEK 2.00 per share, be distributed. The Board of Directors proposes that payment of the dividend be made at the time of the Annual General Meeting.

In addition to the proposed distribution of ordinary dividend the Board of Directors proposes to the Annual General Meeting that a transfer to shareholders be made of SEK 499,332,470 in the form of an automatic redemption procedure combined with a share split 2:1. The procedure means that each share is split into one ordinary share and one redemption share. It is proposed that the redemption share be redeemed for SEK 6.50 per share, equivalent to a transfer of SEK 499,332,470. After implementation of the proposed appropriation of profits and redemption programme the unrestricted and total equity in the parent company will amount to SEK 1,036,975,256 and SEK 1,307,917,296 respectively.

In the opinion of the Board of Directors the proposed appropriation of profits is justifiable, taking into account the Group's and the parent company's financial position and continued freedom of action as well as observing the requirements that the nature and extent of the business, its risks and future expansion plans impose on the group's and the parent company's equity and liquidity.

# CONSOLIDATED INCOME STATEMENT

| Amounts in SEK million  | Note | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|---|------|-----------------------|-----------------------|
| Net sales   | 3, 4 | 4,916.2               | 4,723.6               |
| Cost of goods sold  | 7    | -1,860.0              | -1,806.4              |
| <b>Gross profit</b>   |      | <b>3,056.2</b>        | <b>2,917.2</b>        |
| Selling expenses  | 7    | -2,402.6              | -2,356.0              |
| Administrative expenses                                       | 7    | -205.0                | -211.9                |
| <b>Operating profit</b>                                       | 5, 6 | <b>448.6</b>          | <b>349.3</b>          |
| Financial income  | 8    | 0.9                   | 1.2                   |
| Financial expenses  | 8    | -22.3                 | -10.1                 |
| <b>Net Financial income</b>                                   |      | <b>-21.4</b>          | <b>-8.9</b>           |
| Profit/loss before tax  |      | 427.2                 | 340.5                 |
| Taxes   | 9    | -63.5                 | -95.6                 |
| <b>Profit/loss for the year</b>                               |      | <b>363.7</b>          | <b>244.9</b>          |
| Earnings per share  |      |                       |                       |
| before dilution (SEK)   |      | 4.73                  | 3.19                  |
| after dilution (SEK)  |      | 4.73                  | 3.19                  |
| average number of outstanding shares in issue before dilution |      | 76,820,380            | 76,820,380            |
| average number of outstanding shares in issue after dilution  |      | 76,820,380            | 76,820,380            |

Net profit for the year refers entirely to the parent company KappAhl AB's shareholders.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| Amounts in SEK million   | Note | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|--|------|-----------------------|-----------------------|
| <b>Profit/loss for the year</b>  |      | <b>363.7</b>          | <b>244.9</b>          |
| <b>Items not to be recognised in net profit for the year</b>                             |      |                       |                       |
| Revaluation of defined benefit pension plans   |      | -1.5                  | -8.2                  |
| Tax effect   | 9    | 0.3                   | 1.8                   |
| <b>Total items not to be recognised in net profit for the year</b>                       |      | <b>-1.2</b>           | <b>-6.4</b>           |
| <b>Items that have been reposted or may be reposted to net profit for the year</b>       |      |                       |                       |
| Year's translation differences   |      | -0.9                  | 3.2                   |
| Cash flow hedges – value changes   | 18   | -26.9                 | 9.4                   |
| Cash flow hedges recognised in income  |      | -9.4                  | -15.0                 |
| Tax effect   | 9    | 8.0                   | 1.2                   |
| <b>Total items that have been reposted or may be reposted to net profit for the year</b> |      | <b>-29.2</b>          | <b>-1.2</b>           |
| <b>Total comprehensive income attributable to parent company's shareholders</b>          |      | <b>333.3</b>          | <b>237.3</b>          |



# CONSOLIDATED BALANCE SHEET

| Amounts in SEK million                          | Note       | 31/8/ 2017     | 31/8/2016      |
|---|------------|----------------|----------------|
| <b>ASSETS</b>                                   |            |                |                |
| <b>Non-current assets</b>                       |            |                |                |
| Intangible assets                               |            |                |                |
| Goodwill  | 10         | 695.8          | 695.8          |
| Trade marks and other intangible assets         | 10         | 673.4          | 655.5          |
| Property, plant and equipment                   | 11         | 436.4          | 428.8          |
| Deferred tax assets                             | 9          | 57.3           | 30.2           |
| Other long-term receivables                     | 18         | –              | 0.8            |
| <b>Total non-current assets</b>                 |            | <b>1,862.9</b> | <b>1,811.1</b> |
| <b>Current assets</b>                           |            |                |                |
| Inventories                                     | 12         | 725.8          | 820.4          |
| Trade receivables                               | 18         | 4.1            | 18.5           |
| Current tax assets                              |            | 0.2            | 7.3            |
| Prepaid expenses and accrued income             | 13         | 111.8          | 111.5          |
| Other receivables                               | 18         | 84.5           | 25.3           |
| Cash and cash equivalents                       | 18         | 238.5          | 313.6          |
| <b>Total current assets</b>                     |            | <b>1,164.9</b> | <b>1,296.6</b> |
| <b>Total assets</b>                             |            | <b>3,027.9</b> | <b>3,107.7</b> |
| <b>EQUITY AND LIABILITIES</b>                   |            |                |                |
| <b>Equity</b>                                   |            |                |                |
| Share capital                                   |            | 65.8           | 65.8           |
| Other contributed capital                       |            | 1,160.9        | 1,160.9        |
| Reserves  |            | –21.2          | –14.0          |
| Retained earnings including profit for the year |            | 836.6          | 592.1          |
| <b>Total equity</b>                             |            | <b>2,042.1</b> | <b>1,804.8</b> |
| <b>Liabilities</b>                              |            |                |                |
| <b>Non-current liabilities</b>                  |            |                |                |
| Other interest-bearing liabilities              | 14, 18, 21 | –              | 400.0          |
| Provisions for pensions and similar obligations | 14, 15     | 45.0           | 48.1           |
| Deferred tax liabilities                        | 9          | 147.6          | 151.4          |
| <b>Total non-current liabilities</b>            |            | <b>192.6</b>   | <b>599.5</b>   |
| <b>Current liabilities</b>                      |            |                |                |
| Interest-bearing liabilities                    | 14, 18, 21 | 25.3           | 9.7            |
| Trade payables                                  |            | 175.3          | 194.7          |
| Current tax liabilities                         |            | 121.1          | 44.6           |
| Other liabilities                               | 16, 18     | 214.3          | 134.8          |
| Accrued expenses and deferred income            | 17         | 257.2          | 319.6          |
| <b>Total current liabilities</b>                |            | <b>793.2</b>   | <b>703.4</b>   |
| <b>Total liabilities</b>                        |            | <b>985.8</b>   | <b>1,302.9</b> |
| <b>Total equity and liabilities</b>             |            | <b>3,027.9</b> | <b>3,107.7</b> |

Equity refers entirely to the parent company KappAhl AB's shareholders.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Amounts in SEK million   | Equity attributable to the parent company's shareholders |                         |                               |  |   | Total equity   |
|--|--|-------------------------|-------------------------------|--|---|----------------|
|  | Share capital  | Other contributed funds | Hedging reserve <sup>1)</sup> | Currency translation reserve <sup>2)</sup> | Retained earnings including profit for the year |                |
| <b>Opening equity, 1/9/2015</b>                                | <b>65.8</b>  | <b>1,160.9</b>          | <b>11.4</b>                   | <b>-24.2</b>                               | <b>411.2</b>                                    | <b>1,625.1</b> |
| Profit/loss for the year                                       | -  | -                       | -                             | -  | 244.9   | 244.9          |
| <b>Other comprehensive income</b>                              |  |                         |                               |  |   |                |
| Cash flow hedges – value changes                               | -  | -                       | 9.4                           | -  | -   | 9.4            |
| Cash flow hedges recognised in income                          | -  | -                       | -15.0                         | -  | -   | -15.0          |
| Year's translation differences                                 | -  | -                       | -                             | 3.2  | -   | 3.2            |
| Revaluation of defined benefit pension plans                   | -  | -                       | -                             | -  | -8.2  | -8.2           |
| Tax effect attributable to items in other comprehensive income | -  | -                       | 1.2                           | -  | 1.8   | 3.0            |
| <b>Total comprehensive income</b>                              | <b>-</b>   | <b>-</b>                | <b>-4.4</b>                   | <b>3.2</b>                                 | <b>238.5</b>                                    | <b>237.3</b>   |
| <b>Transactions with shareholders</b>                          |  |                         |                               |  |   |                |
| Staff options plan   | -  | -                       | -                             | -  | -   | -              |
| Dividend   | -  | -                       | -                             | -  | -57.6   | -57.6          |
| <b>Total transactions with shareholders</b>                    | <b>-</b>   | <b>-</b>                | <b>-</b>                      | <b>-</b>                                   | <b>-</b>  | <b>-</b>       |
| <b>Closing equity, 31/8/2016</b>                               | <b>65.8</b>  | <b>1,160.9</b>          | <b>7.0</b>                    | <b>-21.0</b>                               | <b>592.1</b>                                    | <b>1,804.8</b> |

| Amounts in SEK million   | Equity attributable to the parent company's shareholders |                         |                               |  |   | Total equity   |
|--|--|-------------------------|-------------------------------|--|---|----------------|
|  | Share capital  | Other contributed funds | Hedging reserve <sup>1)</sup> | Currency translation reserve <sup>2)</sup> | Retained earnings including profit for the year |                |
| <b>Opening equity, 1/9/2016</b>                                | <b>65.8</b>  | <b>1,160.9</b>          | <b>7.0</b>                    | <b>-21.0</b>                               | <b>592.1</b>                                    | <b>1,804.8</b> |
| Profit/loss for the year                                       | -  | -                       | -                             | -  | 363.7   | 363.7          |
| <b>Other comprehensive income</b>                              |  |                         |                               |  |   |                |
| Cash flow hedges – value changes                               | -  | -                       | -26.9                         | -  | -   | -26.9          |
| Cash flow hedges recognised in income                          | -  | -                       | -9.4                          | -  | -   | -9.4           |
| Year's translation differences                                 | -  | -                       | -                             | -0.9                                       | -   | -0.9           |
| Revaluation of defined benefit pension plans                   | -  | -                       | -                             | -  | -1.5  | -1.5           |
| Tax effect attributable to items in other comprehensive income | -  | -                       | 8.0                           | -  | 0.3   | 8.3            |
| <b>Total comprehensive income</b>                              | <b>-</b>   | <b>-</b>                | <b>-28.3</b>                  | <b>-0.9</b>                                | <b>362.5</b>                                    | <b>333.3</b>   |
| <b>Transactions with shareholders</b>                          |  |                         |                               |  |   |                |
| Staff options plan   | -  | -                       | -                             | -  | -   | -              |
| Dividend   | -  | -                       | -                             | -  | -96.0   | -96.0          |
| <b>Total transactions with shareholders</b>                    | <b>-</b>   | <b>-</b>                | <b>-</b>                      | <b>-</b>                                   | <b>-</b>  | <b>-</b>       |
| <b>Closing equity, 31/8/2017</b>                               | <b>65.8</b>  | <b>1,160.9</b>          | <b>-21.3</b>                  | <b>-21.9</b>                               | <b>858.6</b>                                    | <b>2,042.1</b> |

<sup>1)</sup> The hedging reserve includes the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred.

<sup>2)</sup> The currency translation reserve includes all translation differences that arise in connection with restating financial statements from foreign operations that have prepared their financial statements in a currency other than the Group's presentation currency.

# CONSOLIDATED CASH FLOW STATEMENT

| Amounts in SEK million   | Note | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|--|------|-----------------------|-----------------------|
| <b>Operating activities</b>  |      |                       |                       |
| Profit/loss before tax   |      | 427.2                 | 340.5                 |
| Adjustment for non-cash items  | 24   | 134.8                 | 108.9                 |
| Income tax paid  |      | -33.0                 | -10.8                 |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>529.0</b>          | <b>438.6</b>          |
| <b>Cash flow from changes in working capital</b>                             |      |                       |                       |
| Decrease (+)/Increase (-)in inventories                                      |      | 94.6                  | -95.2                 |
| Decrease (+)/Increase (-)in operating receivables                            |      | 0.4                   | -35.2                 |
| Decrease (-)/Increase in (+) in operating liabilities                        |      | -50.7                 | -5.3                  |
| <b>Cash flow from operating activities</b>                                   |      | <b>573.3</b>          | <b>302.9</b>          |
| <b>Investing activities</b>  |      |                       |                       |
| Acquisition of property, plant and equipment                                 |      | -144.6                | -100.2                |
| Acquisitions of intangible fixed assets                                      |      | -32.6                 | -19.0                 |
| Investments in non-current financial assets                                  |      | -                     | -0.8                  |
| <b>Cash flow from investing activities</b>                                   |      | <b>-177.2</b>         | <b>-120.0</b>         |
| <b>Financing activities</b>  |      |                       |                       |
| Dividend   |      | -96.0                 | -57.6                 |
| Amortisation of debt   |      | -400.0                | -                     |
| Loans raised   |      | -                     | -                     |
| Decrease (-)/Increase (+)in bank overdraft facilities                        |      | 25.3                  | -                     |
| <b>Cash flow from financing activities</b>                                   |      | <b>-470.7</b>         | <b>-57.6</b>          |
| <b>Cash flow for the year</b>  |      |                       |                       |
| Cash and cash equivalents at beginning of the year                           |      | 313.6                 | 188.3                 |
| Exchange rate differences in cash and cash equivalents                       |      | -0.5                  | 0.0                   |
| <b>Cash and cash equivalents at close of the year</b>                        |      | <b>238.5</b>          | <b>313.6</b>          |

# PARENT COMPANY INCOME STATEMENT

| Amounts in SEK million                              | Note | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|---|------|-----------------------|-----------------------|
| Net sales   |      | 29.7                  | 23.3                  |
| Cost of goods sold                                  |      | –                     | –                     |
| <b>Gross profit</b>                                 |      | <b>29.7</b>           | <b>23.3</b>           |
| Other operating expenses                            |      | –36.9                 | –34.2                 |
| <b>Operating profit</b>                             | 5, 6 | <b>–7.2</b>           | <b>–10.9</b>          |
| <i>Profit from financial items:</i>                 |      |                       |                       |
| Dividends from subsidiaries                         | 8    | 49.4                  | 12.8                  |
| Impairment of investments in subsidiaries           | 8    | –461.0                | –                     |
| Group contribution received                         | 8    | 7.6                   | 25.8                  |
| Other interest income and similar profit/loss items | 8    | 4.3                   | 12.4                  |
| Interest expense and similar profit/loss items      | 8    | –8.0                  | –28.7                 |
| <b>Net Financial income</b>                         |      | <b>–407.7</b>         | <b>22.3</b>           |
| Appropriations                                      |      | –                     | –                     |
| <b>Profit/loss before tax</b>                       |      | <b>–414.9</b>         | <b>11.4</b>           |
| Taxes   | 9    | 0.6                   | 0.2                   |
| <b>Profit/loss for the year</b>                     |      | <b>–414.3</b>         | <b>11.6</b>           |

# PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

| Amounts in SEK million                  | Note | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|---|------|-----------------------|-----------------------|
| <b>Profit/loss for the year</b>         |      | <b>–414.3</b>         | <b>11.6</b>           |
| Other comprehensive income              |      | –                     | –                     |
| <b>Total other comprehensive income</b> |      | <b>–414.3</b>         | <b>11.6</b>           |

# PARENT COMPANY BALANCE SHEET

| Amounts in SEK million                        | Note       | 31/8/2017      | 31/8/2016      |
|---|------------|----------------|----------------|
| <b>ASSETS</b>                                 |            |                |                |
| <b>Non-current assets</b>                     |            |                |                |
| <b>Financial assets</b>                       |            |                |                |
| Participations in group companies             | 23         | 2,711.2        | 3,143.3        |
| Deferred tax assets                           |            | 0.8            | 0.2            |
| Other long-term receivables                   | 18         | –              | 0.8            |
| <b>Total financial assets</b>                 |            | <b>2,712.0</b> | <b>3,144.3</b> |
| <b>Total non-current assets</b>               |            | <b>2,712.0</b> | <b>3,144.3</b> |
| <b>Current assets</b>                         |            |                |                |
| <b>Current receivables</b>                    |            |                |                |
| Receivables from group companies              | 18         | 34.2           | 285.9          |
| Current tax asset                             |            | –              | –              |
| Prepaid expenses and accrued income           | 13         | 1.9            | 0.8            |
| Other interest-bearing receivables            |            | 0.5            | 0.3            |
| Cash and bank balances                        | 18         | 16.5           | 2.9            |
| <b>Total current assets</b>                   |            | <b>53.1</b>    | <b>289.9</b>   |
| <b>Total assets</b>                           |            | <b>2,765.1</b> | <b>3,434.2</b> |
| <b>EQUITY AND LIABILITIES</b>                 |            |                |                |
| <b>Equity</b>                                 |            |                |                |
| <b>Restricted equity</b>                      |            |                |                |
| Share capital (76,820,380 shares at SEK 0.86) |            | 65.8           | 65.8           |
| Statutory reserve                             |            | 205.1          | 205.1          |
| <b>Total restricted equity</b>                |            | <b>270.9</b>   | <b>270.9</b>   |
| <b>Non-restricted equity</b>                  |            |                |                |
| Share premium reserve                         |            | 959.5          | 959.5          |
| Retained earnings                             |            | 1,144.8        | 1,229.2        |
| Profit/loss for the year                      |            | –414.3         | 11.6           |
| <b>Total non-restricted equity</b>            |            | <b>1,690.0</b> | <b>2,200.3</b> |
| <b>Total equity</b>                           |            | <b>1,960.9</b> | <b>2,471.2</b> |
| <b>Provisions</b>                             |            |                |                |
| Provisions for pensions                       | 14         | –              | 0.8            |
| <b>Non-current liabilities</b>                |            |                |                |
| Other interest-bearing liabilities            | 14, 21     | –              | 400.0          |
| <b>Total non-current liabilities</b>          |            | <b>–</b>       | <b>400.0</b>   |
| <b>Current liabilities</b>                    |            |                |                |
| Other interest-bearing liabilities            | 14, 18, 21 | –              | 353.6          |
| Trade payables                                |            | 0.4            | 0.3            |
| Liabilities to group companies                |            | 787.7          | 192.2          |
| Income tax liability                          |            | 1.3            | 0.1            |
| Other liabilities                             |            | 5.1            | 1.9            |
| Accrued expenses and deferred income          | 17         | 9.7            | 14.1           |
| <b>Total current liabilities</b>              |            | <b>804.2</b>   | <b>562.2</b>   |
| <b>Total equity and liabilities</b>           |            | <b>2,765.1</b> | <b>3,434.2</b> |

# PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

| Amounts in SEK million                      | Share capital | Statutory reserve | Share premium reserve <sup>1)</sup> | Retained earnings | Total equity   |
|---|---------------|-------------------|-------------------------------------|-------------------|----------------|
| <b>Opening equity, 1/9/2015</b>             | <b>65.8</b>   | <b>205.1</b>      | <b>959.5</b>                        | <b>1,286.8</b>    | <b>2,517.2</b> |
| Profit/loss for the year                    | –             | –                 | –                                   | 11.6              | 11.6           |
| <b>Other comprehensive income</b>           |               |                   |                                     |                   |                |
| Cash flow hedges – value changes            | –             | –                 | –                                   | –                 | –              |
| Cash flow hedges recognised in income       | –             | –                 | –                                   | –                 | –              |
| Tax attributable to cash flow hedges        | –             | –                 | –                                   | –                 | –              |
| <b>Total comprehensive income</b>           | <b>–</b>      | <b>–</b>          | <b>–</b>                            | <b>11.6</b>       | <b>11.6</b>    |
| <b>Transactions with shareholders</b>       |               |                   |                                     |                   |                |
| Staff options plan                          | –             | –                 | –                                   | –                 | –              |
| Dividend                                    | –             | –                 | –                                   | –57.6             | –57.6          |
| <b>Total transactions with shareholders</b> | <b>–</b>      | <b>–</b>          | <b>–</b>                            | <b>–</b>          | <b>–</b>       |
| <b>Closing equity, 31/8/2016</b>            | <b>65.8</b>   | <b>205.1</b>      | <b>959.5</b>                        | <b>1,240.8</b>    | <b>2,471.2</b> |

| Amounts in SEK million                      | Share capital | Statutory reserve | Share premium reserve <sup>1)</sup> | Retained earnings | Total equity   |
|---|---------------|-------------------|-------------------------------------|-------------------|----------------|
| <b>Opening equity, 1/9/2016</b>             | <b>65.8</b>   | <b>205.1</b>      | <b>959.5</b>                        | <b>1,240.8</b>    | <b>2,471.2</b> |
| Profit/loss for the year                    | –             | –                 | –                                   | –414.3            | –414.3         |
| <b>Other comprehensive income</b>           |               |                   |                                     |                   |                |
| Cash flow hedges – value changes            | –             | –                 | –                                   | –                 | –              |
| Cash flow hedges recognised in income       | –             | –                 | –                                   | –                 | –              |
| Tax attributable to cash flow hedges        | –             | –                 | –                                   | –                 | –              |
| <b>Total comprehensive income</b>           | <b>–</b>      | <b>–</b>          | <b>–</b>                            | <b>–414.3</b>     | <b>–414.3</b>  |
| <b>Transactions with shareholders</b>       |               |                   |                                     |                   |                |
| Staff options plan                          | –             | –                 | –                                   | –                 | –              |
| Dividend                                    | –             | –                 | –                                   | –96.0             | –96.0          |
| <b>Total transactions with shareholders</b> | <b>–</b>      | <b>–</b>          | <b>–</b>                            | <b>–96.0</b>      | <b>–96.0</b>   |
| <b>Closing equity, 31/8/2017</b>            | <b>65.8</b>   | <b>205.1</b>      | <b>959.5</b>                        | <b>730.5</b>      | <b>1,960.9</b> |

<sup>1)</sup> The share premium reserve consists of the part of the price at the time of the new issue that exceeds the nominal value.

# HISTORY OF NUMBER OF SHARES AND SHARE CAPITAL

|  | Number of shares  | Carrying amount   |
|--|-------------------|-------------------|
| <b>1/1/2005</b>                                      | <b>10,000,000</b> | <b>10,000,000</b> |
| New share issue, January 2005                        | 366,000           | 366,000           |
| Subscription for new shares, December 2005           | 354,000           | 354,000           |
| Split 7:1, January 2006                              | 64,320,000        | –                 |
| Split 2:1, February 2008                             | 75,040,000        | –                 |
| Redemption 1:2 2008                                  | –75,040,000       | –                 |
| Rights issue November 2011                           | 150,080,000       | 21,440,000        |
| Rights issue November 2012                           | 225,120,000       | 32,160,000        |
| Reverse split 6:1 December 2012                      | –375,200,000      | –                 |
| Subscription for new shares (warrants) February 2015 | 1,780,380         | 1,526,040         |
| <b>Closing amounts, 31/8/2017</b>                    | <b>76,820,380</b> | <b>65,846,040</b> |



# PARENT COMPANY CASH FLOW STATEMENT

| Amounts in SEK million   | Note | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|--|------|-----------------------|-----------------------|
| <b>Operating activities</b>  |      |                       |                       |
| Profit/loss before tax   |      | -414.9                | 11.4                  |
| Adjustment for non-cash items  | 24   | 452.0                 | -58.9                 |
| Income tax paid  |      | 1.1                   | 2.0                   |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>38.2</b>           | <b>-45.5</b>          |
| <b>Cash flow from changes in working capital</b>                             |      |                       |                       |
| Increase (-)/Decrease (+) in operating receivables                           |      | 258.0                 | 32.0                  |
| Increase (+)/Decrease (-) in operating liabilities                           |      | 557.3                 | 6.9                   |
| <b>Cash flow from operating activities</b>                                   |      | <b>853.5</b>          | <b>-6.6</b>           |
| <b>Investing activities</b>  |      |                       |                       |
| Investments in non-current financial assets                                  |      | -                     | -0.8                  |
| <b>Cash flow from investing activities</b>                                   |      |                       | <b>-0.8</b>           |
| <b>Financing activities</b>  |      |                       |                       |
| Dividend   |      | -96.0                 | -57.6                 |
| Amortisation of debt   |      | -400.0                | -                     |
| Decrease (-)/Increase (+) in bank overdraft facilities                       |      | -343.9                | 29.7                  |
| <b>Cash flow from financing activities</b>                                   |      | <b>-839.9</b>         | <b>-27.9</b>          |
| <b>Cash flow for the year</b>  |      | <b>13.6</b>           | <b>-35.3</b>          |
| Cash and cash equivalents at beginning of the year                           |      | 2.9                   | 38.2                  |
| <b>Cash and cash equivalents at close of the year</b>                        |      | <b>16.5</b>           | <b>2.9</b>            |

# NOTES TO THE FINANCIAL STATEMENTS

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## NOTE 1 Accounting policies

### COMPLIANCE WITH STANDARDS AND LAWS

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, issued by the International Accounting Standards Board, IASB, as adopted by the European Union, EU. This annual report has been prepared in accordance with IAS 1 Presentation of Financial Statements and in accordance with the Swedish Annual Accounts Act. Further, RFR 1, Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

The parent company applies the same accounting policies as the Group, except in the cases indicated below under the heading "Parent company's accounting policies". The deviations between the parent company's and the group's accounting policies are due to restrictions imposed by the Annual Accounts Act and the Act on Safeguarding Pension Commitments affecting the parent company's ability to apply IFRS, and in some cases for tax reasons. In addition the Swedish Financial Reporting Board recommendation RFR 2 "Accounting for legal entities" has been applied.

The accounting policies presented below, unless otherwise stated, have been applied consistently in all periods presented in the Group's financial statements.

### BASIS FOR THE PREPARATION OF THE PARENT COMPANY AND GROUP FINANCIAL STATEMENTS

The functional currency used by the parent company is Swedish kronor and this is also the reporting currency of the parent company and the Group. This means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise indicated, are rounded to one decimal place to the nearest million kronor. Assets and liabilities are recognised at their historic cost of acquisition, with the exception of financial assets and liabilities, which are stated at their fair value. Financial assets and liabilities stated at their fair value consist of derivative instruments, such as interest swaps, currency forwards and currency swaps.

The Group's accounting policies have been applied consistently in all reporting and consolidation of subsidiaries.

### NEW ACCOUNTING POLICIES 2016/2017

No new accounting policies applicable from 1 January 2016 have had a material impact on the Group's financial statements.

### NEW ACCOUNTING POLICIES 2017/2018 ONWARDS

At the time of preparation of the consolidated accounts as at 31 August 2017 several accounting standards and interpretations had been published but not yet come into force.

IFRS 9 "Financial Instruments" requires that financial assets be classified into three different valuation categories; amortised cost, fair value through other comprehensive income or fair value through profit or loss. Classification is determined on initial recognition on the basis of the asset's characteristics and the company's business model. There are no major changes for financial liabilities compared with IAS 39. The second part refers to hedge accounting. IFRS 9 requires additional disclosures on risk management and hedge effectiveness. To a large extent the new principles provide a better framework for fair presentation of a company's management of financial risks. Finally, new principles have been introduced concerning impairment of financial assets, in which the model is based on expected losses. The purpose of the new model is partly to ensure that provision for credit loss is made at an earlier stage. The Group has started its evaluation of the effects of the new standard. The company management assesses that application of IFRS 9 will have an impact on the Group's financial statements, mainly with respect to requirements for disclosures in notes. The standard has been adopted by the EU and is applicable to financial years starting on or after 1 January 2018. Earlier application is permitted.

IFRS 15 "Revenue from contracts with customers", which is a new framework for reporting revenue with associated disclosure requirements. IFRS 15 will replace IAS 18 Revenue, IAS 11 Construction contracts and the related interpretations IFRIC 13, 15, 18 and SIC 31. The premise is that everything starts with an agreement between two parties on the sale of a good or service. Initially a contract with a customer is to be identified, which for the seller generates an asset (rights, a promise of remuneration) and a liability (commitment, a promise to transfer goods/services). In that way the company demonstrates its performance of an obligation to supply the promised goods or services. In accordance with the model the company then recognises revenue when the customer obtains control of a good or service sold and is able to use and obtain benefit from the good or service. The current assessment by the company's management is that the standard will not entail any material difference for the Group. The standard has been adopted by the EU and is applicable to financial years starting on or after 1 January 2018.

IFRS 16 "Leases". In January, 2016 the IASB published a new standard on leases that will replace IAS 17 "Leases" and the associated interpretations IFRIC 4, SIC 15 and SIC 27. The standard requires that assets and liabilities

referring to all leases, with some exceptions, be recognised in the balance sheet. The lessor's accounting will essentially be unchanged. The standard is applicable to financial years starting on or after January 1 2019. IFRS 16 had not been adopted by the EU at the time of presentation of this annual report.

The impact on the Group will mean for example that as a result of the implementation of IFRS 16 all leases for premises will be recognised in the balance sheet. The accounting is based on the view that the lessee has the right to use an asset for a specific period of time and at the same time an obligation to pay for this right. The asset and liability will be recognised at the discounted present value of future rental payments. Implementation of the new standard will mean that the balance sheet total will increase at the same time as the operating profit will increase compared with today, on the basis that some of the rental payments will be recognised as interest expense. The introduction of IFRS 16 will also mean an increase in interest-bearing liabilities. The company management assesses that the standard will lead to recognition of material assets and liabilities mainly referring to the Group's tenancy agreements for premises, but the effects have not been quantified.

No other IFRS or IFRIC interpretations that as yet have not come into force are expected to have any material impact on the Group.

## **CONSOLIDATION PRINCIPLES**

### **Consolidation**

The consolidated accounts include the parent company KappAhl AB (publ) and the companies over which KappAhl AB has a controlling influence, directly or indirectly. Subsidiaries are all companies over which the Group has a controlling interest. The Group has a controlling influence over a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Equity in the Group includes equity in the parent company and the part of equity in the subsidiary that was generated after acquisition. All internal transactions between the Group company and inter-company transactions are eliminated in the consolidated accounts.

### **Business combinations**

The purchase method is used to account for subsidiaries. Acquired identifiable assets, liabilities and contingent liabilities are measured at fair value on the acquisition date. The excess of the cost of acquisition for the acquired interests over the total fair value of the identifiable net assets and liabilities acquired is recorded as goodwill. The cost of acquisition is the fair value of the assets transferred to the seller and liabilities incurred or assumed at the date of exchange. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. All acquisition related costs are recognised as expenses. Companies acquired during the current year are included in the consolidated accounts as of the date of acquisition. Divested companies are included in the consolidated accounts up to and including the date of divestment.

## **FOREIGN CURRENCY**

### **Transactions in foreign currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated to the functional currency using the exchange rate prevailing on the balance sheet date. Translation differences that arise in connection with translation are recorded in the income statement. Translation differences on non-monetary assets and liabilities, recorded at historical cost, are translated at the exchange rate on the transaction date. Non-monetary assets and liabilities that are reported at their fair values are translated into the functional currency using the exchange rates prevailing at the time they are recognised at their fair value. The translation differences are then reported in the same way as other changes in the amounts of assets and liabilities.

The functional currency is the currency of the primary economic environment in which the company operates. The companies of the Group are the parent company and subsidiaries. The parent company's functional currency and reporting currency is Swedish kronor. The Group's reporting currency is Swedish kronor. The functional currency of the subsidiaries is the local currency in the respective country.

## **Financial statements of foreign operations**

Assets and liabilities of foreign operations, including goodwill and other consolidated surpluses and deficits, are translated into Swedish kronor at the exchange rate in effect on the balance sheet date. The income and expenses of foreign operations are translated into Swedish kronor at an average rate that is an approximation of the rates on the respective transaction dates. Translation differences that arise in connection with translation of foreign operations are recognised in other comprehensive income as a translation reserve. When a foreign operation is divested, the accumulated translated differences pertaining to the operations are realised after deduction of possible hedging in the consolidated income statement.

## **INCOME**

### **Sale of goods**

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards associated with ownership of the goods have been transferred to the buyer. Revenue is not recognised if it is probable that the economic benefits will not accrue to the Group. If there is significant uncertainty concerning payment, associated costs or risk of return, and if the seller retains an interest in the ongoing management normally associated with ownership, no revenue is recognised. Revenue is recognised at the fair value of the consideration received or expected to be received, less any discounts given.

All sales are made on a 30-day sale-or-return basis. Revenue is recognised on the date of the sale, subject to sale-or-return. For accounting purposes this provision is recognised by reducing net sales at the vesting date by a corresponding provision in other current liabilities on the balance sheet.

The Group has a loyalty programme in which customer club members earn bonus points and can later use them as payment in the form of bonus cheques. For accounting purposes the bonus earned is recognised by reducing net sales at the time the bonus reward is earned with a corresponding deferred income item in the balance sheet. Overall experience and sales statistics are used to assess and make provision for future returns, i.e. the exercise of sale or return, as well as points redemption in the loyalty programme and the assessment is made at the time of sale.

## **OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSES**

### **Payments relating to operating leases**

Payments relating to operating leases are reported in the income statement on a straight-line basis over the leasing period. Benefits received in connection with the signing of an agreement are reported as part of the total leasing expense in the income statement.

### **Financial income and expense**

Financial income and expense consists of interest income on bank balances, interest expense relating to loans and other financial items.

## **FINANCIAL INSTRUMENTS**

Financial instruments recorded in the balance sheet include, on the assets side, cash and cash equivalents, trade receivables and derivatives reported as other current receivables. Liabilities include loan liabilities to credit institutions, trade payables and derivatives reported as other current receivables. Financial instruments are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are removed from the balance sheet when the contractual right to receive the cash flow from the asset ceases. Financial liabilities are removed from the balance sheet when the contractual obligation is discharged, annulled or expires.

### **Loans and receivables**

The category mainly covers cash and balances with banks and trade receivables. Cash and balances with banks are measured at nominal amounts. Trade receivables have a short expected maturity and are measured without discounting at the original invoiced amount less expected loss risk.

### **Other financial liabilities**

Financial liabilities not held for trading are measured at amortised cost. Liabilities to financial institutions are classified as 'Other interest-bearing liabilities', which means recognition at amortised cost, at which time directly attributable costs such as arrangement fees, are accrued over the life of the loan using the

Note 1 cont.

effective interest method. Long-term liabilities have an expected maturity of more than 1 year, while current liabilities have a maturity of less than 1 year. Trade payables are assigned to this category. They have a short expected maturity and are recorded at nominal amounts without discounting.

#### Financial assets and liabilities measured at fair value

All derivatives are initially and subsequently recognised at fair value in the balance sheet. Profit/loss on revaluation of derivatives used for hedging is recognised as described in the section 'Derivatives and hedge accounting'.

#### DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are currency forwards, options, currency swaps and interest swaps that are used to handle the risk of exchange rate fluctuation and exposure to interest risk. The Group's financial gains and risk management are described in Note 18.

#### Cash flow hedging

Foreign currency exposure relating to future forecast cash flows is hedged through currency forwards. Currency forwards that protect the forecast cash flows are reported in the balance sheet at their fair value.

Interest rate swaps are used to hedge interest risk. Interest rate swaps are stated at their fair value in the balance sheet.

The effective portion of the change in fair value of a derivative instrument identified as a cash flow hedge and satisfying the criteria for hedge accounting, is reported in other comprehensive income and only recognised in income in the periods when the hedged item affects profit or loss (for example when the hedged forecast transaction takes place). The gain or loss referring to the ineffective portion and for the derivatives not included in hedge accounting is recognised immediately in the income statement. The gain or loss referring to the ineffective portion and for the derivatives not included in hedge accounting is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset (such as inventories or non-current assets), the gains or losses previously reported in equity will be transferred from equity and included in the initial cost of acquisition of the asset. These amounts recognised as assets will be reported later in 'Cost of goods sold' as regards inventories or in 'Depreciation' as regards non-current assets.

When hedging instruments mature, are sold, liquidated or redeemed, or the company breaks the identification of the hedging relationship before the hedged transaction has taken place and the forecast transaction is still expected to take place, the reported accumulated gain or loss remains in the hedging reserve in equity and is recorded in a similar way as above when the transaction takes place. If the transaction is no longer expected to take place, the hedging instrument's accumulated gains or losses are immediately recognised in the income statement.

#### PROPERTY, PLANT AND EQUIPMENT

##### Owned assets

Property, plant and equipment are recognised as assets in the balance sheet if it is likely that the company will receive future economic benefits and the cost of acquisition of the asset can be reliably measured.

Property, plant and equipment are recognised in the consolidated accounts at cost of acquisition, deducting accumulated depreciation and any impairment loss. The cost of acquisition includes the purchase price and costs directly relating to the asset to put it in place in a condition enabling it to be used for the purpose for which it was acquired.

##### Leased assets

In the consolidated accounts leases are classified either as finance leases or operating leases. A lease is a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee, otherwise it is an operating lease. The Group has no material financial leases.

##### Depreciation principles

Straight-line depreciation is used over the estimated useful life of the asset.

Estimated useful life periods;

– equipment, tools, fixtures and fittings 3-10 years

Annual impairment tests are made of the residual value of assets and their useful life.

#### INTANGIBLE ASSETS

##### Goodwill

Goodwill represents the difference between cost of acquisition of the business combination and the fair value of acquired assets and liabilities and contingent liabilities.

Goodwill is recognised at cost of acquisition minus any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

##### Computer software

Computer programs acquired or developed internally by KappAhl are recorded at cost of acquisition minus accumulated depreciation and impairment.

##### Trademarks and brands

Trademarks acquired by KappAhl are recorded at cost of acquisition minus accumulated impairment. Based on KappAhl's undertaking to continue to support his trademark with advertising and marketing resources as well as continual product development, KappAhl's trade mark is estimated to have an indefinite useful life. Trademarks with indefinite useful lives will not be amortised, but will be tested for impairment at least annually or if there is any indication of impairment risk.

##### Tenancy rights

Tenancy rights for the stores are recorded in the accounts at their cost of acquisition with an estimated useful life of 10 years.

##### Amortisation

Amortisation is recorded in the income statement on a straight line basis over the estimated useful life of the intangible asset, unless the useful life is indefinite. Goodwill, trademarks and brands have an indefinite useful life and an impairment test is conducted annually, or as soon as there are indications that the asset in question has fallen in value. Amortisable intangible assets are amortised from the date they are available for use. The estimated useful life periods are:

|                     |           |
|---------------------|-----------|
| – computer software | 3–5 years |
| – tenancy rights    | 10 years  |

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The net realisable value is the estimated selling price in current operations, after deduction for the cost of achieving a sale.

The cost of acquisition of inventories is calculated using the first-in, first-out method (FIFO) and includes costs incurred in connection with the acquisition of the inventory items and bring them to their current location and condition.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank assets that can be accessed immediately, held in banks and similar institutions.

#### IMPAIRMENT LOSS

The reported values of the Group's assets with the exception of inventories, actuarial plan assets used for financing employee benefits and deferred tax assets are reviewed on each balance sheet date to assess if impairment is indicated. If such an indication exists, the asset's recoverable value is assessed. The value of assets that are exempt as stated above is reviewed according to the relevant standards in place.

The recoverable value of goodwill, trademarks and brands with an indefinite useful life and intangible assets that are not yet ready for use, are assessed annually.

If it is not possible to establish the individual cash inflow of an individual asset when impairment testing is carried out, the assets are grouped at the lowest level where it is possible to identify essentially independent cash flows. Impairment is indicated when an asset's or a cash-generating unit's carrying amount exceeds the recoverable value. Impairment losses are recognised in the income statement. Goodwill is monitored in the Group's management accounting at Group level, and therefore impairment testing is carried out for the Group as a whole. Goodwill, trademarks and brands were acquired in connection with the acquisition of the KappAhl Group in December 2004.

## EMPLOYEE BENEFITS

### Defined contribution plans

The company's obligations with respect to contributions to defined contribution plans are recognised in the income statement when they fall due.

### Defined benefit plans

The Group's obligation concerning defined benefit plans is recognised at fair value and recorded net under the heading "Provisions for pensions" in the balance sheet. The net obligation with respect to defined benefit plans is calculated individually for each plan by estimating the future benefit the employees will have earned from their employment for both current and previous periods; this benefit is discounted to its present value and the fair value of any plan assets is deducted.

The discount rate is the rate of interest on the balance sheet date of first class corporate bonds with a maturity that corresponds to the Group's pension obligations. When there is no active market for such corporate bonds, the market interest rate on government bonds with the equivalent maturity is used. As of 2009/2010 a discount rate based on the mortgage bond market is used for KappAhl Sverige AB and a discount rate based on the government borrowing rate is used for KappAhl AS. See Note 15. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements, consisting of actuarial gains and losses, return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), are recognised in other comprehensive income in the period in which they arise. This type of remeasurement is never recognised in income in future periods.

Past service costs are recognised in income either at the time of the change or reduction in the plan or when the Group recognises related restructuring costs.

The net interest is calculated on the defined benefit net liability. The interest rate used is the discount rate above. The interest is recorded as financial expense/income. Service costs are recorded in the following items in the income statement: cost of goods sold, selling expenses and administrative expenses.

### Capital insurance

There is a pension solution for the President and other key personnel in the form of capital insurance pledged for pension obligations. The asset constitutes a financial instrument measured at fair value through profit or loss. The liability, i.e. the pension obligation, constitutes the same value as the asset. The obligation is netted in the consolidated accounts.

### Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy or in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of employees according to a detailed formal plan without possibility of withdrawal.

## PROVISIONS

A provision is reported in the balance sheet when the Group has an existing legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. When the effect of the timing of the payment is of material significance, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects current market assessments of the money's time value, and where appropriate, the risks that are associated with the liability.

## CONTINGENT LIABILITIES

Contingent liabilities are reported when there is a possible obligation arising from past events and the existence of which is only confirmed by one or more uncertain future events or when there is an obligation not reported as a liability or provision because it is not probable that an outflow of resources will be required.

## SEGMENT REPORTING

KappAhl does not report additional operating segments under IFRS 8, as the Group's reportable segments are deemed to constitute only one operating segment. The assessment is based on the assumption that the Group's manage-

ment team constitutes the "chief operating decision-maker". The company's business activities consist entirely of selling fashion in by and large similar geographical markets. The operations have a group-wide integrated purchasing and logistics function. The financial reporting is based on a group-wide functional organisation and management structure.

## TAXES

Income taxes consist of current tax and deferred tax. Income taxes are recorded in the income statement except when the underlying transaction is recognised in other comprehensive income or equity, in which case the associated tax effect is also recognised in other comprehensive income or equity.

Current tax is tax that must be paid or may be recovered for the current year using the tax rates in effect or substantively in effect as at the balance sheet date. This also includes adjustment of current tax referring to previous periods.

Deferred tax is calculated using the balance sheet method based on temporary differences between the carrying amount and tax base value of assets and liabilities. The following temporary differences are not taken into account: temporary differences that have arisen upon initial recognition of goodwill; initial recognition of assets and liabilities that are not business combinations and at the time of the transaction do not affect the reported or taxable profit; Moreover, temporary differences relating to participations in subsidiaries that are not expected to be reversed in the foreseeable future are not taken into account either. The value of deferred tax is based on how the reported amounts of assets or liabilities are expected to be realised or paid. Deferred tax is calculated using the tax rates and tax rules that are in effect or substantively in effect as at the balance sheet date.

Deferred tax assets relating to temporary tax-deductible differences and loss carry-forwards are only recognized when it is probable that they can be used in the future. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be used.

Deferred tax assets and tax liabilities are offset when they refer to income tax debited by the same tax authority and when the Group intends to settle the tax on a net basis.

## PARENT COMPANY ACCOUNTING POLICIES

The parent company presents its annual accounts in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting

Board's recommendation RFR 2 "Accounting for Legal Entities". RFR 2 means that the Parent Company, in its separate financial statements, must apply all the IFRS and statements adopted by the EU as far as possible, subject to the Annual Accounts Act and the Act on Safeguarding Pension Obligations, due to considerations of the connection between accounting and taxation. The recommendation specifies the exemptions and additions that must be made in relation to IFRS. The differences between the Group's and the Parent Company's accounting policies are presented below.

The accounting policies outlined below for the parent company have been consistently applied to all periods that are presented in the parent company's financial statements and remain unchanged compared with last year.

### Participations in subsidiaries

Participations in subsidiaries are reported in the Parent Company accounts at cost of acquisition less any impairment loss.

### Accounting for group contributions

Group contributions received from subsidiaries are reported as financial income. However, group contributions given to a subsidiary are reported as an increase in the carrying amount of the investment.

### Taxes

Untaxed reserves in the Parent Company include deferred tax liabilities. The consolidated accounts, however, divide untaxed reserves into deferred tax liability and equity.

The Group's operations consist mainly of selling clothing and accessories to consumers. The operations have a group-wide integrated purchasing and logistics function. The financial reporting is based on a group-wide functional organisation and management structure. The internal follow-up of operations is per geographical market by the Group's chief operating decision-maker, i.e. the Group's management team. All geographic markets in the Group have similar economic characteristics, such as long-term performance, which means that the Group as a whole is only assessed as constituting one operating segment.

## NOTE 2 *Significant accounting estimates*

### Significant accounting estimates

When preparing the annual and consolidated accounts estimates, assumptions and assessments are made when applying the accounting policies. These affect the carrying amounts of assets, liabilities, income, expenses and supplementary disclosures. Estimates and assumptions are based on historical experience, other relevant factors and future expectations and are regularly reviewed. The actual outcome may therefore deviate from estimates and assumptions made. It is assessed that as at 31 August 2017 there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the coming financial year.

### Impairment tests for goodwill and trademarks

Every year the Group carries out impairment tests for goodwill and trademarks, in accordance with the accounting policy described in Note 1. Recoverable amounts for the cash generating unit have subsequently been determined by means of calculation of value in use. Certain estimates must be made for these calculations. For these estimates, as well as assessments concerning how reasonably possible changes in significant assumptions would impact calculation of the recoverable amount, please see Note 10. Goodwill and trademarks amounted to SEK 1,306 (1,306) million at year-end.

## NOTE 3 *Distribution of revenue*

Net sales in the Group consist entirely of the sale of goods. No segment information is given because the Group as a whole constitutes an operating segment.

## NOTE 4 *Net sales and non-current assets by geographical market*

### Net sales by geographical market

| Group<br>SEK million | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|----------------------|-----------------------|-----------------------|
| Sweden               | 2,760.5               | 2,666.2               |
| Norway               | 1,333.1               | 1,216.2               |
| Finland              | 584.0                 | 558.7                 |
| Poland               | 238.6                 | 282.5                 |
| <b>Total</b>         | <b>4,916.2</b>        | <b>4,723.6</b>        |

### Non-current assets by geographical market

| Group<br>SEK million | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|----------------------|-----------------------|-----------------------|
| Sweden               | 258.3                 | 252.0                 |
| Norway               | 100.5                 | 83.6                  |
| Finland              | 43.0                  | 43.0                  |
| Poland               | 34.6                  | 50.1                  |
| <b>Total</b>         | <b>436.4</b>          | <b>428.8</b>          |

Goodwill and trademarks are not included in non-current assets by country as they cannot be allocated by country



## NOTE 5 *Employees and staff costs*

### Average number of employees

|                             | 1/9/2016<br>31/8/2017 | Of which<br>men | 1/9/2015<br>31/8/2016 | Of which<br>men |
|-----------------------------|-----------------------|-----------------|-----------------------|-----------------|
| <b>Parent company</b>       |                       |                 |                       |                 |
| Sweden                      | 7                     | 42.9%           | 7                     | 42.8%           |
| <b>Total parent company</b> | <b>7</b>              | <b>42.9%</b>    | <b>7</b>              | <b>42.8%</b>    |
| <b>Subsidiaries</b>         |                       |                 |                       |                 |
| Sweden                      | 1,385                 | 10.0%           | 1,403                 | 10.0%           |
| Norway                      | 580                   | 2.0%            | 597                   | 2.0%            |
| Finland                     | 344                   | 1.0%            | 336                   | 1.0%            |
| Poland                      | 257                   | 5.0%            | 336                   | 5.0%            |
| Asia                        | 142                   | 42.0%           | 140                   | 42.0%           |
| <b>Total, subsidiaries</b>  | <b>2,708</b>          | <b>8.4%</b>     | <b>2,812</b>          | <b>8.2%</b>     |
| <b>Group total</b>          | <b>2,715</b>          | <b>8.4%</b>     | <b>2,819</b>          | <b>8.2%</b>     |

### Gender breakdown of company management

|                         | 31/8/2017<br>Percentage of<br>men | 31/8/2016<br>Percentage of<br>men |
|-------------------------|-----------------------------------|-----------------------------------|
| <b>Parent company</b>   |                                   |                                   |
| Board of Directors      | 33.3%                             | 47.0%                             |
| Other senior executives | 42.9%                             | 42.9%                             |
| <b>Group total</b>      |                                   |                                   |
| Board of Directors      | 40.0%                             | 42.9%                             |
| Other senior executives | 42.9%                             | 42.9%                             |

### Salaries, remuneration and social security costs

| SEK MILLION                     | 1/9/2016–31/8/2017        |                       |               | 1/9/2015–31/8/2016        |                       |               |
|---------------------------------|---------------------------|-----------------------|---------------|---------------------------|-----------------------|---------------|
|                                 | Salaries and remuneration | Social security costs | Pension costs | Salaries and remuneration | Social security costs | Pension costs |
| Parent company                  | 18.9                      | 8.0                   | 5.0           | 18.8                      | 6.8                   | 4.1           |
| Subsidiaries                    | 894.3                     | 208.7                 | 54.4          | 878.6                     | 220.6                 | 48.0          |
| <b>Group total<sup>2)</sup></b> | <b>913.2</b>              | <b>216.7</b>          | <b>59.4</b>   | <b>897.4</b>              | <b>227.4</b>          | <b>52.1</b>   |

### Salaries and remuneration

| SEK MILLION             | 1/9/2016–31/8/2017                |                                       |                 | 1/9/2015–31/8/2016                |                                       |                 |
|-------------------------|-----------------------------------|---------------------------------------|-----------------|-----------------------------------|---------------------------------------|-----------------|
|                         | Board and President <sup>1)</sup> | of which variable<br>salary component | Other employees | Board and President <sup>1)</sup> | of which variable<br>salary component | Other employees |
| Parent company          | 7.7                               | 1.4                                   | 11.3            | 7.7                               | 1.9                                   | 11.1            |
| Subsidiaries in Sweden  | –                                 | –                                     | 519.7           | –                                 | –                                     | 503.8           |
| Subsidiaries in Norway  | 2.4                               | –                                     | 225.6           | 2.7                               | –                                     | 213.0           |
| Subsidiaries in Finland | 1.9                               | –                                     | 74.9            | 2.2                               | –                                     | 89.7            |
| Subsidiaries in Poland  | 1.7                               | –                                     | 33.8            | 1.6                               | –                                     | 32.6            |
| Subsidiaries in Asia    | –                                 | –                                     | 34.3            | –                                 | –                                     | 33.0            |
| <b>Group total</b>      | <b>13.7</b>                       | <b>1.4</b>                            | <b>899.6</b>    | <b>14.2</b>                       | <b>1.9</b>                            | <b>883.2</b>    |

1) includes current and previous members of the Board, President and Vice President

2) Of the Group's pension costs, SEK 1.3 (1.1) million refers to the Board of Directors and President, including current and previous members of the Board, the President and Vice President.

Of the salaries and remuneration paid to other employees in the Group, SEK 11 (11) million is for senior executives other than the Board of Directors and President.

#### Conditions of employment for senior executives

In the event of notice of termination from the employer, some senior executives have contracts that guarantee them the right to retain their salaries in full for 6 months. Retirement benefits are based on a general pension plan from 65 years of age.

#### President's conditions of employment

In the event of notice of termination from the employer, the current President has a contract guaranteeing the right to retain full salary for 6 months. Severance pay consists of 12 monthly salaries after the end of the period of notice less salary from other employment. Retirement benefits are based on a general pension plan from 65 years of age.

#### Other

During the year a severance payment to a previous President/CEO was made of SEK 3 (4) million which was expensed in the 2014/2015 financial year.

For information on post-employment and other employee benefits, please see Note 15. KappAhl currently has no outstanding share-based incentive programmes.

Note 5 cont.

**Benefits for senior executives**

| Remuneration and other benefits during the year<br>SEK MILLION      | 1/9/2016–31/8/2017        |                          |                 |             | 1/9/2015–31/8/2016        |                          |                 |             |
|---|---------------------------|--------------------------|-----------------|-------------|---------------------------|--------------------------|-----------------|-------------|
|   | Basic salary/<br>boardfee | Variable<br>remuneration | Pension<br>cost | Total       | Basic salary/<br>boardfee | Variable<br>remuneration | Pension<br>cost | Total       |
| Chairman of the Board Anders Bülow                                  | 0.5                       | –                        | –               | 0.5         | 0.5                       | –                        | –               | 0.5         |
| Member of the Board Christian W. Jansson                            | 0.1                       | –                        | –               | 0.1         | 0.4                       | –                        | –               | 0.4         |
| Member of the Board Pia Rudengren                                   | 0.4                       | –                        | –               | 0.4         | 0.5                       | –                        | –               | 0.5         |
| Member of the Board Amelia Adamo<br>(to 23 December 2015)           | –                         | –                        | –               | –           | 0.1                       | –                        | –               | 0.1         |
| Member of the Board Susanne Holmberg                                | 0.2                       | –                        | –               | 0.2         | 0.2                       | –                        | –               | 0.2         |
| Member of the Board Kicki Olivensjö<br>(from 23 December 2015)      | 0.2                       | –                        | –               | 0.2         | 0.1                       | –                        | –               | 0.1         |
| Member of the Board Gustaf Öhrn<br>(23 December 2015–28 April 2016) | –                         | –                        | –               | –           | 0.1                       | –                        | –               | 0.1         |
| Member of the Board Göran Bille<br>(from 1 December 2016)           | 0.3                       | –                        | –               | 0.3         | –                         | –                        | –               | –           |
| Member of the Board Cecilia Kocken<br>(from 1 December 2016)        | 0.2                       | –                        | –               | 0.1         | –                         | –                        | –               | –           |
| Other (2 board members)   | 0.1                       | –                        | –               | 0.1         | 0.1                       | –                        | –               | 0.1         |
| President /CEO Anders Düring<br>(1 July 2015–30 November 2015)      | –                         | –                        | –               | –           | 0.8                       | 0.4                      | 0.2             | 1.4         |
| President/CEO Danny Feltmann<br>(from 1 December 2015)              | 4.2                       | 1.4                      | 1.3             | 6.9         | 3.1                       | 1.5                      | 0.9             | 5.5         |
| Management Team (6 people)  | 9.7                       | 1.8                      | 3.7             | 15.2        | 8.9                       | 2.6                      | 3.0             | 14.4        |
| <b>Total</b>  | <b>15.8</b>               | <b>3.2</b>               | <b>5.0</b>      | <b>24.0</b> | <b>14.7</b>               | <b>4.5</b>               | <b>4.1</b>      | <b>23.3</b> |

**NOTE 6 Fees and remuneration to auditors**

| SEK MILLION                            | Group                 |                       | Parent company        |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
| <i>Group auditors</i>                  |                       |                       |                       |                       |
| Audit assignments                      | 1.0                   | 1.0                   | 0.4                   | 0.1                   |
| Audit business in addition to<br>audit | 0.3                   | 0.4                   | 0.2                   | 0.2                   |
| Tax consultancy                        | 0.1                   | 0.2                   | 0.1                   | 0.1                   |
| Other services                         | 0.1                   | 0.2                   | 0.0                   | –                     |
| <b>Total</b>                           | <b>1.5</b>            | <b>1.8</b>            | <b>0.7</b>            | <b>0.5</b>            |
| <i>Other auditors</i>                  |                       |                       |                       |                       |
| Audit assignments                      | –                     | 0.1                   | –                     | –                     |
| Audit business in addition to<br>audit | –                     | –                     | –                     | –                     |
| Tax consultancy                        | 0.1                   | –                     | 0.1                   | –                     |
| Other services                         | 0.0                   | –                     | 0.0                   | –                     |
| <b>Total</b>                           | <b>0.1</b>            | <b>0.1</b>            | <b>0.1</b>            | <b>–</b>              |

The 2016 Annual General Meeting resolved to elect Öhrlings PricewaterhouseCoopers as the Group auditors for the coming year. For 2015/2016 Ernst & Young were the Group auditors. This means that the table “Group Auditors” refers to Öhrlings PricewaterhouseCoopers for 2016/2017 and Ernst & Young for 2015/2016.

Audit assignments refer to the examination of the annual accounts, the accounting records and the administration by the Board of Directors and the President. Audit business in addition to the audit assignment entail other quality assurance services to be performed in accordance with statutes, articles of association, by-laws or agreement. The amount includes review of the interim report. Tax consultancy includes both advisory services and review of compliance in the area of taxation. Other services are other assignments.

**NOTE 7 Operating expenses**

| Group<br>SEK million          | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|-------------------------------|-----------------------|-----------------------|
| Raw materials and consumables | 1,893.2               | 1,853.6               |
| Personnel costs               | 1,146.8               | 1,144.8               |
| Rental costs                  | 858.2                 | 859.8                 |
| Depreciation/amortisation     | 130.6                 | 132.3                 |
| Reversal of impairment losses | –                     | –1.8                  |
| Other operating expenses      | 438.8                 | 385.6                 |
| <b>Total</b>                  | <b>4,467.6</b>        | <b>4,374.3</b>        |

## NOTE 8 *Financial income and expense*

| Group<br>SEK million                                     | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | Parent company<br>SEK million                            | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|--|-----------------------|-----------------------|--|-----------------------|-----------------------|
| <b>Loans and loan receivables</b>                        |                       |                       | <b>Profit from participations in subsidiaries</b>        |                       |                       |
| Interest income  | 0.4                   | 1.2                   | Dividends from subsidiaries                              | 49.4                  | 12.8                  |
| Other financial income                                   | 0.5                   | –                     | Impairment loss  | –461.0                | –                     |
| <b>Loans and trade receivables</b>                       | <b>0.9</b>            | <b>1.2</b>            | Group contribution received                              | 7.6                   | 25.8                  |
| <b>Financial liabilities recorded at amortised cost.</b> |                       |                       | <b>Profit from participations in subsidiaries</b>        | <b>–404.0</b>         | <b>38.6</b>           |
| Interest expense   | –4.3                  | –8.5                  | <b>Loans and loan receivables</b>                        |                       |                       |
| Other financial expenses                                 | –18.0                 | –1.7                  | Interest income  | 4.3                   | 12.4                  |
| <b>Financial liabilities recorded at amortised cost.</b> | <b>–22.3</b>          | <b>–10.2</b>          | <b>Loans and loan receivables</b>                        | <b>4.3</b>            | <b>12.4</b>           |
| <b>Net financial income</b>                              | <b>–21.4</b>          | <b>–8.9</b>           | <b>Financial liabilities recorded at amortised cost.</b> |                       |                       |
|  |                       |                       | Interest expense   | –7.4                  | –27.0                 |
|  |                       |                       | Other financial expenses                                 | –0.6                  | –1.7                  |
|  |                       |                       | <b>Financial liabilities recorded at amortised cost.</b> | <b>–8.0</b>           | <b>–28.7</b>          |
|  |                       |                       | <b>Net financial income</b>                              | <b>–407.7</b>         | <b>22.3</b>           |

## NOTE 9 *Taxes*

### Reported in the income statement

| Group<br>SEK million                                    | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | Parent company<br>SEK million                           | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|---|-----------------------|-----------------------|---|-----------------------|-----------------------|
| <b>Current tax</b>                                      |                       |                       | <b>Current tax</b>                                      |                       |                       |
| Current tax on profit for the year                      | –88.9                 | –45.5                 | Current tax on profit for the year                      | –                     | –                     |
| Adjustment for previous years                           | 0.0                   | –5.1                  | <b>Total current tax</b>                                | <b>–</b>              | <b>–</b>              |
| <b>Total current tax</b>                                | <b>–88.9</b>          | <b>–50.6</b>          | <b>Deferred tax expense (–) /tax credit (+)</b>         |                       |                       |
| <b>Deferred tax expense (–) /tax credit (+)</b>         |                       |                       | Deferred tax relating to temporary differences          | 0.6                   | 0.2                   |
| Deferred tax relating to temporary differences          | –5.7                  | 12.2                  | Other changes in deferred tax assets                    | –                     | –                     |
| Deferred tax in change in loss carry-forwards           | 31.1                  | –57.2                 | <b>Total deferred tax</b>                               | <b>0.6</b>            | <b>0.2</b>            |
| <b>Total deferred tax</b>                               | <b>25.4</b>           | <b>–45.0</b>          | <b>Total income tax</b>                                 | <b>0.6</b>            | <b>0.2</b>            |
| <b>Total income tax</b>                                 | <b>–63.5</b>          | <b>–95.6</b>          | <b>Tax reported in other comprehensive income</b>       |                       |                       |
| <b>Tax reported in other comprehensive income</b>       |                       |                       | Cash flow hedges – value changes                        | –                     | –                     |
| Cash flow hedges – value changes                        | 8.0                   | 1.2                   | <b>Total tax reported in other comprehensive income</b> | <b>–</b>              | <b>–</b>              |
| Translation differences                                 | –                     | –                     |   |                       |                       |
| Actuarial gains/losses                                  | 0.5                   | 1.8                   |   |                       |                       |
| <b>Total tax reported in other comprehensive income</b> | <b>8.5</b>            | <b>3.0</b>            |   |                       |                       |

Note 9 cont.

**Reconciliation of effective tax**

| Group<br>SEK million  | 1/9/2016<br>31/8/2017 (%) | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 (%) | 1/9/2015<br>31/8/2016 |
|---|---------------------------|-----------------------|---------------------------|-----------------------|
| Profit/loss before tax  |                           | 427.2                 |                           | 340.5                 |
| Income tax calculated in accordance with tax rate in Sweden (22%)       | -22.0                     | -94.0                 | -22.0                     | -74.9                 |
| Effect of other tax rates for foreign subsidiaries                      | -0.2                      | -0.8                  | -2.0                      | -6.7                  |
| Expenses not deductible for tax purposes                                | -1.0                      | -4.3                  | -5.6                      | -3.8                  |
| Non-taxable revenue   | 0.0                       | 0.0                   | 4.6                       | 15.8                  |
| Tax losses for which no deferred tax asset has previously been reported | 8.2                       | 35.0                  | -                         | -                     |
| Losses for which no loss carry-forwards have been reported              | -                         | -                     | -6.7                      | -23.0                 |
| Temporary differences   | -                         | -                     | 4.3                       | -0.6                  |
| Tax adjustment due to changed tax rate                                  | -0.2                      | -0.6                  | -0.4                      | -1.4                  |
| Adjustment of tax for previous periods                                  | 0.3                       | 1.2                   | -0.3                      | -0.9                  |
| <b>Effective tax</b>  | <b>-14.9</b>              | <b>-63.5</b>          | <b>-28.1</b>              | <b>-95.5</b>          |
| <b>Parent company</b><br>SEK million                                    | 1/9/2016<br>31/8/2017 (%) | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 (%) | 1/9/2015<br>31/8/2016 |
| Profit/loss before tax  |                           | -414.9                |                           | 11.4                  |
| Income tax calculated in accordance with tax rate in Sweden (22%)       | 22.0                      | 91.3                  | -22.0                     | -2.5                  |
| Expenses not deductible for tax purposes                                | -24.6                     | -101.6                | -2.6                      | -0.3                  |
| Non-taxable revenue   | 2.6                       | 10.9                  | 24.6                      | 2.8                   |
| Adjustment of current tax for previous periods                          | 0.0                       | 0.0                   | 0.0                       | 0.0                   |
| <b>Effective tax</b>  | <b>0.0</b>                | <b>0.6</b>            | <b>0.0</b>                | <b>0.0</b>            |

**Reported in the balance sheet  
Deferred tax assets and liabilities**

| Group<br>SEK million                            | Net           |               |
|---|---------------|---------------|
|   | 31/8/ 2017    | 31/8/2016     |
| <b>Deferred tax assets</b>                      |               |               |
| Goodwill  | 43.0          | 44.9          |
| Other unutilised tax deductions                 | 45.1          | 14.0          |
| Provisions for pensions and obligations         | 5.0           | 2.1           |
| Temporary difference referring to inventories   | 6.8           | 15.4          |
| Accrued expenses                                | 0.1           | 2.0           |
| <b>Deferred tax assets</b>                      | <b>100.0</b>  | <b>78.4</b>   |
| Netting against deferred tax liability          | -42.7         | -48.2         |
| <b>Total deferred tax assets</b>                | <b>57.3</b>   | <b>30.2</b>   |
| <b>Deferred tax liabilities</b>                 |               |               |
| Market value of derivatives                     | 5.9           | -2.1          |
| Accelerated depreciation on plant and equipment | -19.5         | -21.3         |
| Trademarks and brands                           | -134.2        | -134.2        |
| Other taxable temporary differences             | -42.5         | -42.0         |
| <b>Deferred tax liabilities</b>                 | <b>-190.3</b> | <b>-199.6</b> |
| Netting against deferred tax asset              | 42.7          | 48.2          |
| <b>Total deferred tax liability</b>             | <b>-147.6</b> | <b>-151.4</b> |

Deferred tax assets referring to loss carry-forwards are only recognised if it is probable that the deductions can be applied against future taxation. Deferred tax assets and tax liabilities are netted when they refer to income tax debited by the same tax authority and when the Group intends to settle the tax on a net basis. Swedish taxes are thus netted against deferred tax assets of SEK 43 million. As at 31 August 2017 SEK 57 (30) million is recognised as a deferred tax asset based on the best estimate of future taxable profits in the Group. At the close of the financial year there were loss carry-forwards amounting to SEK 392 (515) million. These loss carry-forwards refer to Finland SEK 82.2 million and Poland SEK 309.9 million. No deferred tax has been reported for the loss carry-forwards in Poland, but deferred tax has been reported for Finland; this is included in other unutilised tax deductions above. A changed assessment of probability for future taxable profit can thus have a positive or negative effect. Expiry periods of unutilised loss carry-forwards are shown in the table below.

**Expiry periods, unutilised loss carry-forwards**

| SEK million           | 31/8/ 2017   | 31/8/2016    |
|-----------------------|--------------|--------------|
| after 1 year          | 110.6        | 98.8         |
| after 2 years         | 69.1         | 111.8        |
| after 3 years         | 70.0         | 67.8         |
| after 4 years         | 58.5         | 68.6         |
| after 5 years         | 1.7          | 64.0         |
| after 6 years or more | 82.2         | 103.6        |
| <b>Total</b>          | <b>392.1</b> | <b>514.5</b> |

## NOTE 10 *Intangible assets*

| Group<br>SEK million                            | Computer<br>software | Trademarks<br>and brands | Tenancy rights | Goodwill     | Construction<br>in progress | Total          |
|---|----------------------|--------------------------|----------------|--------------|-----------------------------|----------------|
| <b>Cost of acquisition</b>                      |                      |                          |                |              |                             |                |
| Opening balance, 1 September 2015               | 170.9                | 610.2                    | 48.8           | 695.8        | 0.0                         | 1,525.7        |
| Purchases                                       | 19.0                 | –                        | –              | –            | –                           | 19.0           |
| Sales/retirements                               | –2.9                 | –                        | –3.1           | –            | –                           | –6.0           |
| Translation differences                         | 0.2                  | –                        | –              | –            | –                           | 0.2            |
| <b>Closing balance, 31 August 2016</b>          | <b>187.2</b>         | <b>610.2</b>             | <b>45.7</b>    | <b>695.8</b> | <b>0.0</b>                  | <b>1,538.9</b> |
| Opening balance, 1 September 2016               | 187.2                | 610.2                    | 45.7           | 695.8        | 0.0                         | 1,538.9        |
| Purchases                                       | 21.0                 | –                        | –              | –            | 11.6                        | 32.6           |
| Sales/retirements                               | –0.2                 | –                        | –45.7          | –            | –                           | –45.9          |
| Reclassification                                | 0.3                  | –                        | –              | –            | –                           | 0.3            |
| Translation differences                         | –0.1                 | –                        | –              | –            | –                           | –0.1           |
| <b>Closing balance, 31 August 2017</b>          | <b>208.2</b>         | <b>610.2</b>             | <b>0.0</b>     | <b>695.8</b> | <b>11.6</b>                 | <b>1,525.8</b> |
| <b>Depreciation/amortisation and impairment</b> |                      |                          |                |              |                             |                |
| Opening balance, 1 September 2015               | –128.0               | –0.2                     | –48.8          | –            | –                           | –177.0         |
| Depreciation/amortisation for the year          | –13.6                | –                        | –              | –            | –                           | –13.6          |
| Sales/retirements                               | 0.0                  | –                        | 3.1            | –            | –                           | 3.1            |
| Translation differences                         | –0.1                 | –                        | –              | –            | –                           | –0.1           |
| <b>Closing balance, 31 August 2016</b>          | <b>–141.7</b>        | <b>–0.2</b>              | <b>–45.7</b>   | <b>–</b>     | <b>–</b>                    | <b>–187.6</b>  |
| Opening balance, 1 September 2016               | –141.7               | –0.2                     | –45.7          | –            | –                           | –187.6         |
| Depreciation/amortisation for the year          | –14.8                | –                        | –              | –            | –                           | –14.8          |
| Sales/retirements                               | 0.2                  | –                        | 45.7           | –            | –                           | 45.9           |
| Reclassification                                | –                    | –                        | –              | –            | –                           | 0.0            |
| Translation differences                         | –0.1                 | –                        | –              | –            | –                           | –0.1           |
| <b>Closing balance, 31 August 2017</b>          | <b>–156.4</b>        | <b>–0.2</b>              | <b>0.0</b>     | <b>–</b>     | <b>–</b>                    | <b>–156.6</b>  |
| <b>Carrying amounts</b>                         |                      |                          |                |              |                             |                |
| <b>As at 31 August 2016</b>                     | <b>45.5</b>          | <b>610.0</b>             | <b>–</b>       | <b>695.8</b> | <b>–</b>                    | <b>1,351.3</b> |
| <b>As at 31 August 2017</b>                     | <b>51.8</b>          | <b>610.0</b>             | <b>–</b>       | <b>695.8</b> | <b>11.6</b>                 | <b>1,369.2</b> |

### Depreciation/amortisation

Depreciation/amortisation is included in the following lines of the income statement

| SEK million             | Group                 |                       | Parent company           |                          |
|-------------------------|-----------------------|-----------------------|--------------------------|--------------------------|
|                         | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | 2016-09-01<br>2017-08-31 | 2015-09-01<br>2016-08-31 |
| Administrative expenses | –11.4                 | –11.7                 | –                        | –                        |
| Selling expenses        | –3.4                  | –1.9                  | –                        | –                        |
| <b>Total</b>            | <b>–14.8</b>          | <b>–13.6</b>          | <b>–</b>                 | <b>–</b>                 |

### Impairment tests for goodwill and trademarks

Goodwill and trademarks are tested for impairment annually, or more often if necessary, by calculating the value. Impairment testing is carried out for the Group as a whole, as this is considered to be a single cash generating unit. Material assumptions used in impairment testing of goodwill and trademarks are turnover and gross margin. The recoverable amount for the cash generating unit is determined based on a value in use calculation.

The calculations are based on estimated future cash flows for five years and then on discounted constant cash flows. For year one the calculation is based on the approved budget. For subsequent periods the cash flow has been assumed on the basis of strategic plans for the operations and an estimated growth rate that follows the inflation assumption of 2 (2) per cent. A discount rate before tax of 7.4 (10.3) per cent has been used, calculated on the basis of a

weighted average cost of capital (WACC) that is assessed to be on a level with external requirements made by the market on comparable companies. If the estimated recoverable amount is less than the carrying amount a write-down is made to the recoverable amount of the asset. Even if the company management considers that estimated future cash flows are reasonable, other assumptions concerning cash flows may impact valuations made to a high degree. Impairment testing of goodwill and trademarks was carried out at the close of the financial year. Using the assumptions reported above the value in use exceeds the carrying amount for the cash generating unit.

Alternative calculations were made by changing the assumptions concerning discount rate, growth rate and gross margin. Changing these assumptions, each separately, by two percentage points would not result in any impairment loss on recorded goodwill and trademarks.

## NOTE 11 *Property, plant and equipment*

| Group<br>SEK million                            | Land        | Equipment,<br>tools,<br>fixtures and<br>fittings | Construc-<br>tion in<br>progress | Total           |
|---|-------------|--|----------------------------------|-----------------|
|   |             |  |                                  |                 |
| <b>Cost of acquisition</b>                      |             |  |                                  |                 |
| Opening balance,<br>1 September 2015            | 15.0        | 2,203.3  | –                                | 2,218.3         |
| Purchases                                       | –           | 100.2  | –                                | 100.2           |
| Sales/retirements                               | –           | –230.4   | –                                | –230.4          |
| Reclassification                                | –           | 0.2  | –                                | 0.2             |
| Translation differences                         | –           | –17.3  | –                                | –17.3           |
| <b>Closing balance, 31 August 2016</b>          | <b>15.0</b> | <b>2,056.0</b>                                   | <b>–</b>                         | <b>2,071.0</b>  |
| Opening balance,<br>1 September 2016            | 15.0        | 2,056.0  | –                                | 2071.0          |
| Purchases                                       | –           | 142.5  | 2.1                              | 144.6           |
| Sales/retirements                               | –           | –1,308.4   | –                                | –1,308.4        |
| Reclassification                                | –           | 0.0  | –                                | 0.0             |
| Translation differences                         | –           | 11.5   | –                                | 11.5            |
| <b>Closing balance, 31 August 2017</b>          | <b>15.0</b> | <b>901.6</b>                                     | <b>2.1</b>                       | <b>918.7</b>    |
| <b>Depreciation/amortisation and impairment</b> |             |  |                                  |                 |
| Opening balance,<br>1 September 2015            | –           | –1,758.9   | –                                | –1,758.9        |
| Depreciation/amortisation<br>for the year       | –           | –118.7   | –                                | –118.7          |
| Reversal of depreciation/<br>amortisation       | –           | 1.8  | –                                | 1.8             |
| Sales/retirements                               | –           | 218.3  | –                                | 218.3           |
| Translation differences                         | –           | 15.3   | –                                | 15.3            |
| <b>Closing balance, 31 August 2016</b>          | <b>–</b>    | <b>–1,642.2</b>                                  | <b>–</b>                         | <b>–1,642.2</b> |
| Opening balance,<br>1 September 2016            | –           | –1,642.2   | –                                | –1,642.2        |
| Depreciation/amortisation<br>for the year       | –           | –115.8   | –                                | –115.8          |
| Reversal of depreciation/<br>amortisation       | –           | –  | –                                | –               |
| Sales/retirements                               | –           | 1,287.1  | –                                | 1,287.1         |
| Reclassification                                | –           | –  | –                                | –               |
| Translation differences                         | –           | –11.4  | –                                | –11.4           |
| <b>Closing balance, 31 August 2017</b>          | <b>0.0</b>  | <b>–482.3</b>                                    | <b>–</b>                         | <b>–482.3</b>   |
| <b>Carrying amounts</b>                         |             |  |                                  |                 |
| <b>As at 31 August 2016</b>                     | <b>15.0</b> | <b>413.8</b>                                     | <b>–</b>                         | <b>428.8</b>    |
| <b>As at 31 August 2017</b>                     | <b>15.0</b> | <b>419.3</b>                                     | <b>2.1</b>                       | <b>436.4</b>    |
| Carrying amounts                                |             | 31/8/2016  | 31/8/2015                        |                 |
| Land  |             | 15.0   | 15.0                             |                 |
| <b>Total</b>                                    |             | <b>15.0</b>                                      | <b>15.0</b>                      |                 |

### Depreciation/Impairment losses on property, plant and equipment

Depreciation/impairment losses are included in the following lines of the income statement.

| SEK million             | Group                 |                       | Parent company        |                       |
|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                         | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
| Cost of goods sold      | –6.6                  | –7.1                  | –                     | –                     |
| Administrative expenses | 0.0                   | –                     | –                     | –                     |
| Selling expenses        | –109.2                | –109.8                | –                     | –                     |
| <b>Total</b>            | <b>–115.8</b>         | <b>–116.9</b>         | <b>–</b>              | <b>–</b>              |

## NOTE 12 *Inventories*

| Group<br>SEK million | 31/8/ 2017                       | 31/8/2016    |
|----------------------|----------------------------------|--------------|
|                      | Finished goods and trading goods | 725.8        |
| <b>Total</b>         | <b>725.8</b>                     | <b>820.4</b> |

Inventories are stated at the lower of cost and net realisable value. From the time the goods are transferred from a supplier to a forwarding agent selected by KappAhl the goods are owned under civil law by KappAhl and are then part of KappAhl's recognised inventories. Net realisable value is the estimated selling price in current operations, after deduction for the cost of achieving a sale. The cost of acquisition of inventories is calculated using the first-in, first-out method (FIFO) and includes expenditure in connection with the acquisition of the inventory items and their transportation to their current location and for bringing them to their current location and condition.

For goods that have not as yet reached a store, the cost of acquisition is the purchase cost including estimated costs of customs and freight. For goods in store the cost of acquisition is established by reducing the selling price by the estimated gross margin ("retail method"). The composition of the closing inventories as at the balance sheet date is deemed to be well-balanced. Large impairment losses are rare. No material impairment losses have been recorded in the current or previous financial year. Only an insignificant part of the inventories is recorded at net realisable value. No material obsolescence is deemed to exist in the inventories.

## NOTE 13 *Prepaid expenses and accrued income*

| SEK million          | Group        |              | Parent company |            |
|----------------------|--------------|--------------|----------------|------------|
|                      | 31/8/ 2017   | 31/8/2016    | 31/8/ 2017     | 31/8/2016  |
| Prepaid rental costs | 76.0         | 77.2         | –              | –          |
| Other                | 35.8         | 34.3         | 1.9            | 0.8        |
| <b>Total</b>         | <b>111.8</b> | <b>111.5</b> | <b>1.9</b>     | <b>0.8</b> |

## NOTE 14 *Interest-bearing liabilities*

Information concerning the company's contractual terms and conditions regarding interest-bearing liabilities and concerning the company's exposure to interest rate risk and exchange rate risk can be found in Note 18.

| Group<br>SEK million                            | 31/8/2017   | 31/8/2016    |
|---|-------------|--------------|
| <b>Non-current liabilities</b>                  |             |              |
| Provisions for pensions and similar obligations | 45.0        | 48.1         |
| Bank loans                                      | –           | 400.0        |
| <b>Total</b>                                    | <b>45.0</b> | <b>448.1</b> |
| <b>Current liabilities</b>                      |             |              |
| Bank loans                                      | –           | –            |
| Bank overdraft facilities                       | 25.3        | –            |
| Interest rate derivatives                       | –           | 9.7          |
| <b>Total</b>                                    | <b>25.3</b> | <b>9.7</b>   |
| <b>Total</b>                                    | <b>70.3</b> | <b>457.8</b> |

| Parent company<br>SEK million                   | 31/8/2017 | 31/8/2016    |
|---|-----------|--------------|
| <b>Non-current liabilities</b>                  |           |              |
| Provisions for pensions and similar obligations | –         | 0.8          |
| Bank loans                                      | –         | 400.0        |
| <b>Total</b>                                    | <b>–</b>  | <b>400.8</b> |
| <b>Current liabilities</b>                      |           |              |
| Bank loans                                      | –         | –            |
| Group account                                   | –         | 343.9        |
| Interest rate derivatives                       | –         | 9.7          |
| <b>Total</b>                                    | <b>–</b>  | <b>353.6</b> |
| <b>Total</b>                                    | <b>–</b>  | <b>754.4</b> |

### TERMS AND CONDITIONS AND REPAYMENT PERIODS

Regarding repayment periods, please refer to Note 18 and pledged assets/terms and conditions, Note 21. The average interest to credit institutions is 0.2 (0.5) per cent

## NOTE 15 *Post-employment employee benefits*

The Group offers both defined contribution and defined benefit pension plans. In the case of the defined contribution plans, the Group's obligation is limited to fixed contributions that are paid to a separate legal entity. The Group's profits are charged as the benefits are earned. In the defined benefit plans, the Group's obligation is based on the employee's salary at the time he/she retires and the number of years of service. The Group stands the risk associated with payment of the pledged benefits. Defined benefit plans exist in Sweden and Norway.

### DEFINED BENEFIT PENSION PLANS

Defined benefit plans mainly include old-age pension and widow's pension where the employer normally has a commitment to pay a lifelong pension equivalent to a certain guaranteed percentage share of salary or a certain amount. The amount earned is based on years of employment. The employee must be signed up for the plan for a certain number of years to earn the right to full old-age pension. For each year the employee earns an increased pension right, which is recorded as pension earned during the period and increase in pension commitment.

In the balance sheet the difference between the present value of the obligations and the fair value of any plan assets is recorded as either a provision or a long-term financial asset.

Defined benefit plans are calculated according to the Projected Unit Credit Method. This method distributes the cost of pensions as the employees carry out services for the company that increase their right to future benefits. This calculation is performed annually by independent actuaries. The present value of the defined benefit obligation is determined through discounting estimated future cash flows using a market interest rate based on Swedish mortgage bonds with maturities comparable to the pension obligation in question.

### Pensions and other post-employment benefits

#### Defined benefit plans

| Group<br>SEK million                            | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
|---|-----------------------|-----------------------|
| Present value of pension obligations            | 226.3                 | 220.7                 |
| Fair value of plan assets                       | –181.3                | –173.4                |
| <b>Net obligation for defined benefit plans</b> | <b>45.0</b>           | <b>47.3</b>           |

The net amount is reported in the following items on the balance sheet:

|                         |      |      |
|-------------------------|------|------|
| Provisions for pensions | 45.0 | 47.3 |
|-------------------------|------|------|

Expected return on plan assets is based on the same percentage rate as the discount rate on the pension obligation. The assumption also reflects the distribution of assets for each respective plan and the interest income for each respective country.

Plan assets consist of the following:

| Sweden and Norway  | Sweden       |              | Norway     |            |
|--|--------------|--------------|------------|------------|
|  | 2017         | 2016         | 2017       | 2016       |
| Shares and funds listed (KappAhl AB (publ) is included at 0) | 52.4         | 50.3         | 0.6        | 0.5        |
| Shares and funds not listed                                  | –            | –            | –          | –          |
| Debt securities  | 101.4        | 100.6        | 4.6        | 4.8        |
| Property   | 21.0         | 16.8         | 0.5        | 0.7        |
| Other  | –            | –            | 0.0        | 0.0        |
| <b>Total</b>   | <b>174.8</b> | <b>167.7</b> | <b>5.7</b> | <b>5.7</b> |

Note 15 cont.

### Change in present value of the obligation

| Group<br>SEK million              | Sweden        |               | Norway        |               |
|-----------------------------------|---------------|---------------|---------------|---------------|
|                                   | 31/8/<br>2017 | 31/8/<br>2016 | 31/8/<br>2017 | 31/8/<br>2016 |
| Opening balance as at 1 September | 197.6         | 187.3         | 23.1          | 23.4          |
| Benefits earned during the period | –             | –             | 0.5           | 0.5           |
| Transfer of ITPK                  | 0.0           | –             | –             | –             |
| Pension payments                  | –5.1          | –5.3          | –2.1          | –2.3          |
| Interest                          | 4.9           | 5.3           | 0.3           | 0.4           |
| Revaluations                      | 7.6           | 10.3          | –0.5          | 1.0           |
| Translation differences           | –             | –             | 0.0           | 0.1           |
| <b>Closing balance</b>            | <b>205.0</b>  | <b>197.6</b>  | <b>21.3</b>   | <b>23.1</b>   |

Net revaluation of the obligation is SEK –7.1 million, of which Sweden –7.6 and Norway 0.5. This consists of:

- experience based adjustments of SEK 1.1 million, of which Sweden 1.1 and Norway 0.0
- effects of changed financial assumptions of SEK 0.5 million, of which Norway SEK 0.5 million and Sweden SEK 0.0 million. Change in the demographic assumptions amounts to SEK –8.7 million, of which Sweden –8.7 million and Norway SEK 0.0 million.

### Change in fair value of plan assets

| Group<br>SEK million              | Sweden       |              | Norway     |            |
|-----------------------------------|--------------|--------------|------------|------------|
|                                   | 31/8/ 2017   | 31/8/2016    | 31/8/ 2017 | 31/8/2016  |
| Opening balance as at 1 September | 167.7        | 157.9        | 5.7        | 4.8        |
| Interest income on plan assets    | 4.2          | 4.5          | 0.0        | 0.0        |
| Funds contributed                 | 0.9          | 5.3          | 0.8        | 0.9        |
| Reimbursement/pension payments    | –3.6         | –3.7         | –          | –          |
| Revaluations                      | 5.6          | 3.7          | 0.0        | 0.0        |
| Translation differences           | –            | –            | –          | 0.0        |
| <b>Closing balance</b>            | <b>174.8</b> | <b>167.7</b> | <b>6.5</b> | <b>5.7</b> |

### Cost reported in the income statement for defined benefit plans

| Group<br>SEK million                          | Sweden                   |                          | Norway                   |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
|   | 2016-09-01<br>2017-08-31 | 2015-09-01<br>2016-08-31 | 2016-09-01<br>2017-08-31 | 2015-09-01<br>2016-08-31 |
| Costs relating to service in current period   | –                        | –                        | 0.5                      | 0.4                      |
| Interest on obligation                        | 4.9                      | 5.3                      | 0.3                      | 0.4                      |
| Interest income on plan assets                | –4.2                     | –4.5                     | 0.0                      | 0.0                      |
| <b>Total net cost in the income statement</b> | <b>0.7</b>               | <b>0.8</b>               | <b>0.8</b>               | <b>0.8</b>               |

The group is expected to pay SEK 1.9 million to the defined benefit plans in the next financial year.

### The cost is reported on the following lines in the income statement:

| Group<br>SEK million                                   | Sweden                |                       | Norway                |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
| Selling expenses                                       | –                     | –                     | 0.5                   | 0.4                   |
| Financial income/expenses                              | 0.7                   | 0.8                   | 0.3                   | 0.4                   |
| <b>Total recognised in the income statement</b>        | <b>0.7</b>            | <b>0.8</b>            | <b>0.8</b>            | <b>0.8</b>            |
| <b>Amount recognised in other comprehensive income</b> |                       |                       |                       |                       |
| Revaluation of defined benefit pension plans           | 2.0                   | 6.6                   | –0.5                  | 0.9                   |
| <b>Total recognised in other comprehensive income</b>  | <b>2.0</b>            | <b>6.6</b>            | <b>–0.5</b>           | <b>0.9</b>            |

### Assumptions for defined benefit obligations

Through its defined benefit pension plans the Group is exposed to a number of risks. The most material risks are described below:

Change in bond yield – a decrease in the interest on mortgage bonds will entail an increase in plan liabilities.

Life expectancy assumptions – the pension obligations mean that employees covered by the plan will receive the benefits throughout their lives, which means that longer life expectancy assumptions will result in higher pension provisions.

The average remaining term for the pension obligation is 24 years.

The remaining life expectancy for a 65-year-old woman is estimated to be 25 years and for a man 23 years.

### Material actuarial assumptions on the balance sheet date (weighted average values):

| Sweden and Norway<br>Per cent | Sweden |      | Norway |      |
|-------------------------------|--------|------|--------|------|
|                               | 2017   | 2016 | 2017   | 2016 |
| Discount rate as at 31 August | 2.75   | 2.50 | 1.90   | 1.50 |
| Future salary increases       | n/a    | n/a  | 1.20   | 2.50 |
| Inflation                     | 1.75   | 1.50 | 2.00   | 1.90 |

### Sensitivity analysis

The following table presents possible changes in actuarial assumptions per accounting year-end, all other assumptions unchanged, and how they would affect the defined benefit obligation. The calculation of the present value of the obligation at the close of the period only includes the Swedish commitment.

### Present value of the obligation at the close of the period

| Calculation parameters<br>SEK million | Decrease of<br>0.5 per cent<br>in assumption | Present value of obligation<br>included in the Group's<br>pension provision | Increase<br>of 0.5 per cent<br>in assumptions |
|---------------------------------------|--|---|---|
| Discount rate +/-0.5%                 | 224.8  | 205.0   | 187.5   |
| Inflation +/-0.5%                     | 187.4  | 205.0   | 224.8   |
| Life expectancy +/-1 år               | 197.1  | 205.0   | 213.0   |

### DEFINED CONTRIBUTION PENSION PLANS

The plans mainly cover old-age pension, disability pension and family pension. The premiums are paid continuously during the year by each group company to various insurance companies. The size of the premiums is based on salary. The pension costs for the period are included in the income statement and amount to SEK 34.0 (36.2) million.

For white-collar employees in Sweden KappAhl applies the ITP plan through insurance in Alecta and Collectum, i.e. ITP 2 and ITP 1. According to a statement by the Swedish Financial Reporting Board, UFR 10, the ITP 2 plan is a defined benefit plan covering several employers. The plan is reported as a defined contribution plan pending the company's access to information that makes it possible to report his plan under the defined benefit plan regulations. Alecta does not have information on the earning breakdown between employers, for the majority of the earned pension benefits. In addition, there is no established regulatory framework for how any surplus or deficit that may arise should be handled. The ITP 1 plan is a defined contribution plan.

As at 30 June 2017 Alecta's surplus in the form of the collective consolidation level was 156 (125) per cent. The collective solvency level comprises the market value of Alecta's assets as a percentage of its insurance commitments calculated in accordance with Alecta's actuarial assumptions, which do not comply with IAS 19.

The year's contributions for pension insurance taken out with Alecta amount to SEK 14.5 (11.4) million. Expected charges in the next reporting period for insurance policies taken out with Alecta amount to SEK 12.5 million.

The Group's share of total savings premiums for the Alecta ITP 2 plan amounts to 0.040 (0.034) per cent. The Group's share of the total number of actively insured in the ITP 2 plan amounts to 0.067 (0.063) per cent.

For the President and other key personnel a capital insurance policy has also been taken out. The Group's pension commitments correspond to the fair value of the capital insurance policy, as well as additional payroll tax on the pension obligation. The capital insurance policy and the pension commitment are reported net on the balance sheet. The pension commitment as at 31 August 2017 was SEK 7.9 (0.8) million. Special payroll tax is reported in the item Accrued expenses and deferred income.



## NOTE 16 *Other liabilities*

| Group<br>SEK million       | 31/8/2017    | 31/8/2016    |
|----------------------------|--------------|--------------|
| <b>Current liabilities</b> |              |              |
| Value added tax            | 90.7         | 65.8         |
| Employee withholding taxes | 33.3         | 32.1         |
| Gift vouchers              | 30.9         | 33.4         |
| Currency derivatives       | 49.8         | 0.0          |
| Other                      | 9.6          | 3.5          |
| <b>Total</b>               | <b>214.3</b> | <b>134.8</b> |

### Liabilities falling due for payment more than five years after the balance sheet date

A certain portion of the gift vouchers' liability for the Swedish operating subsidiary is spread over more than five years because the gift vouchers are valid for ten years.

## NOTE 18 *Financial risks and financial policy*

In its business activities, the Group is exposed to different types of financial risk. Financial risk refers to fluctuations in the company's earnings and cash flow as a result of changes in foreign exchange rates, interest rates, refinancing and credit risks.

Management of the Group's financial risk is concentrated to a central financing department. This department applies the financial policy adopted by the Board of Directors. The Board of Directors has appointed an Audit Committee, whose responsibilities include overseeing the formulation of and compliance with the financial policy and, if necessary, proposing changes to the Board.

The Group's finance department is responsible for raising capital, liquidity management, currency exposure and interest rate risk management. The responsibility applies to both the parent company and the Group as a whole. The finance department is also responsible for financial policy issues and acts as an internal bank for the Group's subsidiaries. The overall objective of the finance department is to provide cost-effective financing and to minimise the negative effects of market fluctuation on the Group's profit.

### Capital structure

By achieving an appropriate balance between equity and loan financing, flexibility for the Group is ensured, allowing investments in the business and retaining controlled cost of capital.

The company normally has a positive cash flow, partly due to positive earnings and working capital in the operations that is relatively low. This means that the company's expansion only requires a limited increase in working capital. Moreover, the company's profile and emphasis also means that the company should be able to stay relatively stable.

The Group's objective is that interest-bearing net debt is not to exceed, other than temporarily, three times the EBITDA. The Group's financial targets have not been changed compared with the previous year. During the financial year the Group reduced its interest-bearing debt by SEK 388 million, see Note 14, mainly through positive cash flow. This means that on the balance sheet date the Group has net financial assets of SEK 168 million compared with the previous year's net interest-bearing debt of SEK 144 million. For information on the key figure interest-bearing liabilities/adjusted EBITDA, please see the multi-year and quarterly review on page 4.

### Financing risk and liquidity risk

Liquidity risk is defined as the risk of not being able to meet payment obligations due to insufficient liquidity or difficulties in obtaining financing (financing risk). At present the Group has a credit agreement with two Swedish banks for operational financing.

A three-year credit agreement was signed in February 2017 with the company's banks, which runs until February 2020. The terms and conditions of the loans are linked with a number of agreed covenants.

- Interest-bearing net liabilities/adjusted EBITDA
- Adjusted EBITDA/net financial income

## NOTE 17 *Accrued expenses and deferred income*

| SEK million  | Group        |              | Parent company |             |
|--|--------------|--------------|----------------|-------------|
|  | 31/8/2017    | 31/8/2016    | 31/8/2017      | 31/8/2016   |
| Accrued wages/salaries and social security contributions | 163.0        | 174.6        | 9.1            | 12.1        |
| Financial expenses                                       | 0.4          | 1.6          | 0.0            | 1.4         |
| Customer bonus   | 44.5         | 54.0         | –              | –           |
| Rent   | 7.2          | 8.0          | –              | –           |
| Other  | 42.1         | 81.4         | 0.6            | 0.6         |
| <b>Total</b>   | <b>257.2</b> | <b>319.6</b> | <b>9.7</b>     | <b>14.1</b> |

All covenants were met during the financial year. Shares in subsidiaries were also pledged as security for the loans.

### Interest-bearing debt and maturity structure

KappAhl has assurances of credit totalling SEK 1,000 million, of which SEK 25 (410) million had been utilised at the close of the financial year. The financial cost in the coming year is expected to be on a level with 2016/17. Interest rates are based on 3-month Stibor plus a fixed margin varying on the basis of the outcome of interest-bearing liabilities/adjusted EBITDA. The margin is determined quarterly.

### Interest rate risk

Interest rate risk may consist of changes in fair value, price risk, changes in cash flow and cash flow risk. A significant factor that can change interest rate risk is the interest rate adjustment period. Management of the Group's interest exposure is a centralised function, which means that the central finance department is responsible for identifying and managing this type of exposure.

Under the financial policy, approximately 50 per cent of the company's loans maturing more than one year in the future are subject to interest rate hedging. Derivatives, such as interest swaps, are used to manage interest rate risk. The company uses hedge accounting when there is an effective connection between secured loans and interest swaps; see also Note 1 Accounting Policies.

As at 31 August 2017, the company had interest swaps with a contractual value of SEK 0 (400) million. The net fair value of the swaps was SEK 0 (–10) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 0 (10) million, which are recorded in the item 'Current interest-bearing liabilities'.

Existing interest swaps in the previous year were not part of an effective hedging relationship.

Total financial expense, including interest swaps, amounted to about SEK 22 (10) million for the financial year, which corresponds to around 0.5 (0.2) per cent of the Group's costs. A change in the interest rate level of one percentage point would have an impact on the forecast interest expense for 2017/18 of about SEK 0.1 (5) million, all other variables being constant.

### Credit risk

#### *Credit risk associated with financial activities*

Financial risk management involves exposure to credit risk. This is mainly in the form of counterparty risk in connection with receivables from banks and other counterparties that arise when derivatives are purchased. The financial policy specifies that only internationally reputable banks may be used.

#### *Credit risk associated with trade receivables*

Since the Group is engaged essentially in cash sales to its customers, the credit risk associated with trade receivables is minimal.

Note 18 cont.

### Currency risk

The Group is exposed to various types of foreign currency risk since it has operations in several different countries and since much of the Group's purchasing is transacted in foreign currencies. Since the Group makes its purchases primarily in USD, currency exposure is also greatest in that currency. A change of 5 per cent in USD against SEK means, before and after taking into account currency hedging, an impact on purchasing costs of SEK 68 (81) million and SEK 43 (38) million respectively.

To hedge this exchange effect the Group enters into currency forwards and options referring to cash flows for purchases of goods in the coming six months. The Group's foreign exchange contracts are entered into by the subsidiary KappAhl Sverige AB. The parent company has no foreign exchange contracts. The Group also has an exposure through the surplus liquidity generated from the Norwegian and Polish companies and transferred to the Swedish company. A change of 5 per cent in NOK against SEK generates an exchange rate effect, before and after taking into account currency hedging, of SEK 33 (31) million and for PLN of SEK 6 (4) million.

### Transaction exposure

The Group has income and expenses in a number of currencies. Thus KappAhl is exposed to exchange rate fluctuations. This exchange risk is called transaction exposure and affects the Group's operating profit. The financial policy sets the parameters for managing this risk, meaning that flows up to six months can be hedged. The Group's inflows and outflows of different currencies meet in Sweden, which means that the Group's transaction exposure can most simply be illustrated through the currency flows in Sweden.

| Currency | 1/9/2016–31/8/2017 |        | 1/9/2015–31/8/2016 |        |
|----------|--------------------|--------|--------------------|--------|
|          | Outflow            | Inflow | Outflow            | Inflow |
| USD m    | 144                | –      | 170                | –      |
| EUR m    | 21                 | 27     | 25                 | 27     |
| NOK m    | –                  | 655    | –                  | 629    |
| PLN m    | –                  | 56     | –                  | 37     |

### Forward contracts

The table below shows a summary of outstanding forward exchange contracts by currency pair as at 31 August 2017. They all mature within one year.

| Currency pair<br>Sells/buys | Book and fair value |      | Nominal amount |      | Average remaining term in months. |      |
|-----------------------------|---------------------|------|----------------|------|-----------------------------------|------|
|                             | 2017                | 2016 | 2017           | 2016 | 2017                              | 2016 |
| SEK/USD                     | –27                 | 9    | 336            | 220  | 2                                 | 5    |

All changes in the value of derivatives are recognised initially via 'Other comprehensive income' in equity as a hedging reserve. Fair value is reposted via other comprehensive income from the hedging reserve to the income statement when hedged transactions take place. As at the closing date forward contracts with a positive market value amount to SEK 23 (9) million, which is reported under 'Other receivables'. Forward contracts with a negative market value amount to SEK 50 (0) million, which is reported under 'Current interest-bearing liabilities'. Of the forward contracts completed during the year, proceeds of SEK 9 (15) million were reposted from other comprehensive income to the income statement, as hedged transactions had taken place for these contracts.

### Options

The table below shows a summary of outstanding currency options by currency pair as at 31 August 2017. They all mature within one year.

| Currency pair<br>Sells/buys | Book and fair value |      | Nominal amount |      | Average remaining term in months. |      |
|-----------------------------|---------------------|------|----------------|------|-----------------------------------|------|
|                             | 2017                | 2016 | 2017           | 2016 | 2017                              | 2016 |
| SEK/USD                     | –5                  | –    | 126            | –    | 3                                 | –    |
| SEK/NOK                     | 2                   | –    | 227            | –    | –                                 | –    |
| SEK/PLN                     | 1                   | –    | 77             | –    | –                                 | –    |

The currency options are not included in the hedge accounting, which means that gains and losses on the options are recognised immediately in the income statement.

As at the closing date options with a positive market value amount to SEK 4 (–) million, which is reported under 'Other receivables'.

Options with a negative market value amount to SEK 6 (–) million, which is reported under 'Other liabilities'.

### Translation exposure

KappAhl uses Swedish kronor for its income statement and balance sheet. Parts of the Group report in currencies other than Swedish kronor, which means that KappAhl's consolidated profit/loss and equity are exposed to exchange rate fluctuations. This type of currency risk is called translation exposure and is not hedged.

### The Group's net foreign assets are distributed among the following currencies:

| Group<br>Currency | 31/8/2017              | 31/8/2016              |
|-------------------|------------------------|------------------------|
|                   | Amounts in SEK million | Amounts in SEK million |
| NOK               | 232                    | 229                    |
| EUR               | 74                     | 40                     |
| PLN               | –58                    | –60                    |
| HKD               | 11                     | 10                     |
| GBP               | 0                      | –                      |

### FAIR VALUE

The carrying amount of financial assets and liabilities in the balance sheet is in line with fair value. The table below shows the items in the balance sheet in which the financial instrument accounting policies are applied.

Classification of financial assets and liabilities in the balance sheet is shown below.

| Assets on the balance sheet, SEK million | 31/8/2017    | 31/8/2016    |
|--|--------------|--------------|
| Other long-term receivables              | –            | 0.8          |
| Trade receivables                        | 4.1          | 18.5         |
| Cash and cash equivalents                | 238.5        | 313.6        |
| Currency derivatives                     | 26.4         | 9.4          |
| <b>Total</b>                             | <b>269.0</b> | <b>342.3</b> |

| Liabilities on the balance sheet, SEK million | 31/8/2017 | 31/8/2016 |
|---|-----------|-----------|
|---|-----------|-----------|

### Other financial liabilities recorded at amortised cost

|   |       |       |
|---|-------|-------|
| Long-term interest-bearing liabilities  | 45.0  | 448.1 |
| Short-term interest-bearing liabilities | 25.3  | –     |
| Trade payables                          | 175.3 | 194.7 |

### Other financial liabilities recorded at amortised cost

|              |              |              |
|--------------|--------------|--------------|
| <b>Total</b> | <b>245.6</b> | <b>642.8</b> |
|--------------|--------------|--------------|

### Financial liabilities at fair value through profit or loss

|                           |      |     |
|---------------------------|------|-----|
| Interest rate derivatives | –    | 9.7 |
| Currency derivatives      | 55.9 | 0.1 |

### Financial liabilities at fair value through profit or loss

|              |             |            |
|--------------|-------------|------------|
| <b>Total</b> | <b>55.9</b> | <b>9.8</b> |
|--------------|-------------|------------|

|              |              |              |
|--------------|--------------|--------------|
| <b>Total</b> | <b>301.5</b> | <b>652.6</b> |
|--------------|--------------|--------------|

| <b>Parent company</b>   |              |              |
|---|--------------|--------------|
| Assets on the balance sheet                                       | 31/8/2017    | 31/8/2016    |
| Other financial receivables                                       | –            | 0.8          |
| Receivables from group companies                                  | 34.2         | 285.9        |
| Cash and cash equivalents   | 16.5         | 2.9          |
| Currency derivatives  | –            | –            |
| <b>Total</b>  | <b>50.7</b>  | <b>289.6</b> |
| <b>Liabilities on the balance sheet, SEK million</b>              |              |              |
|   | 31/8/2017    | 31/8/2016    |
| <b>Other financial liabilities recorded at amortised cost</b>     |              |              |
| Long-term interest-bearing liabilities                            | –            | 400.8        |
| Short-term interest-bearing liabilities                           | –            | 343.9        |
| Trade payables  | 0.4          | 0.3          |
| Liabilities to group companies                                    | 787.7        | 192.2        |
| <b>Other financial liabilities recorded at amortised cost</b>     | <b>788.1</b> | <b>937.2</b> |
| <b>Financial liabilities at fair value through profit or loss</b> |              |              |
| Cash flow hedging   | –            | –            |
| Interest rate derivatives   | –            | 9.7          |
| Currency derivatives  | –            | 0            |
| <b>Financial liabilities at fair value through profit or loss</b> | <b>–</b>     | <b>9.7</b>   |
| <b>Total</b>  | <b>788.1</b> | <b>946.9</b> |

#### Fair value hierarchy:

The Group holds financial instruments in the form of interest rate derivatives and currency derivatives that are recorded at fair value in the balance sheet. Fair value measurement for currency forwards is based on published forward rates on an active market. Measurement of currency options is based on observable data such as risk-free interest and volatility. Measurement of interest swaps is based on forward rates derived from observed yield curves. The derivatives are recognised at fair value based on level 2 inputs in the fair value hierarchy.

The Group uses the following hierarchy to classify instruments on the basis of the valuation technique:

1. Quoted prices (unadjusted) on active markets for identical assets or liabilities
2. Other inputs than the quoted prices included in Level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
3. Inputs for the asset or liability in question that are not based on observable market data (non-observable inputs)

| 2016/2017   | Value | Level 1 | Level 2 | Level 3 |
|---|-------|---------|---------|---------|
| <b>Assets</b>   |       |         |         |         |
| Financial assets at fair value via profit or loss:      |       |         |         |         |
| Currency forwards                                       | 23    |         | 23      |         |
| Currency options  | 4     |         | 4       |         |
| Interest swaps  | –     |         | –       |         |
| <b>Liabilities</b>                                      |       |         |         |         |
| Financial liabilities at fair value via profit or loss: |       |         |         |         |
| Currency forwards                                       | 50    |         | 50      |         |
| Currency options  | 6     |         | 6       |         |
| Interest swaps  | 50    |         | 50      |         |

No transfers have been made between levels during the financial year.

| 2015/2016   | Value | Level 1 | Level 2 | Level 3 |
|---|-------|---------|---------|---------|
| <b>Assets</b>   |       |         |         |         |
| Financial assets at fair value via profit or loss:      |       |         |         |         |
| Currency forwards                                       | 9     |         | 9       |         |
| Currency options  | –     |         | –       |         |
| Interest swaps  | –     |         | –       |         |
| <b>Liabilities</b>                                      |       |         |         |         |
| Financial liabilities at fair value via profit or loss: |       |         |         |         |
| Currency forwards                                       | –     |         | –       |         |
| Currency options  | –     |         | –       |         |
| Interest swaps  | 10    |         | 10      |         |

No transfers have been made between levels during the financial year.

#### Maturity analysis of financial liabilities

The maturity analysis below is based on undiscounted cash flows and includes interest and amortisation. In the analysis, the interest rate level on the balance sheet date has also been assumed for future interest payments.

#### Maturities of the Group's financial liabilities

| 2016/2017<br>SEK million                 | 0–3 months | 4–12 months | 1–2 years | 2–3 years | 3–4 years | More than 4 years | Total contracted cash flow |
|--|------------|-------------|-----------|-----------|-----------|-------------------|----------------------------|
| Bank loans and bank overdraft facilities | –          | 25          | –         | –         | –         | –                 | 25                         |
| Interest                                 | 1          | 4           | 5         | 5         | –         | –                 | 15                         |
| Trade payables                           | 175        | –           | –         | –         | –         | –                 | 175                        |
| Forward exchange contracts inflow        | –183       | –128        | –         | –         | –         | –                 | –311                       |
| Forward exchange contracts outflow       | 199        | 137         | –         | –         | –         | –                 | 336                        |
| <b>2015/2016<br/>SEK MILLION</b>         |            |             |           |           |           |                   |                            |
| Bank loans and bank overdraft facilities | –          | –           | 144       | –         | –         | –                 | 144                        |
| Interest                                 | 1          | 3           | 2         | –         | –         | –                 | 6                          |
| Trade payables                           | 195        | –           | –         | –         | –         | –                 | 195                        |
| Forward exchange contracts inflow        | –154       | –77         | –         | –         | –         | –                 | –231                       |
| Forward exchange contracts outflow       | 146        | 74          | –         | –         | –         | –                 | 220                        |

## NOTE 19 Operating leases

| Group<br>SEK million   | Annual cost  |              | Future lease charges and rental costs |                |              |
|------------------------|--------------|--------------|---------------------------------------|----------------|--------------|
|                        | 2016/2017    | 2015/2016    | Year 1                                | Year 2-5       | Year 5-      |
| Tenancy agreement      | 680.3        | 658.1        | 613.6                                 | 1318.1         | 295.5        |
| Vehicles and equipment | 4.2          | 2.8          | 2.4                                   | 1.8            | –            |
| <b>Total</b>           | <b>684.5</b> | <b>660.9</b> | <b>616.0</b>                          | <b>1,319.9</b> | <b>295.5</b> |

The operating profit has been charged with SEK 680 (658) million referring to costs of rented store premises. Of this, the fixed rent is SEK 653 (621) million and the turnover based rent is SEK 27 (38) million.

The Parent Company has no lease agreements.

## NOTE 20 Capital commitments

### Group

There were no material capital commitments as at 31/8 2017.

## NOTE 21 Pledged assets and contingent liabilities

| SEK million                         | Group          |                | Parent company |                |
|-------------------------------------|----------------|----------------|----------------|----------------|
|                                     | 31/8/2017      | 31/8/2016      | 31/8/2017      | 31/8/2016      |
| <b>Pledged assets</b>               |                |                |                |                |
| Floating charges                    | 218.1          | 218.4          | None           | None           |
| Shares in subsidiaries              | 2,792.1        | 2,477.0        | 2,711.2        | 3,143.3        |
| <b>Total pledged assets</b>         | <b>3,010.2</b> | <b>2,695.4</b> | <b>2,711.2</b> | <b>3,143.3</b> |
| <b>Contingent liabilities</b>       |                |                |                |                |
| Guarantee commitments, FPG/PRI      | 0.4            | 0.5            | None           | None           |
| <b>Total contingent liabilities</b> | <b>0.4</b>     | <b>0.5</b>     | <b>None</b>    | <b>None</b>    |

## NOTE 22 Related parties

The parent company has a related party relationship with the subsidiary KappAhl Sverige AB. The parent company performs services for KappAhl Sverige AB amounting to SEK 25 (23) million. There are also related party relationships with key personnel in senior positions. Information is given in Note 5 Employees and staff costs.

In August 2017 the principal owner, Mellby Gård AB offered the President and Chief Executive Officer Danny Feltmann, 100,000 options, Maria Segergren, Vice President, Range and Design 25,000 options and Camilla Wernlund, Vice President, New Business, 25,000 options in KappAhl AB with a maturity of three years. The options were acquired at a price of SEK 4.62 per option. Each option entitles the holder to purchase one share at an exercise price of SEK 54.12. The Black & Scholes method was used for valuing the options. The principal owner's purpose for the programme is to promote the company's long-term development and performance. KappAhl AB did not participate in the offer and will not incur any costs referring to the offer either.

## NOTE 23 Participations in group companies

| SEK million                                    | 31/8/2017      | 31/8/2016      |
|--|----------------|----------------|
| Opening book value                             | 3,143.3        | 3,106.2        |
| Unconditional shareholders' contributions paid | 28.9           | 37.1           |
| Impairment loss                                | -461.0         | –              |
| <b>Total</b>                                   | <b>2,711.2</b> | <b>3,143.3</b> |

As a result of a changed view of future earnings an impairment loss was recorded in Norway and Finland.

### Specification of the parent company's and the Group's holdings in Group companies

| Subsidiary / Corporate identity number / Country | Number of shares | Percentage share | 31/8/2017       | 31/8/2016       |
|--|------------------|------------------|-----------------|-----------------|
|  |                  |                  | Carrying amount | Carrying amount |
| KappAhl Sverige AB, 556060-4158, Sweden          | 60,000           | 100.0            | 1,351.6         | 1,351.6         |
| KappAhl AS, 947659138, Norway                    | 41,749           | 100.0            | 894.1           | 1,269.1         |
| KappAhl OY, 07585064, Finland                    | 200              | 100.0            | 465.5           | 522.6           |
| Indirectly owned via KappAhl OY                  |                  |                  |                 |                 |
| KappAhl Åland AB, 1737564-2, Mariehamn           | 100              | 100.0            | –               | –               |
| Indirectly owned (via KappAhl Sverige AB)        |                  |                  |                 |                 |
| KappAhl Far East Ltd, 438724, Hong Kong          | 10,000           | 100.0            | –               | –               |
| KappAhl i Mölndal AB, 556714-1444, Sweden        | 1,000            | 100.0            | –               | –               |

| Subsidiary / Corporate identity number / Country | Number of shares | Percentage share | 31/8/2017       | 31/8/2016       |
|--|------------------|------------------|-----------------|-----------------|
|  |                  |                  | Carrying amount | Carrying amount |
| KappAhl Mode Holding AB, 556545-0037, Sweden     | 186,872,155      | 100.0            | –               | –               |
| KappAhl Fashion Holding AB, 556541-5980, Sweden  | 10,000           | 100.0            | –               | –               |
| KappAhl Polska Sp.zo.o, 526-22-60-963, Poland    | 50,845           | 100.0            | –               | –               |
| KappAhl Gdansk Sp.zo.o, 525-26-34-936, Poland    | 100              | 100.0            | –               | –               |
| Dama 1 Sp. z o.o, 527-27-66-090, Poland          | 10               | 100.0            | –               | –               |
| Dama 2 Sp. z o.o, 527-27-66-109, Poland          | 10               | 100.0            | –               | –               |
| Dama 3 Sp. z o.o, 527-27-65-943, Poland          | 10               | 100.0            | –               | –               |
| Dama 4 Sp. z o.o, 527-27-65-966, Poland          | 10               | 100.0            | –               | –               |
| Dama 5 Sp. z o.o, 527-27-66-115, Poland          | 10               | 100.0            | –               | –               |
| Dama 6 Sp. z o.o, 527-27-65-972, Poland          | 10               | 100.0            | –               | –               |
| Dama 7 Sp. z o.o, 527-27-66-084, Poland          | 10               | 100.0            | –               | –               |
| Dama 8 Sp. z o.o, 527-27-66-078, Poland          | 10               | 100.0            | –               | –               |
| Dama 9 Sp. z o.o, 527-27-66-061, Poland          | 10               | 100.0            | –               | –               |
| Dama 10 Sp. z o.o, 527-27-66-055, Poland         | 10               | 100.0            | –               | –               |
| Dama 11 Sp. z o.o, 527-27-66-049, Poland         | 10               | 100.0            | –               | –               |
| Dama 12 Sp. z o.o, 527-27-65-989, Poland         | 10               | 100.0            | –               | –               |
| Dama 13 Sp. z o.o, 527-27-65-995, Poland         | 10               | 100.0            | –               | –               |
| Dama 14 Sp. z o.o, 527-27-66-003, Poland         | 10               | 100.0            | –               | –               |
| Dama 15 Sp. z o.o, 527-27-66-032, Poland         | 10               | 100.0            | –               | –               |
| Dama 16 Sp. z o.o, 526-22-60-963, Poland         | 10               | 100.0            | –               | –               |
| <b>Total</b>                                     |                  |                  | <b>2,711.2</b>  | <b>3,143.3</b>  |

No book value is stated for the companies not directly owned by the Parent Company.

## NOTE 24 Cash flow statement

The cash flow statement was prepared using the indirect method.

### Interest paid

| SEK million       | Group                 |                       | Parent company        |                       |
|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                   | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
| Interest received | 0.9                   | 1.3                   | 4.3                   | 12.4                  |
| Interest paid     | –23.8                 | –31.2                 | –9.4                  | –49.8                 |
| <b>Total</b>      | <b>22.9</b>           | <b>–29.9</b>          | <b>–5.1</b>           | <b>–37.5</b>          |

The parent company has paid a shareholder's contribution of SEK 28,9 million. These were still outstanding as at 31/8 2017.

### Adjustments for non-cash items

| SEK million   | Group                 |                       | Parent company        |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 | 1/9/2016<br>31/8/2017 | 1/9/2015<br>31/8/2016 |
| Depreciation/amortisation of non-current assets               | 130.6                 | 132.3                 | –                     | –                     |
| Impairment of investments in subsidiaries                     | –                     | –                     | 461.0                 | –                     |
| Reversal of depreciation/amortisation of non-current assets   | –                     | –1.8                  | –                     | –                     |
| Capital gains/losses on sale/retirement of non-current assets | 20.7                  | 19.9                  | –                     | –                     |
| Provisions for pensions                                       | –5.1                  | –8.1                  | –                     | 0.8                   |
| Derivatives fair value  | –9.8                  | –12.3                 | –                     | –                     |
| Change in accrued interest expense                            | –1.6                  | –21.1                 | –                     | –21.1                 |
| Dividend received   | –                     | –                     | –1.4                  | –12.8                 |
| Group contribution received                                   | –                     | –                     | –7.6                  | –25.8                 |
| Other adjustments   | –                     | –                     | –                     | –                     |
| <b>Total</b>  | <b>134.8</b>          | <b>108.9</b>          | <b>452.0</b>          | <b>–58.9</b>          |

## NOTE 25 Parent company details

KappAhl AB is a Swedish limited company with the corporate identity number 556661-2312 and its registered office in Mölndal.

The address of the head office is Box 303, SE 431 24 Mölndal.

The consolidated accounts for 2016/2017 consist of the parent company and its subsidiaries, collectively referred to as the Group.

The Board of Directors and President certify that the annual report has been prepared in accordance with generally accepted accounting principles, provides a true and fair view of the parent company's financial position and results of operations, and that the administration report provides a fair review of the development of the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company. The Board of Directors and the President also certify that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, give a true and fair view of the Group's financial position and results of operations, and that the Group administration report provides a fair review of the development of the Group's operations, financial position and results of operations and also describes material risks and uncertainties facing the Group. The financial statements were approved for publication by the parent company's Board of Directors on 31 October 2017. The income statements and balance sheets will be presented to the Annual General Meeting on 5 December 2017.

Möln dal, 2 November 2017

Anders Bülow  
*Chairman*

Kicki Olivensjö  
*Member*

Pia Rudengren  
*Member*

Göran Bille  
*Member*

Susanne Holmberg  
*Member*

Cecilia Kocken  
*Member*

Melinda Hedström  
*Employee representative*

Michael Bjerregaard Jensen  
*Employee representative*

Danny Feltmann  
*President/CEO*

Our auditor's report was issued on 2 November 2017

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi  
*Authorised public accountant*

# AUDITOR'S REPORT

To the General Meeting of Shareholders of KappAhl AB (publ),  
corporate identity number 556661-2312

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of KappAhl AB (publ) for the financial year 1 September 2016 to 31 August 2017. The company's annual accounts and consolidated accounts are included on pages 8-38 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as at 31 August 2017 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as at 31 August 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the Annual General Meeting adopt the income statement and balance sheet for the parent company and the Group.

Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the contents of the additional report submitted to the parent company's Audit Committee in accordance with Article 11 of the Regulation on Statutory Audit (537/2014).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and we have fulfilled our other ethical responsibilities in accordance with these requirements. This includes, based on our best knowledge and conviction, that no prohibited non-audit services as specified in Article 5.1 of the Regulation on Statutory Audit (537/2014) have been provided to the audited company or, where relevant, to its parent company or its controlled undertakings within the EU.

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

### Other disclosures

The audit of the annual accounts and consolidated accounts for the year 1 September 2015 to 31 August 2016 was conducted by another auditor that issued an auditor's report dated 31 October with unmodified opinions in the Report on the annual accounts and consolidated accounts.

### Our audit approach

#### *Audit focus and scope*

We designed our audit by determining materiality and assessing the risk of material misstatement in the financial statements. In particular, we considered areas where the President and Board of Directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of systematic bias that represented a risk of material misstatement due to fraud.

We tailored our audit to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, accounting processes and controls, and the industry in which the Group operates.

#### *Materiality*

The scope and focus of our audit was influenced by our application of materiality. An audit is designed to achieve reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the focus and scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts for the current period. These matters were addressed in the context of the audit of, and in forming our opinion on, the annual accounts and consolidated accounts as a whole, and we do not provide a separate opinion on these matters.

**KEY AUDIT MATTER****Valuation of intangible assets**

See Note 1 (accounting policies), Note 2 (significant accounting estimates) and Note 10 (intangible assets).

As at 31 August 2017 the value of the Group's goodwill and trademarks with an indefinite useful life was SEK 1 306 million. In accordance with IFRS the management must conduct impairment testing annually.

Impairment testing is conducted by the management to assess the risk of the carrying amount of trademarks and goodwill being greater than the recoverable amount, which corresponds to the higher of value in use and net realisable value. No impairment loss was identified at the annual impairment test conducted by the management.

Some of the assumptions and estimates made by the management concerning future cash flows and circumstances are complex and have a major impact on the calculation of the value in use. This is applies in particular to the growth rate, profit margins and discount rate. Changes in these assumptions could lead to a change in the carrying amounts of trademarks and goodwill.

**Revenue recognition**

See Note 1 (accounting policies) and Note 2 (significant accounting estimates). KappAhl recognises revenue from the sale of goods in the income statement when the significant risks and rewards associated with ownership of the goods have been transferred to the buyer.

KappAhl's revenue for the financial year is SEK 4,916 million from about 360 stores, which means that KappAhl handles large sales volumes daily. This requires reliable systems and processes. In addition revenue recognition is associated with elements of assumptions concerning the treatment of returns and offers, including the customer club "Life & Style". Reserves are recorded as accrued expense and amount to SEK 44 million.

The above means that revenue recognition is a key audit matter.

**Inventory valuation**

See Note 1 (accounting policies), Note 2 (significant accounting estimates) and Note 12 (Inventories).

The Group's inventories as at 31 August 2017 amounted to SEK 726 million. Inventories are stated at the lower of cost and net realisable value.

For optimum return from sales and profitability the right inventory levels of the right products are required. The purchasing and inventory process is thus the core of KappAhl's operations.

Miscalculations in purchasing and large inventories that bind capital imply a risk of obsolescence. To establish the size of obsolescence the management must estimate future sales of individual products.

The inherent complexity in combination with the size of the item increases the risk of material misstatement in the financial statements and makes inventory valuation a key audit matter.

**Information additional to the annual accounts and consolidated accounts**

This document contains information additional to the annual accounts and consolidated accounts, which can be found on pages 1–7 and pages 42–62. The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information in other respects appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**

In our audit we assessed the calculation model used and challenged the significant assumptions used by the management in its tests.

We assessed the reasonableness of the budget and business plan presented by the management and approved by the Board by evaluating historical outcomes against those of the approved budget.

We compared the growth in terminal value (performance after forecast period) with independent forecasts of economic growth and noted that the assumptions used lie within a reasonable interval.

We also assessed the discount rate (weighted average cost of capital ("WACC")) against comparable operations and noted that the assumptions used lie within a reasonable interval.

We also evaluated the management's assessment of how the Group's calculation models are affected by changes in assumptions and compared it with the information presented in the annual report related to impairment tests.

In our audit we did not find any material non-conformances.

In our audit we have examined and tested general IT controls such as user access allocation, access to applications and changes in production environment as well as the manual controls implemented by KappAhl in the sales process.

We have also performed data analysis regarding the completeness, existence and accrual of income.

We have taken note of and assessed the management's calculations for provision for returns and customer club obligations and compared the management's assessment with the underlying historic customer behaviour and historic sales patterns, utilisation of customer club offers and returns levels.

We have also assessed the management's assumptions by comparing accuracy in historic assessments of the size of the reserves against historic outcomes to form an opinion on the accuracy of the year's assessment.

We have checked the mathematical calculation model used for these reserves by means of recalculations.

Based on the audit procedures employed we have not identified any material non-conformances.

We have noted the calculation models used for obsolescence provision and compared them with KappAhl's adopted policy. We have also used data analysis and spot checks to check the correctness of the obsolescence history used when drawing up KappAhl's policy. In addition we have interviewed those responsible at KappAhl for the purpose of evaluating and challenging the forward-looking assumptions and estimates made.

We have recalculated the obsolescence provisions mathematically and finally also compared the historical provisions with actual costs for obsolescent goods.

Our audit has not identified any material non-conformances.

**Responsibilities of the Board of Directors and President**

The Board of Directors and President are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and President are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the President are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is, however, not applied if the Board of Directors and the President intend to liquidate the company, to cease operations or have no realistic alternative but to do so.

The Board of Directors' Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in other



respects, among other things oversee the company's financial reporting process.

#### **Auditor's responsibility**

Our objectives are to obtain reasonable assurance on whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts can be found on the website of the Supervisory Board of Public Accountants: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf).

This description is part of the auditor's report.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### **Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of KappAhl AB (publ) for the financial year 1 September 2016 to 31 August 2017 as well as the proposed appropriations of the company's profit or loss.

We recommend to the Annual General Meeting that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

##### **Basis for opinion**

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

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

##### **Responsibilities of the Board of Directors and President**

The Board of Directors is responsible for the proposed appropriations of the company's profit or loss. When proposing a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the

Parent Company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and administration of its affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs in other respects are controlled in a satisfactory manner. The President shall conduct the day-to-day management in accordance with the Board of Director's guidelines and instructions and take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a satisfactory manner.

#### **Auditor's responsibility**

Our objective concerning the audit of the administration, and thereby our opinion on discharge from liability, is to obtain audit evidence to assess with reasonable assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission that may give rise to liability to the company,
- in any other way has acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion on this, is to assess with reasonable assurance whether the proposal is in accordance with the Swedish Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Swedish Companies Act.

A further description of our responsibility for the audit of the administration can be found on the website of the Supervisory Board of Public Accountants: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

Öhrlings PricewaterhouseCoopers AB was appointed as KappAhl AB's auditor by the General Meeting of Shareholders on 6 December 2016 and has been the company's auditor since 6 December 2016.

Gothenburg, 2 November 2017

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi  
Authorised public accountant

# SUPPLEMENTARY SUSTAINABILITY REPORT

## CONTACT INFORMATION

Please contact us if you want to discuss or have questions about our sustainability work, financial information or anything else.

KappAhl AB, PO Box 303, SE 431 24 Mölndal  
Tel: +46 31 771 55 00  
[www.kappahl.com](http://www.kappahl.com)

Please contact us via the contact form at  
[www.kappahl.com/contact](http://www.kappahl.com/contact) or  
via [info\\_se@kappahl.com](mailto:info_se@kappahl.com)

# SUSTAINABILITY GOVERNANCE

*Sustainability is an integral part of KappAhl's business and the work is governed by our sustainability strategy Responsible Fashion.*

With our new sustainability strategy Responsible Fashion and its four focus areas we are now taking further steps to strengthen our sustainability work.

Part I of the annual report contains information on our Responsible Fashion Strategy and how we work on sustainability in all parts of our value chain. KappAhl's sustainability work and reporting are based on our ongoing stakeholder dialogue and annual materiality analysis. Here in Part 2 we present these as well as supplementary information on employees, non-discrimination, climate calculations and energy consumption, as well as the GRI content index.

## SUSTAINABILITY ORGANISATION

Sustainability is an important part of all employees' daily work at KappAhl. Many employees work full time on sustainability issues or have a defined area of responsibility in the field of sustainability and are part of the sustainability organisation. Each representative of the sustainability organisation is supported by, and reports

to, the sustainability manager who in turn reports to the Vice President, Purchasing and Logistics. The sustainability manager, who is head of the matrix, is supported in strategic questions by the steering group for sustainability that consists of members of the KappAhl management team.

The management team reports on sustainability to KappAhl's Board of Directors that deals with the issues at board meetings.

## STAKEHOLDER DIALOGUE

We have an ongoing stakeholder dialogue with important stakeholders, such as customers, employees, suppliers, students and interest organisations etc. Our stakeholders influence our activities while at the same time being influenced by them.

The purpose of the dialogue is to offer our stakeholders the opportunity to give their picture of which sustainability issues are most important for KappAhl and where in our value chain the impact is greatest on humans and the environment. Every year we evaluate which stakeholder groups, and which representatives of

## IMPORTANT QUESTIONS FOR THE STAKEHOLDER GROUPS

|   | Dialogue and frequency   | Important questions for the stakeholder groups   |
|---|--|--|
| Customer  | Consumer survey Sustainable Brand Index in Sweden, once per year   | <ul style="list-style-type: none"> <li>• Working conditions at the company</li> <li>• Working conditions at suppliers</li> <li>• Product quality and safety</li> <li>• Anti-corruption</li> <li>• Reduce use of chemicals</li> <li>• Waste, re-use and recycling</li> <li>• Sustainable materials</li> <li>• Textile collecting</li> </ul>   |
| Consumer  | Consumer survey Sustainable Brand Index in Sweden, once per year<br>Brand Equity survey in Sweden, Norway and Finland, once per year | <ul style="list-style-type: none"> <li>• Working conditions at suppliers</li> <li>• Reduce use of chemicals</li> <li>• Product quality</li> <li>• Sustainable materials</li> <li>• Recycling old clothes</li> <li>• Animal welfare</li> </ul>  |
| Employee  | KappAhl Attitude Survey, once per year <sup>1</sup>  | <ul style="list-style-type: none"> <li>• Promote good working conditions in the company</li> <li>• Product quality and safety</li> <li>• Responsible action by management and board</li> <li>• Energy, water and chemicals in production</li> <li>• Climate impact</li> <li>• Waste, re-use and recycling</li> </ul>   |
| Research and development, non-profit organisations, government agencies, owners, media and other stakeholders and experts in sustainability | In-depth interview or survey, once per year  | <ul style="list-style-type: none"> <li>• Anti-corruption</li> <li>• Human rights</li> <li>• Innovation and development in sustainability</li> <li>• Partnerships for sustainable development</li> <li>• Good employment terms and working conditions in the company</li> <li>• Diversity and gender equality and anti-discrimination work at the company</li> <li>• Responsible action by management and board</li> <li>• Ensure compliance with ethical business methods</li> <li>• Sustainable product development</li> <li>• Good employment terms and working conditions at suppliers</li> <li>• Environmental consideration in production</li> <li>• More sustainable production processes</li> <li>• Customer health and safety</li> <li>• Responsible marketing</li> <li>• Sustainable range</li> </ul> |

<sup>1</sup> Not included in the 2017 materiality analysis. Read more in Part 2, page 44.

those groups, can best provide us with their views. It is important for us to involve the stakeholders that influence or have an interest in our activities. The dialogue also provides an insight into their confidence in our sustainability work and what they see as our opportunities and challenges going forward.

The table on the previous page shows KappAhl’s prioritized stakeholder groups, as well as how the dialogue is conducted with them and the issues they believe are most important.

The dialogue is conducted through customer and consumer surveys, our employee survey, the KappAhl Attitude Survey, questionnaires to stakeholder organisations, researchers, investors, brand experts and the Board, as well as daily contacts with suppliers, the media, investors and analysts in the context of our ordinary activities. On our website our stakeholders also have the possibility of submitting comments and questions on an ongoing basis.

We work to strengthen the employee perspective in our stakeholder dialogue. In autumn 2017 the first employee survey was conducted in which employees were given the opportunity to rank KappAhl’s sustainability issues in order of influence. The results of the employee study will be included in the materiality analysis conducted in spring 2018.

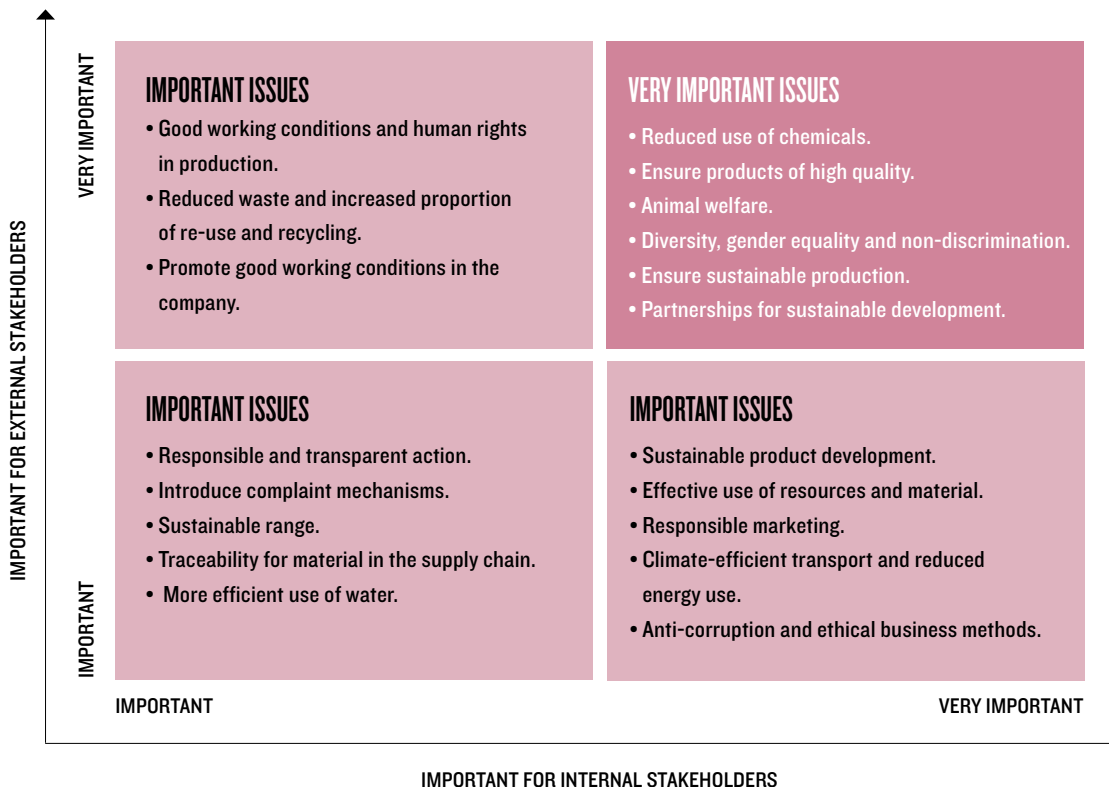
**MATERIALITY ANALYSIS**

It is important for KappAhl that our sustainability reporting reflects our stakeholders’ expectations but also our social and environmental impact in the value chain. Our ambition and hope is that the report will provide a comprehensive picture of our material sustainability issues. Based on our stakeholder dialogue we therefore adjust our materiality analysis every year to identify our most important questions. KappAhl’s work on the material issues is described in the annual report; see the GRI content index for page references on pages 46–49.

Starting with this year’s materiality analysis and the Global Reporting Initiatives new framework GRI Standards, this year we have supplemented the report with the following topics:

- Energy
- Water
- Effluents and waste
- Employment
- Occupational health and safety
- Training and education
- Non-discrimination
- Freedom of association and collective bargaining
- Forced or compulsory labour
- Local communities

**MATERIALITY MATRIX**



## KAPPAHL'S IMPACT IN THE VALUE CHAIN

|   | SUPPLIERS  | KAPPAHL  | CUSTOMERS  |
|---|--|--|--|
| KappAhl's material topics according to the materiality analysis | Suppliers of materials, production and logistics solutions and local communities in the production countries | KappAhl's operations at the head office and in the sales countries as well as production offices in Asia | Customers and local communities in KappAhl's sales countries |
| Anti-corruption   | ●  | ●  |  |
| Materials   | ●  | ●  |  |
| Energy  | ●  | ●  |  |
| Water   | ●  |  |  |
| Emissions   | ●  | ●  | ●  |
| Waste and effluents   | ●  |  | ●  |
| Supplier environmental assessment                               | ●  |  |  |
| Employment  | ●  | ●  |  |
| Occupational health and safety                                  | ●  | ●  |  |
| Training and education  | ●  | ●  |  |
| Diversity and equal opportunity                                 |  | ●  | ●  |
| Non-discrimination  | ●  | ●  |  |
| Freedom of association and collective bargaining                | ●  | ●  |  |
| Child labour  | ●  |  |  |
| Forced or compulsory labour                                     | ●  |  |  |
| Human rights assessment   | ●  |  |  |
| Local communities   | ●  |  | ●  |
| Supplier social assessment                                      | ●  |  |  |
| Customer health and safety                                      |  | ●  | ●  |
| Marketing and labelling   |  | ●  | ●  |

# GRI CONTENT INDEX

The sustainability report in this annual report has been prepared in accordance with the GRI Standards Core option. The sustainability report covers the same companies as our financial statements. Our GRI content index presented below provides an overview of our general disclosures under the GRI Guidelines and disclosures for the topics that KappAhl has decided to report on

the basis of our materiality analysis; read more on pages 44–45. The page references specify where information about the respective disclosure can be read. Further information on the GRI and a full description of guidelines and disclosures can be found at [www.global-reporting.org](http://www.global-reporting.org)

| GRI Standard                             | Disclosure  | Page reference Annual Report 2016/2017                      | Omissions  |
|--|---|---|--|
| <b>GRI 101: Foundation 2016</b>          |   |   |  |
| <b>GRI 102: General Disclosures 2016</b> |   |   |  |
| <b>ORGANIZATIONAL PROFILE</b>            |   |   |  |
|  | 102-1 Name of the organization                                      | Part 2, page 8.   |  |
|  | 102-2 Activities, brands, products, and services                    | Part 1, inside flap, pages 13, 35.                          |  |
|  | 102-3 Location of headquarters                                      | Part 2, page 8.   |  |
|  | 102-4 Location of operations  | Part 1, page 45.  |  |
|  | 102-5 Ownership and legal form                                      | Part 2, page 10.  |  |
|  | 102-6 Markets served  | Part 1, page 45.  |  |
|  | 102-7 Scale of the organization                                     | Part 1, pages 16, 21, 45.<br>Part 2, pages 12–13, 36–37, 50 |  |
|  | 102-8 Information on employees and other workers                    | Part 1, pages 16, 45.<br>Part 2, page 50.                   | Information partially omitted due to limitations in collection of employee data <sup>1</sup> . |
|  | 102-9 Supply chain  | Part 1, pages 19, 26.                                       |  |
|  | 102-10 Significant changes to the organization and its supply chain | Part 1, pages 26, 35, 39, 45.                               |  |
|  | 102-11 Precautionary principle or approach                          | Part 1, pages 13, 33.                                       |  |
|  | 102-12 External initiatives   | Part 1, page 13.  |  |
|  | 102-13 Membership of associations                                   | Part 1, pages 22, 28, 29, 32, 33, 42.                       |  |
| <b>STRATEGY</b>                          |   |   |  |
|  | 102-14 Statement from senior decision-maker                         | Part 1, pages 8–10.   |  |
| <b>ETHICS AND INTEGRITY</b>              |   |   |  |
|  | 102-16 Values, principles, standards, and norms of behavior         | Part 1, pages 16, 26–28, 30.                                |  |
| <b>GOVERNANCE</b>                        |   |   |  |
|  | 102-18 Governance structure   | Part 2, pages 43, 53–57.                                    |  |
| <b>STAKEHOLDER ENGAGEMENT</b>            |   |   |  |
|  | 102-40 List of stakeholder groups                                   | Part 2, page 43.  |  |
|  | 102-41 Collective bargaining agreements                             | Part 1, page 16.  |  |
|  | 102-42 Identifying and selecting stakeholders                       | Part 2, pages 43–44.  |  |
|  | 102-43 Approach to stakeholder engagement                           | Part 2, pages 43–44.  |  |
|  | 102-44 Key topics and concerns raised                               | Part 2, page 43.  |  |
| <b>REPORTING PRACTICE</b>                |   |   |  |
|  | 102-45 Entities included in the consolidated financial statements   | Part 2, pages 36–37, 46.                                    |  |
|  | 102-46 Defining report content and topic Boundaries                 | Part 2, page 44.  |  |
|  | 102-47 List of material topics                                      | Part 2, page 45.  |  |
|  | 102-48 Restatements of information                                  | —   |  |
|  | 102-49 Changes in reporting   | Part 2, page 44.  |  |
|  | 102-50 Reporting period   | Part 1, inside flap.  |  |
|  | 102-51 Date of most recent report                                   | Part 1, inside flap.  |  |
|  | 102-52 Reporting cycle  | Part 1, inside flap.  |  |
|  | 102-53 Contact point for questions regarding the report             | Part 2, page 42.  |  |
|  | 102-54 Claims of reporting in accordance with the GRI Standards     | Part 2, page 46.  |  |
|  | 102-55 GRI content index  | Part 2, pages 46–49.  |  |
|  | 102-56 External assurance   | Part 1, inside flap.  |  |

# MATERIAL TOPICS

| GRI Standard  | Disclosure   | Page reference Annual Report 2016/2017                | Omissions   |
|---|--|---|---|
| <b>GRI 200 Economic Standard Series</b>               |  |   |   |
| <b>ANTI-CORRUPTION</b>                                |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, page 28. Part 2, page 45.                     |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 28, 48.                                 |   |
|   | 103-3 Evaluation of the management approach                                    | Part 1, page 28.                                      |   |
| GRI 205:<br>Anti-corruption 2016                      | 205-2 Communication and training about anti-corruption policies and procedures | Part 1, page 28.                                      | Data per region and type of employment not reported due to limitations in collection of data <sup>2</sup> . |
|   | 205-3 Confirmed incidents of corruption and actions taken                      | Part 1, page 28.                                      |   |
| <b>GRI 300 Environmental Standards Series</b>         |  |   |   |
| <b>MATERIALS</b>                                      |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, pages 22, 24, 28–29. Part 2, page 45.         |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 22, 24, 48.                             |   |
|   | 103-3 Evaluation of the management approach                                    | Part 1, pages 22, 24.                                 |   |
| GRI 301:<br>Materials                                 | 301-2 Recycled input materials used  | Part 1, page 22.                                      |   |
| <b>ENERGY</b>   |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, pages 24, 28–29, 37.<br>Part 2, pages 45, 51. |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 24, 28–29, 37, 48.<br>Part 2, page 51.  |   |
|   | 103-3 Evaluation of the management approach                                    | Part 1, pages 24, 28–29, 37. Part 2, page 51.         |   |
| GRI 302:<br>Energy 2016                               | 302-1 Energy consumption within the organization                               | Part 1, page 37. Part 2, page 51.                     | No information is reported on whether the fuel is renewable due to limitations data collection.             |
| <b>WATER</b>  |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, pages 24, 28–29, 41. Part 2, page 45.         |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 24, 28–29, 48.                          |   |
|   | 103-3 Evaluation of the management approach                                    | Part 1, pages 24, 28–29.                              |   |
| <b>EMISSIONS</b>                                      |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, pages 28–29. Part 2, pages 45, 51.            |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 28–29, 48. Part 2, page 51.             |   |
|   | 103-3 Evaluation of the management approach                                    | Part 2, page 51.                                      |   |
| GRI 305:<br>Emissions 2016                            | 305-1 Direct (Scope 1) GHG emissions   | Part 2, page 51.                                      |   |
|   | 305-2 Energy indirect (Scope 2) GHG emissions                                  | Part 2, page 51.                                      |   |
|   | 305-3 Other indirect (Scope 3) GHG emissions                                   | Part 2, page 51.                                      |   |
|   | 305-5 Reduction of GHG emissions   | Part 2, page 51.                                      |   |
| <b>EFFLUENTS AND WASTE</b>                            |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, pages 24, 28–29, 37, 42.<br>Part 2, page 45.  |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 24, 28–29, 37, 42, 48.                  |   |
|   | 103-3 Evaluation of the management approach                                    | Part 1, pages 24, 28–29, 37, 42.                      |   |
| GRI 306:<br>Effluents and<br>waste 2016               | 306-2 Waste by type and disposal method  | Part 1, page 37.                                      |   |
| <b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>              |  |   |   |
| GRI 103:<br>Management Approach<br>2016               | 103-1 Explanation of the material topic and its Boundary                       | Part 1, pages 26–30, 32. Part 2, page 45.             |   |
|   | 103-2 The management approach and its components                               | Part 1, pages 26–30, 32, 48.                          |   |
|   | 103-3 Evaluation of the management approach                                    | Part 1, pages 30, 32.                                 |   |
| GRI 308: Supplier<br>Environmental<br>Assessment 2016 | 308-1 New suppliers that were screened using environmental criteria            | Part 1, page 30.                                      |   |
|   | 308-2 Negative environmental impacts in the supply chain and actions taken     | Part 1, page 26–30.                                   |   |

| GRI Standard  | Disclosure  | Page reference Annual Report 2016/2017               | Omissions  |
|---|---|--|--|
| <b>GRI 400 Social Standards Series</b>                                  |   |  |  |
| <b>EMPLOYMENT</b>   |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 15–16. Part 2, pages 45, 50.           |  |
|   | 103-2 The management approach and its components  | Part 1, pages 15–16, 48.<br>Part 2, pages 45, 50.    |  |
|   | 103-3 Evaluation of the management approach   | Part 1, pages 15–16. Part 2, pages 45, 50.           |  |
| GRI 401:<br>Employment 2016   | 401-1 New employee hires and employee turnover  | Part 1, page 16.                                     | Information partially omitted due to limitations in collection of employee data <sup>1</sup> .   |
| <b>OCCUPATIONAL HEALTH AND SAFETY</b>                                   |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 16, 26–30, 32. Part 2, page 45.        |  |
|   | 103-2 The management approach and its components  | Part 1, pages 16, 26–30, 32.                         |  |
|   | 103-3 Evaluation of the management approach   | Part 1, pages 16, 26–30, 32.                         |  |
| GRI 403:<br>Occupational Health<br>and Safety 2016                      | 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Part 1, page 16.                                     | Information partially omitted due to limitations in collection of employee data <sup>1</sup> .   |
| <b>TRAINING AND EDUCATION</b>   |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 15–16. Part 2, page 45.                |  |
|   | 103-2 The management approach and its components  | Part 1, pages 15–16, 22, 29, 48.                     |  |
|   | 103-3 Evaluation of the management approach   | Part 1, pages 15–16.                                 |  |
| GRI 404:<br>Training and Education<br>2016                              | 404-1 Average hours of training per year per employee   | Part 1, page 16.                                     |  |
| <b>DIVERSITY AND EQUAL OPPORTUNITY</b>                                  |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 15–16. Part 2, page 45.                |  |
|   | 103-2 The management approach and its components  | Part 1, pages 15–16, 38, 48.                         |  |
|   | 103-3 Evaluation of the management approach   | Part 1, pages 15–16.                                 |  |
| GRI 405:<br>Diversity and Equal<br>Opportunity 2016                     | 405-1 Diversity of governance bodies and employees  | Part 1, page 16. Part 2, pages 25, 50.               | Information partially omitted due to limitations in collection of employee data <sup>1,3</sup> . |
| <b>NON-DISCRIMINATION</b>   |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 16, 30. Part 2, pages 45, 50.          |  |
|   | 103-2 The management approach and its components  | Part 1, pages 16, 30, 48. Part 2, page 50.           |  |
|   | 103-3 Evaluation of the management approach   | Part 1, pages 16, 30. Part 2, page 50.               |  |
| GRI 406:<br>Non-discrimination<br>2016                                  | 406-1 Incidents of discrimination and corrective actions taken  | Part 1, pages 16. Part 2, page 50.                   |  |
| <b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>                 |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 16, 26–28, 30, 32.<br>Part 2, page 45. |  |
|   | 103-2 The management approach and its components  | Part 1, pages 16, 26–28, 30, 48.                     |  |
|   | 103-3 Evaluation of the management approach   | Part 1, page 30.                                     |  |
| GRI 407:<br>Freedom of Association<br>and Collective<br>Bargaining 2016 | 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk                | Part 1, pages 26–28.                                 |  |
| <b>CHILD LABOR</b>  |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 26–28, 30. Part 2, page 45.            |  |
|   | 103-2 The management approach and its components  | Part 1, pages 26–28, 30, 32, 48.                     |  |
|   | 103-3 Evaluation of the management approach   | Part 1, page 30.                                     |  |
| GRI 408:<br>Child Labor 2016  | 408-1 Operations and suppliers at significant risk for incidents of child labor   | Part 1, pages 26–28.                                 |  |
| <b>FORCED OR COMPULSORY LABOR</b>                                       |   |  |  |
| GRI 103:<br>Management Approach<br>2016                                 | 103-1 Explanation of the material topic and its Boundary  | Part 1, pages 26–28, 30. Part 2, page 45.            |  |
|   | 103-2 The management approach and its components  | Part 1, pages 26–28, 30, 32, 48.                     |  |
|   | 103-3 Evaluation of the management approach   | Part 1, page 30.                                     |  |
| GRI 409:<br>Forced or Compulsory<br>Labor 2016                          | 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor                                      | Part 1, pages 26–28.                                 |  |



| GRI Standard                                       | Disclosure   | Page reference Annual Report 2016/2017        | Omissions |
|--|--|---|-----------|
| <b>GRI 400 Social Standards Series (continued)</b> |  |   |           |
| <b>HUMAN RIGHTS ASSESSMENT</b>                     |  |   |           |
| GRI 103:<br>Management Approach<br>2016            | 103-1 Explanation of the material topic and its Boundary   | Part 1, pages 26–28, 30, 32. Part 2, page 45. |           |
|  | 103-2 The management approach and its components   | Part 1, pages 26–28, 30, 32, 48.              |           |
|  | 103-3 Evaluation of the management approach  | Part 1, pages 26–28, 30.                      |           |
| GRI 412:<br>Human Rights<br>Assessment 2016        | 412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening | Part 1, page 30.                              |           |
| <b>LOCAL COMMUNITIES</b>                           |  |   |           |
| GRI 103:<br>Management Approach<br>2016            | 103-1 Explanation of the material topic and its Boundary   | Part 1, pages 26–31, 38. Part 2, page 45.     |           |
|  | 103-2 The management approach and its components   | Part 1, pages 26–31, 38, 48.                  |           |
|  | 103-3 Evaluation of the management approach  | Part 1, page 30.                              |           |
| GRI 413:<br>Local Communities<br>2016              | 413-2 Operations with significant actual and potential negative impacts on local communities                                     | Part 1, pages 26–28, 30.                      |           |
| <b>SUPPLIER SOCIAL ASSESSMENT</b>                  |  |   |           |
| GRI 103:<br>Management Approach<br>2016            | 103-1 Explanation of the material topic and its Boundary   | Part 1, pages 26–32. Part 2, page 45.         |           |
|  | 103-2 The management approach and its components   | Part 1, pages 26–32, 48.                      |           |
|  | 103-3 Evaluation of the management approach  | Part 1, pages 30, 32.                         |           |
| GRI 414:<br>Supplier Social<br>Assessment 2016     | 414-1 New suppliers that were screened using social criteria   | Part 1, page 30.                              |           |
|  | 414-2 Negative social impacts in the supply chain and actions taken  | Part 1, pages 26–30.                          |           |
| <b>CUSTOMER HEALTH AND SAFETY</b>                  |  |   |           |
| GRI 103:<br>Management Approach<br>2016            | 103-1 Explanation of the material topic and its Boundary   | Part 1, pages 33, 43. Part 2, page 45.        |           |
|  | 103-2 The management approach and its components   | Part 1, pages 33, 43, 48.                     |           |
|  | 103-3 Evaluation of the management approach  | Part 1, page 33.                              |           |
| GRI 416:<br>Customer Health<br>and Safety 2016     | 416-1 Assessment of the health and safety impacts of product and service categories  | Part 1, page 33.                              |           |
|  | 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services                              | Part 1, page 43.                              |           |
| <b>MARKETING AND LABELING</b>                      |  |   |           |
| GRI 103:<br>Management Approach<br>2016            | 103-1 Explanation of the material topic and its Boundary   | Part 1, page 38. Part 2, page 45.             |           |
|  | 103-2 The management approach and its components   | Part 1, pages 38, 48.                         |           |
|  | 103-3 Evaluation of the management approach  | Part 1, page 38.                              |           |
| GRI 417:<br>Marketing and Labeling<br>2016         | 417-3 Incidents of non-compliance concerning marketing communications  | Part 1, page 38.                              |           |

1 We have taken measures to obtain reliable employee data in future. It is our aim to achieve this by means of implementing a new HR system, hopefully within a couple of years.

2 All KappAhl employees will receive regular training in our ethical guidelines. It is our aim to follow up the training measures per region and type of employment.

3 Minority groups are exempted since it is not appropriate to report this under Swedish law.

# IN-DEPTH SUSTAINABILITY DATA – EMPLOYEES

KappAhl is an attractive workplace with about 4,000 employees. We have employees in our four sales markets and in our production offices in Asia.

Part 1, pages 15–16 presents KappAhl as a workplace and provides information on our employees. In-depth information is presented below in accordance with the GRI Guidelines.

The tables below show the estimated maximum number of employees on a given date during the financial year and includes employees on fixed-term contracts. Data is not restated to the number of full-time equivalents. Employee data has been collected through the payroll and time reporting system.

There are some seasonal variations during the year as regards needs for employees and hours in stores. This applies mainly during Christmas trading, when there is a greater need. We also employ extra staff to cover needs during the summer holiday period.

KappAhl is not able today to obtain figures for employees in different categories, such as by employee, manager, seasonally employed, consultants etc. We are currently reviewing the possibilities of introducing new system support for HR and this will hopefully enable us to categorise, break down and follow up data in a way that conforms with the GRI requirements. The date when this will take place is not yet determined.

| Age and staff turnover    | 2016/2017 | 2015/2016 | 2014/2015 |
|---------------------------|-----------|-----------|-----------|
| Average age, Group, years | 37.9      | 37.3      | 35.8      |
| Staff turnover, Group, %  | 14.3      | 14.0      | 10.5      |

| Number of employees, by region and gender | 2016/2017 |     | 2015/2016 |     |
|---|-----------|-----|-----------|-----|
|   | Women     | Men | Women     | Men |
| Number of employees, Sweden               | 1,907     | 207 | 1,801     | 234 |
| Number of employees, Norway               | 1,002     | 15  | 1,002     | 20  |
| Number of employees, Finland              | 454       | 5   | 455       | 5   |
| Number of employees, Poland               | 256       | 13  | 361       | 20  |
| Number of employees, production offices   | 99        | 43  | 86        | 63  |
| Total for Group                           | 3,718     | 283 | 3,705     | 342 |

| Number of employees by type of contract and by gender | 2016/2017 |     | 2015/2016 |     |
|---|-----------|-----|-----------|-----|
|   | Women     | Men | Women     | Men |
| Number of employees on full-time contracts, Group     | 1,065     | 148 | 1,068     | 232 |
| Number of employees on part-time contracts, Group     | 2,654     | 135 | 2,636     | 110 |

| Percentage of employees by type of contract and region | 2016/2017 | 2015/2016 | 2014/2015 |
|--|-----------|-----------|-----------|
| Employees on full-time contracts, Group, %             | 31        | 32        | 32        |
| Employees on full-time contracts, Sweden, %            | 34        | 34        | 33        |
| Employees on part-time contracts, Sweden, %            | 66        | 66        | 67        |
| Employees on full-time contracts, Norway, %            | 17        | 17        | 18        |
| Employees on part-time contracts, Norway, %            | 83        | 83        | 82        |
| Employees on full-time contracts, Finland, %           | 20        | 21        | 20        |
| Employees on part-time contracts, Finland, %           | 80        | 79        | 80        |
| Employees on full-time contracts, Poland, %            | 79        | 77        | 77        |
| Employees on part-time contracts, Poland, %            | 21        | 23        | 23        |

## Diversity and equal opportunity

| Gender breakdown of the Board, % | 2016/2017 | 2015/2016 |
|----------------------------------|-----------|-----------|
| Women                            | 67        | 67        |
| Men                              | 33        | 33        |

| Age breakdown of the Board, % | 2016/2017 | 2015/2016 |
|-------------------------------|-----------|-----------|
| Under 30 years                | –         | –         |
| 30–50 years                   | 17        | –         |
| Over 50 years                 | 83        | 100       |

| Female managers, %          | 2016/2017 | 2015/2016 |
|-----------------------------|-----------|-----------|
| Management team             | 57        | 57        |
| Head office, Sweden         | 83        | 81        |
| Stores, Sweden              | 88        | 89        |
| Distribution centre, Sweden | 25        | 25        |
| Total, Norway               | 97        | 96        |
| Total, Finland              | 93        | 93        |
| Total, Poland               | 82        | 80        |
| Total, production offices   | 38        | 38        |

## Non-discrimination

All cases of bullying or victimisation at KappAhl are followed up by the HR person responsible and must be treated promptly and confidentially. It is important for all organisation and work planning that a good atmosphere is created, with functioning standards, so that victimisation does not arise.

Managers and supervisory staff play key roles in terms of shaping the atmosphere and the standards that are to prevail at the company. The managers concerned are to be informed and parties involved have their say before any decision to act is taken. It is important to take into account and act in accordance with the wishes of the victim.

| Reported cases according to annual employee survey   | 2016/2017 | 2015/2016 | 2014/2015 |
|--|-----------|-----------|-----------|
| Number of employees who state that they have been harassed at their workplace due to gender (sexual harassment)          | 6         | 5         | 5         |
| Number of employees who state that they have been harassed at their workplace due to ethnicity, religion or other belief | 10        | 6         | 10        |
| Number of employees who state that they have been victimised (bullied), in word or deed, due to disability               | 8         | 9         | 7         |
| Number of employees who state that they have been victimised (bullied), in word or deed, due to sexual orientation       | 0         | 2         | 0         |
| Total  | 24        | 22        | 22        |
| Number of employees who state that at their workplace some form of victimisation (bullying) exists, in word or deed      | 80        | 59        | 89        |

# IN-DEPTH SUSTAINABILITY DATA – ENVIRONMENT

## Internal energy consumption

Management of energy consumption at KappAhl is through cooperation between the operating manager and our concept department. Through a procurement procedure, energy mapping and action plans the operating manager steer important aspects such as power source and energy efficiency, while our concept department is constantly developing lighting etc to enable optimum energy consumption in stores.

In total KappAhl has purchased 24.9 GWh (26.7) GWh of power in stores and at the distribution centre and the head office during the year via its own contracts. 22.3 GWh of power, or 89.6 per cent, came from renewable sources, mainly hydropower with a guarantee of origin and 2.6 GWh power, or 10.4 per cent, from non-renewable sources such as coal. Fuel refers to diesel for KappAhl's company vehicles. The energy consumption breakdown is as follows:

| kWh         | 2016/2017  | 2015/2016  | Change, % |
|-------------|------------|------------|-----------|
| Electricity | 23,728,862 | 25,403,722 | -7        |
| Heating     | 1,215,856  | 1,353,080  | -10       |
| Fuel, MJ    | 2,717,371  | 1,977,283  | 37.4      |

Through our standardised store concept KappAhl can promote efficient energy consumption in our stores. However, there are limits to our ability to follow our total energy consumption in stores. In about 154 stores electricity is purchased via the landlord, and these stores' landlords are responsible for purchasing heating and cooling. This means we do not have access to data to enable us to report our total energy consumption in the Group, but report the energy we ourselves purchase.

## Climate calculation

KappAhl aims to reduce climate emissions per garment produced every year. The purpose is to safeguard our climate and thereby contribute to long-term sustainable development for us and society as a whole. Our sustainability strategy Responsible Fashion constitutes a central policy instrument for achieving this.

Part of the work is to survey the climate impact in our value chain and its various links. To better understand how and where emissions of greenhouse gases occur, every year we carry out a climate calculation that is intended to cover the total climate impact of operations for a full year. The 2014/2015 financial year is our base year, since it was the first year in which we calculated emissions for Scope 1, 2 and 3. Calculations and reports of emissions have been made in accordance with the Greenhouse Gas Protocol's "Corporate Accounting and Reporting Standard" and "Corporate Value Chain (Scope 3) Accounting and Reporting Standard". This can be compared with a life cycle analysis that concentrates on the climate effect over the life of a garment. A climate calculation gives a good basis for creating an action plan that will effectively reduce emissions from an operation.

Our emissions are reported broken down into three scopes (1-3), where scope 1 is the direct emissions, scope 2 the indirect emissions for producing purchased energy and scope 3 is other indirect emissions, see the definitions below. We try as far as possible to use actual measurements from our operations as reference data for the calculation. Where there is no data we use generally accepted standard values. KappAhl does not purchase carbon offsets for carbon dioxide emissions.

In the fashion industry a relatively large part of the emissions is at the supplier stage, but also when using the clothes. Consequently it is crucial to include emissions in scope 3 to gain an understanding of KappAhl's total climate impact.

The distribution of emissions through the value chain from design to consumption is as follows for 2016/2017.

|            | Total emissions (tonnes CO <sub>2</sub> e) | Percentage of total, % | Components   |
|------------|--|------------------------|--|
| Design     | 1,325                                      | 1                      | Business travel, IT material   |
| Production | 124,498                                    | 61                     | Raw materials, manufacturing   |
| Logistics  | 6,340                                      | 3                      | Transport, electricity and waste from head office and distribution centre  |
| Sales      | 23,132                                     | 11                     | Heating, electricity and waste from stores. Refrigerants, commuter travel. |
| Consumer   | 48,755                                     | 24                     | Washing, drying, ironing, travel to/from stores, waste                     |

## Reduction of emissions of greenhouse gases

In the 2016/2017 financial year we see a decrease in emissions of greenhouse gases in Scope 2 and 3. This is partly due to reduced purchases of garments, a larger proportion of sustainable material, and a reduced percentage of air freight, but mainly due to changed calculation models. The calculations for purchased material have changed in two important ways; partly through development of data sources and calculation method for material weights and partly through identification of new emission factors for the individual material types.

| Tonnes CO <sub>2</sub> e (market based) | 2016/2017 | 2015/2016 | 2014/2015 | Previously reported 2014/2015* |
|---|-----------|-----------|-----------|--------------------------------|
| Scope 1                                 | 195       | 148       | 159       | 160                            |
| Scope 2                                 | 16,990    | 23,009    | 26,138    | 26,842                         |
| Scope 3                                 | 186,867   | 276,087   | 293,570   | 412,683                        |
| Total                                   | 204,052   | 299,244   | 319,867   | 439,685                        |

\*In connection with the 2015/2016 financial year climate calculation we also recalculated climate impact for 2014/2015, since we gained access to further material in the form of figures from operations for 2014/2015 in some areas.

## DEFINITIONS

**Direct Greenhouse Gas Emissions (Scope 1):** Company cars and private cars used for business: calculation based on mileage in service. Emissions include carbon dioxide, nitrous oxide and methane. Emission factor for Swedish cars 1-3 years old.

**Energy Indirect Greenhouse Gas Emissions (Scope 2):** Electricity consumption: measured or estimated consumption in offices and stores. Emissions include carbon dioxide, nitrous oxide and methane.

**Fjärrvärme:** measured for head office and distribution centre. Emissions include carbon dioxide, nitrous oxide and methane.

**Other Indirect Greenhouse Gas Emissions (Scope 3):** Categories assessed as material for KappAhl:

**Category 1 Purchased goods and services:** cultivation or production of raw materials (apart from clothing material also hangers, packaging, bags, store fittings and IT) and manufacture. The distribution of total raw material consumption was calculated on the basis of data on distribution of garments sold and on raw materials used per garment. Emission factors are taken from the MSI/Higg index. Emissions for manufacture are estimated on the basis of a number of studies made. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 3 Fuel and energy related activities:** emissions on extracting, refining and distribution of the fuels used in company cars and private cars used for business as well as electricity and district heating production plants from which KappAhl purchases its electricity and district heating. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 4 Purchased transportation and distribution (upstream):** emissions include both emissions from the vehicle and on extraction, refining and distribution of used fuel for goods transportation purchased by KappAhl. RFI 2,7 is used for air transport. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 5 Waste generated in operations:** emissions cover waste generated at the head office, the distribution centre and stores. Emissions include carbon dioxide, nitrous oxide and methane. For the head office and distribution centre the exact amounts of waste have been reported, broken down into waste for incineration, recycling or landfill. For stores it has been assumed that packaging material sent to each store becomes waste there. Apart from this, the actual amount of hangers that become waste has been reported.

**Category 6 Business travel (excluding reporting in scope 1):** Sources of emissions included are air travel, taxi travel, hotel nights and train travel on business. Air travel and train travel are based on data from the travel agency, while taxi travel and hotel nights are estimated. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 7 Employee commuting:** Covers both staff at head office and store staff. Estimated distribution of travel is taken from studies on commuting in small towns and urban areas. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 8 Leased assets (upstream, lessee):** Refrigerant leakage from landlords' cooling system. The leakage is estimated on the basis of key figures for a number of large property companies and restated as carbon dioxide equivalents.

**Category 9 Purchased transportation and distribution (downstream):** Covers travel to and from the store for visitors to KappAhl's stores. Based on measured number of visitors and distribution of typical journeys for urban areas and small towns. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 11 Use of sold products:** covers washing, drying and ironing. The temperature at which the garment should be washed is taken into account. Emissions for energy use for these activities take into account the country to which the garment is sold. Emissions include carbon dioxide, nitrous oxide and methane.

**Category 12 End-of-life treatment of sold products:** Covers handling of end-of-life products. Emissions include carbon dioxide, nitrous oxide and methane.



# CORPORATE GOVERNANCE REPORT

KappAhl AB (publ) is a public Swedish limited company listed on NASDAQ Stockholm. Corporate governance of KappAhl is based on laws, listing agreements, guidelines and good business practices. This corporate governance report has been drawn up in accordance with the Swedish Code of Corporate Governance (“the Code”, available via [www.bolagsstyrning.se](http://www.bolagsstyrning.se)) and Chapter 6, Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2016/2017 financial year. The auditor has stated that the corporate governance report has been prepared and that disclosures under Chapter 6, Section 6, second paragraph, points 2-6 of the Annual Accounts Act (for example the most important elements of the company’s internal control and risk management systems in connection with the financial statements) are consistent with the other parts of the annual report. KappAhl’s Articles of Association and other information concerning corporate governance is available at [www.kappahl.com/ir](http://www.kappahl.com/ir).

## APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

KappAhl’s corporate governance follows the Code and is thus based on principles that follow from law, listing agreements, guidelines and good business practice. During the financial year the company has not infringed any rules applicable to the stock exchange where the company’s shares are traded or breached good practice on the stock market.

## SHARES AND SHAREHOLDERS ETC.

On 31 August 2017 the share capital of KappAhl was SEK 65,846,040 divided between 76,820,380 shares. All shares are of the same class, entitling shareholders to the same rights in terms of the company’s assets, profits and dividends. According to Euroclear’s share register KappAhl had 15,294 shareholders on 31 August 2017. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2017 was Mellby Gård AB. The ten largest shareholders as at 31 August 2017 are listed in the Administration Report on page 8.

## GENERAL MEETING OF SHAREHOLDERS

KappAhl’s highest decision-making body is the General Meeting of shareholders. Notice to attend the Annual General Meeting, as well as notice to attend the Extraordinary General Meeting, which is to deal with the amendment of the Articles of Association, will be given no earlier than six weeks and no later than four weeks before the Meeting. The Annual General Meeting is held within six months of the close of the financial year. All shareholders listed in the share register and who have issued notice of attendance in time have the right to attend and vote at the Meeting. There is no limit to the number of votes each shareholder may cast. A proxy may represent shareholders who are unable to attend.

The most recent Annual General Meeting held was the Annual General Meeting of 6 December 2016 in Mölndal. The minutes of

the Annual General Meeting can be found on KappAhl’s website. It was then resolved to re-elect Anders Bülow, Kicki Olivensjö, Pia Rudengren and Susanne Holmberg as members of the Board of Directors. Göran Bille and Cecilia Kocken were elected as new members of the Board of Directors and Anders Bülow was re-elected as the Chairman of the Board. The next Annual General Meeting will be held at 10.00 on 5 December 2017 at Idrottsvägen 14 in Mölndal. Shareholders wishing to have a matter brought before the Annual General Meeting should send a written request to KappAhl AB, Attn: Chairman of the Board of Directors, P.O. Box 303, SE 431 24 Mölndal. The request must reach the Board of Directors at least seven weeks prior to the Meeting or in good time that the item, if necessary, can be included in the notice to attend the Meeting.

## NOMINATIONS COMMITTEE

### Election of the Board of Directors

The Annual General Meeting set out instructions and a formal work plan for the Nominations Committee. Under the instructions four ordinary members are to be appointed by the four largest shareholders in the company. The Chairman of the Board of Directors will then contact the four largest shareholders and be co-opted to the committee. The composition of the Nominations Committee for the Annual General Meeting on 5 December 2017 was published on the company’s website before 5 June 2017. Rune Andersson (appointed by Mellby Gård AB), Marianne Nilsson (appointed by Swedbank Robur Fonder AB), Elisabet Jamal Bergström (appointed by Handelsbanken Fonder AB) and Caroline Sjösten (appointed by Skandia Liv) sit on the Nominations Committee. Anders Bülow, Chairman of the Board, has been co-opted to the Nominations Committee. The Nominations Committee represented, on 30 September 2017, just over 36 per cent of the shareholders’ votes.

The Nominations Committee held its inaugural meeting on 15 August 2017, at which time Rune Andersson was elected as the Committee chairman. The Committee will present its proposals at the latest in connection with the notice to attend the Annual General Meeting. Shareholders who wish to submit proposals to the Nominations Committee are referred to our website.

In the event of a material change in ownership among the largest shareholders taking place earlier than seven weeks prior to the Annual General Meeting, and one shareholder having become one of the four largest shareholders after this material change in ownership, the Nominations Committee shall contact the shareholder and offer this shareholder a place on the Nominations Committee, either by resolving that this shareholder shall replace the smallest shareholder after the change or by resolving to increase the Nominations Committee to include one more member. After resolution in accordance with the previous sentence the incoming member shall participate and the member appointed by the smallest shareholder shall not participate.

The Nominations Committee assesses, in light of the Group’s needs, what skills and qualities the members of the Board of

Directors should possess. The aim is to create a suitable composition of the Board of Directors and for its joint skills and experience to provide a broad base to that is well-suited in relation to the phase and market situation faced by KappAhl. The Committee also keeps itself up-to-date with general developments in issues of fees and remuneration in Swedish listed companies. In the 2016/2017 financial year the Chairman of the Board, Anders Bülow, commissioned an individual assessment of the work of the Board and its committees. The result has been presented to the Nominations Committee.

The Nominations Committee has made the assessment that no members of the current Board, apart from Anders Bülow, are dependent in relation to the company or its major shareholders. At the latest before the Annual General Meeting on 5 December 2017 the Nominations Committee will make its proposals for the chairman of the Meeting, number of Board members, Chairman of the Board, auditor, other AGM elected board members and instructions for next year's Nominations Committee. The Nominations Committee will also submit its proposals on fees and remuneration. No separate remuneration has been paid by the company to the members of the Nominations Committee for its work.

#### Election of auditor

At the 2016 Annual General Meeting PwC (Öhrlings Pricewaterhouse Coopers AB) was elected as auditor, with authorised public accountant Eva Carlsvi as auditor in charge, for the period up to the next Annual General Meeting. PwC has reported its findings from the audit to the Audit Committee and the Board of Directors. Within the framework of the audit assignments mentioned, the annual accounts, the accounting records and the administration of the Chief Executive Officer were examined. In addition to the

auditing assignment, which is remunerated in accordance with normal standard charges and the principle of a fixed account, during the financial year PwC supplied services to the company for around SEK 0.5 million, of which most relates to additional accountancy issues and tax consultations.

## BOARD OF DIRECTORS

### General

The Board of Directors is responsible for the company's administration of its affairs and organisation. The Articles of Association stipulate that the Board of Directors shall consist of a minimum of four and a maximum of nine members. Six ordinary members were elected to the Board of Directors at the Annual General Meeting in December 2016. The Board of Directors also includes employee representatives; currently two members and one deputy. Up to 29 September 2017 Marie Matthiessen was one of two trade-union appointed deputies but subsequently resigned. Jonas Frii, member of the Swedish Bar Association, was secretary to the Board of Directors. There are no special provisions in the articles of association concerning the appointment or removal of members of the Board. During the 2016/2017 financial year the Board of Directors held thirteen meetings, on of which was a strategy meeting. All meetings were minuted. Members' attendance at the respective meetings appears in the table below.

The President, the Chief Financial Officer and in some cases other members of the management made presentations at the Board meetings. Remuneration and benefits to the Board of Directors of KappAhl are presented in Note 5 on page 25. Board members' shareholdings in KappAhl are presented on page 58. Information on the Board Members' other elected positions can be found on page 58. More information is available at: [www.kappahl.com/ir](http://www.kappahl.com/ir).

|                            | Boardmeeting<br>No. 2016:05<br>2 sep 2016 | Boardmeeting<br>No. 2016:06<br>27 sep 2016 | Boardmeeting<br>No. 2016:07<br>12 oct 2016 | Boardmeeting<br>No. 2016:08<br>31 oct 2016 | Inaugural<br>Boardmeeting<br>No. 2016:09<br>6 dec 2016 | Boardmeeting<br>No. 2016:10<br>20 dec 2016 | Boardmeeting<br>No. 2017:01<br>12 jan 2017 | Boardmeeting<br>No. 2017:02<br>7 feb 2017 | Boardmeeting<br>No. 2017:03<br>5 apr 2017 | Boardmeeting<br>No. 2017:04<br>4-5 maj 2017 | Boardmeeting<br>No. 2017:05<br>28 jun 2017 | Boardmeeting<br>No. 2017:06<br>28 jul 2017 | Boardmeeting<br>No. 2017:07<br>31 aug 2017 |
|----------------------------|---|--|--|--|--|--|--|---|---|---|--|--|--|
| Anders Bülow               | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Pia Rudengren              | Yes                                       | Yes  | Yes  | No   | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Susanne Holmberg           | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Kicki Olivensjö            | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Göran Bille                | *   | *  | *  | *  | Yes  | Yes  | Yes  | Yes                                       | Partial                                   | Yes   | Yes  | Yes  | Yes  |
| Cecilia Kocken             | *   | *  | *  | *  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Christian W. Jansson**     | Yes                                       | Yes  | Yes  | Yes  | -  | -  | -  | -   | -   | -   | -  | -  | -  |
| Melinda Hedström           | No  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Michael Bjerregaard Jensen | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | No   | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Jonas Frii                 | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Marie-Louise Jansson Bring | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Marie Matthiessen          | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | No   | No   | No   |
| Danny Feltmann Espersen    | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |
| Anders Düring              | Yes                                       | Yes  | Yes  | Yes  | Yes  | Yes  | Yes  | Yes                                       | Yes                                       | Yes   | Yes  | Yes  | Yes  |

\* Göran Bille and Cecilia Kocken were elected to the Board at the Annual General Meeting held on 6 December 2016.

\*\* Christian W. Jansson was a member of the Board in the 2015/2016 financial year up to and including the Annual General Meeting of 6 December 2016.

### Work of the Board of Directors

Between each Annual General Meeting the Board of Directors shall hold in principle four to six ordinary meetings. These meetings should normally take place in person at the head office in Mölndal. Extra meetings may also be arranged in the form of telephone conferences. The Chairman leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The Chairman in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings for information, discussion or decision. Decisions are made after discussion and after all members present have had an opportunity to express their views. The broad experience of members in various areas often leads to an open and constructive discussion. Open questions are followed up continually. The Board of Directors has not divided responsibilities among members other than as provided by the Board's and the Committees' rules of procedure. These rules of procedure were established at the inaugural board meeting on 6 December 2016 and are revised annually. They stipulate the division of assignments between Chairman, Board members and committees. The rules of procedure stipulate for example which items of business are obligatory at each ordinary meeting. At each ordinary meeting, reports are presented from the Audit Committee, Remuneration Committee and Offer Committee, as well as from from senior management and decisions are made on establishments and investments. Among the more important business dealt with by the Board dur-

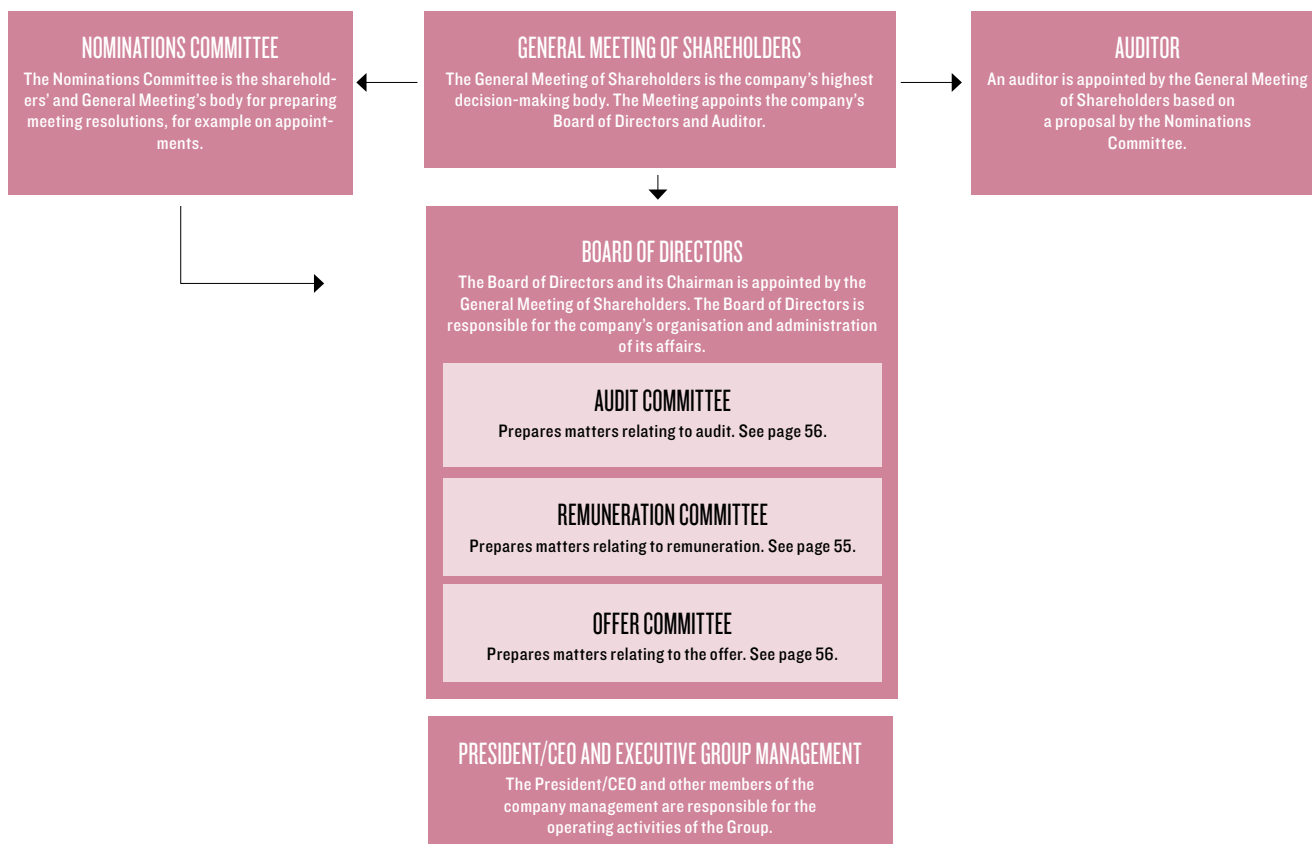
ing the year were discussions on offer, range and market conditions. In addition, the President issues a monthly report to the Board, describing operations and the market situation. The purpose is to keep the Board of Directors informed about the development of the company's business so that the Board of Directors can follow the development and make well-informed decisions. Once a year the Board of Directors evaluates the work of the President and other management. No senior executives are present at this evaluation. The Board of Directors assures the quality of financial reporting through its own work, through the preparatory work of the Audit Committee and through contacts with the auditor. On the instructions of the Board of Directors the Audit Committee also met with the auditor without the presence of management in connection with the reporting of the audit findings.

### Members of the Board of Directors

KappAhl's Board of Directors comprises eight members, including the Chairman, employee representatives and one deputy. The presentation of the Board members on page 59 includes a list of their other assignments and relevant shareholdings. More information is available at: [www.kappahl.com/ir](http://www.kappahl.com/ir).

### Diversity work

KappAhl's nominations are based on the diversity requirements of the Code. Five of eight board members and one deputy are women. 93 per cent of the Group's employees are women.





## REMUNERATION COMMITTEE

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 5 December 2017 the Committee consists of Susanne Holmberg (chair), Anders Bülow and Göran Bille. The Remuneration Committee prepares questions about the remuneration and other terms and conditions of employment for senior executives and about bonus outcome for management and any share-based bonus programmes in the company. During the financial 2016/2017 financial year the Committee has held three meetings in which all members participated and all were minuted, for reviewing among other things bonus outcomes and terms and conditions of employment. The Board's secretary is also the secretary of the Audit Committee. The Committee works according to written rules of procedure stipulated by the Board of Directors. The Committee does not have the authority to make decisions, other than as part of the remuneration policy adopted by the Annual General Meeting on 6 December 2016 for senior executives. The adopted policy means, among other things, that senior executives must be offered a fixed salary that is market-related and based on responsibility and performance. Salaries shall be set per calendar year, and senior executives may, from time to time, be offered a bonus. For the President the bonus may be a maximum of 50 per cent of fixed salary and for other senior executives the bonus may be a maximum of 33 per cent of fixed salary. Any bonuses shall primarily be based on the operating profits of the KappAhl Group. Senior executives and the company must both observe a period of six months' notice of termination. The remuneration policy is reviewed annually and is presented to the Annual General Meeting for approval.

## AUDIT COMMITTEE

At its inaugural meeting the Board of Directors shall also appoint the Audit Committee. Until the Annual General Meeting on 5 December 2017 the Committee consists of Pia Rudengren (chair), Anders Bülow and Göran Bille. In the opinion of the Board of Directors, which is shared by the Nominations Committee, Ria Rudengren, Göran Bille and Anders Bülow are independent in relation to the company and its senior executives, Pia Rudengren and Göran Bille are independent in relation to major shareholders, and the members meet the necessary qualification requirements in accounting and auditing. The Audit Committee must, without affecting the Board of Director's responsibilities and tasks in other respects, monitor the financial reporting by the company and the effectiveness of the company's internal controls with regard to financial reporting. The Committee has, in conjunction with the submission of the audit report, met with the auditors without the CEO or other senior executive being present. In 2016/2017 committee work included preparing issues concerning interim reports, inventory valuation, foreign currency issues and internal financial control. During the 2016/2017 financial year the Committee held five meetings in which all members participated and all were minuted. The Board's secretary is also the secretary of the Audit Committee. The Committee works according to written rules of

procedure stipulated by the Board of Directors and does not have the authority to make its own decisions. The Committee minutes are distributed to the Board of Directors and reporting is at each Board meeting.

## OFFER COMMITTEE

The main duty of the Offer Committee is to prepare questions concerning KappAhl's offer to the market. During the 2016/2017 financial year the Offer Committee consisted of the board members Susanne Holmberg (chair), Cecilia Kocken and Kikki Olivensjö. The President, Vice President, Marketing and Vice President, Range and Design were co-opted to the Committee. During the 2016/2017 financial year the Committee held four meetings, all of which were minuted. The Committee does not have the authority to make its own decisions. The members of the Committee who are not employed by KappAhl receive a consultant fee of SEK 1,500 per hour excluding value added tax. The fee amounts to about SEK 36,000 for the 2016/2017 financial year.

## MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on page 60 and on KappAhl's website.

## REPORT ON INTERNAL CONTROLS

Responsibility for internal control is regulated in the Swedish Companies Act and the Swedish Code of Corporate Governance.

## CONTROL ENVIRONMENT

The control environment is the foundation of internal control. KappAhl's control environment includes organisational structure, instructions, policies, guidelines, reporting and defined areas of responsibility. The Board of Directors has the overall responsibility for internal control in relation to financial reporting and ensuring effective reporting to the Board of Directors. The Board of Directors has adopted written rules of procedure that clarify the responsibility of the Board of Directors and regulates the Board and its committees' internal division of duties. The Board of Directors has appointed an Audit Committee whose main task is to monitor the company's financial reporting and effectiveness of the company's internal control and risk management. The Board of Directors has also drawn up instructions for the President and for financial reporting to the Board of KappAhl.

The Group's Chief Financial Officer reports the results of his or her work on internal control to the Audit Committee. The result of the Audit Committee's work in the form of observations, recommendations and proposed decisions and measures are reported regularly to the Board.

## INTERNAL CONTROL RELATING TO FINANCIAL REPORTING

Internal control relating to financial reporting is part of total internal control in KappAhl, whose process proceeds from the business model. Internal control relating to financial reporting aims at providing reasonable assurance concerning the reliability



of the external financial reporting in the form of interim reports, annual reports and year-end bulletins and that the external financial reporting is prepared in accordance with law, applicable accounting standards and other requirements of listed companies.

#### **RISK ASSESSMENT**

KappAhl's risk assessment relating to financial reporting aims to identify and evaluate the most significant risks that affect internal control referring to financial reporting in the Group's companies, business areas and processes. The most significant risks identified in the Group's work on internal control relating to financial reporting are managed through internal control structures that are essentially based on exception reporting from established objectives or norms, for example for hedging or inventory valuation.

#### **INFORMATION AND COMMUNICATION**

Internal information and communication is about creating awareness among the Group's employees about external and internal

policy instruments, including authorisation and responsibility. Information on internal policy instruments for financial reporting is available to all employees concerned. Important tools for this are KappAhl's intranet and training.

#### **ACTIVITIES 2016/2017**

During the 2016/17 financial year the Board of Directors devoted a lot of time to discussing changes in the industry, establishments, range, offer and IT.

#### **INTERNAL AUDIT**

To date, KappAhl has not considered it necessary to establish a specific internal audit function but the matter is under continual consideration and discussion. The assessment has been so far that the existing control environment is sufficient to achieve the same purpose as a separate internal audit function.

Möln dal, 2 November October 2017

Anders Bülow

Pia Rudengren

Susanne Holmberg

Kicki Olivensjö

Göran Bille

Cecilia Kocken

Melinda Hedström

Michael Bjerregaard Jensen

## **STATEMENT BY THE AUDITOR ON THE CORPORATE GOVERNANCE REPORT**

To the General Meeting of Shareholders of KappAhl AB (publ), corporate identity number 556661-2312

#### **ASSIGNMENT AND DIVISION OF RESPONSIBILITIES**

The Board of Directors is responsible for the corporate governance report for the financial year 1 September 2016 to 31 August 2017 on pages 53–57 and for its preparation in accordance with the Annual Accounts Act.

#### **FOCUS AND SCOPE OF THE REVIEW**

Our examination was conducted in accordance with FAR's statement RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

We believe that the examination has provided us with sufficient basis for our opinions.

#### **OPINION**

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, second paragraph, points 2–6 of the Swedish Annual Accounts Act and Chapter 7, Section 31, second paragraph of the same Act are consistent with the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg, 2 November 2017

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Authorised public accountant



# BOARD OF DIRECTORS

## 1. ANDERS BÜLOW

Born 1953. Anders Bülow has been Chairman of the Board of KappAhl since 2012. Member of the board of MellbyGård AB as well as chairman of the board and member of the board of companies wholly or partly owned by MellbyGård. Member of the board of AcadeMedia AB. Anders Bülow has a BSc in business administration from Stockholm University.  
Shareholding: 35,000 shares via a company.

## 2. SUSANNE HOLMBERG

Born 1961. Susanne Holmberg has been a member of the board of KappAhl since 2014. Member of the board of Linum AB. Susanne is head of sales and marketing at Aleris Sjukvård AB and previously head of a business area in Coop Sverige AB and formerly business area manager in Coop Sweden AB. She has also worked for Axstores AB, among other things as purchasing director and business area manager. Susanne Holmberg also has experience of directorships in Ähléns AB, Kicks Kosmetikkedjan AB, Lagerhaus AB and Designtorget AB. Susanne Holmberg holds an M.Sc. in Business Administration from the University of Uppsala.  
Shareholding: 0 shares

## 3. PIA RUDENGREN

Born 1965. Pia Rudengren has been a member of the board of KappAhl since 2013. She is also member of the board and chair of Social Initiative AB and member of the board of Duni AB, Boliden AB and Tikkurila Oyj. Pia Rudengren has previously been a member of the board of Swedbank AB and has held senior positions in Investor AB and W Capital Management AB, among others. Pia Rudengren has a M.Sc. in Business Administration from the Stockholm School of Economics.  
Shareholding: 4 000 shares

## 4. KICKI OLIVENSJÖ

Born 1958. Kicki Olivensjö has been a member of the board of KappAhl since 2015. She is head of range and purchasing for the Venue Retail Group. Kicki Olivensjö previously worked as business area manager and design and purchasing manager at Ähléns, design and purchasing manager at Lindex and design and production manager at Peak Performance. Kicki Olivensjö has also worked at H&M in various positions in Sweden and Hong Kong.  
Shareholding: 0 shares

## 5. GÖRAN BILLE

Born 1955. Göran Bille has been a member of the board of KappAhl since December 2016. Göran was previously CEO and Group CEO of Gina Tricot and Lindex, as well as earlier a member of the senior management of H&M. Göran is a member of the board of Gunnebo and a Graduate in Economics and Business Administration.  
Shareholding: 6,000 shares

## 6. CECILIA KOCKEN

Born 1979. Cecilia Kocken has been a member of the board of KappAhl since December 2016. Cecilia is Senior Brand and Category Director and a member of the Swedish management group at Arlafoods, Sweden. She previously worked as Marketing Director and has held several other leading positions at Procter & Gamble in the Nordic countries and globally. Cecilia is a Graduate in Economics and Business Administration.  
Shareholding: 0 shares

## 7. MICHAEL BJERREGAARD JENSEN

Born 1954. Michael Bjerregaard Jensen has been a member of the Board of KappAhl and employee representative since 2013. He works as a store manager at KappAhl. Michael Bjerregaard Jensen has participated in a training programme for board members held by Nasdaq Stockholm.  
Shareholding: 0 shares

## 8. MELINDA HEDSTRÖM

Born 1966. Melinda Hedström has been a member and employee representative on the board of KappAhl since 2011. She works as a sales representative at KappAhl. Melinda Hedström has participated in a training programme for board members held by Nasdaq Stockholm.  
Shareholding: 0 shares

## 9. MARIE-LOUISE JANSSON BRING

Born 1957. Marie-Louise Jansson Bring has been a deputy board member and employee representative on the board of KappAhl since 2014. She works as a store manager at KappAhl. Marie-Louise Jansson Bring has participated in a training programme for board members held by Nasdaq Stockholm.  
Shareholding: 5,000 shares

# MANAGEMENT

## 1. DANNY FELTMANN

Born 1968. President and Chief Executive Officer since December 2015. Acting Vice President, Customer Experience. Danny holds a B.Sc. in Economics & Business Administration and an M.Sc. in Finance & Accounting from Århus University.  
Shareholding: 10,400 shares



## 2. MARIA SEGERGREN

Born 1972. Vice President, Assortment and Design. Employed since September 2016. Maria has a degree in textile economics from Borås University.  
Shareholding: 0 shares

## 3. KAJSA RÄFTEGÅRD

Born 1965. Vice President, Human Resources and Corporate Communications. Employed since 1995. Kajsa has a B.Sc. in Social Work from the University of Gothenburg.  
Shareholding: 45,000 shares



## 4. MARI SVENSSON

Born 1963. Vice President, Purchasing and Logistics. Employed since 2000. Mari holds an M.Sc. in Business Administration from the School of Business, Economics and Law at the University of Gothenburg.  
Shareholding: 20,795 shares

## 5. CAMILLA WERNLUND

Born 1971. Vice President, New Business. Employed since 2011. Camilla has a degree in economics and marketing.  
Shareholding: 0 shares



## 6. ANDERS DÜRING

Born 1965. Chief Financial Officer. Employed since 2013. Anders has a Master's degree from the School of Economics and Commercial Law at Gothenburg University.  
Shareholding: 5,000 shares

# NOTICE TO ATTEND THE ANNUAL GENERAL MEETING

The Annual General Meeting of KappAhl AB (publ) will be held on Tuesday, 5 December 2017 at 10.00 at KappAhl's head office in Mölndal, Idrottsvägen 14.

## RIGHT TO PARTICIPATE

Shareholders wishing to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden AB no later than Wednesday, 29 November 2017, and have given notice of their attendance and that of any advisers by the same date, preferably before 12.00, via email to [stamma@kappahl.com](mailto:stamma@kappahl.com). Notification of participation can also be given by telephone on +46 31 771 55 00 or by post to KappAhl AB, Annual General Meeting, P O Box 303, SE 431 24 Mölndal, Sweden.

The notification must state the name, address, telephone number, corporate or personal identity number and registered shareholding.

Any powers of attorney must be in writing and be submitted no later than, but preferably before, the Annual General Meeting. A natural person representing a legal person shall also submit a certified copy of the certificate of registration. The period of validity of the power of attorney may be a maximum of five years from its date of issue. KappAhl will provide a form for a power of attorney on request and the form is also available from KappAhl's website [www.kappahl.com/ir](http://www.kappahl.com/ir).

Shareholders whose shares are registered in the name of a nominee through a bank's trust department or a private

securities dealer must temporarily register the shares in their own name to be entitled to participate in the Meeting. This temporary registration of ownership must have been completed by Wednesday 29 November 2017. This means that the shareholder must notify the nominee of this well in advance of that date.

A complete notice to attend the Annual General Meeting will be published separately and in accordance with the provisions of the Articles of Association.

# FINANCIAL CALENDAR

|                                    |                  |
|------------------------------------|------------------|
| Annual General Meeting             | 5 December 2017  |
| First quarter (September–November) | 20 December 2017 |
| Second quarter (December–February) | 23 March 2018    |
| Third quarter (March–May)          | 27 June 2018     |
| Fourth quarter (June–August)       | 11 October 2018  |

An updated financial calendar is published regularly at [www.kappahl.com/ir](http://www.kappahl.com/ir)

KappAhl's annual report part I in Swedish and English will be sent to shareholders and other stakeholders who so request. An order can be made via [www.kappahl.com/ir](http://www.kappahl.com/ir). Part 2 of KappAhl's Annual Report is available for download from the same place on the website.

# MORE ABOUT KAPPAHL

Do you want to read more about our operations in the financial year? See part I of the annual report. You can find it at [www.kappahl.com/ir](http://www.kappahl.com/ir)

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Please contact us via the contact form at  
[www.kappahl.com/contact](http://www.kappahl.com/contact) or  
via [info\\_se@kappahl.com](mailto:info_se@kappahl.com)

# KappAhl

