

KAPPAHL 2018

Our clear ambition is to achieve increased profitability by being our customer's first choice, regardless of channel.

KappAhl



KappAhl, founded in 1953 in Gothenburg, is one of the leading Nordic fashion chains with a total of 369 KappAhl and Newbie stores in Sweden, Norway, Finland, Poland and the United Kingdom, as well as Shop Online.

Our mission is to offer value-for-money fashion of our own design with wide appeal. Today 57% of our products are sustainability labelled.

In 2017/2018 net sales were SEK 4.8 billion and the number of employees was more than 4,000 in ten countries. KappAhl has been listed on Nasdaq Stockholm since 2006.

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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 2017) to 31 August 2018 the value of the KappAhl share decreased by 22.6 per cent.

This can be compared with the Nasdaq Stockholm All-Share index that increased in value by 10.5 per cent and Nasdaq Stockholm General Retailers that decreased by 35.5 per cent in the same period. The highest price paid was SEK 65.50 on 9 November 2017 and the lowest price paid was SEK 22.8 on 13 April 2018. At the close of the financial year KappAhl's market value was SEK 2,676 million and the P/E ratio estimated on profit for the year was 11.9.

In the period 1 September 2017 to 31 August 2018 a total of 77,738,938 KappAhl shares were traded to the value of SEK 2,967.3 million, based on the average price of SEK 38.2. This means that each share was traded 1.01 times over the year, corresponding to an average of 308,488 shares traded per day.

OWNERSHIP STRUCTURE

On 31 August 2018 KappAhl had 18,668 shareholders. The largest shareholder was Mellby Gård AB (Rune Anderson) with a holding of 29.6 per cent and Fidelity Funds – Nordic Fund with 6.7 per cent, followed by Swedbank Robur Fonder with 6.7 per cent.

Of the shareholders, 2.9 per cent own more than 5,000 shares. Shareholdings registered with companies and institutions amounted to 86.3 per cent.

DIVIDEND

The Board of Directors proposes a dividend of SEK 2.00 (2.00) per share for the 2017/2018 financial year.

STOCK MARKET INFORMATION

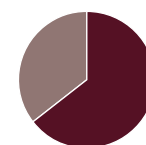
KappAhl's information to the stock market and shareholders is to be characterised by correctness, relevance, transparency and speed.

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

SIZE CATEGORY BREAKDOWN

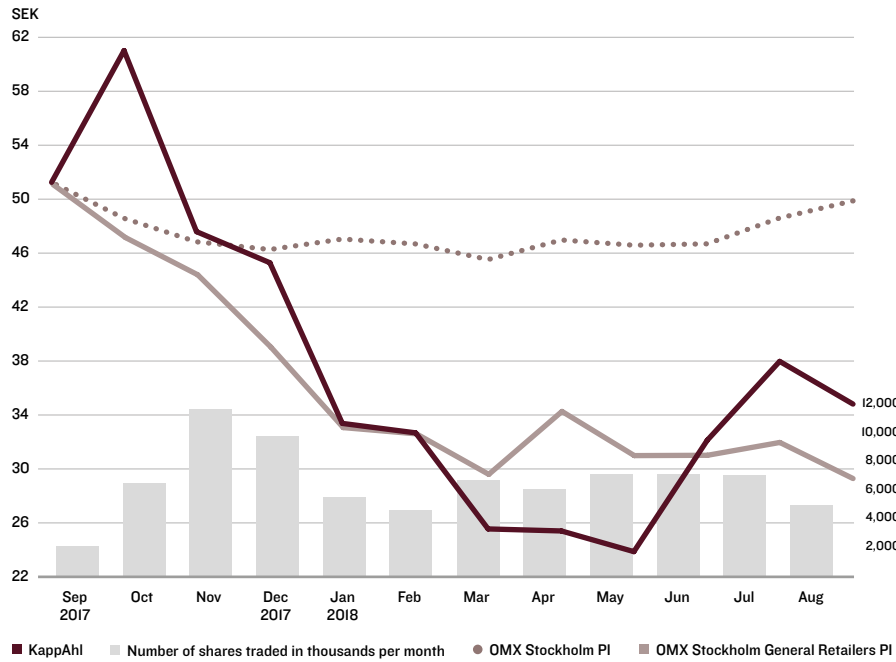
Holding as at 31 August 2018 (SEK thousand)	Number of shareholders	Number of shares	Shareholding (%)	Votes (%)
1–500	14,814	1,715,982	2.23	2.23
501–1,000	1,654	1,403,268	1.83	1.83
1,001–5,000	1,647	3,768,973	4.91	4.91
5,001–10,000	212	1,588,892	2.07	2.07
10,001–15,000	62	764,471	1.00	1.00
15,001–20,000	40	729,938	0.95	0.95
20,001–	239	66,848,856	87.02	87.02
Total	18,668	76,820,380	100.00	100.00

OWNERSHIP STRUCTURE, GEOGRAPHICAL DISTRIBUTION

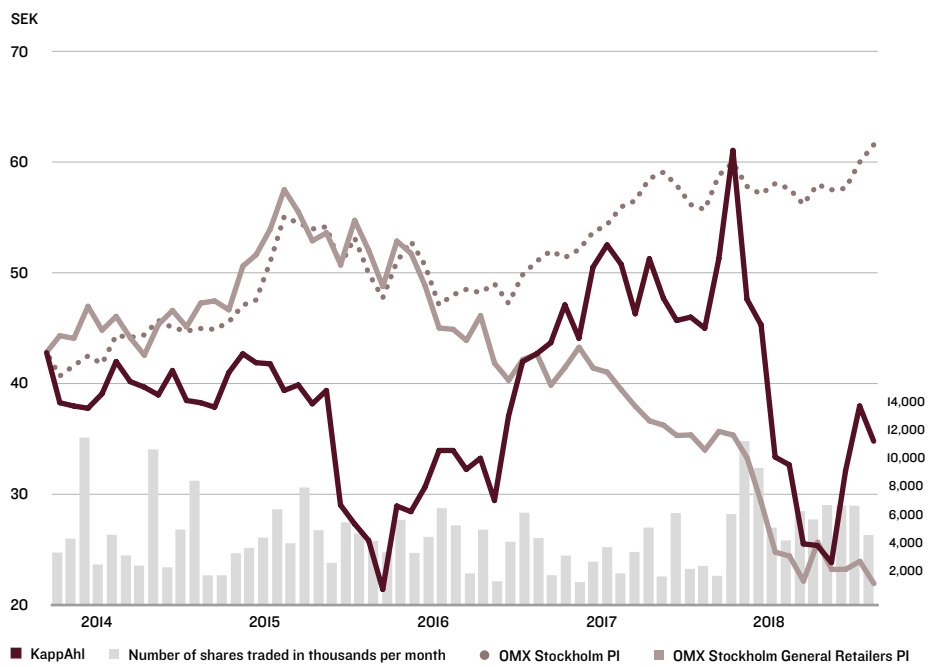


■ Swedish ownership 64.5%
■ Foreign ownership 35.5%

KAPPAHL SHARE PERFORMANCE 2017/2018



KAPPAHL SHARE PERFORMANCE, 1 SEPTEMBER 2013–31 AUGUST 2018



MULTI-YEAR AND QUARTERLY REVIEW

THE GROUP'S KEY FIGURES

	September–August 2017/2018	September–August 2016/2017	September–August 2015/2016	September–August 2014/2015	September–August 2013/2014
Net sales, SEK million	4,760.0	4,916.2	4,723.6	4,588.2	4,742.9
Sales growth, %	-3.2	4.1	3.0	-3.3	-0.2
Operating profit (EBIT), SEK million	282.1	448.6	349.3	197.8	272.1
Adjusted operating profit (EBIT), SEK million	282.1	448.6	349.3	207.5	295.1
Operating profit (EBITDA), SEK million	433.1	579.2	479.8	333.4	400.6
Adjusted operating profit (EBITDA), SEK million	433.1	579.2	479.8	342.8	423.6
Total depreciation/amortisation, SEK million	151.0	130.6	130.5	135.3	128.5
Gross margin %	61.8	62.2	61.8	60.1	60.8
Operating margin, %	5.9	9.1	7.4	4.3	5.7
Adjusted operating margin, %	5.9	9.1	7.4	4.5	6.2
Interest coverage ratio (multiple)	36.1	20.2	35.1	9.0	4.0
Net interest-bearing liabilities (+) Net financial assets (-) SEK million	373.4	-168.2	144.2	282.3	460.0
Net interest-bearing liabilities/Adjusted EBITDA (multiple)	0.9	-0.3	0.3	0.8	1.1
Equity-assets ratio, %	57.6	67.4	58.1	56.6	56.1
Equity per share, SEK	21.43	26.58	23.50	21.36	20.12
Equity per share after dilution, SEK	21.43	26.58	23.50	21.30	19.99
Cash flow from operating activities per share, SEK	3.83	7.46	3.94	4.75	4.60
Market price, SEK	34.8	45.0	42.7	25.90	38.30
Market value, SEK million	2,676.4	3,456.9	3,280.2	1,989.6	2,874.0
P/E ratio (multiple)	11.9	9.5	13.4	17.9	22.3
Dividend yield, %	5.7	4.4	2.9	2.9	2.0
Market price/equity per share, %	62	169	182	82	188
Earnings per share, SEK	2.92	4.73	3.19	1.45	1.71
Dividend per share, SEK (proposed 2017/2018)	2.00	2.00	1.25	0.75	0.75
Weighted average number of shares	76,820,380	76,820,380	76,820,380	76,296,003	75,040,000
Number of shares at close of period	76,820,380	76,820,380	76,820,380	76,820,380	75,040,000
Number of shares after dilution	76,820,380	76,820,380	76,820,380	76,296,003	75,522,814

CONSOLIDATED INCOME STATEMENT (SEK MILLION)

	September–August 2017/2018	September–August 2016/2017	September–August 2015/2016	September–August 2014/2015	September–August 2013/2014
Net sales	4,760.0	4,916.2	4,723.6	4,588.2	4,742.9
Cost of goods sold	-1,818.4	-1,860.0	-1,806.4	-1,831.9	-1,856.6
Gross profit	2,941.6	3,056.2	2,917.2	2,756.3	2,886.4
Selling expenses	-2,431.9	-2,402.6	-2,356.0	-2,384.8	-2,468.9
Administrative expenses	-227.7	-205.0	-211.9	-173.7	-145.4
Other operating income	-	0.0	-	-	-
Operating profit	282.1	448.6	349.3	197.8	272.1
Adjusted operating profit	282.1	448.6	349.3	207.5	295.1
Financial income	8.0	0.9	1.2	0.7	0.4
Financial expenses	-8.0	-22.3	-10.1	-21.8	-68.1
Profit/loss before tax	282.1	427.2	340.5	176.7	204.4
Taxes	-57.6	-63.5	-95.6	-65.3	-75.1
Profit/loss for the year	224.5	363.7	244.9	111.4	129.3

QUARTERLY INCOME STATEMENTS FOR THE GROUP (SEK MILLION)

	Q4 17/18	Q3 17/18	Q2 17/18	Q1 17/18	Q4 16/17	Q3 16/17	Q2 16/17	Q1 16/17	Q4 15/16	Q3 15/16	Q2 15/16	Q1 15/16
Net sales	1,239	1,242	1,115	1,166	1,248	1,217	1,189	1,261	1,248	1,195	1,116	1,165
Cost of goods sold	-506	-441	-460	-413	-491	-442	-489	-437	-524	-420	-462	-401
Gross profit	733	801	655	753	757	775	700	824	724	775	654	764
Selling expenses	-606	-625	-594	-607	-568	-606	-602	-626	-574	-614	-570	-597
Administrative expenses	-61	-55	-56	-56	-50	-50	-51	-54	-51	-58	-53	-50
Other operating income	-	-	-	-	-	-	-	-	-	-	-	-
Other operating expenses	-	-	0	0	-	-	-	-	-	-	-	-
Operating profit	66	121	5	90	139	119	47	144	99	103	31	117
Adjusted operating profit	66	121	5	90	139	119	47	144	99	103	31	117
Financial income	2	2	2	2	0	0	4	4	1	0	0	0
Financial expenses	-3	-2	-2	-1	-15	-9	0	-5	-5	0	-2	-2
Profit/loss before tax	65	121	5	91	124	110	51	143	95	103	29	115
Taxes	-16	-27	0	-14	17	-29	-17	-36	-36	-14	-15	-32
Profit for the period	49	94	5	77	141	81	34	107	59	89	14	83

	Q4 14/15	Q3 14/15	Q2 14/15	Q1 14/15	Q4 13/14	Q3 13/14	Q2 13/14	Q1 13/14	Q4 12/13	Q3 12/13	Q2 12/13	Q1 12/13
Net sales	1,149	1,132	1,133	1,174	1,185	1,201	1,114	1,243	1,148	1,210	1,148	1,245
Cost of goods sold	-490	-433	-478	-431	-482	-448	-471	-456	-494	-470	-516	-457
Gross profit	659	699	655	743	703	753	643	787	654	740	632	788
Selling expenses	-563	-612	-604	-606	-598	-617	-603	-651	-575	-627	-636	-650
Administrative expenses	-44	-45	-42	-42	-36	-35	-37	-37	-36	-49	-31	-34
Other operating income	-	-	-	-	-	-	-	-	-	-	-1	77
Other operating expenses	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit	52	42	9	95	69	101	3	99	43	64	-36	181
Adjusted operating profit	62	42	9	95	92	101	3	99	57	76	-36	105
Financial income	1	0	0	0	0	0	0	0	0	0	0	0
Financial expenses	-6	-5	-3	-8	-10	-38	-8	-12	-7	-21	-17	-43
Profit/loss before tax	47	37	6	87	59	63	-5	87	36	43	-53	138
Taxes	-17	-14	-9	-26	-27	-21	-2	-25	-29	-11	-11	-23
Profit for the period	30	23	-3	61	32	42	-7	62	7	32	-64	115

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
Margins		
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
Return		
Dividend yield, %	Dividend / share price	Dividend yield shows the size of the dividend in relation to the share price
Capital structure		
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
Data per share		
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 / 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
Other definitions		
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	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)	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 depreciation, 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 depreciation, amortisation and impairment adjusted by items affecting comparability	This key ratio 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



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 2017 to 31 August 2018.

BUSINESS OPERATIONS

The Group operates in retail sales of clothes and accessories for women, men and children through its own network of 369 stores and eCommerce in five 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 Poland and the United Kingdom and a purchasing company in Hong Kong. The Group also has production offices in China, Turkey, Bangladesh, India and Myanmar.

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

At KappAhl more than 4,000 employees work at about 400 workplaces in ten countries. More information is available in part 1 on page 5 and page 26.

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 in both stores and via eCommerce. During the financial year, 15 new stores were opened: three in Sweden, two in Finland, two in Norway, two in Poland and six in the United Kingdom. Five stores in Sweden were closed in the same period.

The total number of stores was 369 (356) at the close of the financial year. Of these, 177 were in Sweden, 99 in Norway, 62 in Finland, 25 in Poland and 6 in the United Kingdom.

NUMBER OF STORES PER COUNTRY

	31/8/ 2018	31/8/ 2017	31/8/ 2016	31/8/ 2015	31/8/ 2014	31/8/ 2013	31/8/ 2012	31/8/ 2011	31/8/ 2010
Sweden	177	179	174	167	166	165	165	159	153
Norway	99	96	100	100	101	103	103	99	95
Finland	62	59	59	61	63	65	62	59	56
Poland	25	22	35	40	47	52	53	47	40
United Kingdom	6	–	–	–	–	–	–	–	–
Czech Republic	–	–	–	–	–	5	5	5	1
Total	369	356	368	368	377	390	388	369	345

BUSINESS DURING THE YEAR

Net sales and gross profit

KappAhl's net sales for the financial year were SEK 4,760 (4,916) million, corresponding to a decrease of 3.2 per cent compared with the previous financial year. This is explained by the effect of new and closed stores, –2.0 per cent; change in comparable stores, –2.0 per cent and currency translation differences, 0.8 per cent.

Gross profit was SEK 2,942 (3,056) million, corresponding to a decrease of –3.7 per cent. The gross margin was 61.8 (62.2) per cent.

Operating profit

The Group's operating profit for the financial year was SEK 282 (449) million, a decrease of 37.2 per cent. The operating profit corresponds to an operating margin of 5.9 (9.1) per cent. Selling and administrative expenses amounted to SEK 2,660 (2,607) million, meaning that the costs are slightly higher than in the previous year.

Profit/loss before tax

Profit before tax was SEK 282 (427) million, which is a deterioration compared with the previous year of SEK 145 million. Net financial income amounted to SEK 0 (–21) million, which is an improvement compared with the previous year of SEK 21 million.

Taxes

Effective tax reported for the financial year was 20.4 (14.9) per cent. During the year the tax rate in Norway was reduced by 1 per cent, from 24 per cent to 23 per cent. A decision was also made to gradually reduce the tax rate in Sweden from 22 per cent to 20.6 per cent. The reason for the low effective tax percentage last year is that previously unmeasured loss carry-forwards on losses in Finland were capitalised.

FINANCIAL POSITION AND CASH FLOW

The Group continues to have a strong financial position with an equity/assets ratio of 57.6 (67.4) per cent. Net interest-bearing liabilities amounted to SEK 373 million at the close of the financial year, compared with net financial assets of SEK 168 million as at 31 August 2017. The net interest-bearing liabilities/Adjusted EBITDA ratio was 0.9 (–0.3) at the close of the period. Cash and cash equivalents as at 31 August 2018 amounted to SEK 36 (239) million. At the period close there were unutilised credit facilities of about SEK 647 (975) 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 296 (529) million. The deterioration is mainly a result of a poorer operating profit. Cash flow from changes in working capital was SEK –2 (44) million and has mainly been impacted by increased inventories and a decrease in operating receivables.

Investments of SEK 172 (177) million were made during the period, mainly in existing and newly opened stores and IT related investments.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The purpose of the Group's financial policy is to monitor and limit business and financial risks. 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 in USD with 0–6 months' forward planning is through futures 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

In autumn 2017 Newbie Store expanded to a new market; the United Kingdom, and at the close of the financial year there were six stores in the UK.

The Annual General Meeting on 5 December 2017 resolved to adopt an automatic redemption procedure. In connection with the completion of the redemption procedure in February 2018 the number of shares and votes in KappAhl resumed previous levels. See further information on page 18.

In June 2018 Danny Feltmann resigned as President and CEO. During the ongoing recruitment process the Board has appointed Göran Bille as Acting President and CEO.

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 overall assessment is that external factors offer continued opportunity for KappAhl to develop its business.

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 eCommerce, in the sale of clothes to women, men and children. There is also competition related to store locations and rental terms.

KappAhl is focusing on clarifying concepts and market position by stringently defining the company's primary target groups in combination with developing clear fashion expressions and messages adapted to the respective target group.

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

Just over 92 per cent of KappAhl's products are bought from Asia and the rest are 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 may mean that purchasing routines must be changed. It is impossible to predict if any of the countries in which clothes and accessories are manufactured will be subject to further trade restrictions and, if so, what the effects will be. A differentiated purchasing strategy in which KappAhl purchases its products from more countries in Asia as well as from countries in Europe reduces the risk for KappAhl.

Development of the store network

KappAhl continually develops the store network. This is done through both upgrades, changes in store areas, establishment of new stores and discontinuation of stores that do not meet the company's targets, which requires considerable investments 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 brands 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 the operations' 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 system.

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 2018 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 31/8/2018 the ten largest shareholders of KappAhl AB (publ) were as follows:

	Number of shares	Percentage of shares and votes
Mellby Gård AB	22,721,692	29.58
Fidelity Funds – Nordic Fund	5,172,538	6.73
Swedbank Robur fonder	5,122,454	6.67
SEB Investment Management	2,440,884	3.18
Handelsbanken fonder	1,795,346	2.34
CBNY-DFA-INT SML CAP V	1,715,445	2.23
State Street Bank	1,186,246	1.54
Försäkringsaktiebolaget, Avanza Pension	989,561	1.29
Nordea Investment Funds	980,466	1.28
Nordea Livförsäkring Sverige AB	829,350	1.08
Other shareholders	33,866,398	44.1
Total	76,820,380	100.00

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 26 (30) million and refer for the most part to inter-company invoicing of services. There were no external sales. Net financial income was SEK 59 (–408) million. The previous year was impacted by impairment loss on investments in subsidiaries. The pre-tax profit was SEK 47 (–415) million. Regarding the number of employees, wages, salaries, 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 5 December 2017. The Board of Directors proposes that the 2018 Annual General Meeting adopts guidelines that are by and large unchanged in comparison with 2017 and are worded as follows:

Basic salary

Wages 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 and Chief Financial Officer 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. 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 normally observe a period of six months' notice of termination. In the event of notice of termination from the employer, the current acting President is entitled to retain full salary for one month.

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.

KappAhl has decided to prepare the statutory sustainability report for the Parent Company and Group in accordance with the Annual Accounts Act (Chapter 6, Section 11) as separate from the Annual Report. The sustainability report covers all subsidiaries and can be found in Part 1 on pages 16–17, 25–27, 29–30, 33, 35–41, 44, 47 and 49–50 as well as in Part 2 on pages 46–47.

More information can be found at 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 1,084,852,921
The Board of Directors proposes the following dividend to shareholders SEK 2.00 per share	SEK –153,640,760
To be carried forward	SEK 931,212,161

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.

After implementation of the proposed appropriation of profits the unrestricted and total equity in the Parent Company will amount to SEK 931,212,161 and SEK 1,202,154,161 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	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Net sales	3, 4	4,760.0	4,916.2
Cost of goods sold	7	-1,818.4	-1,860.0
Gross profit		2,941.6	3,056.2
Selling expenses	7	-2,431.9	-2,402.6
Administrative expenses	7	-227.7	-205.0
Operating profit	5, 6	282.1	448.6
Financial income	8	8.0	0.9
Financial expenses	8	-8.0	-22.3
Net Financial income		0.0	-21.4
Profit/loss before tax		282.1	427.2
Taxes	9	-57.6	-63.5
Profit/loss for the year		224.5	363.7
Earnings per share			
before dilution (SEK)		2.92	4.73
after dilution (SEK)		2.92	4.73
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	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Profit/loss for the year		224.5	363.7
Items not to be recognised in net profit for the year			
Actuarial gains/losses		-17.9	-1.5
Tax referring to actuarial gains/losses	9	3.9	0.3
Total items not to be recognised in net profit for the year		-14.0	-1.2
Items that have been reposted or may be reposted to net profit for the year			
Year's translation differences		14.2	-0.9
Cash flow hedges – value changes	18	15.1	-26.9
Cash flow hedges recognised in income		26.9	-9.4
Tax attributable to items in other comprehensive income	9	-9.2	8.0
Total items that have been reposted or may be reposted to net profit for the year		47.0	-29.2
Total comprehensive income attributable to parent company's shareholders		257.5	333.3

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	31/8/2018	31/8/2017
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	10	695.8	695.8
Trade marks and other intangible assets	10	709.5	673.4
Property, plant and equipment	11	424.3	436.4
Deferred tax assets	9	60.4	57.3
Other long-term receivables	18	–	–
Total non-current assets		1,890.0	1,862.9
Current assets			
Inventories	12	763.8	725.8
Trade receivables	18	0.9	4.1
Current tax assets		0.4	0.2
Prepaid expenses and accrued income	13	118.8	111.8
Other receivables	18	49.8	84.5
Cash and cash equivalents	18	36.3	238.5
Total current assets		970.0	1,164.9
Total assets		2,860.0	3,027.9
EQUITY AND LIABILITIES			
Equity			
Share capital		65.8	65.8
Other contributed capital		1,160.9	1,160.9
Reserves		11.5	-21.2
Retained earnings including profit for the year		408.4	836.6
Total equity		1,646.6	2,042.1
Liabilities			
Non-current liabilities			
Provisions for pensions and similar obligations	14, 15	56.5	45.0
Deferred tax liabilities	9	151.4	147.6
Total non-current liabilities		207.9	192.6
Current liabilities			
Interest-bearing liabilities	14, 18, 21	353.1	25.3
Trade payables		177.7	175.3
Current tax liabilities		36.1	121.1
Other liabilities	16, 18	160.6	214.3
Accrued expenses and deferred income	17	278.0	257.2
Total current liabilities		1,005.5	793.2
Total liabilities		1,213.4	985.8
Total equity and liabilities		2,860.0	3,027.9

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					Retained earnings including profit for the year	Total equity
	Share capital	Other contributed funds	Hedging reserve ¹⁾	Currency translation reserve ²⁾			
Opening equity, 1/9/2016	65.8	1,160.9	7.0	-21.0	592.1	1,804.8	
Profit/loss for the year	-	-	-	-	363.7	363.7	
Other comprehensive income							
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	
Total comprehensive income	-	-	-28.3	-0.9	362.5	333.3	
Transactions with shareholders							
Dividend	-	-	-	-	-96.0	-96.0	
Total transactions with shareholders	-	-	-	-	-96.0	-96.0	
Closing equity, 31/8/2017	65.8	1,160.9	-21.3	-21.9	858.6	2,042.1	

Amounts in SEK million	Equity attributable to the parent company's shareholders					Retained earnings including profit for the year	Total equity
	Share capital	Other contributed funds	Hedging reserve ¹⁾	Currency translation reserve ²⁾			
Opening equity, 1/9/2017	65.8	1,160.9	-21.3	-21.9	858.6	2,042.1	
Profit/loss for the year	-	-	-	-	224.5	224.5	
Other comprehensive income							
Cash flow hedges – value changes	-	-	15.1	-	-	15.1	
Cash flow hedges recognised in income	-	-	26.9	-	-	26.9	
Year's translation differences	-	-	-	14.2	-	14.2	
Revaluation of defined benefit pension plans	-	-	-	-	-17.9	-17.9	
Tax effect attributable to items in other comprehensive income	-	-	-9.2	-	3.9	-5.3	
Total comprehensive income	-	-	32.8	14.2	-14.0	33.0	
Transactions with shareholders							
Redemption of shares	-	-	-	-	-499.4	-499.4	
Dividend	-	-	-	-	-153.6	-153.6	
Total transactions with shareholders	-	-	-	-	-653.0	-633.0	
Closing equity, 31/8/2018	65.8	1,160.9	11.5	-7.7	416.1	1,646.6	

1) 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.

2) 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	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Operating activities			
Operating profit		282.1	448.6
Adjustment for non-cash items	24	168.7	136.3
Interest paid/received		-7.0	-22.9
Income tax paid		-147.4	-33.0
Cash flow from operating activities before changes in working capital		296.4	529.0
Cash flow from changes in working capital			
Decrease (+)/Increase (-) in inventories		-37.9	94.6
Decrease (+)/Increase (-) in operating receivables		22.6	0.4
Decrease (-)/Increase in (+) in operating liabilities		13.0	-50.7
Cash flow from operating activities		294.1	573.3
Investing activities			
Acquisition of property, plant and equipment		-118.6	-144.6
Acquisitions of intangible fixed assets		-53.0	-32.6
Investments in non-current financial assets		-	-
Cash flow from investing activities		-171.6	-177.2
Financing activities			
Dividend		-153.6	-96.0
Redemption of shares		-499.4	-
Amortisation of debt		-	-400.0
Loans raised		200.0	-
Decrease (-)/Increase (+) in bank overdraft facilities		127.8	25.3
Cash flow from financing activities		-325.2	-470.7
Cash flow for the year			
Cash and cash equivalents at beginning of the year		238.5	313.6
Exchange rate differences in cash and cash equivalents		0.5	-0.5
Cash and cash equivalents at close of the year		36.3	238.5

PARENT COMPANY INCOME STATEMENT

Amounts in SEK million	Note	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Net sales		25.8	29.7
Cost of goods sold		–	–
Gross profit		25.8	29.7
Other operating expenses		–37.9	–36.9
Operating profit	5, 6	–12.0	–7.2
<i>Profit from financial items:</i>			
Dividends from subsidiaries	8	50.2	49.4
Impairment of investments in subsidiaries	8	–	–461.0
Group contribution received	8	21.8	7.6
Other interest income and similar profit/loss items	8	16.7	4.3
Interest expense and similar profit/loss items	8	–29.3	–8.0
Net Financial income		59.4	–407.7
Appropriations		–	–
Profit/loss before tax		47.2	–414.9
Taxes	9	0.7	0.6
Profit/loss for the year		47.9	–414.3

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK million	Note	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Profit/loss for the year		47.9	–414.3
Other comprehensive income		–	–
Total other comprehensive income		47.9	–414.3

PARENT COMPANY BALANCE SHEET

Amounts in SEK million	Note	31/8/2018	31/8/2017
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	23	2,711.2	2,711.2
Deferred tax assets		1.5	0.8
Other long-term receivables	18	–	–
Total financial assets		2,712.7	2,712.0
Total non-current assets		2,712.7	2,712.0
Current assets			
Current receivables			
Receivables from group companies	18	14.3	34.2
Current tax asset		–	–
Prepaid expenses and accrued income	13	1.8	1.9
Other interest-bearing receivables		0.7	0.5
Cash and bank balances	18	15.6	16.5
Total current assets		32.4	53.1
Total assets		2,745.1	2,765.1
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (76,820,380 shares at SEK 0.86)		65.8	65.8
Statutory reserve		205.1	205.1
Total restricted equity		270.9	270.9
Non-restricted equity			
Share premium reserve		959.5	959.5
Retained earnings		77.5	1,144.8
Profit/loss for the year		47.9	–414.3
Total non-restricted equity		1,084.9	1,690.0
Total equity		1,355.8	1,960.9
Provisions			
Provisions for pensions	14	–	–
Non-current liabilities			
Other interest-bearing liabilities	14, 21	–	–
Total non-current liabilities		–	–
Current liabilities			
Other interest-bearing liabilities	14, 18, 21	644.4	–
Trade payables		0.3	0.4
Liabilities to group companies		726.3	787.7
Income tax liability		1.1	1.3
Other liabilities		3.3	5.1
Accrued expenses and deferred income	17	13.9	9.7
Total current liabilities		1,389.3	804.2
Total equity and liabilities		2,475.1	2,765.1

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

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

Amounts in SEK million	Share capital	Statutory reserve	Share premium reserve ¹⁾	Retained earnings	Total equity
Opening equity, 1/9/2017	65.8	205.1	959.5	730.5	1,960.9
Profit/loss for the year	–	–	–	47.9	47.9
Other comprehensive income					
Cash flow hedges – value changes	–	–	–	–	–
Cash flow hedges recognised in income	–	–	–	–	–
Tax attributable to cash flow hedges	–	–	–	–	–
Total comprehensive income	–	–	–	47.9	47.9
Transactions with shareholders					
Redemption of shares	–	–	–	–499.4	–499.4
Dividend	–	–	–	–153.6	–153.6
Total transactions with shareholders	–	–	–	–653.0	–653.0
Closing equity, 31/8/2018	65.8	205.1	959.5	125.4	1,355.8

1) 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
1/1/2005	10,000,000	10,000,000
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
Split 2:1, January 2018	76,820,380	–
Redemption 1:2 February 2018	–76,820,380	–
Closing amounts, 2018-08-31	76,820,380	65,846,040

PARENT COMPANY CASH FLOW STATEMENT

Amounts in SEK million	Note	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Operating activities			
Profit/loss before tax		47.2	-414.9
Adjustment for non-cash items	24	-21.8	452.0
Income tax paid		-0.2	1.1
Cash flow from operating activities before changes in working capital		25.2	38.2
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		41.6	258.0
Increase (+)/Decrease (-) in operating liabilities		-59.2	557.3
Cash flow from operating activities		7.6	853.5
Investing activities			
Investments in non-current financial assets		-	-
Cash flow from investing activities		-	-
Financing activities			
Redemption of shares		-499.4	-
Dividend		-153.6	-96.0
Amortisation of debt		-	-400.0
Loans raised		200.0	-
Decrease (-)/Increase (+) in bank overdraft facilities		444.5	-343.9
Cash flow from financing activities		-8.5	-839.9
Cash flow for the year		-0.9	13.6
Cash and cash equivalents at beginning of the year		16.5	2.9
Cash and cash equivalents at close of the year		15.6	16.5

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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, 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 in its operations 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 2017/2018

No new accounting policies applicable from 1 January 2017 have had a material impact on the Group's financial statements.

NEW ACCOUNTING POLICIES 2018/2019 ONWARDS

At the time of preparation of the consolidated accounts as at 31 August 2018 several accounting standards and interpretations had been published but not yet come into force.

IFRS 9 "Financial instruments" is a new framework for reporting financial instruments and must be applied in financial years starting on or after 1 January 2018. The company management assesses that application of IFRS 9 will impact the Group's financial statements, mainly with regard to requirements for disclosures in notes.

IFRS 15 "Revenue from contracts with customers" is a new framework to report revenue from external customers and must be applied to financial years starting on or after 1 January 2018. The company management assesses that the standard will not entail any material difference for the Group.

IFRS 16 "Leases". On 1 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 a few 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. 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 lease 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 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.

cont. Note 1

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.

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 finance 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 5 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 previous 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 management 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 investments 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 recognised 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.

NOTE 2 *Important accounting estimates*

IMPORTANT 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 2018 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 trademark, 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 important 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 SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Sweden	2,687.9	2,760.5
Norway	1,249.0	1,333.1
Finland	564.1	584.0
Poland	242.9	238.6
United Kingdom	16.1	–
Total	4,760.0	4,916.2

Non-current assets by geographical market

Group SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Sweden	323.4	258.3
Norway	99.7	100.5
Finland	55.9	43.0
Poland	31.9	34.6
United Kingdom	6.0	–
Total	516.9	436.4

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

	1/9/2017 31/8/2018	Of which men	1/9/2017 31/8/2018	Of which men
Parent company				
Sweden	6	33.3%	7	42.9%
Total parent company	6	33.3%	7	42.9%
Subsidiaries				
Sweden	1,598	9.8%	1,559	10.0%
Norway	544	1.5%	580	2.0%
Finland	339	1.0%	344	1.0%
Poland	237	5.9%	257	5.0%
United Kingdom	15	0.0%	–	–
Asia	145	43.0%	142	42.0%
Total, subsidiaries	2,878	8.5%	2,882	8.4%
Group total	2,884	8.5%	2,889	8.4%

Gender breakdown of company management

	31/8/2018 Percentage of men	31/8/2017 Percentage of men
Parent company		
Board of Directors	42.9%	33.3%
Other senior executives	33.3%	42.9%
Group total		
Board of Directors	35.0%	40.0%
Other senior executives	37.5%	42.9%

Salaries, remuneration and social security costs

SEK MILLION	1/9/2017–31/8/2018			1/9/2016–31/8/2017		
	Salaries and remuneration	Social security costs	Pension costs	Salaries and remuneration	Social security costs	Pension costs
Parent Company	19.9	7.1	6.0	18.9	8.0	5.0
Subsidiaries	928.8	228.3	62.0	894.3	208.7	54.4
Group total¹⁾	948.7	235.4	68.0	913.2	216.7	59.4

Salaries and remuneration

SEK MILLION	1/9/2017–31/8/2018			1/9/2016–31/8/2017		
	Board and President ²⁾	of which variable salary component	Other employees	Board and President ²⁾	of which variable salary component	Other employees
Parent Company	13.4	–	6.5	7.7	1.4	11.3
Subsidiaries in Sweden	–	–	554.7	–	–	519.7
Subsidiaries in Norway	2.7	–	214.3	2.4	–	225.6
Subsidiaries in Finland	2.0	–	99.5	1.9	–	74.9
Subsidiaries in Poland	0.6	–	21.4	1.7	–	33.8
Subsidiaries in the United Kingdom	–	–	3.0	–	–	–
Subsidiaries in Asia	–	–	30.6	–	–	34.3
Group total	18.7	–	930.0	13.7	1.4	899.6

1) Of the Group's pension costs, SEK 2.0 (1.3) million refers to the Board of Directors and President, including current and previous members of the Board, and the President.

2) Includes current and previous members of the Board and the President

Of the salaries and remuneration paid to other employees in the Group, SEK 12 (11) million is for senior executives other than the Board of Directors and President.

Conditions of employment for senior executives

For senior executives a period of six months' notice of termination is applicable. In the event of notice of termination from the employer, senior executives have contracts for retention of their salaries in full for 6–18 months. Retirement benefits are based on a general pension plan from 65 years of age and occupational pension in accordance with policy.

Terms of employment for the acting President/CEO

In the event of notice of termination from the employer, the current acting President/CEO has a contract for to retain full salary for one month. Retirement benefits are based on a general pension plan from 65 years of age.

Other

During the year costs for terminating the previous President and CEO impacted earnings by SEK 9.3 million, of which SEK 6.6 million was severance pay (including termination salary). Severance pay to the previous President/CEO has been paid in the sum of SEK 0 (3) million. For information on post-employment and other employee benefits, please see Note 15. KappAhl currently has no outstanding share-based incentive programmes.

cont. Note 5

Remuneration to senior executives

Remuneration and other benefits during the year SEK MILLION	1/9/2017–31/8/2018				1/9/2016–31/8/2017			
	Basic salary/ board fee	Variable remuneration	Pension cost	Total	Basic salary/ board fee	Variable remuneration	Pension cost	Total
Chairman of the Board Anders Bülow	0.5	–	–	0.5	0.5	–	–	0.5
Member of the Board Christian W. Jansson (to 6 December 2016)	–	–	–	–	0.1	–	–	0.1
Member of the Board Pia Rudengren	0.4	–	–	0.4	0.4	–	–	0.4
Member of the Board Susanne Holmberg	0.3	–	–	0.3	0.2	–	–	0.2
Member of the Board Kicki Olivensjö (from 23 December 2015)	0.2	–	–	0.2	0.2	–	–	0.2
Member of the Board Thomas Gustafsson (from 5 December 2017)	0.2	–	–	0.2	–	–	–	–
Member of the Board Göran Bille (from 1 December 2016)	0.3	–	–	0.3	0.3	–	–	0.3
Member of the Board Cecilia Kocken (from 1 December 2016)	0.2	–	–	0.2	0.2	–	–	0.1
Other (2 board members)	0.1	–	–	0.1	0.1	–	–	0.1
President/CEO Göran Bille (from 16 June 2018)	1.0	–	0.3	1.3	–	–	–	–
President/CEO Danny Feltmann (to 15 June 2018) ¹⁾	10.2	–	1.7	11.9	4.2	1.4	1.3	6.9
Management Team (7 people)	12.4	–	4.2	16.7	9.7	1.8	3.7	15.2
Total	25.8	–	6.2	32.1	15.8	3.2	5.0	24.0

1) During the year costs for severance pay (including termination salary) impacted earnings by SEK 6.6 million.

NOTE 6 Fees and remuneration to auditors

SEK million	Group		Parent Company	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
<i>Group auditors</i>				
Audit assignments of which to <i>PricewaterhouseCoopers AB</i>	1.1 <i>0.7</i>	1.0	0.5 <i>0.5</i>	0.4
Audit business in addition to audit of which to <i>PricewaterhouseCoopers AB</i>	0.0 <i>0.0</i>	0.3	0.0 <i>0.0</i>	0.2
Tax consultancy of which to <i>PricewaterhouseCoopers AB</i>	0.2 <i>0.1</i>	0.1	0.1 <i>0.1</i>	0.1
Other services of which to <i>PricewaterhouseCoopers AB</i>	0.8 <i>0.8</i>	0.1	0.3 <i>0.3</i>	0.0
Total	2.1	1.5	0.9	0.7
<i>Other auditors</i>				
Audit assignments	0.2	–	–	–
Audit business in addition to audit	0.0	–	–	–
Tax consultancy	0.0	0.1	–	0.1
Other services	0.0	0.0	–	0.0
Total	0.2	0.1	–	0.1

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. Tax consultancy includes both advisory services and review of compliance in the area of taxation. Other services are other assignments. The amount includes review of the interim report.

NOTE 7 Operating expenses

Group SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Raw materials and consumables	1,549.3	1,662.2
Personnel costs	1,266.8	1,146.8
Rental costs	900.1	858.2
Depreciation/amortisation	152.0	130.6
Reversal of impairment losses	0.5	–
Other operating expenses	609.2	669.8
Total	4,478.0	4,467.6

NOTE 8 *Financial income and expense*

Group SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017	Parent company SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Loans and loan receivables			Profit from participations in subsidiaries		
Interest income	0.9	0.4	Dividends from subsidiaries	50.2	49.4
Other financial income	7.1	0.5	Impairment loss	–	–461.0
Loans and trade receivables	8.0	0.9	Group contribution received	21.8	7.6
Financial liabilities recorded at amortised cost			Profit from participations in subsidiaries	72.0	–404.0
Interest expense	–6.9	–4.3	Loans and loan receivables		
Other financial expenses	–1.1	–18.0	Interest income	16.7	4.3
Financial liabilities recorded at amortised cost	–8.0	–22.3	Loans and loan receivables	16.7	4.3
Net Financial income	0.0	–21.4	Financial liabilities recorded at amortised cost		
			Interest expense	–18.0	–7.4
			Other financial expenses	–11.3	–0.6
			Financial liabilities recorded at amortised cost	–29.3	–8.0
			Net Financial income	59.4	–407.7

NOTE 9 *Taxes*

Reported in the income statement

Group SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017	Parent company SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Current tax			Current tax		
Current tax on profit for the year	–62.8	–88.9	Current tax on profit for the year	–	–
Adjustment for previous years	4.2	0.0	Total current tax	–	–
Total current tax	–58.6	–88.9	Deferred tax expense (–) /tax credit (+)		
Deferred tax expense (–) /tax credit (+)			Deferred tax relating to temporary differences	0.7	0.6
Deferred tax relating to temporary differences	–1.6	–5.7	Other changes in deferred tax assets	–	–
Deferred tax in change in loss carry-forwards	2.6	31.1	Total deferred tax	0.7	0.6
Total deferred tax	1.0	25.4	Total income tax	0.7	0.6
Total income tax	–57.6	–63.5	Tax reported in other comprehensive income		
Tax reported in other comprehensive income			Cash flow hedges – value changes	–	–
Cash flow hedges – value changes	–9.2	8.0	Total tax reported in other comprehensive income	–	–
Translation differences	–	–			
Actuarial gains/losses	3.9	0.5			
Total tax reported in other comprehensive income	–5.3	8.5			

cont. Note 9

Reconciliation of effective tax

Group SEK million	1/9/2017 31/8/2018 (%)	1/9/2017 31/8/2018	1/9/2016 31/8/2017 (%)	1/9/2016 31/8/2017
Profit/loss before tax		282.1		427.2
Income tax calculated in accordance with tax rate in Sweden (22%)	-22.0	-62.1	-22.0	-94.0
Effect of other tax rates for foreign subsidiaries	-0.1	-0.4	-0.2	-0.8
Expenses not deductible for tax purposes	-0.4	-0.9	-1.0	-4.3
Non-taxable revenue	0.1	0.2	0.0	0.0
Tax losses for which no deferred tax asset has previously been reported	-	-	8.2	35.0
Losses used for which no losses have been reported	0.4	1.1	-	-
Tax adjustment due to changed tax rate	0.1	0.4	-0.2	-0.6
Adjustment of tax for previous periods	0.9	4.1	0.3	1.2
Effective tax	-20.4	-57.6	-14.9	-63.5
Parent company SEK million	1/9/2017 31/8/2018 (%)	1/9/2017 31/8/2018	1/9/2016 31/8/2017 (%)	1/9/2016 31/8/2017
Profit/loss before tax		47.2		-414.9
Income tax calculated in accordance with tax rate in Sweden (22%)	-22.0	-10.4	22.0	91.3
Expenses not deductible for tax purposes	0.0	0.0	-24.6	-101.6
Non-taxable revenue	22.0	11.0	2.6	10.9
Adjustment of current tax for previous periods	0.0	0.1	0.0	0.0
Effective tax	0.0	0.7	0.0	0.6

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

Group SEK million	Net	
	31/8/2018	31/8/2017
Deferred tax assets		
Goodwill	2.4	3.0
Other unutilised tax deductions	47.7	45.1
Provisions for pensions and obligations	8.9	5.0
Other taxable temporary differences	10.3	9.2
Market value of derivatives	-	5.9
Deferred tax assets	69.3	68.2
Netting against deferred tax liability	-8.9	-10.9
Total deferred tax assets	60.4	57.3
Deferred tax liabilities		
Market value of derivatives	-3.3	-
Accelerated depreciation on plant and equipment	-15.5	-19.5
Trademarks and brands	-134.2	-134.2
Temporary difference referring to inventories	-7.3	-4.8
Deferred tax liability	-160.3	-158.5
Netting against deferred tax asset	8.9	10.9
Total deferred tax liability	-151.4	-147.6

Expiry periods, unutilised loss carry-forwards

SEK MILLION	31/8/2018	31/8/2017
after 1 year	76.8	110.6
after 2 years	77.8	69.1
after 3 years	59.7	70.0
after 4 years	1.7	58.5
after 5 years	15.1	1.7
after 6 years or more	115.1	82.2
Total	346.3	392.1

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 46 million. As at 31 August 2018 SEK 60 (57) 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 346 (392) million. These loss carry-forwards refer to Finland SEK 130 million and Poland SEK 216 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.

NOTE 10 *Intangible assets*

Group SEK million	Computer software	Trademarks and brands	Tenancy rights	Goodwill	Construction in progress	Total
Cost of acquisition						
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
Closing balance, 31 August 2017	208.2	610.2	0.0	695.8	11.6	1,525.8
Opening balance, 1 September 2017	208.2	610.2	0.0	695.8	11.6	1,525.8
Purchases	20.4	–	–	–	32.6	53.0
Sales/retirements	–132.1	–	–	–	–0.6	–132.7
Reclassification	11.6	–	–	–	–11.6	0.0
Translation differences	1.8	–	–	–	0.0	1.8
Closing balance, 31 August 2018	110.0	610.2	0.0	695.8	32.0	1,448.0
Depreciation/amortisation and impairment						
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
Closing balance, 31 August 2017	–156.4	–0.2	0.0	–	–	–156.6
Opening balance, 31 August 2017	–156.4	–0.2	0.0	–	–	–156.6
Depreciation/amortisation for the year	–17.1	–	–	–	–	–17.1
Sales/retirements	132.1	–	–	–	–	132.1
Reclassification	0.0	–	–	–	–	0.0
Translation differences	–1.1	–	–	–	–	–1.1
Closing balance, 31 August 2018	–42.5	–0.2	0.0	–	–	–42.7
Carrying amounts						
As at 31 August 2017	51.8	610.0	–	695.8	11.6	1,369.2
As at 31 August 2018	67.5	610.0	–	695.8	32.0	1,405.3

Depreciation/amortisation

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

SEK MILLION	Group		Parent Company	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Cost of goods sold	–0.5	–	–	–
Administrative expenses	–6.5	–11.4	–	–
Selling expenses	–10.1	–3.4	–	–
Total	–17.1	–14.8	–	–

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 financial plan. 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 9.4 (9.4) 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 SEK million	Land	Equipment, tools, fixtures and fittings	Fixed assets under con- struction	Total
Cost of acquisition				
Opening balance, 1 September 2016	15.0	2,056.0	–	2,071.0
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
Closing balance, 31 August 2017	15.0	901.6	2.1	918.7
Opening balance, 1 September 2017	15.0	901.6	2.1	918.7
Purchases	–	105.9	12.7	118.6
Sales/retirements	–	–196.8	–	–196.8
Reclassification	–	2.1	–2.1	0.0
Translation differences	–	45.7	0.1	45.8
Closing balance, 31 August 2018	15.0	858.5	12.8	886.3

Depreciation/amortisation and impairment

Opening balance, 1 September 2016	–	–1,642.2	–	–1,642.2
Depreciation/amortisation for the year	–	–115.8	–	–115.8
Reversal of depreciation/amortisation	–	–	–	–
Sales/retirements	–	1,287.1	–	1,287.1
Reclassification	–	–	–	–
Translation differences	–	–11.4	–	–11.4
Closing balance, 31 August 2017	–	–482.3	–	–482.3
Opening balance, 1 September 2017	–	482.3	–	–482.3
Depreciation/amortisation for the year	–	–134.5	–	–134.5
Reversal of depreciation/amortisation	–	–	–	–
Sales/retirements	–	184.2	–	184.2
Reclassification	–	–	–	–
Translation differences	–	–29.4	–	–29.4
Closing balance, 31 August 2018	–	–462.0	–	–462.0

Carrying amounts

As at 31 August 2017	15.0	419.3	2.1	436.4
As at 31 August 2018	15.0	396.5	12.8	424.3

Carrying amounts		31/8/2017	31/8/2016
Land		15.0	15.0
Total		15.0	15.0

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	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Cost of goods sold	–6,4	–6,6	–	–
Administrative expenses	–7,2	0,0	–	–
Selling expenses	–120,9	–109,2	–	–
Total	–134,5	–115,8	–	–

NOTE 12 Inventories

Group SEK million	31/8/2018	31/8/2017
Finished goods and trading goods	763.8	725.8
Total	763.8	725.8

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	
	31/8/2018	31/8/2017	31/8/2018	31/8/2017
Prepaid rental costs	74.4	76.0	–	–
Other	44.4	35.8	1.8	1.9
Total	118.8	111.8	1.8	1.9

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 SEK million	31/8/2018	31/8/2017
Non-current liabilities		
Provisions for pensions and similar obligations	56.5	45.0
Bank loans	–	–
Total	56.5	45.0
Current liabilities		
Bank loans	200.0	–
Bank overdraft facilities	153.1	25.3
Interest rate derivatives	–	–
Total	353.1	25.3
Total	409.6	70.3

Parent company SEK million	31/8/2018	31/8/2017
Non-current liabilities		
Provisions for pensions and similar obligations	–	–
Bank loans	–	–
Total	–	–
Current liabilities		
Bank loans	200.0	–
Bank overdraft facilities	444.4	–
Interest rate derivatives	–	–
Total	644.4	–
Total	644.4	–

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 0.9 (0.2) 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 SEK million	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Present value of pension obligations	247.7	226.3
Fair value of plan assets	–191.2	–181.3
Net obligation for defined benefit plans	56.5	45.0

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

Provisions for pensions	56.5	45.0
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Expected interest income 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	
	2018	2017	2018	2017
Shares and funds listed (KappAhl AB (publ) is included at 0)	60.5	52.4	2.6	0.6
Shares and funds not listed	–	–	–	–
Debt securities	100.8	101.4	4.3	4.6
Property	22.0	21.0	0.9	0.5
Other	–	–	–	0.0
Total	183.3	174.8	7.9	5.7

cont. Note 15

Change in present value of the obligation

Group SEK million	Sweden		Norway	
	31/8/ 2018	31/8/ 2017	31/8/ 2018	31/8/ 2017
Opening balance as at 1 September	205.0	197.6	21.3	23.1
Benefits earned during the period	–	–	0.3	0.5
Transfer of ITPK	–	0.0	–	–
Pension payments	–5.3	–5.1	–2.0	–2.1
Interest	5.6	4.9	0.4	0.3
Revaluations	20.9	7.6	0.1	–0.5
Translation differences	–	–	1.4	0.0
Closing balance	226.2	205.0	21.5	21.3

Net revaluation of the debt is SEK 14.4 million, of which Sweden 14.4 and Norway 0.0. This consists of:

- experience based adjustments of SEK –4 million, of which Sweden –5 and Norway 1.0
- effects of changed financial assumptions of SEK 18.4 million, of which Norway –1 million and Sweden 19.4 million. Change in the demographic assumptions amounts to SEK 0,0 million, of which Sweden SEK 0.0 million and Norway SEK 0.0 million.

Change in fair value of plan assets

Group SEK million	Sweden		Norway	
	31/8/2018	31/8/2017	31/8/2018	31/8/2017
Opening balance as at 1 September	174.8	167.7	6.5	5.7
Interest income on plan assets	4.8	4.2	0.0	0.0
Funds contributed	1.0	0.9	0.8	0.8
Reimbursement/pension payments	–3.8	–3.6	–	–
Revaluations	6.5	5.6	0.1	0.0
Translation differences	–	–	0.5	–
Closing balance	183.3	174.8	7.9	6.5

Cost reported in the income statement for defined benefit plans

Group SEK million	Sweden		Norway	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Costs relating to service in current period	–	–	0.3	0.5
Interest on obligation	5.6	4.9	0.4	0.3
Interest income on plan assets	–4.8	–4.2	0.0	0.0
Total net cost in the income statement	0.8	0.7	0.7	0.8

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

Group SEK million	Sweden		Norway	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Selling expenses	–	–	0.3	0.5
Financial income/expenses	0.8	0.7	0.4	0.3
Total recognised in the income statement	0.8	0.7	0.7	0.8
Amount recognised in other comprehensive income				
Revaluation of defined benefit pension plans	14.4	2.0	0.0	–0.5
Payroll tax referring to revaluation of defined benefit pension plans	3.5	0.0	0.0	0.0
Total recognised in other comprehensive income	17.9	2.0	0.0	–0.5

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 23 years.

The remaining life expectancy for a 65-year-old woman is estimated to be 24 years and for a man 22 years.

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

Sweden and Norway Per cent	Sweden		Norway	
	2018	2017	2018	2017
Discount rate as at 31 August	2.40	2.75	2.24	1.90
Future salary increases	n/a	n/a	0.96	1.20
Inflation	1.90	1.75	2.20	2.00

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 SEK million	Decrease in assumption	Present value of obligation included in the Group's pension provision		Increase in assumptions
		2018	2017	
Discount rate +/- 0.5%	248.3	226.2	206.9	
Inflation +/- 0.5%	206.8	226.2	248.2	
Life expectancy +/- 1 year	217.0	226.2	235.7	

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 66.5 (58.6) 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 2018 Alecta's surplus in the form of the collective consolidation level was 154 (156) 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 18.1 (14.5) million. Expected charges in the next reporting period for insurance policies taken out with Alecta amount to SEK 17.8 million.

The Group's share of total savings premiums for the Alecta ITP 2 plan amounts to 0.048 (0.040) per cent. The Group's share of the total number of actively insured in the ITP 2 plan amounts to 0.069 (0.067) per cent.

For the previous 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 2018 was SEK 12.0 (7.9) million. Special payroll tax is reported in the item Accrued expenses and deferred income.

NOTE 16 *Other liabilities*

Group SEK million	31/8/2018		31/8/2017	
Current liabilities				
Value added tax		91.5		90.7
Employee withholding taxes		35.3		33.3
Gift vouchers		32.8		30.9
Currency derivatives		–		49.8
Other		1.0		9.6
Total		160.6		214.3

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 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 has increased its interest-bearing liabilities by SEK 339 million; see Note 14, partly through share redemption and partly through negative cash flow. This means that on the balance sheet date the Group has net interest-bearing debt of SEK 373 million compared with the previous year's net financial assets of SEK 168 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.

NOTE 17 *Accrued expenses and deferred income*

SEK million	Group		Parent Company	
	31/8/2018	31/8/2017	31/8/2018	31/8/2017
Accrued wages/ salaries and social security contributions	166.1	163.0	13.0	9.1
Customer bonus	52.1	44.5	–	–
Rent	5.5	7.2	–	–
Other	54.3	42.5	0.9	0.6
Total	278.0	257.2	13.9	9.7

The terms and conditions of the loans are linked with agreed covenants.

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

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 353 (25) 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 2017/18. 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 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 2018, the company had interest swaps with a contractual value of SEK 0 (0) million. The net fair value of the swaps was SEK 0 (0) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 0 (0) 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 8 (22) million for the financial year, which corresponds to around 0.2 (0.5) 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 2018/19 of about SEK 2.6 (0.1) 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.

cont. Note 18

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.

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 taking into account currency hedging, an impact on purchasing costs of SEK 65 (68) million. 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, thus reducing the Group's exposure. 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 26 (33) million and for PLN of SEK 6 (6) 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	1/9/2017–31/8/2018		1/9/2016–31/8/2017	
	Outflow	Inflow	Outflow	Inflow
USD m	147	–	144	–
EUR m	24	17	21	27
NOK m	–	484	–	655
PLN m	–	58	–	56

Forward contracts

The table below shows a summary of outstanding forward exchange contracts by currency pair as at 31 August 2018. They all mature within one year.

Currency pair Sells/buys	Book and fair value		Nominal amount		Average remaining term in months	
	2018	2017	2018	2017	2018	2017
SEK/USD	15	–27	392	336	3	2

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 15 (23) million, which is reported under 'Other receivables'. Forward contracts with a negative market value amount to SEK 0 (50) million, which is reported under 'Current interest-bearing liabilities'. Of the forward contracts completed during the year, proceeds of SEK 27 (9) million were reposted from other comprehensive income to the income statement, as hedged transactions had taken place for these contracts.

Option contracts

The table below shows a summary of outstanding currency options by currency pair as at 31 August. The Group has no currency options as at 31 August 2018

Currency pair Sells/buys	Book and fair value		Nominal amount		Average remaining term in months	
	2018	2017	2018	2017	2018	2017
SEK/USD	–	–5	–	126	–	3
SEK/NOK	–	2	–	227	–	2
SEK/PLN	–	1	–	77	–	2

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 0 (4) million, which is reported under 'Other receivables'.

Options with a negative market value amount to SEK 0 (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 Currency	31/8/2018	31/8/2017
	Amounts in SEK million	Amounts in SEK million
NOK	98	232
EUR	145	74
PLN	–67	–58
HKD	12	11
GBP	0	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	31/8/2018	31/8/2017
Other long-term receivables	–	–
Trade receivables	0.9	4.1
Cash and cash equivalents	36.3	238.5
Currency derivatives	15.1	26.4
Total	52.3	269.0

Liabilities on the balance sheet, SEK million	31/8/2018	31/8/2017
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Other financial liabilities recorded at amortised cost		
Long-term interest-bearing liabilities	56.5	45.0
Short-term interest-bearing liabilities	353.1	25.3
Trade payables	177.7	175.3
Other financial liabilities recorded at amortised cost	587.3	245.6
Financial liabilities at fair value through profit or loss		
Interest rate derivatives	–	–
Currency derivatives	–	55.9
Financial liabilities at fair value through profit or loss	–	55.9
Total	587.3	301.5

Parent Company Liabilities on the balance sheet, SEK million	31/8/2018	31/8/2017
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Other financial receivables	–	–
Receivables from group companies	14.3	34.2
Cash and cash equivalents	15.6	16.5
Currency derivatives	–	–
Total	29.9	50.7

Parent Company	31/8/2018	31/8/2017
Liabilities on the balance sheet, SEK million		
Other financial liabilities recorded at amortised cost		
Long-term interest-bearing liabilities	–	–
Short-term interest-bearing liabilities	644.4	–
Trade payables	0.3	0.4
Liabilities to group companies	726.3	787.7
Other financial liabilities recorded at amortised cost	1,371.0	788.1
Financial liabilities at fair value through profit or loss		
Cash flow hedging	–	–
Interest rate derivatives	–	–
Currency derivatives	–	–
Financial liabilities at fair value through profit or loss	–	–
Total	1,371.0	788.1

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 of 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)

Maturity analysis of financial liabilities

The maturity analysis below is based on undiscounted cash flows and includes interest and amortisation. Inflows from currency forward contracts are estimated on the basis of the forward rate for the expected maturity of the estimated flows. Outflows from currency forward contracts refer to the contracted currency flows. 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

2017/2018 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	200	153	–	–	–	–	353
Interest	1	5	–	–	–	–	6
Trade payables	178	–	–	–	–	–	178
Forward exchange contracts inflow	237	173	–	–	–	–	410
Forward exchange contracts outflow	226	166	–	–	–	–	392
2016/2017 SEK million							
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

2017/2018	Value	Level 1	Level 2	Level 3
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Assets

Financial assets at fair value via profit or loss:

Currency forwards	15	–	15	–
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Liabilities

Financial liabilities at fair value via profit or loss:

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

2016/2017	Value	Level 1	Level 2	Level 3
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Assets

Financial assets at fair value via profit or loss:

Currency forwards	23	–	23	–
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Currency options	4	–	4	–
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Interest swaps	–	–	–	–
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Liabilities

Financial liabilities at fair value via profit or loss:

Currency forwards	50	–	50	–
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Currency options	6	–	6	–
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Interest swaps	50	–	50	–
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No transfers have been made between levels during the financial year.

NOTE 19 *Operating leases*

Group SEK million	Annual cost		Future lease charges and rental costs		
	2017/2018	2016/2017	Year 1	Year 2-5	Year 5-
Tenancy agreement	693.2	680.3	591.6	1,333.3	202.2
Vehicles and equipment	3.7	4.2	2.7	2.2	0.1
Total	696.9	684.5	594.3	1,335.5	202.3

The operating profit has been charged with SEK 693 (680) million referring to costs of rented store premises. Of this, the fixed rent is SEK 666 (653) million and the turnover based rent is SEK 27 (27) million.

The Parent Company has no lease agreements.

NOTE 20 *Capital commitments*

Group

There were no material capital commitments as at 31/8 2018.

NOTE 21 *Pledged assets and contingent liabilities*

SEK million	Group		Parent Company	
	31/8/2018	31/8/2017	31/8/2018	31/8/2017
Pledged assets				
Floating charges	230.9	218.1	–	–
Shares in subsidiaries	3,002.0	2,792.1	2,711.2	2,711.2
Total pledged assets	3,232.9	3,010.2	2,711.2	2,711.2
Contingent liabilities				
Guarantee commitments, FPG/PRI	0.4	0.4	–	–
Total contingent liabilities	0.4	0.4	–	–

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 26 (25) million. There are also related party relationships with key personnel in senior positions. Information is given in Note 5 Employees and staff costs.

During the year purchases of SEK 1.5 million were made from Student Consulting Sweden AB. The purchases were on commercial terms.

In August 2017 the principal owner, Mellby Gård AB offered the then 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 3 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. In May 2018 a further 75,000 options with a maturity of three years were issued from Mellby Gård AB to Chief Financial Officer Peter Andersson. They were acquired at a price of SEK 2.81 and an exercise price of SEK 31.20 option. 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	31/8/2018	31/8/2017
Opening book value	2,711.2	3,143.3
Unconditional shareholders' contributions paid	–	28.9
Impairment loss	–	-461.0
Total	2,711.2	2,711.2

In the previous year an impairment loss on holdings in Norway and Finland was recorded as a result of a changed view of future earnings.

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

Subsidiary / Corporate identity number / Country	Number of shares	Percentage share	31/8/2018	31/8/2017
			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	894.1
KappAhl OY, 07585064, Finland	200	100.0	465.5	465.5
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	31/8/2018	31/8/2017
			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	-	-
Newbie by KappAhl Ltd, 10811237, United Kingdom	1,000	100.0	-	-
Total			2,711.2	2,711.2

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	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Interest received	0.9	0.9	16.7	4.3
Interest paid	-7.9	-23.8	-18.0	-9.4
Total	-7.0	-22.9	-1.3	-5.1

Adjustments for non-cash items

SEK million	Group		Parent Company	
	1/9/2017 31/8/2018	1/9/2016 31/8/2017	1/9/2017 31/8/2018	1/9/2016 31/8/2017
Depreciation/amortisation of non-current assets	151.6	130.6	-	-
Impairment of investments in subsidiaries	-	-	-	461.0
Capital gains/losses on sale/retirement of non-current assets	10.5	20.7	-	-
Provisions for pensions	-6.5	-5.1	-	-
Derivatives fair value	-	-9.8	-	-
Change in accrued interest expense	-	-1.6	-	-
Dividend received	-	-	-	-1.4
Group contribution received	-	-	-21.8	-7.6
Other adjustments	13.1	1.5	-	-
Total	168.7	136.3	-21.8	452.0

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 2017/2018 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 2018. The income statements and balance sheets will be presented to the Annual General Meeting on 6 December 2018.

Möln dal, 1 November 2018

Anders Bülow
Chair

Kicki Olivensjö
Member

Pia Rudengren
Member

Thomas Gustafsson
Member

Susanne Holmberg
Member

Cecilia Kocken
Member

Marie-Louise Jansson Bring
Employee representative

Johanna Bergqvist
Employee representative

Göran Bille
Acting President & CEO/Member

Our auditor's report was issued on 1 November 2018

PricewaterhouseCoopers AB

Eva Carlsvi
Authorized public accountant

AUDITOR'S REPORT

Unofficial translation

**To the general meeting of the 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 2017 to 31 August 2018. The annual accounts and consolidated accounts of the company are included on pages 8–38 in 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 parent company as of 31 August 2018 and its financial performance and cash flow 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 of 31 August 2018 and their financial performance and cash flow 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 general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

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 have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management 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 bias that represented a risk of material misstatement due to fraud.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the 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 of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–7, 42–61. The Board of Directors and the Managing Director 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 otherwise 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.

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 2018 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 17 (accrued expenses and deferred income). 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 4,760 million from about 370 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 52,1 million.

Given the factors listed above, we deem revenue recognition to be a key audit matter.

Inventory valuation

See Note 1 (accounting policies) and Note 12 (Inventories). The Group's inventories as at 31 August 2017 amounted to SEK 764 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.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director 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 the Managing Director 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 Managing Director 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

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.

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 Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about 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 is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. 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 Director's and the Managing Director of KappAhl AB (publ) for the financial year 1 September 2017 to 31 August 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

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 have otherwise fulfilled our 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 opinions.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of 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 organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. [The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.]

Auditor's responsibility

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

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the 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 about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the 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 Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB was appointed auditor of KappAhl AB (publ) by the general meeting of the shareholders on the 6 December 2016 and has been the company's auditor since the 6 December 2016.

Gothenburg 1 November 2018

PricewaterhouseCoopers AB

Eva Carlsvi

Authorized Public Accountant



SUPPLEMENTARY SUSTAINABILITY REPORT

Sustainability is an integral part of all KappAhl's operations and the work is driven by our sustainability strategy Responsible Fashion.

With our sustainability strategy Responsible Fashion and its four focus areas we are now taking further steps to strengthen our sustainability work in all parts of our value chain. Part 1 of the annual report contains information on Responsible Fashion and how we work on sustainability in all parts of our operations. KappAhl's sustainability work and reporting are based on our ongoing stakeholder dialogue and annual materiality analysis. In this section of Part 2 we present these, along with supplementary information on employees, non-discrimination, climate calculation and energy consumption, as well as the GRI content index. The report has been prepared in accordance with the GRI Standards: Core option.

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 a matrix organisation for sustainability that is led by the Head of Sustainability. The Head of Sustainability is organised under the HR Vice President, but reports regularly on developments on these issues, particularly the sustainability strategy Responsible Fashion, to the entire management team. The Board of Directors also addresses these issues on a regular basis.

IMPORTANT QUESTIONS FOR THE STAKEHOLDER GROUPS

	Dialogue and frequency	Important questions for the stakeholder groups
Customer	Customer club survey in Sweden, Norway, Finland and Poland, once a year	<ul style="list-style-type: none"> • Manufacture under good ethical and environmental conditions • Promote good working conditions in the company • Working conditions at suppliers • Product quality and safety • Anti-corruption • Reduced use of chemicals • Waste, re-use and recycling • Sustainable materials • Textile collecting
Consumer	Consumer survey Sustainable Brand Index in Sweden, once a year Brand Equity survey in Sweden, Norway and Finland, once a year	<ul style="list-style-type: none"> • Sound working conditions in countries of production. • Reduced use of chemicals • Product quality • Sustainable materials • Recycling old clothes • Animal welfare • Involvement in the local community
Employees	KappAhl Attitude Survey, once a year	<ul style="list-style-type: none"> • Promote good working conditions in the company • Supply products of good quality that are safe to use • Responsible action by management and board • Promote diversity and gender equality in the company and actively combat discrimination • Promote good working conditions at suppliers • Reduce the use of water and chemicals in production • Reduce our climate impact • Reduce the amount of waste and increase the percentage of re-use and recycling • Use materials sustainably • Contribute to increased re-use and recycling of clothes
Research and development, non-profit organisations, authorities, owners, media and other stakeholders and experts in sustainability	In-depth interview or survey, once every other year or every third year	<ul style="list-style-type: none"> • Anti-corruption • Human rights • Innovation and development in sustainability • Partnerships for sustainable development • Good employment terms and working conditions in the company • Diversity and gender equality and anti-discrimination work at the company • Responsible action by management and board • Ensure compliance with ethical business methods • Sustainable product development • Good employment terms and working conditions in manufacturing • Environmental consideration in production • More sustainable production processes • Customer health and safety • Responsible marketing • Sustainable range

STAKEHOLDER DIALOGUE

We have an ongoing stakeholder dialogue with important stakeholders, such as customers, employees, suppliers, students and interest organisations etc. We choose to give priority to close dialogue with stakeholders who have the greatest impact on our operations or are impacted 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 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 priority stakeholder groups, as well as how the dialogue is conducted with them and the questions they believe are 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, in our social channels and via our customer services we also give our stakeholders the chance to submit comments and questions on an ongoing basis.

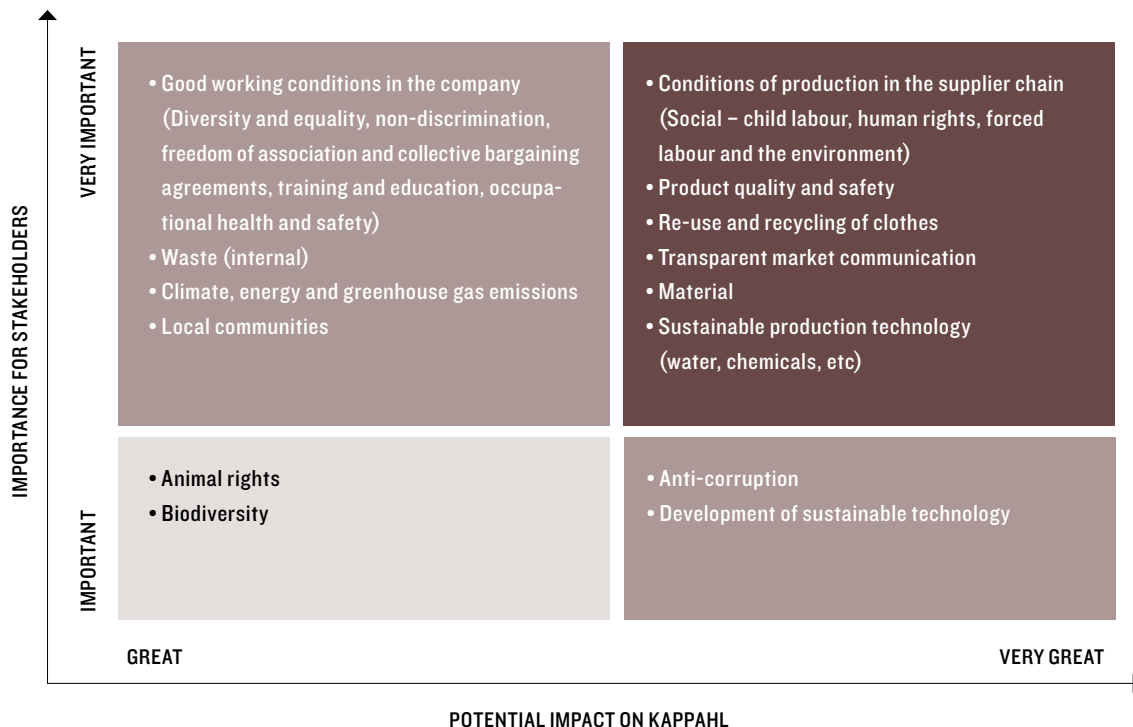
We work to strengthen the employee perspective in our stakeholder dialogue. In autumn 2017 the first employee survey was conducted, in which employees were given the opportunity to rank KappAhl's sustainability questions in order of impact. The results of the employee study are included in the materiality analysis conducted in spring 2018. The employee survey also showed that employees have a high level of confidence in KappAhl's sustainability work; on average 6.1 points out of 7. The employees also felt that their department contributed to KappAhl's sustainability work; on average 6.1 points out of 7.

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 questions. Based on our stakeholder dialogue, combined with new research and knowledge from the business environment, we therefore adjust our materiality analysis every year to identify our most important questions. KappAhl's work on the material questions is described in the annual report; see the GRI content index for page references on pages 48–51.

Based on this year's materiality analysis, we have supplemented the report with the material topic 'Sustainable production technology' and disclosures about other material topics from our sustainability strategy Responsible Fashion.

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 of greenhouse gases	●	●	●
Waste and effluents	●		●
Supplier environmental assessment	●		
Sustainable production technology	●	●	
Employment		●	
Occupational health and safety	●	●	
Training and education	●	●	
Diversity and equal opportunity		●	●
Non-discrimination	●	●	
Freedom of association and collective bargaining	●	●	
Child labour	●		
Forced and compulsory labour	●		
Human rights assessment	●		
Local communities	●		●
Supplier social assessment	●		
Customer health and safety		●	●
Marketing and labelling		●	●

IN-DEPTH SUSTAINABILITY DATA – EMPLOYEES

KappAhl currently has about 4,000 employees. We are found in our five sales markets and in our production offices in Asia and Turkey.

Part 1, pages 25–27 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 at present 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	2017/2018	2016/2017	2015/2016
Average age, Group, years	36.8	37.9	37.3
Staff turnover, Group, %	13.1	14.3	14.0

Number of employees by region and gender	2017/2018		2016/2017	
	Women	Men	Women	Men
Number of employees, Sweden	1,940	178	1,907	207
Number of employees, Norway	989	15	1,002	15
Number of employees, Finland	458	5	454	5
Number of employees, Poland	243	15	256	13
Number of employees, United Kingdom	28	0	–	–
Number of employees, production offices	83	62	99	43
Total for Group	3,741	275	3,718	283

Number of employees by type of contract and gender	2017/2018		2016/2017	
	Women	Men	Women	Men
Number of employees on full-time contracts, Group	1,097	258	1,065	148
Number of employees on part-time contracts, Group	2,613	48	2,654	135

Percentage of employees by type of contract and region	2017/2018	2016/2017	2015/2016
Employees on full-time contracts, Group, %	36	31	32
Employees on full-time contracts, Sweden, %	38	34	34
Employees on part-time contracts, Sweden, %	62	66	66
Employees on full-time contracts, Norway, %	16	17	17
Employees on part-time contracts, Norway, %	84	83	83
Employees on full-time contracts, Finland, %	22	20	21
Employees on part-time contracts, Finland, %	78	80	79
Employees on full-time contracts, Poland, %	81	79	77
Employees on part-time contracts, Poland, %	19	21	23
Employees on full-time contracts, United Kingdom, %	40	–	–
Employees on part-time-time contracts, United Kingdom, %	60	–	–
Employees on full-time contracts, Production offices, %	100	–	–
Employees on part-time contracts, Production offices, %	0	–	–

Diversity and equal opportunity

Gender breakdown of the Board, %	2017/2018	2016/2017
Women	57	67
Men	43	33

Age breakdown of the Board, %	2017/2018	2016/2017
Under 30 years	–	–
30–50 years	14	17
Over 50 years	86	83

Female managers, %	2017/2018	2016/2017
Management team	67	57
Head Office, Sweden	79	83
Stores, Sweden	88	88
Distribution centre, Sweden	12,5	25
Total, Norway	96	97
Total, Finland	93	93
Total, Poland	83	82
Total, United Kingdom	100	–
Total, production offices	74	38

Non-discrimination

All cases of bullying or victimisation at KappAhl are followed up by the manager responsible, in the first instance after consultation with 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 supervisors 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) at their workplace, in word or deed, due to disability	8	9	7
Number of employees who state that they have been victimised (bullied) at their workplace, 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

1) This data is taken from the KappAhl Attitude Survey. Adjustments in processes and tools during the financial year meant that the KappAhl Attitude Survey was postponed; consequently the data for 2017/2018 is not yet available.

IN-DEPTH SUSTAINABILITY DATA – ENVIRONMENT

Internal energy consumption

Control of energy consumption at KappAhl is through cooperation between our operating manager and our concept department. Through a procurement procedure, energy mapping and action plans, the operating manager controls 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 23.2 GWh (24.9) GWh of power in stores, at the distribution centre and the head office during the year, decrease of 12 per cent, on its own agreements. 23,1 (22.3) GWh of power, or 99.7 (89.6) per cent, came from renewable sources, mainly hydropower with a guarantee of origin and 0.06 (2.6) GWh power, or 0.3(10.4) per cent, from non-renewable sources such as coal. Fuel refers to diesel for KappAhl's company cars. The energy consumption breakdown is as follows:

kWh	2017/2018	2016/2017	Change, %	2015/2016
Electricity	21,997,149	23,728,862	-7	25,403,722
Heating	1,208,605	1,215,856	-1	1,353,080
Fuel, MJ	3,452,004	2,717,371	27	1,977,283

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 159 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

A part of our climate work is to map climate impact in our value chain. 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. However, development of the calculation model, which has given us greater calculation accuracy, has meant that in future we will review the base year to enable correct comparison. 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 2017/2018.

	Total emissions (tonnes CO ₂ e)	Percentage of total	Components
Design	2,062	1	Business travel, IT material
Production	123,716	60	Raw materials, manufacturing
Logistics	6,186	3	Transport, electricity and waste from head office and distribution centre
Sales	20,619	10	Heating, electricity and waste from stores. Refrigerants, commuter travel.
Consumer	53,610	26	Washing, drying, ironing, travel to/from stores, waste

Reduction of emissions of greenhouse gases

During the 2017/2018 financial year emissions of greenhouse gases increased. This is mainly due to changed calculation models for customer impact, which accounts for an increase equivalent to 3,800 tonnes compared with 2016/2017. Actual emissions from transportation of goods including distribution also increased during the year, mainly from sea and air transport. The increase from transportation is, however, considerably less than from customer impact.

tonnes CO ₂ e (market-based)	2017/2018	2016/2017 ¹	2015/2016
Scope 1	198	195	148
Scope 2	16,024	16,990	23,009
Scope 3	189,971	186,867	276,087
Total	206,193	204,052	299,244

1) Between the periods 2016/2017 and 2015/2016 the calculations for purchased material 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.

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.

District heating: 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 and the packages sent to each store become 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.

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. The 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 disclose on the basis of our materiality analysis; read more on pages 43–44. 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

GRI standard	Disclosure	Page reference Annual Report 2017/2018	Omitted information
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
ORGANISATIONAL PROFILE			
	102-1 Name of the organisation.	Part 2, page 8	
	102-2 Activities, brands, products and services	Part 1, pages 4–11, 22–23, 43	
	102-3 Location of headquarters	Part 2, page 8	
	102-4 Location of operations	Part 1, page 5	
	102-5 Ownership and legal form	Part 2, page 10	
	102-6 Markets served	Part 1, page 5	
	102-7 Scale of the organisation	Part 1, pages 5, 26, 29 Part 2, pages 12–13, 36–37, 46	
	102-8 Information on employees and other workers	Part 1, pages 5, 25–26 Part 2, page 46	Partly omitted information due to limitations in collection of employee data ¹ .
	102-9 Supply chain	Part 1, pages 5, 35	
	102-10 Significant changes to the organisation and its supply chain	Part 1, pages 5, 43, 45	
	102-11 Precautionary Principle or approach	Part 1, pages 4, 36	
	102-12 External initiatives	Part 1, page 4	
	102-13 Membership of associations	Part 1, pages 30, 36–37, 39–41, 49–50	
STRATEGY			
	102-14 Statement from senior decision-maker	Part 1, pages 12-14	
ETHICS AND INTEGRITY			
	102-16 Values, principles, standards and norms of behaviour	Part 1, pages 4, 26, 36, 38–41	
GOVERNANCE			
	102-18 Governance structure	Part 2, pages 43, 53–57	
STAKEHOLDER ENGAGEMENT			
	102-40 List of stakeholder groups	Part 2, page 43	
	102-41 Collective bargaining agreements	Part 1, page 26	
	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	
REPORTING PRACTICE			
	102-45 Entities included in the consolidated financial statements	Part 2, pages 36–37, 48	
	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 cover	
	102-51 Date of most recent report	Part 1, inside cover	
	102-52 Reporting cycle	Part 1, inside cover	
	102-53 Contact point for questions regarding the report	Part 2, back page cover	
	102-54 Claims of reporting in accordance with the GRI Standards	Part 2, page 48	
	102-55 GRI content index	Part 2, pages 48–51	
	102-56 External assurance	Part 1, inside cover	

MATERIAL TOPICS

GRI standard	Disclosure	Page reference Annual Report 2017/2018	Omitted information
GRI 200 Economic Standard Series			
ANTI-CORRUPTION			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 26, 35–36 Part 2, page 45	
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	Part 1, page 35	
	205-2 Communication and training about anti-corruption policies and procedures	Part 1, pages 26, 36	Data per region and type of employment are not reported due to limitations in collection of data ² .
	205-3 Confirmed incidents of corruption and actions taken	Part 1, page 36	
GRI 300 Environmental Standards Series			
MATERIALS			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 29–30, 33, 35–37, 39–40, 50 Part 2, page 45	
Responsible Fashion	Share of assortment in more sustainable materials	Part 1, page 30	
	Share of purchased cotton from more sustainable sources	Part 1, page 30	
	Share of purchased synthetic materials from recycled sources	Part 1, page 30	
	Share of purchased viscose from more sustainable sources	Part 1, page 30	
	Share of assortment with “Circular design” score	Part 1, page 30	
	Difference in share of receipts containing one or more plastic bags compared with the 2016/2017 financial year	Part 1, page 50	
ENERGY			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 30, 35–37, 39, 44 Part 2, pages 45, 47	
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	Part 1, page 44 Part 2, page 47	
Responsible Fashion	Percentage of KappAhl’s total purchased energy (stores, offices and warehouses) from renewable sources	Part 1, page 44 Part 2, page 47	
	Difference in purchased energy compared with the 2016/2017 financial year	Part 1, page 44 Part 2, page 47	
WATER			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–36, 39, 40, 49 Part 2, page 45	
EMISSIONS			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–37 Part 2, pages 45, 47	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Part 2, page 47	
	305-2 Energy indirect (Scope 2) GHG emissions	Part 2, page 47	
	305-3 Other indirect (Scope 3) GHG emissions	Part 2, page 47	
	305-5 Reduction of GHG emissions	Part 2, page 47	
Responsible Fashion	Total GHG emissions from transportation per garment	Part 1, page 37	
	Difference in GHG emissions from transports per garment compared with the previous year	Part 1, page 37	
EFFLUENTS AND WASTE			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 30, 33, 35, 44, 49–50 Part 2, page 45	
GRI 306: Effluents and waste 2016	306-2 Waste by type and disposal method	Part 1, page 44	
Responsible Fashion	Weight of collected textiles arrived at sorting facility partner	Part 1, page 49	
SUPPLIER ENVIRONMENTAL ASSESSMENT			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–38, 41 Part 2, page 45	
GRI 308: Supplier Environmental -Assessment 2016	308-1 New suppliers that were screened using environmental criteria	Part 1, page 38	
	308-2 Negative environmental impacts in the supply chain and actions taken	Part 1, pages 35–38	
SUSTAINABLE PRODUCTION TECHNOLOGY			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 30, 33 Part 2, page 45	
Responsible Fashion	Share of assortment with “Sustainable Technology” score	—	We are currently developing a method to follow up key figures by implementing our scorecard.
	Share of denim assortment with both “Sustainable Material” and “Sustainable Technology” scores	—	

GRI standard	Disclosure	Page reference Annual Report 2017/2018	Omitted information
GRI 400 Social Standards Series			
EMPLOYMENT			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 25–26 Part 2, pages 45, 46	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Part 1, page 26 Part 2, page 46	Partly omitted information due to limitations in collection of employee data ¹
OCCUPATIONAL HEALTH AND SAFETY			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 26, 35–36, 39, 41 Part 2, page 45	
GRI 403: Occupational Health 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 26 Part 2, page 46	Partly omitted information due to limitations in collection of employee data ¹
TRAINING AND EDUCATION			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 25–26, 36, 39–40 Part 2, page 45	
GRI 404: Training and Education 2016	404-1 Average hours of training per year employee	Part 1, page 26	
Responsible Fashion	Score on the KappAhl Attitude Survey (KAS) question “I have trust in KappAhl’s work with environment and social issues”	Part 1, page 25 Part 2, page 44	
	Score on the KAS question “In my department we contribute to KappAhl’s sustainability work”	Part 2, page 44	
DIVERSITY AND EQUAL OPPORTUNITY			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 25–26 Part 2, page 45	
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Part 1, page 27 Part 2, pages 25, 46	Partly omitted information due to limitations in collection of employee data ^{1,3}
NON-DISCRIMINATION			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 25–26, 38, 40–41 Part 2, page 45	
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Part 1, page 26 Part 2, page 46	
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 26, 35–36, 38, 40–41 Part 2, page 45	
GRI 407: Freedom of Association and Collective 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 35–36, 38, 40–41	
CHILD LABOUR			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–36, 38, 41 Part 2, page 45	
GRI 408: Child Labour 2016	408-1 Operations and suppliers at significant risk for incidents of child labour	Part 1, pages 35–36, 38	
FORCED OR COMPULSORY LABOUR			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–36, 38, 41 Part 2, page 45	
GRI 409: Forced or Compulsory Labour 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	Part 1, pages 35–36, 38	
HUMAN RIGHTS ASSESSMENT			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–36, 38, 40–41 Part 2, page 45	
GRI 412: Human Rights Assessment 2016	412-1 Operations that have been subject to human rights reviews or impact assessments	Part 1, pages 35–36, 38	
	412-2 Employee training on human rights policies or procedures	Part 1, page 38	
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Part 1, page 38	
LOCAL COMMUNITIES			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–39, 51 Part 2, page 45	
GRI 413: Local Communities 2016	413-2 Operations with significant actual and potential negative impacts on local communities	Part 1, pages 35–38	
Responsible Fashion	Share of women who, after completion of training at the training centre in Dhaka, sign employment contracts with a supplier approved by KappAhl	Part 1, page 39	

GRI standard	Disclosure	Page reference Annual Report 2017/2018	Omitted information
GRI 400 Social Standards Series (continued)			
SUPPLIER SOCIAL ASSESSMENT			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 35–38, 41 Part 2, page 45	
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria 414-2 Negative social impacts in the supply chain and actions taken	Part 1, page 38 Part 1, pages 35–38	
Responsible Fashion	Share of supplier garment factories associated with production offices (tier 1) that are approved for placing of orders based on social conditions	Part 1, page 38	
	Share of factories associated with agents and importers that are approved for placing of orders based on social conditions	Part 1, page 38	
CUSTOMER HEALTH AND SAFETY			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 36–37 Part 2, page 45	
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Part 1, page 37	
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Part 1, page 37	
MARKETING AND LABELLING			
GRI 103: Management Approach 2016	103-1-3 Explanation of the material topic, its boundary and management approach	Part 1, pages 44, 46, 49–50 Part 2, page 45	
GRI 417: Marketing and Labeling 2016	417-3 Incidents of non-compliance concerning marketing communications	Part 1, page 46	
Responsible Fashion	Average share of customers in all sales markets that record a 6 or 7 for the statement "KappAhl shows variation in ethnicity, body shapes and age in its marketing"	—	We have started measurements of the data to enable us to monitor and report on them in future.
	Average share of customers in all sales markets that record a 6 or 7 for the statement "How great is your trust in KappAhl's work with the environment and social issues?"	—	
	Average share of customers in all sales markets that record a 6 or 7 for the statement "KappAhl guides and helps me in making more sustainable choices"	—	

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.

This is a literal translation of the Swedish original

AUDITOR'S STATEMENT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of the shareholders in KappAhl AB (publ), corporate identity number 556661-2312

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors who is responsible for the statutory sustainability report found on pages 16–17, 25–27, 29–30, 33, 35–41, 44, 47 and 49–50 in part 1 and on pages 46–47 in part 2 for the year 2017/2018 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards

on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

OPINION

A statutory sustainability report has been prepared.

Gothenburg, November 1 2018
PricewaterhouseCoopers AB

Eva Carlsvi
Authorized Public Accountant



CORPORATE GOVERNANCE REPORT

KappAhl AB (publ) is a public Swedish limited company listed on NASDAQ Stockholm. Corporate governance in 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) and Chapter 6, Sections 6–9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2017/2018 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 financial reporting) 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.

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 2018 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 18,668 shareholders on 31 August 2018. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2018 was Mellby Gård AB. The ten largest shareholders as at 31 August 2018 are listed in the Administration Report on page 10.

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 5 December 2017 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, Cecilia Kocken, Göran Bille, Kicki Olivensjö, Pia Rudengren and Susanne Holmberg as members of the Board of Directors. Thomas Gustafsson was elected as a new board member and Anders Bülow was re-elected as the Chairman of the Board. The next Annual General Meeting will be held at 10.00 on 6 December 2018 at Idrottsvägen 14 in Mölndal. A shareholder wishing

to have a matter brought before the Annual General Meeting can send a written request to: KappAhl AB, Attention: Chairman of the Board, PO 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

Under the Code, the Company must have a Nominations Committee whose task is to include preparing and issuing proposals for election of Members of the Board, Chair of the Board, chair of the general meeting of shareholders, auditors and instructions to the next year's Nominations Committee. The Nominations Committee must also submit proposals for fees to Members of the Board and auditors. The 2017 Annual General Meeting resolved to set out instructions and rules of procedure 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 6 December 2018 was published on the company's website before 6 June 2018. Rune Andersson (appointed by Mellby Gård AB), Marianne Nilsson (appointed by Swedbank Robur Fonder AB), Elisabet Jamal Bergström (appointed by Handelsbanken Fonder AB) and Johan Strandberg (appointed by SEB Fonder) sit on the Nominations Committee. Anders Bülow, Chairman of the Board, has been co-opted to the Nominations Committee. The Nominations Committee represented, on 28 September 2018, about 42 per cent of the shareholders' votes.

The Nominations Committee held its inaugural meeting on 29 June 2018, at which time Rune Andersson was elected as the Committee chair. Ahead of the 2018 Annual General Meeting the Nominations Committee has held three meetings, with contacts inbetween. The Nominations Committee has complied with the instructions and rules of procedure adopted by the Annual General Meeting on 5 December 2017.

In the event of a material change in ownership among the largest shareholders taking place earlier than eight 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 Nominations Committee also keeps itself up-to-date with general developments in issues of fees and remuneration in Swedish listed companies. In the 2017/2018 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.

In its work, the Nominations Committee has applied rule 4.1 of the Code as diversity policy and accordingly has taken into account that the Board of Directors, considering the company's operations, phase of development and other relevant circumstances, shall be characterised by diversity and breadth in regard to the qualifications, experience and background of the Board members elected by the general meeting, as well as that the company is to strive for gender balance on the Board.

The Nominations Committee has made the assessment that no members of the current Board, apart from Anders Bülow, Göran Bille and Thomas Gustafsson, are dependent in relation to the company and the company's senior executives or in relation to its major shareholders.

Ahead of the Annual General Meeting on 6 December 2018 the Nominations Committee will make its proposals for the chair of the Meeting, number of Board members, Chairman of the Board, auditor, other AGM elected members and instructions for next year's Nominations Committee. The Nominations Committee will also submit proposals for fees to Members of the Board and auditors. The Nomination Committee's proposals will be presented in the notice to attend the 2018 Annual General Meeting and will also be available on the company's website.

No separate remuneration has been paid by the company to the members of the Nominations Committee for its work.

Shareholders who wish to submit proposals to the Nominations Committee are referred to the company's website, www.kappahl.com/ir.

Election of auditors

At the 2017 Annual General Meeting PwC (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 approved invoice, during the financial year PwC supplied services to the company for around SEK [0.9] million, of which most relates to additional auditing consultations and other 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. Seven ordinary members were elected to the Board of Directors at the Annual General Meeting in December 2017. The Board of Directors also includes employee representatives; currently two members and two deputies. 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 2017/2018 financial year the Board held fifteen meetings. All the 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.

Work of the Board of Directors

Between each Annual General Meeting the Board of Directors shall in principle hold four to six ordinary meetings. These meetings 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

	Board meeting No. 2017:08 27 Sep 2017	Board meeting No. 2017:09 11 Oct 2017	Board meeting No. 2017:10 2 Nov 2017	Board meeting No. 2017:11 12 Nov 2017	Inaugural Board meeting No. 2017:12 5 Dec 2017	Board meeting No. 2017:13 19 Dec 2017	Board meeting No. 2018:01 11 Jan 2018	Board meeting No. 2018:02 22 Mar 2018	Board meeting No. 2018:03 17 Apr 2018	Board meeting No. 2018:04 7 Jun 2018	Board meeting No. 2018:05 14 Jun 2018	Board meeting No. 2018:06 15 Jun 2018	Board meeting No. 2018:07 26 Jun 2018	Board meeting No. 2018:08 27 Aug 2018	Board meeting No. 2018:09 29 Aug 2018
Anders Bülow	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pia Rudengren	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Susanne Holmberg	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Kicki Olivensjö	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Göran Bille	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cecilia Kocken	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Thomas Gustafsson ¹	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Melinda Hedström ²	Yes	Yes	Yes	Yes	-	-	-	-	-	-	-	-	-	-	-
Michael Bjerregaard Jensen ⁴	Yes	Yes	Yes	Yes	Yes	Yes	Yes	-	-	-	-	-	-	-	-
Marie-Louise Jansson Bring	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Johanna Bergqvist ³	-	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Håkan Jirlow ⁵	-	-	-	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Carita Lundqvist ³	-	-	-	-	-	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes

1) Thomas Gustafsson was elected as a Member of the Board at the Annual General Meeting on 5 December 2017.

2) Employee representative Melinda Hedström sat on the Board as a Member up to and including the Board meeting on 12 November 2017.

3) Employee representatives Johanna Bergqvist and Carita Lundqvist joined the Board as Member and Deputy respectively as of 19 December 2017.

4) Employee representative Michael Bjerregaard Jensen sat on the Board as Member up to and including the Board meeting of 11 January 2018. Employee representative Marie-Louise Jansson Bring replaced Michael Bjerregaard Jensen as Board Member up to and including the Board meeting of 22 March 2018.

5) Employee representative Håkan Jirlow joined the Board as a Deputy as of the Board meeting of 22 March 2018.

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 5 December 2017 and are revised annually. They stipulate the division of assignments between Chairman, Board members and committees. The rules of procedure stipulate for example which matters must be dealt with at each ordinary meeting. At each ordinary meeting, reports from the Audit Committee and Remuneration Committee, and a report from senior executives are presented and decisions are made on establishments and investments. Among the more important business dealt with by the Board during 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

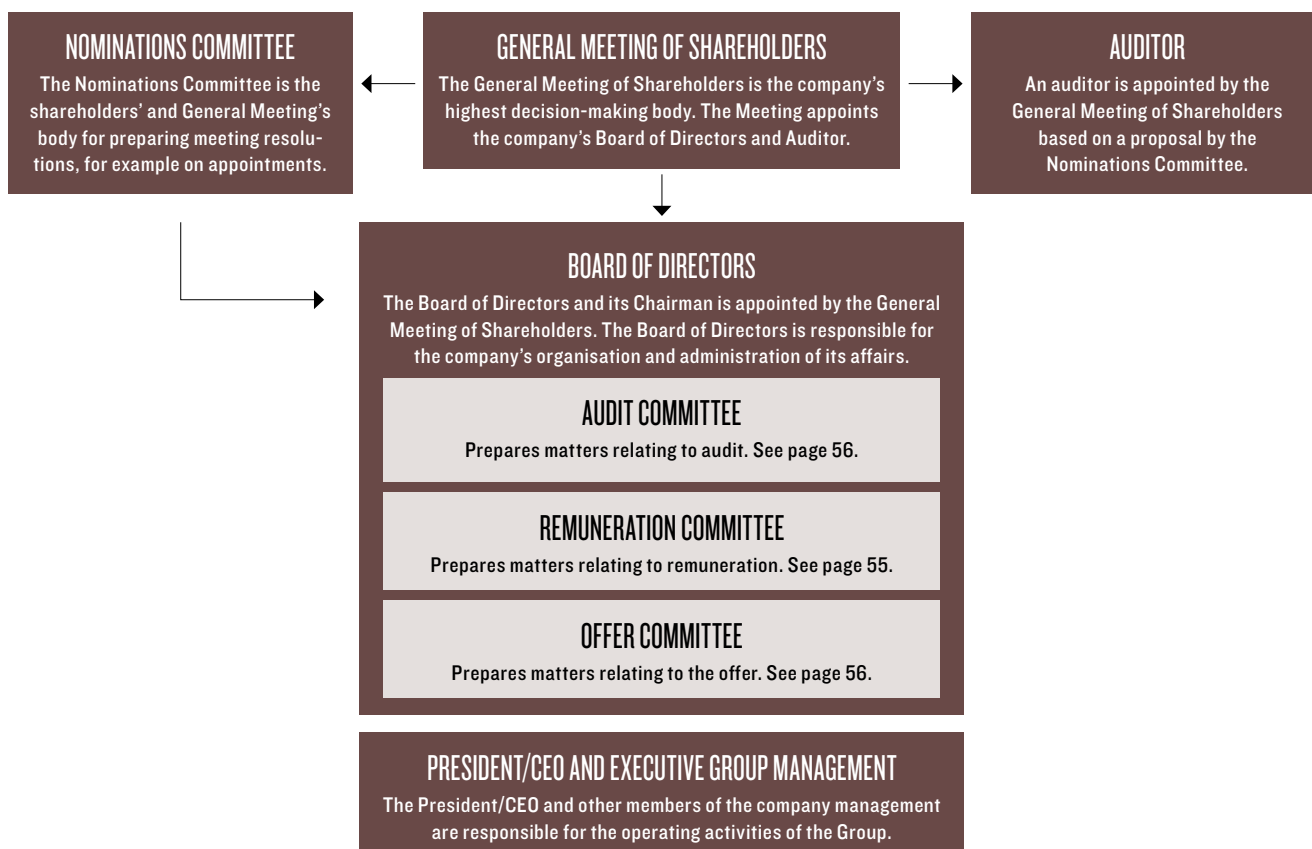
Directors evaluates the work of the President and other management. No senior executives are present at this evaluation. The Board of Directors assures the quality of financial reporting through its own work, through the preparatory work of the Audit Committee and through contacts with the auditor. On 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 nine members, including the Chairman, employee representatives and two deputies. Remuneration and other benefits to the Board of Directors of KappAhl are presented in Note 5 on page 25. The presentation of the Board members on page 59 includes information on their elected positions and relevant shareholdings. Information on the Board is also available on the company's website, www.kappahl.com/ir.

Diversity work

KappAhl's nominations are based on the diversity requirements set out in the Code, meaning that the Board, considering the company's operations, phase of development and other relevant circumstances, shall be characterised by diversity and breadth in regard to the qualifications, experience and background of the Board members elected by the general meeting, and that the company is to strive for gender



balance on the Board. Six out of nine Board Members, including employee representatives, are women. In total, 93 per cent of the Group's employees are women.

REMUNERATION COMMITTEE

The Remuneration Committee is appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 6 December 2018 the Committee consists of Susanne Holmberg (chair) and Anders Bülow. At the Board's inaugural meeting, Göran Bille was also appointed as a member of the Remuneration Committee. At the time of taking up his role as acting President and Chief Executive Officer of KappAhl during the 2017/2018 financial year, Göran Bille resigned from the Remuneration Committee. 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 2017/2018 financial year the Committee held six 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 Secretary is also the secretary of the Remuneration 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 5 December 2017 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 the employee's responsibility and conduct. Salaries shall be set per calendar year, and senior executives may, from time to time, be offered a bonus. For the President and Chief Financial Officer 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 bonus is to be based primarily on the operating profit (EBIT), or in exceptional cases other measurable criteria, for the KappAhl Group and is to be set for the financial year. Senior executives and the company must both normally observe a period of six months' mutual 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. During the financial year the Audit Committee consisted of Pia Rudengren (Chair), Anders Bülow and Göran Bille. At the time of taking up his role as acting President and Chief Executive Officer of KappAhl in June 2018, Göran Bille resigned from the Audit Committee and thus participated in the last meeting of the Audit Committee in his capacity as President/CEO. In the opinion of the Board of Directors, which is shared by the Nominations Committee, Pia Rudengren and Anders Bülow are independent in relation to the company and its senior executives, Pia Rudengren is 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 2017/2018 committee work included preparing issues concerning interim reports, inventory valuation, foreign currency issues and internal financial control. During the 2017/2018 financial year the Committee held six 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 2017/2018 financial year the Offer Committee consisted of the board members Susanne Holmberg (chair), Cecilia Kocken, Kicki Olivensjö and Thomas Gustafsson. The President, Vice President of marketing and Vice President of assortment and design were co-opted to the Committee. During the 2017/2018 financial year the Committee held five meetings, all of which were minuted. The Committee does not have decision-making powers. 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 82,000 for the 2017/2018 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 monitor the effectiveness of the company's internal control, internal audit 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. KappAhl's intranet and training are important tools for this.

ACTIVITIES 2017/2018

The work of the Board in the past year predominantly concerned analysis and discussions relating to sales trends for the various parts of KappAhl's operations. The children's range, in particular Newbie, continued to develop in a positive direction, while the women's collections were not received as positively by the market. In association with these discussions a lot of time was also devoted to creating deeper insight into who KappAhl's customers are and how we can develop our offers in a better way to meet our customers' requirements and expectations.

These discussions also enabled us to establish that the Board of Directors and the President had different views as to which customer segments should have priority, which contributed to a decision to change the leadership for the last quarter of the financial year.

Besides these central issues, the Board has monitored operations and discussed and made decisions on changes to the store network and development of the company's eCommerce, as well as following the establishment of Newbie on the British market with great commitment.

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.

Mölnadal, 1 November 2018

Anders Bülow

Pia Rudengren

Susanne Holmberg

Kicki Olivensjö

Göran Bille

Cecilia Kocken

Thomas Gustafsson

Johanna Bergqvist

Marie-Louise Jansson Bring

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the general meeting of the shareholders in KappAhl AB (publ), corporate identity number org.nr 556661-2312

ENGAGEMENT AND RESPONSIBILITY

It is the board of directors who is responsible for the corporate governance report for the year 2017/2018 on pages 53–57 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 *The auditor's examination of the corporate governance statement*. 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.

OPINIONS

A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg, November 1 2018

PricewaterhouseCoopers AB

Eva Carlsvi

Authorized Public Accountant



BOARD OF DIRECTORS

1. ANDERS BÜLOW

Born 1953. Anders Bülow has been Chairman of the Board of KappAhl since 2012. Anders is a member of the board of Mellby Gård AB as well as Chairman of the board and member of the board of companies wholly or partly owned by Mellby Gård and is also a member of the board of AcadeMedia AB. Anders holds a BSc in Business Administration from Stockholm University. Shareholding: 50,000 shares via a company.

2. SUSANNE HOLMBERG

Born 1961. Susanne Holmberg has been a member of the board of KappAhl since 2014. She is a member of the board of Linum AB. Susanne is Head of Marketing at Aleris Sjukvård AB. Previous appointments as Business Area Manager at Coop Sverige AB and Purchasing Director and Head of Business Area at Axstores AB. Susanne also has experience of directorships in Åhléns AB, Kicks Kosmetikkedjan AB, Lagerhaus AB and Designtorget AB. Susanne is a graduate in Economics and Business Administration. Shareholding: 1,600 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 AcadeMedia AB, Duni AB, Boliden AB and Tikkurila Oyj. Pia has previously been a member of the board of Swedbank AB and 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 previously worked as Business Area Manager and Design and Purchasing Manager at Åhléns, Design and Purchasing Manager at Lindex and Design and Production Manager at Peak Performance. Kicki has also worked at H&M in various positions in Sweden and Hong Kong. Shareholding: 1,200 shares

5. GÖRAN BILLE

Born 1955. Göran Bille has been Acting President and Chief Executive Officer since June 2018 and 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 team 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: 3,000 shares

7. THOMAS GUSTAFSSON

Born 1965. Thomas Gustafsson has been a member of the board of KappAhl since 2017. Thomas is a member of the board and active in the Mellby Gård AB Group and was previously President and CEO of Duni and 2E Group AB. Thomas has previously held senior positions in Spendrups Bryggeri AB, Brämhults Juice AB and Eckes Granini GmbH. Thomas is a member of the board of Smart Eyes International AB and a qualified market economist. Shareholding: 0 shares

8. MARIE-LOUISE JANSSON BRING

Born 1957. Marie-Louise Jansson Bring has been a 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

9. JOHANNA BERGQVIST

Born 1977. Johanna Bergqvist has been a board member and employee representative on the board of KappAhl since November 2017. She works as a sales representative at KappAhl. Johanna Bergqvist has participated in a training programme for board members held by Nasdaq Stockholm. Shareholding: 0 shares

10. HÅKAN JIRLOW

Born 1964. Håkan Jirlow has been an employee representative and deputy board member on the board of KappAhl since 2018. He works as a store manager at KappAhl. Håkan Jirlow has participated in a training programme for board members held by Nasdaq Stockholm. Shareholding: 0 shares

11. CARITA LUNDQVIST

Born 1960. Carita Lundqvist has been an employee representative and deputy board member on the board of KappAhl since 2018. She works as a sales representative at KappAhl. Carita Lundqvist has participated in a training programme for board members held by Nasdaq Stockholm. Shareholding: 0 shares

MANAGEMENT

1. GÖRAN BILLE

Born 1955. Acting President and Chief Executive Officer since June 2018 and member of the board of KappAhl since December 2016. Göran has an M.Sc in Business Administration.
Shareholding: 6,000 shares



1

2. MARIA SEGERGREN

Born 1972. Vice President Assortment, Design & Production. Employed since September 2016. Maria has a degree in business economics, specialising in textiles from Borås University.
Shareholding: 0 shares. 25,000 options in KappAhl via Mellby Gärd.



2

3. PETER ANDERSSON

Born 1964. Chief Financial Officer since April 2018. Peter is a graduate in business administration with an MBA degree from the University of Gothenburg.
Shareholding: 0 shares. 75,000 options in KappAhl via Mellby Gärd.



3

4. ANNA KARIN HOLCK

Born 1968. Vice President Customer Experience since 2017 and employed since 2013. Anna Karin is a market economics graduate of IHM Business School.
Shareholding: 1,976 shares



4

5. CAMILLA WERNLUND

Born 1971. Vice President New Business. Employed since 2011. Camilla has a degree in Economics and Marketing.
Shareholding: 0 shares. 25,000 options in KappAhl via Mellby Gärd.



5

6. ANNA ANDIHN

Born 1976. Vice President HR, Corporate Communications & Sustainability since October 2017 and employed since 2011. Anna is a graduate in Human Resource Management and Labour Relations from the Mid Sweden University.
Shareholding: 0 shares



6

7. MARTIN BARDEN

Born 1975. Country manager for KappAhl in Sweden since 2018. Martin is a market economics graduate of IHM Business School.
Shareholding: 0 shares



7

8. LIV BERSTAD

Born 1961. Country manager for KappAhl in Norway since 1996 and employed since 1989. Liv is a graduate in Business Economics from BI Norwegian Business School.
Shareholding: 0 shares



8

NOTICE TO ATTEND THE ANNUAL GENERAL MEETING

The Annual General Meeting of KappAhl AB (publ) will be held on Thursday, 6 December 2018 at 10.00 at KappAhl's Head Office, Idrottsvägen 14 in Mölndal.

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 Friday, 30 November 2018, 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. 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

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 Friday, 30 November 2018. 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	6 December 2018
First quarter (September–November)	19 December 2018
Second quarter (December–February)	20 March 2019
Third quarter (March–May)	26 June 2019
Fourth quarter (June–August)	9 October 2019

An updated financial calendar is published regularly at 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.se/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



KappAhl AB, P O Box 303, SE 431 24 Mölndal
Telephone: + 46 31 771 55 00
www.kappahl.com

Please contact us via the form at
www.kappahl.com/contact or
via info@kappahl.com

KappAhl

