ANNUAL REPORT 2019

Operations Sustainability Earnings

KappAhl

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ABOUT THE ANNUAL REPORT

This is KappAhl's annual report for the period September 2018 to August 2019. The previous annual report was published on 8 November 2018.

The sustainability report was prepared in accordance with the Global Reporting Initiative Standards: Core. The contents are based on our sustainability strategy and materiality analysis. We report on sustainability in compliance with the Annual Accounts Act. For information on our business model, please refer to pages 14–15, policies, risks and performance concerning: environment, see pages 22, 25–27, social conditions and employees, see pages 23–25, 27–30, human rights, see pages 23–24 and anti-corruption, see pages 23–24. Sustainability information presented in the annual report was prepared with the help of a GRI consultant, but has not been reviewed by a third party. For the auditor's statement on the statutory sustainability report, please see page 31.

Supplementary information to our sustainability report, including stakeholder dialogue, materiality analysis, GRI index, can be found on our website www.kappahl.com/sustainability under the heading "Sustainability report".

"At KappAhl our purpose is to create a better everyday life for our customers through offering a wide range of well designed and feel good fashion, always in a sustainable way."

THIS IS KAPPAHL

KappAhl was founded in 1953 in Gothenburg and today is one of the leading Nordic fashion chains, with around 380 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. We who work at KappAhl are 4,000 colleagues at 400 workplaces in ten countries. Our backgrounds, ages, knowledge and clothing styles vary. What we have in common is our driving force – to give many people the opportunity of being well-dressed. Every day we receive inspiration from our customers. Our job is to return the favour!

Through the work on our sustainability strategy Responsible Fashion we contribute to making both our customers' wardrobes and the world more sustainable. Today 58 per cent of our products are sustainability labelled.

In 2018/2019 our sales were SEK 4.9 billion and profit after tax was SEK 141 million.

KappAhl was listed on Nasdaq Stockholm in 2006. The share was delisted on 30 October 2019 after the shareholders accepted a bid from Mellby Gård AB.

OUR KEYWORDS

TEAM SPIRIT • CREATIVITY • CLARITY • ENERGY • COURAGE

OUR PRESENCE

SALES COUNTRIES

SWEDEN
Net sales, SEK million: 2,672 (2,688)

KappAhl's presence: 171 (169) stores including Shop Online.

Newbie's presence: 9 (8) stores

KappAhl Kids presence: 1 (0) store

Average number of full-time positions[1]: 1 578 (1 598)

NORWAY
Net sales, SEK million: 1 314 (1 249)

KappAhl's presence: 94 (95) stores including Shop Online.

Newbie's presence: 6 (4) stores

Average number of full-time positions[1]: 555 (544)

FINLAND
Net sales, SEK million: 583 (564)

KappAhl's presence: 59 (59) stores including Shop Online.

Newbie's presence: 3 (3) stores

Average number of full-time positions[1]: 248 (339)

POLAND
Net sales, SEK million: 294 (243)

KappAhl's presence: 25 (24) stores including Shop Online.

Newbie's presence: 5 (1) store

Average number of full-time positions[1]: 233 (237)

UNITED KINGDOM
Net sales, SEK million: 38 (16)

Newbie's presence: 6 (6) Newbie Stores including eCommerce.

Average number of full-time positions[1]: 19(15)

PRODUCTION COUNTRIES

ROMANIA
Share of production[3]: 1 (1)%

TURKEY
Share of production[3]: 6 (8) %
Number of employees[4]: 9 (8)

INDIA
Share of production[3]: 4 (5) %
Number of employees[4]: 16 (16)

SRI LANKA
Share of production[3]: 3 (2)%

BANGLADESH
Share of production[3]: 45(41)%
Number of employees[4]: 51 (49)

MYANMAR
Share of production[3]: 4 (3)%
Number of employees[4]: 4 (4)

CHINA
Share of production[3]: 35 (40)%
Number of employees[4]: 69 (68)

PAKISTAN
Share of production[3]: <1 (0)%

BULGARIA
Share of production[3]: 1 (0)%

1) Total number of services restated as full-time positions.
2) Apart from store staff also includes all employees at KappAhl's head office and distribution centre in Mölndal.
3) Based on order value. Excluding production at agents and importers.
4) Refers to employees of the KappAhl Group working at our production offices.

YEAR IN SUMMARY

2018/2019 was characterised by very tough competition in all markets with increased price reductions as a consequence, which together with increasing purchasing prices squeezed profitability. The earnings improvement programme launched in the second quarter had an effect in the second half of the year and will be extended. At the same time work on a new business plan is in progress, in which the focus is on developing the business model and brand strategy.

Elisabeth Peregi was appointed as new President and CEO in November and took up her duties in April

KAPPAHL KIDS

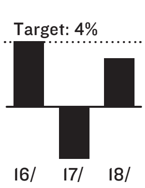
The new store concept KappAhl Kids opened its first store in Stockholm

Launch of a new business plan, based on five goal images and the sustainability strategy Responsible Fashion

Newbie Store in the United Kingdom launched its two first stores outside London

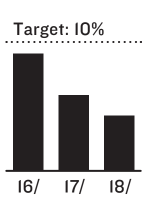
PERFORMANCE ENHANCING PROGRAMME LAUNCHED IN Q2 FOR *SEK 150 M*

GROWTH, %



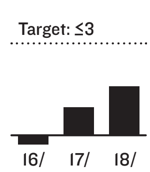
KappAhl's annual growth is to be an average of 4 per cent over a business cycle. Sales increased by 3.0 per cent during the year.

OPERATING MARGIN



The operating margin must be at least 10 per cent This year it was 3.4 per cent. Adjusted for non-recurring costs it was 4.3 per cent.

INTEREST BEARING NET DEBT, TIMES EBITDA



Interest-bearing net debt is not to exceed, other than temporarily, 3 times EBITDA. At year end it was 1.5 times.

AFTER YEAR-END

The KappAhl share was delisted from Nasdaq Stockholm on 30 October after the shareholders accepted a bid from Mellby Gård AB.

Responsible Fashion

>> Read more about our sustainability work on page 18

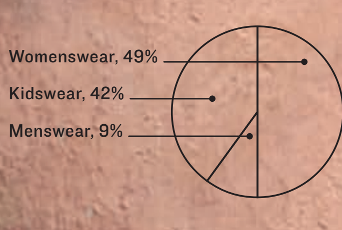
4,901
MILLION SEK IN SALES

59.5%
GROSS MARGIN

3.4%
OPERATING MARGIN

1,83
EARNINGS PER SHARE, SEK

PERCENTAGE OF SALES



CHALLENGES BUT ALSO OPPORTUNITIES

KappAhl's financial year 2018/2019 was characterised by tough competition in all markets and by declining footfall in our stores. We are now carrying out intensive development to adapt to the transformation of the industry in both the short and long term. The work builds further on our strengths – our own design and our own sales channels.

Since I started at KappAhl in April we in the management team have developed a strategy based on five goal images for where KappAhl needs to be in 2022 to be successful. We will carry out many activities to achieve the goals and they will mean major changes in our internal organisation.

Because while the fashion industry is developing and becoming more sustainable, another major change in how consumers shop for clothes is taking place with the growth of eCommerce. For us specifically this means a decline in store footfall and sharper competition. Our customer groups now have access to a greater selection than ever and another offer is never more than a click away.

This means that we must work harder on the customer value proposition and ensure we are relevant and accessible to our customer groups. In increasingly tough competition this has even greater significance. At the same time we must ensure that it is simple and desirable to shop with us. Both components are necessary for success.

PERFORMANCE ENHANCEMENT PROGRAMME

To meet the short-term challenges and to create resources for the changes we need to make in the longer term, during the year we initiated a programme to boost profit by SEK 150 million. The programme focuses largely on adapting our store rents and store areas to today's visitor levels, together with continued review of other overheads and organisation.

GREAT FOCUS ON SUSTAINABILITY

Sustainability is important to us. During the year we have continued to develop our ambitious sustainability work in the context of our sustainability strategy Responsible Fashion. We have achieved some targets; such as collecting 250 tonnes of textiles in our stores and from the autumn manufacturing all our denim from more sustainable material, using processes that require considerably less water, energy and chemicals. We have also added new targets for climate, packaging and suppliers and together with other Swedish fashion companies in the Swedish Textile Initiative for Climate Action (STICA) we have undertaken to reduce our climate impact in line with the Paris Agreement and the 1.5 degree goal.

Our ambition is to create a brand and a business model that is sustainable and does not harm humans or the environment. This is a sufficient incentive in itself, but we also see that it benefits our business, not least since the fashion industry's use of resources is more and more central in the unease felt by may people concerning their consumption. Our customers can trust that we are doing the job for them and feel confident that we take full responsibility for our operations and our products. That way it becomes more secure to shop at KappAhl.

BUILD ON OUR STRENGTHS

One of KappAhl's great strengths is that we design and create our own products. This is a great asset for our market position, not least in purely financial terms. In our new strategy, described in our five goal images (pages 6–9), we make changes intended to give us the greatest benefit from our company's great design skills.

Since we know from customer surveys that we succeed best if we design for a more defined customer group, we will allow several independent brands to emerge within KappAhl. With more defined customer groups it is also easier to transform insights about our customers into measures that make us more relevant. And with shorter lead times from idea to garments hanging in stores we further improve our success potential.

Another great strength is that we own our channels and thus the customer meeting. This means that everything is in our own hands when we want to make it simpler and more desirable for our customers to shop with us. In our new strategy we will work to optimise the customer meeting in all our channels and to let our customers' behaviour and wishes dictate how and where we meet them.

"Our ability to understand our customers is the key to our success."

Elisabeth Peregi, President and Chief Executive Officer

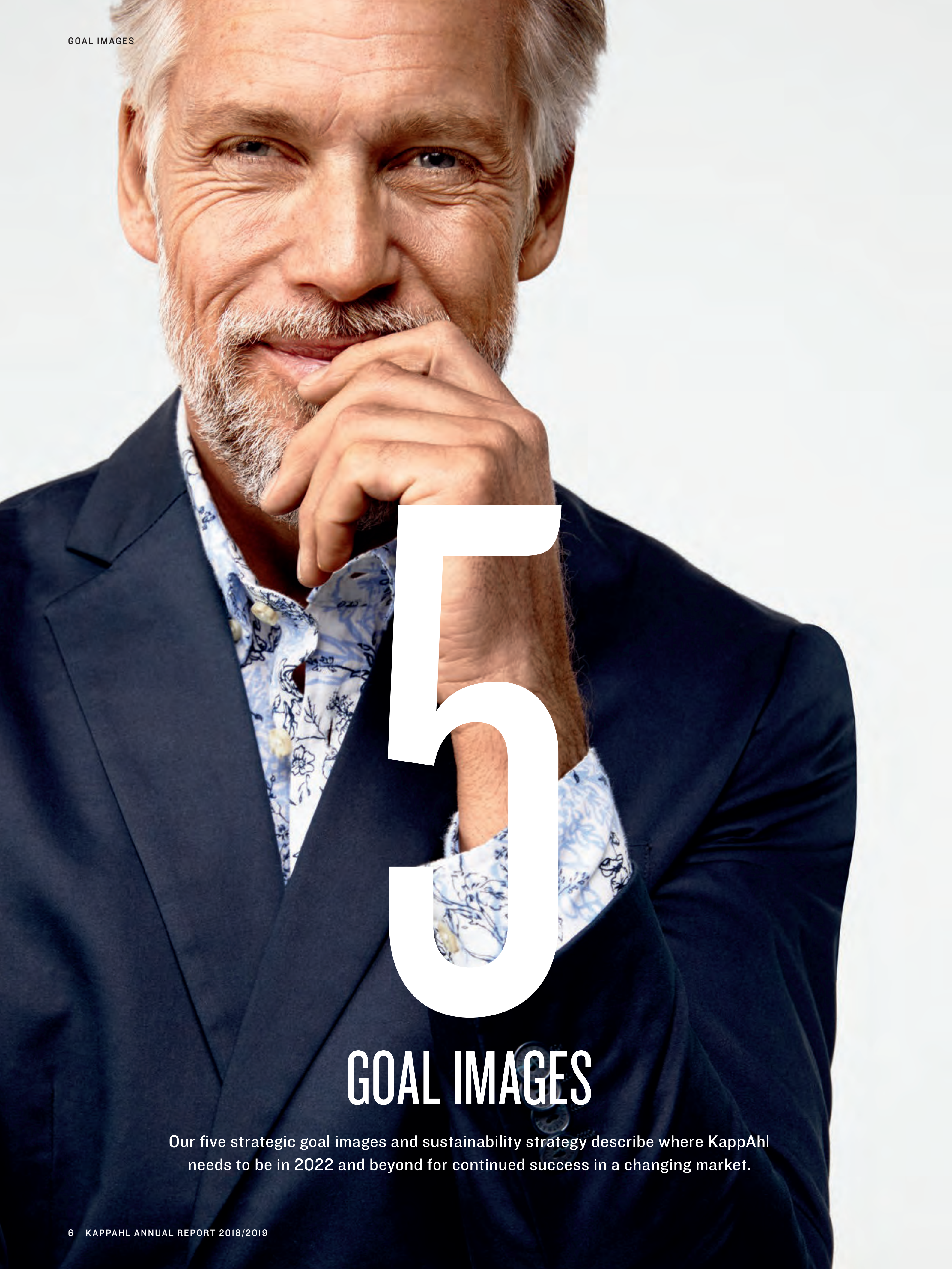
A good example of how we have already started to optimise is the KappAhl Kids store that we opened in Stockholm in February. With greater flexibility in our store portfolio, when we find the right store location, we can easily choose which concept is most relevant just there.

GREAT OPPORTUNITIES

The targets we have set up extend to 2022, but the principles behind them are timeless and will continue to be the key to success even further into the future. It is a matter of showing genuine interest in our customers so that we can create an offer that is relevant, of being accessible and of being effective in our internal processes.

Now in the autumn KappAhl will be a wholly owned company within Mellby Gård and I am looking forward to developing KappAhl further in that constellation. We are facing challenges but also great opportunities. If we focus on the right things we will get the job done and succeed in our ambition to be our customers' first choice.

Elisabeth Peregi,
President and Chief Executive Officer



5 GOAL IMAGES

Our five strategic goal images and sustainability strategy describe where KappAhl needs to be in 2022 and beyond for continued success in a changing market.

1. A BUSINESS MODEL BASED ON OUR CUSTOMER GROUPS

To optimise and clarify the offer in 2022 KappAhl will have more independent brands that are allowed to grow to their full potential. Every brand has a clear customer group and designs for a sustainable wardrobe.

"When we have asked our customers we have seen that the attraction to different parts of KappAhl was greater than to the whole. And the more defined that part was, the greater the interest, since the relevance to the customer was greater.

We have many different customers, all seeking different ways of being addressed, expressions and feelings in their clothing choices. Consequently, we want to build further on the feedback we have received and allow more independent brands, with expressions relevant to just their customer group, to emerge within KappAhl.

Our new brand strategy will clarify what KappAhl stands for. We will define who our customer groups are and how we should organise ourselves to best meet their needs. In that way interest for the whole of KappAhl will grow."

Elisabeth Peregi, President and Chief Executive Officer

2. A CUSTOMER-CENTRIC CULTURE

In 2022 KappAhl's employees will continue to have high ambitions, the right knowledge and clear mandates for making sustainable and commercial decisions from a customer perspective. They are strongly committed to their employeeship and take responsibility for their own, their team's and KappAhl's development.

"Since customers are the most important thing we have, we want to an even greater extent to continue to build a customer-centric culture. This means that we need deep understanding of our customers so that we can take their perspective in our organisation.

An important part is about strengthening employeeship so that all of us working at KappAhl take responsibility for our common development. We will continue the work of clarifying responsibility and mandate.

We will work in a structured way on change management and conduct activities so that our customer-centric culture spreads and permeates everything we do at KappAhl."

Anna Andihn, Vice President, HR and Corporate Communications

3. RELEVANT AND INSPIRING CUSTOMER EXPERIENCES

In 2022 KappAhl's customers will feel they receive the help they want and that it is simple and inspiring to shop. They will receive a personal and warm welcome and feel secure, since KappAhl keeps its promises.

"We want a customer meeting that breathes: I'll help you in the way you want help. In our physical stores it may be a matter of designing our stores in a way that is inviting and easily navigable, so the customers can do more themselves. This will give our employees more time to help and inspire customers in the personal meeting.

In our digital stores it may be a matter of making the buying process as smooth as possible, keeping delivery times and making relevant offers and suggestions by analysing buying behaviour.

So despite the fact that this target concerns the customer experience, most of the work takes place behind the scenes. It is a matter of coordinating all the underlying processes, of making them so simple and clear that they never fail. If we do that we will keep our promises."

Anna Karin Holck, Vice President, Customer Experience

4. ATTRACTIVE SALES CHANNELS

KappAhl's sales channels in 2022 will flexibly adapt to the customer's buying behaviour and wishes. They will consist of a mix of stores for KappAhl, the free-standing brands and external platforms. They will be both physical and digital.

"Sales channels are an area undergoing rapid change. This target is both about adapting our physical and digital stores to the change and finding our way in the expansion of our free-standing brands.

We will therefore develop an establishment strategy for each brand within KappAhl and put a lot of effort into finding our way in the interaction between physical and digital stores and the different brands. We will analyse our target groups' various flows, place stores of the right format in the right place and then evaluate them continually. They may be stand-alone stores or stores that gather several brands like a department store.

The key lies in continually adapting to our customers. We will therefore also carefully test and evaluate new partners and platforms."

Martin Barden, Country Manager, Sweden

5. EFFECTIVE SCALABLE PROCESSES

In 2022 KappAhl will have processes and working methods that allow the Group to grow effectively with new channels, markets and product areas. We have taken further steps towards a more sustainable supplier chain with shorter lead times and have decision-making processes with a clearer distribution of responsibility.

"Today we are very good at being KappAhl in the Nordics and Poland. To be able to develop and grow more easily outside that framework, as we managed to do successfully when we opened Newbie in the United Kingdom, we must make some changes in our working methods.

To be more flexible, scalable and sustainable, so that we can grow more easily in the future, we will invest in changing our IT structure and reviewing our supplier chain. We will also review our work processes and develop them, for example with the aim of halving lead times for fashion goods.

We will also clarify the division of responsibility and the powers and mandate of each person and team for decision-making. We will retain the central guidelines that give us the advantages of a chain, but we want to add clear local mandates to be able to optimise every part of the business."

Peter Andersson, Chief Financial Officer

RESPONSIBLE FASHION

We want to take care of both our customers' wardrobes and the world around us. We work for responsible fashion that considers the customer and the entire chain, from manufacture to recycling. Our sustainability strategy Responsible Fashion supports the five goal images, but also has a more long-term perspective, contributing to building a sustainable business model.

"Sustainable fashion means an enormous transition for the entire fashion industry that will require updated business models and changed routes to success. To support us in getting there we have our well-prepared sustainability strategy that is rooted in our entire organisation and value chain, and that all our employees contribute to.

It is based on our own in-depth knowledge of the industry, current research and external initiatives such as the UN Agenda 2030 and gives us the tools to be proactive in reducing our impact.

We have broken down the strategy into commitments and measurable goals in four areas: Design fashion for a sustainable wardrobe; Work towards a sustainable supply chain; Develop a sustainable organisation and stores; Inspire our customers to make sustainable choices. In that way we are united and focused in our work for more sustainable fashion."

Fredrika Klarén, Head of Sustainability

KappAhl

350	4	11	9
STORES	MARKETS	NEW STORES 18/19	STORES CLOSED 18/19

THIS IS THE KAPPAHL GROUP

At KappAhl you find fashion that both feels right and looks good. We offer clothes of good quality and fit for women, children and men. We have fashionable and value-for-money clothes for all occasions – both everyday and festive. A lot has happened since we started selling coats in a cellar 65 years ago. Today we sell clothes online and in 350 stores in Sweden, Norway, Finland and Poland. But one thing is the same. For us fashion is about one thing – you. Regardless of who you are. For us everyone is of equal worth.

>>

WOMAN

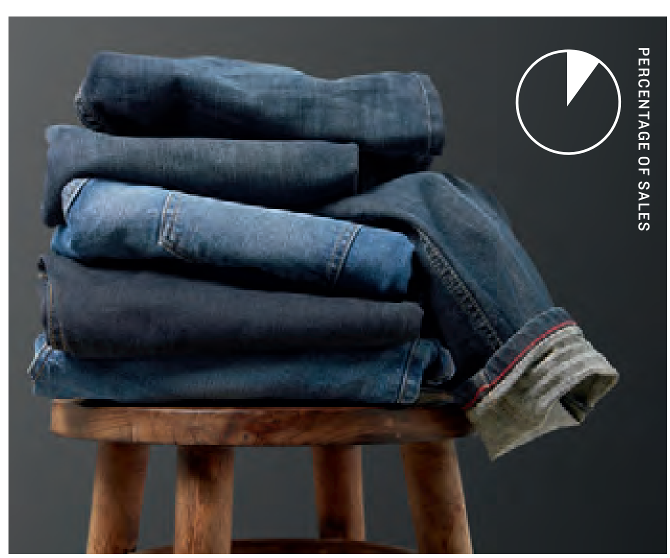
In autumn 2019 the loungewear collection Kay/Day, which is made from more sustainable materials and in earthy tones, was launched. The collection accentuates soft materials and colours such as mole brow, pale rose and mustard yellow, rest and recovery – a willingness to relax and find time for reflection at a time when the world around is accelerating.

KIDS

The 2019 school start campaign again highlighted the theme "Fine as I am" together with children's rights organisations in our various countries. The theme is based on one of our most important values: that all people are different, but of equal value and are fine just as they are. Since the start in 2012 more than SEK 15 million has been collected for organisations that give children the opportunity to talk to and receive support from an adult.

MAN

From autumn 2019 all our denim is manufactured in more sustainable material and using production processes that require considerably less water, energy and chemicals. This means that the cotton is farmed more sustainably in accordance with the BCI or organically and that the washing processes use half as much water, 30 per cent less energy and far fewer chemicals than for conventional denim.



* Including Newbie.

newbie

29	5	10	2
STORES	MARKETS	NEW STORES 18/19	STORES CLOSED 18/19

>>

The Newbie story started in 2010 when designers at KappAhl created a baby collection with the key words timeless, sustainable and value-for-money, with the idea of garments that can be passed down the generations. Newbie was perfectly in tune with the times and took hold virally. There and then many "Newbie Lovers" adopted the brand and their commitment has influenced both design and range, as well as creating an extensive second-hand market for the collection – entirely in line with Newbie's focus on sustainability. There are now Newbie Stores in Sweden, Norway, Finland, Poland and the United Kingdom.

WALLPAPER WITH NEWBIE

Together with Boråstapeter we produced four different wallpapers with patterns designed by hand by the Newbie design team. The wallpapers were matched with bedding, pyjamas and accessories in a limited collection released for sale in February under the name Bedtime Stories.

The wallpapers were manufactured with minimum environmental impact in Borås using water-based colours and material from sustainable forestry in Northern Europe. All the cotton in the textiles was organically farmed.

NEW SALES CHANNELS

In February the first stand-alone store for KappAhl Kids opened its doors in the Ringen shopping centre on Södermalm in Stockholm. KappAhl Kids is the Group's second stand-alone store concept after Newbie Store and houses KappAhl's entire childrenswear range.

As part of the company's business plan, described in the five goal images for 2022 on pages 6–9, KappAhl plans to highlight more individual brands and give them space.

OUR BUSINESS

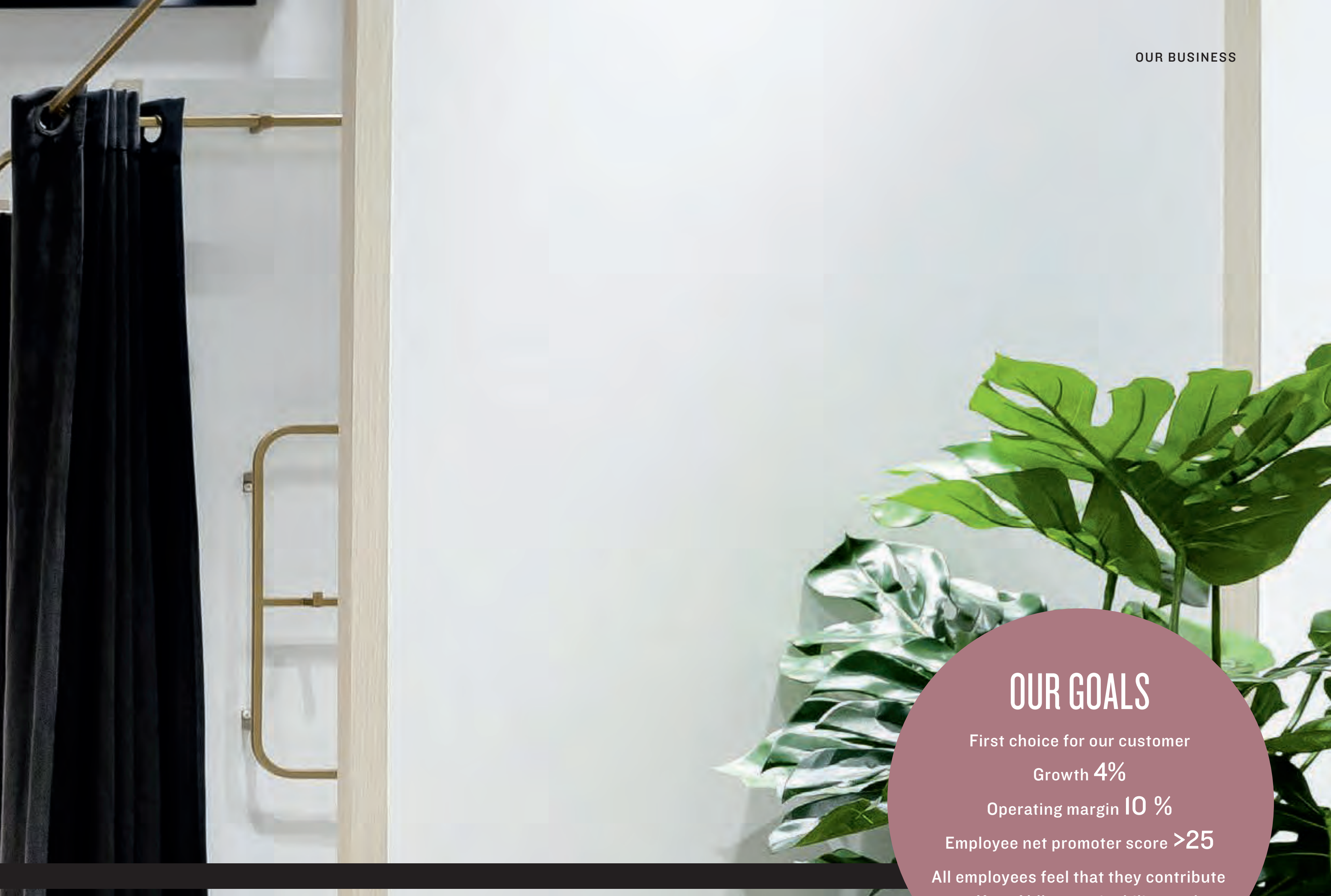
At KappAhl our purpose is to create a better everyday life for our customers through offering a wide range of well designed and feel good fashion, always in a sustainable way. Through a deep understanding of our business environment and our customer and with a clear business plan we can create lasting value throughout our value chain.

OUR BUSINESS ENVIRONMENT

- THE FASHION MARKET IN TRANSFORMATION
- CHANGED PATTERNS OF CONSUMPTION
- THE PURCHASING EXPERIENCE IN FOCUS
- INTERACTION BETWEEN PHYSICAL AND DIGITAL CHANNELS
- CIRCULAR AND SUSTAINABLE FASHION

OUR STRATEGY

- A BUSINESS MODEL BASED ON OUR CUSTOMER GROUPS
- A CUSTOMER-CENTRIC CULTURE
- RELEVANT AND INSPIRING CUSTOMER EXPERIENCES
- ATTRACTIVE SALES CHANNELS
- EFFECTIVE AND SCALABLE PROCESSES
- RESPONSIBLE FASHION



OUR GOALS

First choice for our customer

Growth 4%

Operating margin 10 %

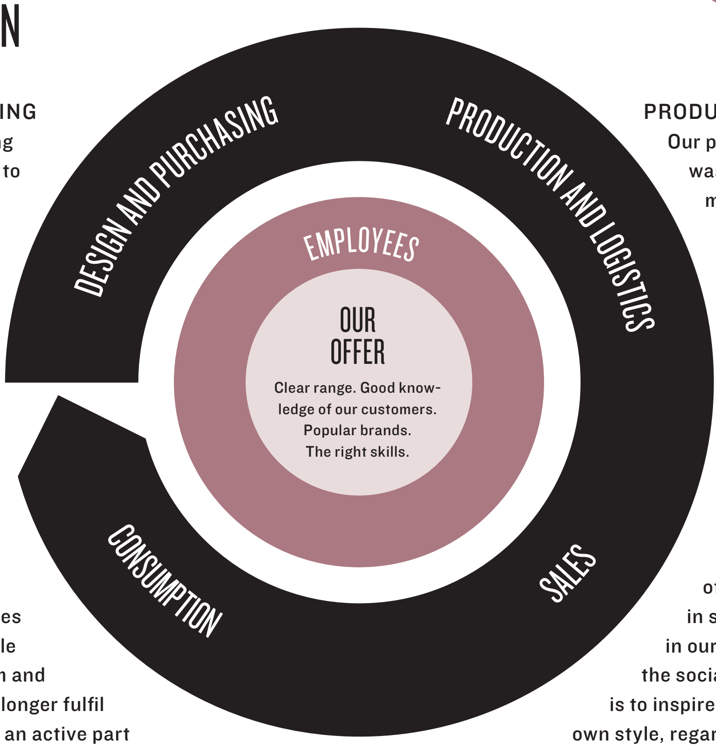
Employee net promoter score >25

All employees feel that they contribute to KappAhl's sustainability work

OUR VALUE CHAIN

DESIGN AND PURCHASING

In our design and purchasing department we are working to create a relevant and clear range for women, children and men. We produced 8,736 unique articles during the year – as always according to our customers' needs and wishes, focusing on quality and sustainability.



PRODUCTION AND LOGISTICS

Our production during the year was with 183 (187) suppliers, mainly in Asia but also in Europe. The more than 47,551,000 products we ordered during the year were transported from the factories, via our distribution centre, to our stores and home to customers in an effective logistics chain.

CONSUMPTION

At KappAhl we want to guide and inspire our customers to sustainable choices – to choose more sustainable garments, to look after them and pass them on when they no longer fulfil their function. We also take an active part in the transition to a circular fashion industry.

SALES

Every day we meet hundreds of thousands of customers, in stores, in our Shop Online, in our customer services and in the social channels. Our motivation is to inspire and guide them to find their own style, regardless of channel.

THE KAPPAHL SHARE

The KappAhl share was listed on Nasdaq Stockholm between 23 February 2006 and 30 October 2019. The share was then included in Nasdaq's index for consumer services (ICB Code 5000), sub-index retail (ICB Code 5300).

The number of shares 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

During the financial year (1 September 2018–31 August 2019) the value of the KappAhl share decreased by 43.0 per cent. This can be compared with OMX Stockholm (OMXSPI) that decreased in value by 1.2 per cent and OMX Stockholm Retail (SX5300PI) that increased by 43.3 per cent in the same period.

The highest price paid was SEK 36.60 on 3 September 2018 and the lowest price paid was SEK 13.51 on 18 July 2019. At the close of the financial year KappAhl's market value was SEK 1,526.4 million and the P/E ratio estimated on profit for the year was 10.9.

During the financial year a total of 101,042,955 KappAhl shares were traded to the value of SEK 2,020.7 million, based on the average price of SEK 20.0. This means that each share was traded 1.32 times over the year, corresponding to an average of 405,795 shares traded per day.

OWNERSHIP STRUCTURE 31 AUGUST

On 31 August 2019 KappAhl had 18,929 shareholders. The largest shareholder was Mellby Gård AB (Rune Anderson) with a holding of 29.6 per cent and Swedbank Robur Fonder with 6.7 per cent, followed by BNY Mellon SA with 4.0 per cent. Of the shareholders, 3.3 per cent own more than 5,000 shares. Shareholdings registered with companies and institutions amounted to 54.4 per cent.

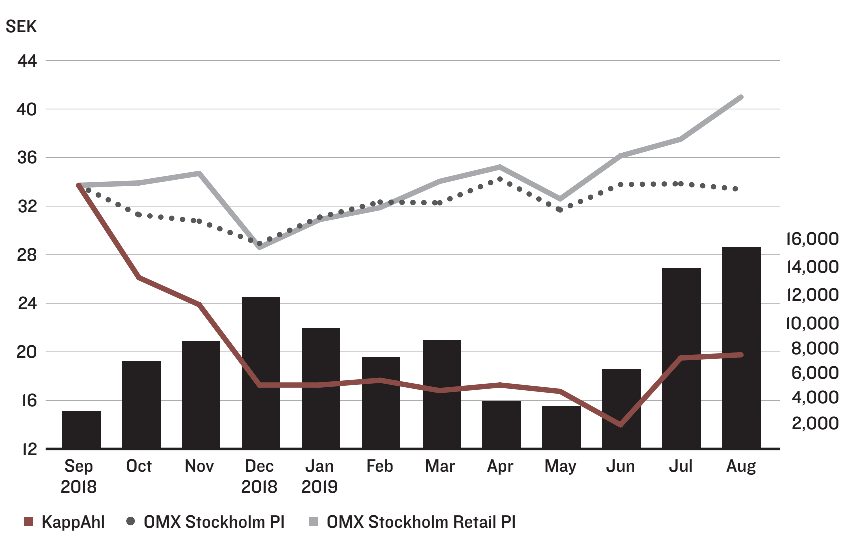
DIVIDEND

The Board of Directors proposes a dividend of SEK 0 (2.00) per share for the 2018/2019 financial year.

INFORMATION DISCLOSURE

KappAhl's information to the external world and owners is to be characterised by correctness, relevance, transparency and speed. KappAhl's press releases, previous quarterly reports and annual reports are available at www.kappahl.com/ir. There you will also find additional information about the company and how to subscribe to information from KappAhl.

KAPPAHL SHARE PERFORMANCE 2018/2019



MELLBY GÅRD HAS BOUGHT KAPPAHL

On 29 July Mellby Gård made a bid for KappAhl worth SEK 20 cash per share.

On 20 August the independent bid committee of the Board of Directors made a unanimous recommendation to the shareholders: to accept this public tender offer.

After the initial acceptance period had been extended, on 7 October Mellby Gård announced that they controlled more than 90 per cent of the shares. The offer thus went through and a call was made for compulsory redemption of the remaining shares.

The share was de-listed from Nasdaq Stockholm on 30 October.


COOL

RESPONSIBLE FASHION

During the year we made important progress in our sustainability work. We created even more sustainability labelled fashion, launched initiatives with sustainability in focus and achieved two important sustainability goals. We also made a strategically important investment in Re:newcell that will contribute to our long-term access to recycled fibres.

NEW SUSTAINABILITY GOALS

- *Reduce climate emissions by 30% by 2030*
- *100% of our packaging will be circular by 2030*
- *100% of our packaging material will be more sustainable by 2022*
- *Factories corresponding to more than 50% of order value will be reporting using the Higg Index in 2022*

New more sustainable fibres in our range: Ecovero and Polylana

MORE SUSTAINABLE SWIMWEAR

Swimwear made from recycled material

HAMPTON REPUBLIC 27 SUMMER

Collection entirely in sustainable material

A UNISEX COLLECTION FOR OLDER CHILDREN

UNITE

ALL DOWN IS CERTIFIED UNDER THE RESPONSIBLE DOWN STANDARD

Limited Edition from rescued leftovers

New certification: Responsible Wool Standard

Read more at kappahl.com/sustainability

51%

FACTORIES REPRESENTING 51% OF OUR ORDER VALUE REPORT IN ENVIRONMENTAL DATA USING THE HIGG INDEX >> Read more on page 25

Reaching our goals for more sustainable denim and textile collecting

>> Read more on pages 22 and 30

PARTNER IN RE:NEWCELL FOR MORE CIRCULAR MATERIALS

>> Read more about Re:newcell on page 22

RESPONSIBLE FASHION

OUR SUSTAINABILITY STRATEGY

Sustainable fashion means an enormous transition for the entire fashion industry that will require updated business models and changed routes to success. How do we get there? With clear targets and a well-prepared sustainability strategy that is well-rooted throughout our organisation and that all our employees contribute to.

At KappAhl we focus on sustainability throughout the value chain, from design and production to sales and our customers. The purpose of our sustainability strategy is to develop our business model based on sustainability. The strategy builds on our long experience and in-depth knowledge of fashion and its impact on people and the environment, current research, such as the science of the planetary boundaries, global initiatives such as the UN Agenda 2030 and our ongoing stakeholder dialogue and annual materiality analysis.

SUSTAINABILITY ORGANISATION

Sustainability is a part of all employees' daily work at KappAhl. Around a dozen employees work full time with a defined area of responsibility in the field of sustainability and are part of a matrix organisation led by the Head of Sustainability. The Head of Sustainability is part of the department that includes HR, Communications and Sustainability and reports regularly on sustainability work to the KappAhl management team. The Management Team reports on sustainability work to KappAhl's Board of Directors that deals with the issues at board meetings.

STAKEHOLDER DIALOGUE

We have an ongoing dialogue with the stakeholders that have the greatest impact on or are impacted by our organisation, such as customers, employees, suppliers, students, interest organisations and researchers. 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. The dialogue, which takes place through anything from daily contact to annual surveys, also provides an insight into their confidence in our sustainability work and what they see as our opportunities and challenges going forward.

MATERIALITY ANALYSIS

It is important that our sustainability strategy reflects both our stakeholders' expectations and KappAhl's social and environmental impact. Our ambition is that the sustainability strategy will provide a full picture of our important sustainability issues, which are to be clearly reflected in our sustainability reporting. Based on our stakeholder dialogue and new knowledge we therefore adjust our materiality analysis every year to identify our most important questions. Our work on the material questions is described in the annual report The GRI Index can be found on our website.

Based on this year's materiality analysis we have supplemented the report with the material subjects of Biological diversity, Microplastics and Packaging. To better reflect our impact, as of this year we report our energy intensity and for recycling/reuse the number of garments is reported instead of weight.

MORE INFORMATION

Supplementary information to our sustainability report, including stakeholder dialogue, materiality analysis and GRI index, can be found on our website www.kappahl.com/sustainability under the heading "Sustainability report".

OUR FOUR FOCUS AREAS

The sustainability strategy covers four focus areas with specific commitments and goals. They include important questions such as working conditions, resource use, production technology, gender equality and diversity. KappAhl follows global guidelines and principles, for example from the UN, ETI and the OECD, applies the precautionary principle, works proactively and cooperates on industry initiatives to achieve long-term sustainable development.

1 DESIGN FASHION FOR A SUSTAINABLE WARDROBE

COMMITMENT
- Design sustainable products and collections
- Complete the transition to more sustainable material and production processes
- Design for circularity

CHALLENGES
- Development of new, more sustainable fibres and production technologies
- Development of technology that enables fibre-to-fibre recycling
- Access to reliable data that shows sustainability performance for different fibres and processes

>> Read more on page 22

2 WORK TOWARDS A SUSTAINABLE SUPPLY CHAIN

COMMITMENT
- Work with responsible partners
- Build a sustainable logistics set-up
- Support communities and people who are affected by our business

CHALLENGES
- Promote progress on human rights such as a living wage, equality and working hours at community level
- Lack of transparency further down the supply chain
- Dependency on fossil-based energy in the supply chain
- A sustainable flow for products and packaging in the transition to more eCommerce

>> Read more on pages 23–26

3 DEVELOP A SUSTAINABLE ORGANISATION AND STORES

COMMITMENT
- Develop sustainable store concepts
- Work for diversity and equality
- Educate and support all employees in sustainability

CHALLENGES
- Our industry's lack of inclusive fashion with sound ideals
- Create effective tools and training to enable every employee's contribution to sustainability work
- Need for cooperation for example with property owners on sustainability issues such as energy, waste and transport

>> Read more on pages 26–26

4 INSPIRE OUR CUSTOMERS TO MAKE SUSTAINABLE CHOICES

COMMITMENT
- Develop solutions for more sustainable fashion consumption
- Be transparent and dedicated in our communication

CHALLENGES
- Create simple and attractive solutions for more sustainable fashion consumption
- Harmonisation of sustainability communication to enable consumers to choose where and what they buy
- Extend the life of garments and ensure they are used more often

>> Read more on pages 30–31

1 DESIGN FASHION FOR A SUSTAINABLE WARDROBE

Goals	2018/2019	2017/2018
100% more sustainable production processes by 2030, %	3	*
100% more sustainable denim by 2020, %	100	*
100% more sustainable materials by 2025, %	58	54
All cotton from more sustainable sources by 2020, %	93	86
50% of synthetic fibres from recycled sources by 2022, %	8	*
50% of products recyclable by 2025, %	11	*
50% of all wood-based fibres from more sustainable sources by 2022, %	10	*

*New measured values for this year.

We believe in fashion with responsibility. At KappAhl it is a matter of designing more sustainable products but also of communicating how a wardrobe is put together to last over time. By using sustainability as a compass in our product development we enable a more circular business model and more sustainable use of material, chemicals, water and energy. This also includes increasing the life of garments and promoting better working conditions in the supplier chain by choosing more sustainable materials and processes.

SUSTAINABLE RANGE

An important tool in our work to develop a more sustainable range is our scorecard for sustainability. It is based on five criteria: choice of more sustainable materials, circular fashion, design for a long life, raw material use and more sustainable production processes. It helps us to assess the sustainability performance of products and guides our product development. Implementation of the scorecard in all design and range departments has continued and this year we were able to measure sustainability performance for almost half of our range.

Our share of sustainability labelled garments is increasing all the time and we are constantly searching for more ways to improve our garments' sustainability performance. This year, for example, we have added Responsible Down Standard, Responsible Wool Standard, Ecovero, Polylana, Water borne PU and Rescued Leftovers to our list of sustainability labels and produced more collections with sustainability in focus.

SUSTAINABLE PRODUCTION PROCESSES

The transition to more sustainable production processes is one of the major critical questions for the fashion industry. What we mean by a more sustainable production process is a method that can show a documented reduction in the use of water, energy and/or chemicals compared with a conventional method. Our goal is to use only more sustainable production processes by 2030 (see goal table), which poses a great challenge, as the list of methods that are proved to lead to reduced environmental impact is at present short.

MORE SUSTAINABLE MATERIALS

By changing to material produced more sustainably, we can reduce the use of water, energy and chemicals, as well as creating better conditions for farmers and others who produce fibre. We continue to draw closer to our goal of having 100 per cent more sustainable material in our range by 2025 and that all of our cotton will come from more sustainable sources by 2020 (see goal table). One interim goal on that path will be reached this autumn when 100 per cent of our denim products will be manufactured in more sustainable materials, using more sustainable production processes. This is one year before the target set of 2020. Even though we see positive movement towards these goals, the challenge ahead of us is great. Demand for more sustainable material is currently greater than supply. And the more sustainable materials must become even more sustainable.

To increase the percentage of more sustainable cotton we collaborate with the Better Cotton Initiative (BCI), which trains cotton farmers in more sustainable farming methods and the Organic Cotton Accelerator (OCA), which promotes the increase in the share of organic cotton globally and the improvement of the living conditions of cotton farmers. Cotton from recycled sources is included in our definition of more sustainable cotton.

We also have an interim goal that at least 50 per cent of all synthetic fibres should be from recycled sources by 2022. We cooperate with Canopy to prevent the destruction of forests to produce wood-based material and require that all viscose we use comes from sustainable forestry. We also aim to obtain half of our wood-based fibres from more sustainable sources, such as Lenzings Tencel or Ecovero, by 2022.

TRANSITION TO CIRCULAR

A great challenge in the fashion industry is the transition to a circular economy. An important aspect is the availability of more recycled material, but we also need to design our products in a way that means they can have as long a life as possible and be recycled into new clothes. One goal we set in this transition is that 50 per cent of our garments must meet the criteria for circular design by 2025. In 2018/2019 the figure was 11 per cent. At present we are limited by the lack of recycling technology, enabling only clothes that mainly consist of one single fibre to meet the criterion.

PARTNER IN RE:NEWCELL

To promote the transition KappAhl has become a partner in the textile recycling

"Material that is recycled from used textiles will be crucial for achieving our goal to only use more sustainable material by 2025."

Fredrika Klarén, Head of Sustainability.

company Re:newcell. They are the first in the world to break down textiles into cellulose fibres on an industrial scale to then be used to make new garments. This is a strategically important investment to achieve our goals. KappAhl also participates in several projects to promote recycling, including the Swedish Environmental Research Institute's SIPTex project (Swedish innovation platform for textile sorting) which is to establish the world's first automated textile sorting facility on an industrial scale in Malmö.

MICROPLASTICS

Microplastics is a collective name for very small plastic articles that do not decompose and instead pollute the environment and harm animal life. Emissions come from washing synthetic materials, among other things. We keep abreast of the latest findings to act in the right way for the environment and humans. For example, we now know that recycled synthetic fibres do not discharge more microplastics than newly manufactured fibres, which was previously feared.

Our challenge going forward will be to ensure circular, closed cycles that release neither pollutants nor particles, for recycled synthetic material. We know that they will continue to be important for more sustainable, functional and circular fashion.

2 WORK TOWARDS A SUSTAINABLE SUPPLY CHAIN

Goals	2018/2019	2017/2018
All supplier factories approved for social conditions, %	100	100
Factories corresponding to more than 50% of order value reporting using the Higg Index by 2022, %	51	*
30% reduction in climate emissions by 2030**, %	–7	1
Annual reduction of climate emissions from our transportation, %	–9	+10

*New measured values for this year. **Base year 16/17, refers to scope 1–3.

KappAhl is to be an actor that promotes sustainable development in all parts of the production chain. This is to inform everything from farming and production of raw material, to the factories we collaborate with, logistics and our impact on the communities where we operate. Through cooperation and long-term commitments in our supplier chain we can strengthen work on human rights and anti-corruption, promote just and safe working conditions, fair wages and cleaner production.

SUSTAINABLE SUPPLY CHAIN

Our impact on people and the environment is in all parts of our value chain, but the most important impacts are at the supplier stage. Both the risks in countries of production, and lack of transparency, are greatest early in the supply chain. The most important issues concern safety at work, social dialogue, wages and working hours, but also environmental issues such as climate, water and chemicals.

We see more risks, such as of corruption, where the risk is greatest at the supplier stage. We have zero tolerance of any type of corruption and have a high level of internal control. It is highly unusual for us to identify cases of corruption among employees or suppliers. No cases of corruption were reported during the year.

Human rights also constitute a risk, where vulnerability is greatest in our production countries. We work to protect and promote human rights, for example our Code of Conduct, control of material purchases, training for factory workers and ongoing work to increase awareness of these matters, both internally and among our suppliers.

Apart from corruption and human rights, we see risks regarding working conditions, wages, child and forced labour, freedom of association, safety, health and the environment. We address these risks in our sustainability strategy, which builds on a combination of our own initiatives and industry initiatives. Above all we see a need to work for greater transparency and to increase suppliers' capacity, giving them clearer responsibility, such as through the industry initiative, the Sustainable Apparel Coalition (SAC). We also have ethical guidelines that are signed when we make new recruitments and must be complied with by both employees and suppliers. They are reviewed annually, for example through regular education about anti-corruption for our purchasing organisation.

RESPONSIBLE SUPPLIERS

To have a positive impact, we work to ensure that we collaborate with responsible suppliers. Apart from our sustainability strategy and ethical guidelines, our supplier strategy, binding Code of Conduct for suppliers and regular supplier evaluation are important policy instruments in that work.

All suppliers undertake to comply with the Code of Conduct, which forbids forced and child labour, and imposes requirements concerning freedom of association and organisation, wages and working hours, safety at the workplace, as well as environmental aspects. In addition all suppliers need to meet the requirements regarding product quality that we have set in the KappAhl Product Quality Standard. Read our Code of Conduct and the Modern Slavery Act report at www.kappahl.com/sustainability.

CONTROL OF PRODUCTION

When we enter new production markets we evaluate the situation concerning human rights, legislation on working conditions and terms of employment, as well as such things as ownership structures for factories and land aimed at identifying where the greatest risks lie.

MONITORING THE CODE OF CONDUCT

Employees at our local production offices monitor KappAhl's Code of Conduct in three steps: identify non-conformances, initiate improvement measures, and support the work of improvement. Another important task is to coordinate and cooperate with the purchasing organisation to ensure production at factories that live up to our requirements. We conduct an ongoing dialogue on sustainability with our suppliers, with the ambition that our visits and follow-ups will encourage increased own responsibility, for example for social conditions and environmental impact.

We conduct regular inspections at the factories and suppliers we cooperate with and during the year we carried out 365 (482) inspections and follow-up visits at suppliers' factories. The factories that are inspected in the agents and importers category are in countries where the risk of deficiencies in the work environment and safety conditions are estimated to be higher.

MONITORING THE CODE OF CONDUCT

	18/19	17/18	16/17
Number of factories	330	357	296
Number of inspections	199	228	206
Number of follow-up visits	166	254	186
Approved, %	54	64	–56
Temporarily approved, %	31	36	32
Unsatisfactory, %	0	7	2
Not inspected, %*	15	12	10
Number of inspections, new factories	50	37	58

*Constitutes factories in the category of agents/importers that have not reached a certain order value or are not in a country described as a high risk.

INSPECTIONS

All new factories are inspected by us. If a new factory meets our requirements at the first inspection it is classed as Temporarily Approved. To ensure that the factory meets our requirements, follow-up visits and subsequent new inspection are made within 12 months. Only then can the factory be classed as Approved.

If we discover non-conformances at our inspections our default position is to bring about change instead of discontinuing the collaboration. In these cases the factory draws up a plan of action to correct the non-conformances. If a supplier does not cooperate, or a factory does not carry out agreed improvements, we limit or stop the placing of orders. During the year plans of action were drawn up at 82 (188) suppliers but no collaboration was discontinued due to non-compliance with the Code of Conduct.

PROMOTE CHANGE

To influence and drive development forward in the production countries we are active and involved in several partnerships and industry initiatives. It is also important to identify the competence building projects that may bring about a system shift and tackle the major problems in societies where textiles are produced.

THE ACCORD

Bangladesh has a large garment industry, and is one of KappAhl's major production countries. Long-neglected safety for fac-

LIVING WAGES

One of the fashion industry's most important sustainability questions is that of the living wage, a wage that an employee and his or her family can live on. In many countries, minimum wages in the textile industry are less than half of what can be regarded as a living wage. Solving this is a complex challenge that requires both cooperation between governments, trade unions, industry organisations, NGOs and fashion companies, and long-term commitments and persistent advocacy.

OUR STRATEGY

We want to work with responsible suppliers and choose to collaborate with factories where statutory wages and remuneration are paid, employee representatives are in place and the workers are free to organise. Even though we see a positive wage trend, as has been said the statuary wage and remuneration usually does not correspond to a living wage, and workers in countries like Bangladesh do not have the opportunity to join a trade union or negotiate collectively to raise their wages. At our factory inspections the wage levels are continually followed up. In Bangladesh the average wage in factories producing for KappAhl is TK 11,813 (7,288). The statutory minimum wage is TK 8,000. Last year the minimum wage was raised by 51%. An important part of our strategy is follow-up and transparency, but also that our purchasing processes promote a trend towards living wages at our suppliers. Another important key is to promote a social dialogue, where collective bargaining is an essential part. Wages should be set in a democratic process in which agreements are signed between representatives of workers and employers, just as we have in Sweden, for example. This is what is required to achieve the systemic changes needed to enable millions of textile workers to live on their wages.

COOPERATION PROJECTS

An important partner for us in the work for a social dialogue and living wages is the Ethical Trading Initiative (ETI), an alliance that collects companies, trade unions and interest organisations that want to improve working conditions for factory workers. KappAhl has been a member since 2016. Another important measure is to strengthen factory workers' opportunities to influence their workplace through skills development. We work with the Swedish company QuizRR that develops interactive, digital tools with customised sustainability training for factory workers. We are part of a new pilot project in China with training in Wage Management Systems for factory workers and managers. The training, which is a partnership between QuizRR and Solidaridad, is to strengthen the dialogue at factories around wages and rights and on-site documentation.

tory workers in Bangladesh. After the fateful factory fire in April 2013, killing more than 1,100 and injuring 2,500, the "Accord on Fire and Building Safety in Bangladesh" was started to ensure secure and safe work environments for the country's textile workers. KappAhl has cooperated with the Accord since the start and was an early signatory of the replacement of the first Accord; the "Transition Accord on Fire and Building Safety". The work of the Accord to carry out inspections has brought about extensive improvements and follow-up visits are being carried out to check on progress.

All factories that collaborate with KappAhl have been inspected in the framework of the Accord and we have seen extensive improvements to fire and building safety. The work for safer factories in Bangladesh is not ceasing, however, but constantly continues. More information can be found at www.bangladeshaccord.org

TRAINING CENTRE THAT CHANGES LIVES

KappAhl's training centre in Dhaka, Bangladesh, offers training to women aged 18–35 who want to work in the clothing industry. To date the centre has offered training and employment to more than 800 female textile workers since the start in 2010. A study by the Stockholm School of Economics found that the training had improved the women's lives through knowledge enhancement, improved financial security and a feeling of safety in the factories where they worked. This year 147 women were trained and thereafter employed. Three women decided to take another route on their own initiative.

THE HIGG INDEX

Since 2018 KappAhl has been a member of the Sustainable Apparel Coalition (SAC), an organisation working for a more sustainable and transparent fashion industry. The SAC has developed the Higg Index, a series of tools that measure and evaluate the sustainability performance of factories, brands and products. During the year we started to implement the Facility Environmental Module (FEM) tool. This tool measures the environmental performance of the factories and has been used at factories corresponding to 51 per cent of KappAhl's order value. This is a good start and we will now continue to work towards having all our suppliers' factories reporting in using the Higg Index.

IN-DEPTH INFORMATION – CLIMATE CALCULATION

Every year KappAhl maps the climate impact in our value chain through a climate calculation covering the organisation's total climate emissions in one year. This is so we will understand better how and where emissions of greenhouse gases take place and to be able to take measures to reduce them. Calculation and reporting of emissions are made in accordance with the Greenhouse Gas Protocol's "Corporate Accounting and Reporting Standard" and "Corporate Value Chain (Scope 3) Accounting and Reporting Standard" as well as the guidelines of the Swedish Textile Initiative for Climate Action.

Our emissions are reported broken down into three scopes, 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 on our website. 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 emissions. Our focus lies on reducing emissions in line with the Paris Agreement and the 1.5 degree goal.

It is crucial to include emissions in scope 3 to gain an understanding of KappAhl's total climate impact. In the fashion industry most emissions occur in the supply chain, mainly as a consequence of the high share of fossil fuels in the production chain. The user phase is also important. A recent study from Mistra Future Fashion showed that doubling the life of a garment cuts its climate impact by half.

The distribution of emissions along the value chain from design to consumption for 2018/2019, based on KappAhl's operations, is shown in the table below

REDUCED EMISSIONS OF GREENHOUSE GASES

This year's climate calculation shows a reduction in KappAhl's total emissions of 7 per cent, compared with the base year 16/17. Contributory factors are more renewable energy, decreasing air travel (where our efforts to travel less at work during the year have reduced emissions from business travel by 36%) and increased use of sustainable materials etc.

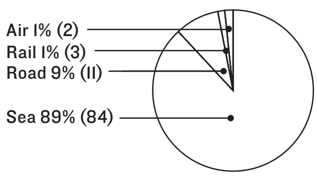
tonnes CO_2e (market-based)	2018/2019	2017/2018	2016/2017
Scope 1	275	198	195
Scope 2	12,361	16,024	16,990
Scope 3	179,125	189,971	186,867
Total	**188,815**	**206,193**	**204,052**

	Total emissions (tonnes CO_2e)	Percentage of total, %	Components
Design	963	1	Business travel
Production	126,715	66	Raw materials, manufacturing
Logistics	6,285	3	Transport and electricity from head office and distribution centre
Sales	15,248	8	Heating, electricity and waste from stores. Refrigerants.
Consumer	42,551	22	Washing, drying, ironing, travel to/from stores, waste

ENVIRONMENTAL IMPACT

The fashion and textile industry accounts for a considerable proportion of the world's greenhouse gas emissions, above all through emissions in the supply chain. To reduce

DISTRIBUTION OF MODES OF TRANSPORT



climate impact there must be cooperation. KappAhl is one of the initiators of the Swedish Textile Initiative for Climate Action (STICA), which is help the Swedish fashion and textile industry reduce its climate impact in line with the 1.5 degree pathway. During the year we adopted a new climate target to reduce our emissions by 30 per cent by 2030. The target refers to scope 1–3 with 2016/2017 as the base year. Read more on our impact in the in-depth information – climate calculation on page 25.

TRANSPORTATION

In terms of a product's lifecycle, transportation accounts for a relatively small proportion of climate emissions. However, this is a factor we can influence and that we make a priority, not least as increased internet shopping contributes to more transport.

By streamlining our logistics chain we can achieve our goal of reducing climate emissions from our transportation. In 2018/2019 transportation contributed greenhouse gas emissions of 125 (138) grammes per garment, which is a decrease of 9 per cent compared with the previous year. Most deliveries are by sea and air transport is only used in exceptional cases. Deliveries from the distribution centre to stores are usually by road. We also impose environmental and social requirements on all carriers, regardless of mode of transport.

WATER CONSUMPTION

Textile production requires large amounts of water, energy and chemicals, which create emissions and waste. Our water consumption is mainly in connection with fibre production, but also through the manufacturing processes in factories. We steer the water issue by changing to materials and production processes with documented water savings, as well as by only working with suppliers that have the required water purification and environmental management systems in place. We also see a need to increase knowledge of resource-saving measures, for example for water, in factories. KappAhl therefore works to develop the Swedish Textile Water Initiative, STWI, a capacity-building initiative to increase suppliers' efficiency of resources.

BIODIVERSITY

The fashion industry also impacts animal life and biodiversity, particularly in the production of fibre. An important measure, about which KappAhl has set clear goals, is to change to fibre and material that reduce the impact on biodiversity, for example by excluding gene-modified crops in organic cotton farming, and that safeguard animal welfare. However, knowledge of the impact of fashion on biodiversity needs to increase. Searching for clear solutions will therefore be a priority in our future sustainability work.

QUALITY AND SAFETY

KappAhl has high demands when it comes to quality, child safety and use of chemicals. These are defined in the KappAhl Product Quality Standard. We always apply the precautionary principle in relation to chemicals and safety and carry out regular quality and safety tests throughout the production process. It does not happen often, but in some cases we find non-conformances. Products that do not meet our requirements and are deemed to be potentially harmful to humans or the environment are burned. If the fault is deemed not to be hazardous, such as incorrect sewing, the garments are sent for re-use or recycling to our partner I:Collect. In the financial year we sent 4,776 (10,278) products for incineration for health, safety or environmental reasons and 9,874 (15,116) products for re-use or recycling

3 DEVELOP SUSTAINABLE STORES AND A SUSTAINABLE ORGANISATION

Goals	2018/2019	2017/2018
100% of energy under own agreements renewable by 2020, %	96	98*
20% reduction in electricity consumption 2018–2025, %	–13	–7
100% of indirect material, including packaging, circular by 2030, %	**	**
100% more sustainable packaging material by 2022, %	**	**
All employees feel they contribute to KappAhl's sustainability work, %	88	85

*Last year we reported an incorrect figure, which has now been revised.
**We are developing a method for monitoring these new goals

Sustainability guides us when developing our concept and organisation. KappAhl is to be enriched by diversity and gender equality. We take responsibility based on people and the environment when we develop our stores and design our marketing.

PACKAGING

The growing eCommerce is a challenge that not only entails more transportation but also more packaging. It is important that we reduce the amount of packaging and ensure it does not end up in nature. The packaging we use must be necessary and have the least possible environmental impact. Consequently, we have adopted a new goal that all indirect material, including packaging, is to be fully circular by 2030. This means that it is to be produced using renewable energy and can be reused and recycled many times. An interim goal is that all packaging is to be produced in more sustainable material by 2022.

Today we have come a long way in terms of labels and customer bags, which are all in more sustainable material, such as recycled plastic or FSC labelled paper. In Sweden we have a fully circular flow for our plastic hangers, which are mended or recycled in cooperation with our supplier in Lidköping. We are also developing cardboard hangers together with Ecoligens that we continue to test in our stores.

MORE SUSTAINABLE STORES

We constantly develop our store concept in terms of sustainability, both through high requirements of our furnishings and our energy consumption. Our aim is that by 2025 we will have reduced our electricity consumption by 20 per cent compared with 2018. Especially the transition to LED lighting in our stores is showing results. Our aim is also to have 100 per cent renewable energy under all agreements by 2020. However, this year the percentage of renewable energy purchased under own agreements fell (see in-depth information - internal energy consumption), which is due to the opening of new stores in Poland, where the proportion of renewable energy is at present lower. This will be remedied by 2020.

We also endeavour to reduce and recycle our waste, for example by only using product flow packaging for stores that can be reused or recycled. During the year a total of 892 (970) tonnes of waste was generated, of which 94 (92) per cent was sent for recycling, 5 (8) per cent for energy recycling and 0.6 (<0.1) per cent for landfill. In addition 0.5 (1.8) tonnes of hazardous waste was generated, in the form of electronics and fluorescent tubes.

IN-DEPTH INFORMATION – INTERNAL ENERGY CONSUMPTION

Control of energy consumption at KappAhl is through cooperation between the operating manager and our concept department. Through a procurement procedure, energy mapping and action plans, the operating manager controls important aspects such as power source and energy efficiency, while our concept department is constantly developing such things as store lighting to enable optimum energy consumption in stores. In total KappAhl has purchased 22.7 (23.6) GWh of energy in stores, at the distribution centre and the head office during the year under its own agreements. 21.8 (23.1) GWh of energy, or 96.3 (98.3) per cent, came from renewable sources, mainly hydropower with a guarantee of origin and 0.8 (0.06) GWh power, or 3.7 (0.3) per cent, from non-renewable sources such as coal. We used 33.3 kWh of electricity per square metre/open hour in stores and warehouses, which is a reduction by 13 per cent from the previous year. The energy consumption breakdown is as follows:

	2018/2019	2017/2018	Change, %
Electricity, kWh	21 348 911	22 353 421	–4
Heating, kWh	1 324 659	1 208 605	10
Fuel*, MJ	3 010 710	3 452 004	13

*Fuel refers to diesel for KappAhl's company cars.

SOUND IDEALS

Inclusive and sound ideals have been a core issue for KappAhl since the start and this is to inform our range and communication. We launch many collections and campaigns that indicate gender equality and diversity, such as the children's collection Unite, with a unisex theme and XLNT that honours all body shapes. We also work in accordance with the Swedish Ethical Fashion Charter's guidelines for the fashion industry's ideal body image and diversity.

EMPLOYEES

Employeeship is central for us at KappAhl. This means that employees take responsibility for their jobs and our common goals and find smart ways of creating results together. KappAhl's employees have clear goals, explicit responsibility and get regular feedback on their performance through frequent briefings that identify development needs, activities and results. Regular feedback gives us many positive effects in the form of motivation, results and development.

TRAINING AND EDUCATION

New employees are offered introductory training about KappAhl, our customers, values and sustainability work. We also offer our employees education and training on an ongoing basis for continuous professional development, such as a digital course for store employees in guiding customers to more sustainable fashion choices. The KappAhl Academy offers training for employees who want to progress within the company, for example to be a store manager, and business development and leadership programmes for managers. All employees have participated in skills development during the year; on average 6.7 (9.2) training hours per employee.

ATTRACTIVE WORKPLACE

KappAhl is a popular workplace and our annual employee survey shows an Employee Net Promoter Score (eNPS) of 33 (23), which can be compared to our target of 25, corresponding to a high level of employee loyalty. Our aim is that all employees should feel that they contribute to

KappAhl's sustainability work, which is something we measure in our annual employee survey. This year the figure was 88 (87) per cent. We work actively with equality, diversity, the work environment and non-discrimination through our policies for gender equality and work environment.

Good working conditions at KappAhl is a given. Employees are regularly informed of our ethical guidelines and our leaders work continually to promote a good working climate that creates commitment, enjoyment and initiative. We care about maintaining an open business climate and good business ethics. Employees can anonymously report on grievances or misgivings about circumstances that violate our values and ethical principles through our whistleblowing service that is handled by an external party. During the year no reports were received.

In Sweden, Finland and Norway all employees are covered by collective agreements, representing 89 (91) per cent of KappAhl's employees. In other countries national legislation is applied, where in some cases we augment terms of employment beyond legislation.

GOOD WORK ENVIRONMENT

We promote good work environment in several ways, including offering our employees occupational health services that work both to prevent and rehabilitate. We also encourage good health by giving space for various types of health initiatives at the workplace and where possible offering flexible working hours. We conduct safety inspections twice a year, and any incidents and occupational injuries are reported and dealt with. Ahead of operational changes risk assessments are made concerning work environment issues. Each manager is responsible for ensuring that their employees have knowledge about a good work environment.

Work environment issues are discussed regularly at performance reviews between employees and managers and at quarterly workplace meetings. Work environment aspects are also followed up in our annual employee survey, an important channel for early indications of the need for action. Sickness absence was 5.2 (5.8) per cent during the year and we have very few occupational injuries.

SAFETY

We work continuously to ensure a safe work environment. We carry out regular safety audits in stores at intervals of a couple of years or more often if necessary.

In every store an internal fire protection check is conducted quarterly or annually.

IN-DEPTH INFORMATION – DIVERSITY AND GENDER EQUALITY

KappAhl currently has 3,895 employees. We are found in our five sales markets and in our production offices. The tables on pages 28, 29 and 30 present in-depth information in accordance with the GRI Guidelines. The tables show the estimated maximum number of employees on a given date during the financial year and includes employees on fixed-term contracts. Data is not restated to the number of full-time equivalents. Employee data has been collected through the payroll and time reporting system.

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

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

Gender breakdown of the Board, %	2018/2019	2017/2018	2016/2017
Women	64	67	67
Men	36	33	33

Age breakdown of the Board, %	2018/2019	2017/2018	2016/2017
Under 30 years	—	—	—
30–50 years	18	22	17
Over 50 years	82	77	83

Female managers, %	2018/2019	2017/2018	2016/2017
Management team	71	67	57
Head office, Sweden	87.5	79	83
Stores, Sweden	91	88	88
Distribution centre, Sweden	–44	12,5	25
Total, Norway	96	96	97
Total, Finland	93	93	93
Total, Poland	84	83	82
Total, United Kingdom	100	100	—
Total, production offices	87.4	–74	38

Incidents are reported on an ongoing basis and are followed up by each country's head of security. Store employees receive regular training in security in accordance with the training plan in our Security Manual and safety training is included in the introduction of new employees. Where necessary, store managers receive targeted training from our head of security. Every year we hold training sessions in fire theory and evacuation drills. Every third year practical firefighting exercises are carried out.

ANTI-DISCRIMINATION

Any employee can report discriminatory or victimising behaviour in the annual employee survey, or to their immediate superior or to the HR department. All cases of victimisation are followed up by HR and must be treated promptly and confidentially.

IN-DEPTH INFORMATION – EMPLOYEES

Age and staff turnover	2018/2019	2017/2018	2016/2017
Average age, Group, years	37.7	36.8	–37,9
Staff turnover, Group, %	13.9	13.1	14.3

Key ratios, employees	2018/2019	2017/2018	2016/2017
Training hours per employee	6.7	9.2	11.5
Sickness absence, %	5.2%	5.8	5.7

	2018/2019		2017/2018		2016/2017	
Number of employees by region and gender	Women	Men	Women	Men	Women	Men
Number of employees, Sweden	1,834	159	1,910	208	1,907	207
Number of employees, Norway	972	15	989	15	1,002	15
Number of employees, Finland	448	5	458	5	454	5
Number of employees, Poland	269	12	243	15	256	13
Number of employees, United Kingdom	35	1	28	0	—	—
Number of employees, production offices	81	64	83	62	99	43
Total for Group	**3,639**	**256**	**3,710**	**306**	**3,718**	**283**

	2018/2019		2017/2018		2016/2017	
Number of employees by region and gender	Women	Men	Women	Men	Women	Men
Number of employees on full-time contracts, Group	1,110	180	1,097	258	1,065	148
Number of employees on part-time contracts, Group	2,529	76	2,613	48	2,654	135

Percentage of employees by type of contract and region	2018/2019	2017/2018	2016/2017
Employees on full-time contracts, Group, %	33	36	31
Employees on full-time contracts, Sweden, %	35	38	34
Employees on part-time contracts, Sweden, %	65	62	66
Employees on full-time contracts, Norway, %	17	16	17
Employees on part-time contracts, Norway, %	83	84	83
Employees on full-time contracts, Finland, %	23	22	20
Employees on part-time contracts, Finland, %	77	78	80
Employees on full-time contracts, Poland, %	81	81	79
Employees on part-time contracts, Poland, %	19	19	–21
Employees on full-time contracts, United Kingdom, %	32	40	—
Employees on part-time-time contracts, United Kingdom, %	68	60	—
Employees on full-time contracts, Production offices, %	98	100	—
Employees on part-time contracts, Production offices, %	2	0	—

IN-DEPTH INFORMATION – NON-DISCRIMINATION

All cases of bullying or victimisation at KappAhl are to be followed up by the HR person responsible and must be treated promptly and confidentially. It is important for all organisation and work planning that a good atmosphere is created, with functioning standards, so that victimisation does not arise. Managers and supervisory staff play key roles in terms of shaping the atmosphere and the standards that are to prevail at the company. The managers concerned are to be informed and parties involved have their say before any decision to act is taken. It is important to take into account and act in accordance with the wishes of the victim.

Cases reported according to annual employee survey	18/19[1]	17/18[2]	16/17[1]
Number of employees who state that they have been harassed at their workplace due to gender (sexual harassment)	0	—	6
Number of employees who state that they have been harassed at their workplace due to ethnicity, religion or other belief	91	—	10
Number of employees who state that they have been victimised (bullied) at their workplace, in word or deed, due to disability	0	—	8
Number of employees who state that they have been victimised (bullied) at their workplace, in word or deed, due to sexual orientation	0	—	0
Total	**91**	—	**24**
Number of employees who state that at their workplace some form of victimisation (bullying) exists, in word or deed	91	—	80

1) This data is taken from the employee survey (KappAhl Attitude Survey).
2) Data unavailable due to revision of the employee survey during the year.

This year we see a pronounced increase in the number of employees who state in our employee survey that they have been harassed at their workplace due to ethnicity, religion or other belief. Analysis is in progress to understand this increase. Managers getting these signals in the survey are tasked with setting up action plans, which for example may involve providing information about our zero tolerance of harassment and victimisation, and about our procedures for reporting harassment and victimisation. The employee survey is not a basis for action by us in specific cases, but gives us a picture of where we need to discuss these matters.

4 INSPIRE OUR CUSTOMERS TO MAKE SUSTAINABLE CHOICES

Goals	2018/2019	2017/2018
Annually collect 250 tonnes of textiles by 2020, tonnes	309	232
Reduce bag use by 50% by 2016–2020, %	–67	–70

While we need to transform production of fashion, we also need to ensure that consumption is more sustainable, aware and circular. These two aspects are also mutually dependent. Consequently, we want to guide our customers towards more sustainable fashion consumption and inspire them to be a part of the work of transforming the fashion industry.

SOLUTIONS FOR SUSTAINABLE CONSUMPTION

We in the fashion industry have a joint responsibility to increase the life of our products – they can be reused and recycled. This leads to a considerably reduced environmental impact and we want to make it simple for customers to do their bit. Therefore all KappAhl's stores offer textile collecting as part of the Care&Rewear concept. During the financial year we exceeded our target for 2020 of collecting 250 tonnes of textiles per year in our stores. The textiles collected are sent to our partner I:Collect, to optimise their life through reuse (nearly 60 per cent), recycling (nearly 40 per cent), or or as a last measure energy recycling. As part of Care&Rewear we also collect instructions and tips for clothing care that prolongs the life of the garments.

ONE BAG HABIT

There is good reason for the fear of plastic that many people feel today, but the fact remains that recycled packaging material of both plastic and paper may be a good choice in the circular transition. For example in a lifecycle analysis we see that our recycled plastic bag that is produced using post-consumer material in Spain has a lower impact in a series of environmental impact categories, such as climate, than a paper bag.

However, one of the most important measures is to ensure that fewer bags are used. Through the One Bag Habit initiative, launched together with Lindex and H&M in 2017 we want to increase awareness of this. Consequently, we charge for all bags in our stores and the surplus from these sales goes to sustainable development projects. We reached our target to reduce bag use by 50 per cent by 2020 in all markets, compared with the 2016/2017 financial year by a good margin (see goal table on page 30).

GREATER TRANSPARENCY

It is important to us at KappAhl to be transparent in our communication. Our customers should have great confidence in our sustainability work and feel inspired to make more sustainable choices. During the year we launched new sustainability pages on our website where there is information about anything from our sustainability labelling to the factories we buy from. We participate in the tests of the Higg Brand Module to measure the environmental and social impact of our entire operations, with the aim of implementing this tool fully and communicating our results externally by 2022.

INSPIRE SUSTAINABLE CHOICES

Our marketing is to give our customers information and guidance towards more sustainable choices. We therefore take seriously the complaint by the Norwegian Consumer Council against our marketing of more sustainable swimwear, Hampton Republic 27 Summer and Responsible Fashion in the Online Store. They considered that the environmental benefit was unclear and that the marketing was misleading. We reviewed our campaign and product information thoroughly and implemented measures to provide greater clarity. We continue to develop our customer guidance towards more sustainable choices, a responsibility and an opportunity we take with the utmost seriousness. This is reflected not least in our Sustainability Labelled concept, where we only highlight more sustainable solutions that can demonstrate documented sustainability improvements that have usually also been certified by a third party. This is a clear label to look for customers wanting to make a more sustainable choice.

RESPONSIBLE ACTIONS

To contribute to more sustainable development, KappAhl also conducts activities aimed at helping civil society, both locally and globally. We want our efforts to actively spread knowledge and commitment and create opportunities for long-term positive progress on issues related to our business. We gather our activities under the term Responsible Actions. The money distributed from there comes from different parts of KappAhl's operations, and our customers' contributions often play a decisive role. One example is the One Bag Habit that you can also read about here. Our customers' contributions to the "Fine as I am" campaign are also important. Together with them, during the financial year we donated SEK 5.5 (4.8) million. Read more abut all the organisations we support through Responsible Actions at www.kappahl.com/sustainability under the heading 'Our Commitments'.

This is a literal translation of the Swedish original

THE AUDITOR'S STATEMENT ON THE STATUTORY SUSTAINABILITY REPORT

To the General Meeting of Shareholders of 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 18-31 for the year 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, October 31, 2019
PricewaterhouseCoopers AB

Eva Carlsvi
Authorized Public Accountant

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 2018 to 31 August 2019.

BUSINESS OPERATIONS

The Group operates in retail sales of clothes and accessories for women, men and children through its own network of 379 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.

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, 20 new stores were opened: five in Sweden, two in Finland, two in Norway, eight in Poland and three in the United Kingdom. In the same period 10 stores closed, two in Sweden, one in Finland, two in Norway, three in Poland and two in the United Kingdom.

The total number of stores was 379 (369) at the close of the financial year.

NUMBER OF STORES PER COUNTRY

	31/8/ 2019	31/8/ 2018	31/8/ 2017	31/8/ 2016	31/8/ 2015	31/8/ 2014	31/8/ 2013	31/8/ 2012	31/8/ 2011
Sweden	181	177	179	174	167	166	165	165	159
Norway	100	99	96	100	100	101	103	103	99
Finland	62	62	59	59	61	63	65	62	59
Poland	30	25	22	35	40	47	52	53	47
United Kingdom	6	6	–	–	–	–	–	–	–
Czech Republic	–	–	–	–	–	–	5	5	5
Total	**379**	**369**	**356**	**368**	**368**	**377**	**390**	**388**	**369**

BUSINESS DURING THE YEAR

Net sales and gross profit

KappAhl's net sales for the financial year were SEK 4,901 (4,760) million, corresponding to an increase of 3.0 per cent compared with the previous financial year. Sales in comparable stores are unchanged compared with the previous year. This is explained solely by new and closed stores, 1.5 per cent; and currency translation differences totalling 1.4 per cent.

Gross profit was SEK 2,917 (2,942) million, corresponding to a decrease of –0.8 per cent. The gross margin was 59.5 (61.8) per cent.

Operating profit

The Group's operating profit for the financial year was SEK 168 (282) million, corresponding to a decrease of 40.4 per cent. The operating profit corresponds to an operating margin of 3.4 (5.9) per cent. Selling and administrative expenses for the period were SEK 2,749 (2,660) million. The cost increase is partly explained by non-recurring costs of SEK 43 million for the programme started to enhance earnings. The programme has had a positive impact on costs in the fourth quarter. The Group's adjusted operating profit for the financial year was SEK 211 (282) million.

Profit/loss before tax

Profit before tax was SEK 155 (282) million, which is a deterioration compared with the previous year of SEK 127 million. Net financial income was SEK –13 (0) million.

Taxes

Effective tax reported for the financial year was 8.9 (20.4) per cent. The reason for the year's low tax rate is that previously unmeasured loss carry-forwards on losses in Poland have been capitalised. In addition, previously capitalised deferred taxes were impacted by the decisions to reduce tax rates in Norway and Sweden.

FINANCIAL POSITION AND CASH FLOW

The Group continues to have a strong financial position with an equity/assets ratio of 52.4 (57.6) per cent. Net interest-bearing liabilities amounted to SEK 534 million at the close of the financial year, compared with SEK 373 million as at 31 August 2018. The net interest-bearing liabilities/adjusted EBITDA ratio was SEK 1.3 (0.9) million at the close of the period. Cash and cash equivalents as at 31 August 2019 amounted to SEK 46 (36) million. At the close of the period there was about SEK 550 (647) million in unutilised credit.

The company's external financing is primarily in the form of overdraft facilities. The company's existing credit agreement with the Group's main bank expires in 2020. The Board estimates that the bank financing will be replaced before the current credit agreement expires and therefore the annual report has been prepared on the basis of a going concern assumption.

The Group's cash flow from operating activities before changes in working capital was SEK 228 (296) million. The change is due to a lower operating profit and a lower amount of tax paid. Cash flow from changes in working capital was SEK –27 (–2) million.

Investments of SEK 185 (172) million were made during the period, mainly in existing and newly opened stores and IT related investments.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial policy is aimed at controlling and limiting financial risks by defining and establishing a framework and guidelines for KappAhl's financial operations. The policy also specifies the division of responsibility and establishes frameworks and guidelines for reporting and monitoring financial operations. The aim of KappAhl's financial operations is to minimise potential negative impact on KappAhl's profit, equity and cash flow, as well as to finance ongoing business operations and investments and thus safeguard KappAhl's solvency in the long and short term. Loans or investments of funds may not be made for speculative purposes. The main financial risks that KappAhl is exposed to are financing and liquidity risk, interest risk, credit risk and currency risk. 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

During the year Elisabeth Peregi was appointed as the new President and Chief Executive Officer for KappAhl. She took up her position on 7 April 2019.

On 29 July Mellby Gård made a bid for the company worth SEK 20 cash per share. On 20 August the independent bid committee of the Board of Directors made a unanimous recommendation to the shareholders: to accept this public tender offer.

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. To meet the challenges in the short term and to create resources for the changes that need to be made in the longer term, measures have been taken to enhance performance. Through the work on the five strategic goal images (see pages 6–9), work has also started on adapting and developing KappAhl. All in all, KappAhl is facing challenges but also opportunities. By building further on strengths and taking measures to make KappAhl relevant, the overall assessment is that the future offers continued opportunities 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 69, 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. Great changes are under way in how consumers buy their clothes as a result of the growth of eCommerce. This means that store footfall is decreasing and that competition is getting even tougher in that supply is greater than ever. There is also competition related to store locations and rental terms.

KappAhl has started work on optimising and clarifying its offer to KappAhl's various customers through a new branding strategy that allows more independent brands to emerge within KappAhl. At the same time, KappAhl focuses on relevant and inspiring customer experiences in both the physical and digital stores.

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-focused culture where customer purchase patterns and behaviour are constantly analysed.

Negative macroeconomic changes and geopolitical risks

One or more markets may be affected by events that impact the macroeconomy or the geopolitical environment in the country negatively. These changes in the macroeconomic or geopolitical situation, such as political instability and sudden adverse events in one or more countries may lead to a rapid change in conditions for conducting business. 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. About 92 per cent of KappAhl's products are bought from Asia and the rest from Europe. 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.

There are also uncertainties linked to how external factors such as currencies (see further description in Note 18), raw materials prices, production and transport costs or capacity of suppliers influence purchase prices of goods. In addition there are risks associated with social tensions in purchase markets, which may lead to instability for suppliers, manufacturing and deliveries. Consequently, the Group must monitor these changes at close quarters and have prepared strategies for dealing with fluctuations in as favourable way as possible for both the company and external stakeholders.

For a description of risks related to sustainability, see pages 18–31 of the Sustainability Report.

Development of sales channels

Sales channels are an area undergoing rapid change. KappAhl has continually developed the store network, both the physical and digital, through upgrades, changes in store areas, establishing new stores and closing stores. The management regularly evaluates individual stores' performance in relation to targets to ensure that growth targets and profitability requirements in the store operations have the potential to be met. The future sales channels will consist of a mix of stores for KappAhl, the free-standing brands and external platforms. They will be both physical and digital. KappAhl will draw up an establishment strategy for each brand within KappAhl. This, in combination with the ongoing work of developing the sales channels, requires considerable investment and management resources. There is no guarantee that investments will generate sufficient return.

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 2019 the total number of outstanding shares was 76,820,380.

The KappAhl share was listed on Nasdaq Stockholm, Mid Cap, as at 31 August 2019. On 15 October 2019 Nasdaq Stockholm approved KappAhl's application for delisting and the last day of trading was 30 October 2019.

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 31/8/2019 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
Swedbank Robur Fonder	5,122,454	6.67
BNY Mellon SA/NV (former BNY), W8IMY	3,056,296	3.98
SEB	1,915,198	2.49
Försäkringsaktiebolaget, Avanza Pension	1,760,702	2.29
SEB Investment Management	1,689,810	2.20
RBC Investor Services Bank S.A	1,638,000	2.13
Caceis Bank, Luxembourg branch, W8IMY	1,528,214	1.99
BNY Mellon NA (former Mellon), W9	1,526,897	1.99
State Street Bank and Trust CO, W9	1,463,475	1.91
Other shareholders	34,397,642	44.77
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 in Note 5 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 15 (26) million and refer for the most part to inter-company invoicing of services. There were no external sales. Net financial income was SEK 62 (59) million. The pre-tax profit was SEK 55 (47) 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

On 29 July KappAhl's majority shareholder, Mellby Gård AB, made a public takeover offer to all KappAhl shareholders. On 7 October Mellby Gård AB declared the offer unconditional and that the offer will be completed, as Mellby Gård AB controlled more than 90 per cent of the shares in KappAhl. On 15 October 2019 Nasdaq Stockholm approved KappAhl's application for delisting from Nasdaq Stockholm, Mid Cap, and the last day of trading was 30 October 2019.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The company's guidelines for remuneration to senior executives were adopted by the Annual General Meeting on 6 December 2018. The Board of Directors proposes that the 2019 Annual General Meeting adopts guidelines that are by and large unchanged in comparison with 2018 and are worded as follows:

Basic salary

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

Variable remuneration

The senior executive may, from time to time, be offered a bonus. For the President 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.

Corporate Governance

Information is provided in a separate Corporate Governance report. For further reading, please see pages 66–70.

SUSTAINABLE DEVELOPMENT

KappAhl takes active responsibility for people and the environment and contributes to development in the countries where the company operates. KappAhl's ambition is to create a brand and a business model that is sustainable and at the same time gives us business advantages.

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 also covers all subsidiaries and can be found on pages 18–31.

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 978,783,044
To be carried forward	SEK 978,783,044

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million	Note	1/9/2018 31/8/2019	1/9/2017 31/8/2018
Net sales	3, 4	4,901.4	4,760.0
Cost of goods sold	7	–1,984.6	–1,818.4
Gross profit		**2,916.8**	**2,941.6**
Selling expenses	7	–2,547.5	–2,431.9
Administrative expenses	7	–201.5	–227.7
Operating profit	5, 6	**167.8**	**282.1**
Financial income	8	9.2	8.0
Financial expenses	8	–22.4	–8.0
Net Financial income		**–13.2**	**0.0**
Profit/loss before tax		154.6	282.1
Taxes	9	–13.8	–57.6
Profit/loss for the year		**140.8**	**224.5**
Earnings per share			
before dilution (SEK)		1.83	2.92
after dilution (SEK)		1.83	2.92
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	1/9/2018 31/8/2019	1/9/2017 31/8/2018
Profit/loss for the year		**140.8**	**224.5**
Items not to be recognised in net profit for the year			
Actuarial gains/losses *		–35.4	–17.9
Tax referring to actuarial gains/losses	9	7.3	3.9
Total items not to be recognised in net profit for the year		**–28.1**	**–14.0**
Items that have been reposted or may be reposted to net profit for the year			
Year's translation differences		1.0	14.2
Cash flow hedges – value changes	18	–	15.1
Cash flow hedges recognised in income		–14.8	26.9
Tax attributable to items in other comprehensive income	9	3.3	–9.2
Total items that have been reposted or may be reposted to net profit for the year		**–10.5**	**47.0**
Total comprehensive income attributable to parent company's shareholders		**102.2**	**257.5**

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	31/8/2019	31/8/2018
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	10	695.8	695.8
Trade marks and other intangible assets	10	727.0	709.5
Property, plant and equipment	11	418.1	424.3
Deferred tax assets	9	63.8	60.4
Other long-term receivables	18	3.0	–
Total non-current assets		**1,907.7**	**1,890.0**
Current assets			
Inventories	12	854.2	763.8
– Trade receivables	18	4.3	0.9
Current tax assets		48.6	0.4
Prepaid expenses and accrued income	13	114.3	118.8
Other receivables	18	58.8	49.8
Cash and cash equivalents	18	45.9	36.3
Total current assets		**1,126.1**	**970.0**
Total assets		**3,033.8**	**2,860.0**
EQUITY AND LIABILITIES			
Equity			
Share capital		65.8	65.8
Other contributed capital		1,160.9	1,160.9
Reserves		–	11.5
Retained earnings including profit for the year		362.6	408.4
Total equity		**1,589.3**	**1,646.6**
Liabilities			
Non-current liabilities			
Provisions for pensions and similar obligations	14, 15	80.2	56.5
Deferred tax liabilities	9	137.5	151.4
Total non-current liabilities		**217.7**	**207.9**
Current liabilities			
Interest-bearing liabilities	14, 18, 21	499.7	353.1
Trade payables		188.3	177.7
Current tax liabilities		12.5	36.1
Other liabilities	16, 18	220.3	160.6
Accrued expenses and deferred income	17	306.0	278.0
Total current liabilities		**1,226.8**	**1,005.5**
Total liabilities		**1,444.5**	**1,213.4**
Total equity and liabilities		**3,033.8**	**2,860.0**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK million	Share capital	Other contributed funds	Hedging reserve[1]	Currency translation reserve[2]	Retained earnings including profit for the year	Total equity
	Equity attributable to the parent company's shareholders					
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**	**210.5**	**257.5**
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**

Amounts in SEK million	Share capital	Other contributed funds	Hedging reserve[1]	Currency translation reserve[2]	Retained earnings including profit for the year	Total equity
	Equity attributable to the parent company's shareholders					
Opening equity, 1/9/2018	**65.8**	**1,160.9**	**11.5**	**–7.7**	**416.1**	**1,646.6**
Profit/loss for the year	–	–	–	–	140.8	140.8
Other comprehensive income						
Cash flow hedges – value changes	–	–	–	–	–	–
Cash flow hedges recognised in income	–	–	–14.8	–	–	–14.8
Year's translation differences	–	–	–	1.0	–	1.0
Revaluation of defined benefit pension plans	–	–	–	–	–35.4	–35.4
Tax effect attributable to items in other comprehensive income	–	–	3.3	–	7.3	10.6
Total comprehensive income	–	–	**–11.5**	**1.0**	**112.7**	**102.2**
Transactions with shareholders						
Dividend	–	–	–	–	–153.6	–153.6
Shareholder costs in connection with takeover bid	–	–	–	–	–7.5	–7.5
Tax referring to shareholder costs in connection with takeover bid	–	–	–	–	1.6	1.6
Total transactions with shareholders	–	–	–	–	**–159.5**	**–159.5**
Closing equity, 31/8/2019	**65.8**	**1,160.9**	**–**	**–6.7**	**369.3**	**1,589.3**

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	1/9/2018 31/8/2019	1/9/2017 31/8/2018
Operating activities			
Operating profit		167.8	282.1
Adjustment for non-cash items	24	171.0	168.7
Interest paid/received		–11.5	–7.0
Income tax paid		–99.1	–147.4
Cash flow from operating activities before changes in working capital		**228.3**	**296.4**
Cash flow from changes in working capital			
Decrease (+)/Increase (–)in inventories		–90.4	–37.9
Decrease (+)/Increase (–)in operating receivables		–23.9	22.6
Decrease (–)/Increase in (+) in operating liabilities		86.1	13.0
Cash flow from operating activities		**200.0**	**294.1**
Investing activities			
Acquisition of property, plant and equipment		–139.6	–118.6
Acquisitions of intangible fixed assets		–41.9	–53.0
Investments in non-current financial assets		–3.0	–
Cash flow from investing activities		**–184.6**	**–171.6**
Financing activities			
Dividend		–153.6	–153.6
Redemption of shares		–	–499.4
Amortisation of debt		–	–
Loans raised		–	200.0
Decrease (–)/Increase (+)in bank overdraft facilities		146.6	127.8
Cash flow from financing activities		**–7.0**	**–325.2**
Cash flow for the year		**8.4**	**–202.7**
Cash and cash equivalents at beginning of the year		36.3	238.5
Exchange rate differences in cash and cash equivalents		1.4	0.5
Cash and cash equivalents at close of the year		**45.9**	**36.3**

PARENT COMPANY INCOME STATEMENT

Amounts in SEK million	Note	1/9/2018 31/8/2019	1/9/2017 31/8/2018
Net sales		15.4	25.8
Cost of goods sold		–	–
Gross profit		**15.4**	**25.8**
Other operating expenses		–22.5	–37.9
Operating profit	5, 6	**–7.2**	**–12.0**
Profit from financial items:			
Dividends from subsidiaries	8	48.6	50.2
Group contribution received	8	15.6	21.8
Other interest income and similar profit/loss items	8	38.5	16.7
Interest expense and similar profit/loss items	8	–40.8	–29.3
Net Financial income		**61.9**	**59.4**
Appropriations		–	–
Profit/loss before tax		**54.7**	**47.2**
Taxes	9	–1.3	0.7
Profit/loss for the year		**53.4**	**47.9**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

Amounts in SEK million	Note	1/9/2018 31/8/2019	1/9/2017 31/8/2018
Profit/loss for the year		**53.4**	**47.9**
Other comprehensive income		–	–
Total other comprehensive income		**53.4**	**47.9**

PARENT COMPANY BALANCE SHEET

Amounts in SEK million	Note	31/8/2019	31/8/2018
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	23	2,711.2	2,711.2
Deferred tax assets		1.9	1.5
Other long-term receivables	18	3.0	–
Total financial assets		**2,716.1**	**2,712.7**
Total non-current assets		**2,716.1**	**2,712.7**
Current assets			
Current receivables			
Receivables from group companies	18	3.5	14.3
Prepaid expenses and accrued income	13	2.1	1.8
Other interest-bearing receivables		1.2	0.7
Cash and bank balances	18	16.9	15.6
Total current assets		**23.7**	**32.4**
Total assets		**2,739.8**	**2,745.1**
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		–34.1	77.5
Profit/loss for the year		53.4	47.9
Total non-restricted equity		**978.8**	**1,084.9**
Total equity		**1,249.7**	**1,355.8**
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	813.5	644.4
Trade payables		1.0	0.3
Liabilities to group companies		663.8	726.3
Income tax liability		1.4	1.1
Other liabilities		1.2	3.3
Accrued expenses and deferred income	17	9.2	13.9
Total current liabilities		**1,490.0**	**1,389.3**
Total equity and liabilities		**2,739.8**	**2,475.1**

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/ 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**

Amounts in SEK million	Share capital	Statutory reserve	Share premium reserve[1]	Retained earnings	Total equity
Opening equity, 1/9/2018	**65.8**	**205.1**	**959.5**	**125.4**	**1,355.8**
Profit/loss for the year	–	–	–	53.4	53.4
Other comprehensive income					
Cash flow hedges – value changes	–	–	–	–	–
Cash flow hedges recognised in income	–	–	–	–	–
Tax attributable to cash flow hedges	–	–	–	–	–
Total comprehensive income	–	–	–	**53.4**	**53.4**
Transactions with shareholders					
Dividend	–	–	–	–153.6	–153.6
Shareholder costs in connection with takeover bid	–	–	–	–7.5	–7.5
Tax referring to shareholder costs in connection with takeover bid	–	–	–	1.6	1.6
Total transactions with shareholders	–	–	–	**–159.5**	**–159.5**
Closing equity, 31/8/2019	**65.8**	**205.1**	**959.5**	**19.3**	**1,249.7**

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, 2019-08-31	**76,820,380**	**65,846,040**

PARENT COMPANY CASH FLOW STATEMENT

Amounts in SEK million	Note	1/9/2018 31/8/2019	1/9/2017 31/8/2018
Operating activities			
Profit/loss before tax		54.7	47.2
Adjustment for non-cash items	24	–16.1	–21.8
Income tax paid		–1.2	0.2
Cash flow from operating activities before changes in working capital		**37.4**	**25.2**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		26.1	41.6
Increase (+)/Decrease (–) in operating liabilities		–74.8	–59.2
Cash flow from operating activities		**–11.2**	**7.6**
Investing activities			
Investments in non-current financial assets		–3.0	–
Cash flow from investing activities		**–3.0**	**–**
Financing activities			
Redemption of shares		–	–499.4
Dividend		–153.6	–153.6
Loans raised		–	200.0
Decrease (–)/Increase (+)in bank overdraft facilities		169.1	444.5
Cash flow from financing activities		**15.5**	**–8.5**
Cash flow for the year		**1.3**	**–0.9**
Cash and cash equivalents at beginning of the year		15.6	16.5
Cash and cash equivalents at close of the year		**16.9**	**15.6**

NOTES TO THE FINANCIAL STATEMENTS

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 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 2018/2019

KappAhl applies the new and amended standards and interpretations from the IASB and interpretation statements from IFRIC, which have been adopted by the EU and are mandatory for KappAhl as of 1 September 2018. The standards that KappAhl is applying for the first time for the financial year started on 1 September 2018 are presented below. Other standards, amendments and interpretations that come into force for the financial year starting on 1 September 2018 have no material impact on the Group’s financial statements.

IFRS 9

KappAhl AB (publ) has applied the standard from 1 September 2018 and in accordance with the standard comparative figures have not been restated. IFRS 9 replaces the parts of IAS 39 that deal with when a financial instrument is recognised on and removed from the balance sheet, classification and valuation of financial assets and liabilities as well as impairment of financial assets and hedge accounting. The new standard also entails increased disclosure requirements and changes in presentation. There are no transition effects on KappAhl’s income statement or balance sheet from this standard. The current hedging situation meets the hedge accounting conditions for application of IFRS 9 and KappAhl has updated the documentation around hedging in accordance with IFRS 9.

IFRS 15

KappAhl AB (publ) has applied the standard from 1 September 2018. IFRS 15 is the new standard for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. KappAhl has applied the modified transition method, which means that the comparative figures have not been restated. Introduction of the new standard has not had any material impact on KappAhl’s income statement or balance sheet.

Accounting for rights of return on the balance sheet has been changed and is recognised gross on the balance sheet as of 1 September 2018. Estimated rights of return are now recognised as a decrease in the cost of goods sold and an increase in inventories compared with before, when the liability was recognised net against provision for estimated returns. At year-end the inventory had increased by SEK 3 million as a result of this change.

NEW ACCOUNTING POLICIES 2019/2020 ONWARDS

When preparing this annual report several standards and interpretations were published that have not yet come into force and are applicable to the Group. A preliminary assessment is given below of effects of the standard considered relevant to the Group.

IFRS 16

IFRS 16 was published in January 2016. Implementation of the standard will mean that almost all leases will be recognised in the lessee's balance sheet, as there is no longer any distinction made between operating and finance leases. Under the new standard an asset (the right to use a leased asset) and a financial liability referring to the obligation to make lease payments must be recognised. Short-term leases and leases where the underlying asset has a low value are exempted. In the past year KappAhl has reviewed all the Group's leases in response to the new rules in IFRS 16. The standard will mainly impact the reporting of the Group's operating leases, above all leases for premises. On the balance sheet date the Group's non-cancellable operating lease commitments amounted to SEK 1,722 million, see Note 19. Of these commitments about SEK 43 million refer to short-term leases and leases for which the underlying asset has a low value. These will be recognised as an expense on a straight-line basis over the lease term. For the remaining lease commitments the Group expects to recognise rights of use amounting to about SEK 2,245 million as at 1 September 2019 and lease liabilities of SEK 2,245 million. The costs of these leases will be recognised in the income statement as depreciation or interest expense, which will affect performance measures such as EBITDA, operating profit and net financial income. IFRS 16 will be applied from 1 September 2019 and KappAhl has decided to use the simplified transition method that does not entail restating the comparative figures. For reconciliation between commitments for operating leases as at 31 August 2018 and reported lease liability on transition to IFRS 16, see Note 19.

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 companies of the Group operate. 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 control associated with ownership of the goods has been transferred to the buyer. If there is considerable 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

KappAhl AB (publ) has applied IFRS 9 from 1 September 2018 and in accordance with the standard comparative figures have not been restated. Financial instruments recognised 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.

Application of IFRS 9 has not had any impact on equity or profit for KappAhl other than amended terminology. On the basis that KappAhl's business model of direct sales to consumers does not give rise to credit risk to any great extent, the amended principle for impairments as a result of the transition to IFRS 9 has not entailed any differences for KappAhl.

Note 1 cont.

Assets measured at amortised cost
The category mainly covers cash and balances with banks and trade receivables. These assets are recognised as before at amortised cost. This means that ‘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. In accordance with the IFRS 9 rules, the Group applies a simplified method for impairment testing of trade receivables. The simplification means that the reserve for expected credit losses is estimated on the basis of the risk of loss for the entire life of the receivable and is recognised on initial recognition of the receivable.

Financial liabilities measured at amortised cost.
Long and short term interest-bearing liabilities and other financial liabilities, such as trade payables are included in this category. Long-term liabilities have an expected maturity of more than 1 year, while current liabilities have a maturity of less than 1 year. The expected life of trade payables is short; consequently they are recorded at nominal amounts without discount.

Financial liabilities are measured initially net at fair value and thereafter 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. Interest compensation on early redemption of a loan is recognised in the income statement at the time of redemption.

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'. Apart from any derivative instruments, KappAhl also has investments in unlisted shares that are measured initially and subsequently at fair value via profit or loss.

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

Cash flow hedging
Foreign currency exposure relating to future forecast cash flows may be 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 may be used to hedge any 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 subsequently reported in 'Cost of goods sold' as regards inventories. When hedging instruments mature, are sold 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.

Changes in classification between IAS 39 and IFRS 9

			31/8/2019	
Group SEK million	Classification under IAS 39	Classification under IFRS 9	Book value under IAS 39	Book value under IAS 9
Financial assets				
Trade receivables	Loans and receivables	Amortised cost	4.3	4.3
Cash and cash equivalents	Loans and receivables	Amortised cost	45.9	45.9
Unlisted shares	Fair value via other comprehensive income	Fair value via other comprehensive income	3.0	3.0
Financial liabilities				
Long-term interest-bearing liabilities	Amortised cost	Amortised cost	–80.2	–80.2
Short-term interest-bearing liabilities	Amortised cost	Amortised cost	–499.7	–499.7
Trade payables	Amortised cost	Amortised cost	–188.3	–188.3

The transition to IFRS 9 has not had any impact on equity or profit.

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 2019 there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the coming financial year.

Impairment tests for goodwill and trademarks
Every year the Group carries out impairment tests for goodwill and trademarks, in accordance with the accounting policy described in Note 1. Recoverable amounts for the cash generating unit have subsequently been determined by means of calculation of value in use. Certain estimates must be made for these calculations. For these estimates, as well as assessments concerning how reasonably possible changes in 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

IFRS 15 entails new recognition requirements for revenue and a breakdown of revenue from customers into different categories. KappAhl has identified geographical markets as different categories (see Note 4), in other respects net sales in the Group as a whole consist of the sale of goods of the same nature. KappAhl's goods are transferred at a point in time and the revenue is in the same month as the goods are delivered to the customer. 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	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018
Sweden	2,672.0	2,687.9
Norway	1,314.4	1,249.0
Finland	582.8	564.1
Poland	293.8	242.9
United Kingdom	38.5	16.1
Total	**4,901.4**	**4,760.0**

Non-current assets by geographical market

Group SEK million	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018
Sweden	322.8	323.4
Norway	106.7	99.7
Finland	48.2	55.9
Poland	49.4	31.9
United Kingdom	8.0	6.0
Total	**535.1**	**516.9**

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

	1/9/2018–31/8/2019	Of which men	1/9/2017–31/8/2018	Of which men
Parent Company				
Sweden	6	36.4%	6	33.3%
Total parent company	**6**	**36.4%**	**6**	**33.3%**
Subsidiaries				
Sweden	1,578	8.1%	1,598	9.8%
Norway	555	1.5%	544	1.5%
Finland	248	1.0%	339	1.0%
Poland	233	4.1%	237	5.9%
United Kingdom	19	1.6%	15	0.0%
Asia	145	44.9%	145	43.0%
Total, subsidiaries	**2,778**	**7.7%**	**2,878**	**8.5%**
Group total	**2,778**	**7.7%**	**2,884**	**8.5%**

Gender breakdown of company management

	31/8/2019 Percentage of men	31/8/2018 Percentage of men
Parent Company		
Board of Directors	33.3%	42.9%
Other senior executives	28.6%	33.3%
Group total		
Board of Directors	28.0%	35.0%
Other senior executives	28.6%	37.5%

Salaries, remuneration and social security costs

	1/9/2018–31/8/2019			1/9/2017–31/8/2018		
SEK MILLION	Salaries and remuneration	Social security costs	Pension costs	Salaries and remuneration	Social security costs	Pension costs
Parent Company	12.7	4.9	2.9	19.9	7.1	6.0
Subsidiaries	988.7	241.7	65.9	928.8	228.3	62.0
Group total [1]	**1,001.3**	**246.6**	**68.8**	**948.7**	**235.4**	**68.0**

Salaries and remuneration

	1/9/2018–31/8/2019			1/9/2017–31/8/2018		
SEK MILLION	Board and President [2]	of which variable salary component	Other employees	Board and President [2]	of which variable salary component	Other employees
Parent Company	5.1	–	7.6	13.4	–	6.5
Subsidiaries in Sweden	–	–	577.4	–	–	554.7
Subsidiaries in Norway	2.9	–	230.9	2.7	–	214.3
Subsidiaries in Finland	2.7	–	103.8	2.0	–	99.5
Subsidiaries in Poland	0.8	–	28.0	0.6	–	21.4
Subsidiaries in the United Kingdom	–	–	6.3	–	–	3.0
Subsidiaries in Asia	–	–	36.0	–	–	30.6
Group total	**11.4**	**–**	**989.9**	**18.7**	**–**	**930.0**

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 (12) 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.

President's conditions of employment
In the event of notice of termination from the employer, the current President has a contract guaranteeing the right to retain full salary for 12 months. Retirement benefits are based on a general pension plan from 65 years of age.

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

Note 5 cont.

Remuneration to senior executives

Remuneration and other benefits during the year SEK MILLION	1/9/2018–31/8/2019 Basic salary/ board fee	Variable remuneration	Pension cost	Total	1/9/2017–31/8/2018 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 Pia Rudengren	0.4	–	–	0.4	0.4	–	–	0.4
Member of the Board Susanne Holmberg	0.3	–	–	0.3	0.3	–	–	0.3
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	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)	0.3	–	–	0.3	0.2	–	–	0.2
Other (2 board members)	0.1	–	–	0.1	0.1	–	–	0.1
President/CEO Göran Bille (from 16 June 2018)	0.8	–	–	0.8	1.0	–	0.3	1.3
President/CEO Danny Feltmann (to 15 June 2018)[1)]	–	–	–	–	10.2	–	1.7	11.9
President/CEO Peter Andersson (to 6 April 2019)	0.6	–	0.2	0.8	–	–	–	–
President/CEO Elisabeth Peregi (from 7 April 2019)	1.6	–	0.5	2.1	–	–	–	–
Management Team (6 people)	12,0	–	3,3	15,1	12,4	–	4,2	16,7
Total	**17,2**	**–**	**4,0**	**21,0**	**25,8**	**–**	**6,2**	**32,1**

1) During the previous 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 1/9/2018–31/8/2019	Group 1/9/2017–31/8/2018	Parent Company 1/9/2018–31/8/2019	Parent Company 1/9/2017–31/8/2018
Group auditors				
Audit assignments	1.1	1.1	0.5	0.5
of which to Pricewaterhouse-Coopers AB	*0.7*	*0.7*	*0.5*	*0.5*
Audit business in addition to audit	0.0	0.0	0.0	0.0
of which to Pricewaterhouse-Coopers AB	*0.0*	*0.0*	*0.0*	*0.0*
Tax consultancy	0.1	0.2	0.1	0.1
of which to Pricewaterhouse-Coopers AB	*0.1*	*0.1*	*0.1*	*0.1*
Other services	0.4	0.8	0.2	0.3
of which to Pricewaterhouse-Coopers AB	*0.3*	*0.8*	*0.2*	*0.3*
Total	**1.6**	**2.1**	**0.6**	**0.9**
Other auditors				
Audit assignments	0.3	0.2	–	–
Audit business in addition to audit	0.0	0.0	–	–
Tax consultancy	0.0	0.0	–	–
Other services	0.0	0.0	–	–
Total	**0.3**	**0.2**	**–**	**–**

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	1/9/2018–31/8/2019	1/9/2017–31/8/2018
Raw materials and consumables	1,677.8	1,549.3
Staff costs	1,325.0	1,266.8
Rental costs	1,019.3	900.1
Depreciation/amortisation	159.6	152.0
Reversal of impairment losses	–	0.5
Other operating expenses	551.8	609.2
Total	**4,733.6**	**4,478.0**

NOTE 8 FINANCIAL INCOME AND EXPENSE

Group SEK MILLION	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018
Loans and loan receivables		
Interest income	0.2	0.9
Other financial income	9.0	7.1
Loans and trade receivables	**9.2**	**8.0**
Financial liabilities measured at amortised cost.		
Interest expense	–10.5	–6.9
Other financial expenses	–11.9	–1.1
Financial liabilities measured at amortised cost.	**–22.4**	**–8.0**
Net Financial income	**–13.3**	**0.0**

Parent Company SEK MILLION	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018
Profit from participations in subsidiaries		
Dividends from subsidiaries	48.6	50.2
Impairment loss	–	–
Group contribution received	15.6	21.8
Profit from participations in subsidiaries	**64.2**	**72.0**
Loans and loan receivables		
Interest income	38.5	16.7
Loans and loan receivables	**38.5**	**16.7**
Financial liabilities measured at amortised cost.		
Interest expense	–38.9	–18.0
Other financial expenses	–2.0	–11.3
Financial liabilities measured at amortised cost.	–40.8	**–29.3**
Net Financial income	**61.9**	**59.4**

NOTE 9 TAXES

Reported in the income statement

Group SEK million	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018
Current tax		
Current tax on profit for the year	–18.7	–62.8
Adjustment referring to previous years	–0.2	4.2
Total current tax	**–18.9**	**–58.6**
Deferred tax expense (–) /tax credit (+)		
Deferred tax relating to temporary differences	–0.3	–1.6
Deferred tax in change in loss carry-forwards	5.4	2.6
Total deferred tax	**5.1**	**1.0**
Total income tax	**–13.8**	**–57.6**
Tax reported in other comprehensive income		
Cash flow hedges – value changes	3.3	–9.2
Actuarial gains/losses	7.3	3.9
Total tax reported in other comprehensive income	**10.6**	**–5.3**

Parent company SEK million	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018
Current tax		
Current tax on profit for the year	–1.7	–
Total current tax	**–1.7**	–
Deferred tax expense (–) /tax credit (+)		
Deferred tax relating to temporary differences	0.4	0.7
Other changes in deferred tax assets	–	–
Total deferred tax	**0.4**	**0.7**
Total income tax	**–1.3**	**0.7**
Tax reported in other comprehensive income		
Cash flow hedges – value changes	–	–
Total tax reported in other comprehensive income	**–**	**–**

Note 9 cont.

Reconciliation of effective tax

Group SEK million	1/9/2018– 31/8/2019	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018 (%)	1/9/2017– 31/8/2018
Profit/loss before tax		154.6		282.1
Income tax calculated in accordance with tax rate in Sweden (22%)	–22.0	–34.0	–22.0	–62.1
Effect of other tax rates for foreign subsidiaries	2.9	4.4	–0.1	–0.4
Expenses not deductible for tax purposes	–0.6	–1.0	–0.4	–0.9
Non-taxable revenue	0.1	0.2	0.1	0.2
Deductible unrecorded costs	0.4	0.6	–	–
Tax losses for which no deferred tax asset has previously been reported	4.7	7.3	–	–
Losses used for which no losses have been reported	0.4	0.6	0.4	1.1
Tax adjustment due to changed tax rate	5.4	8.3	0.1	0.4
Adjustment of tax for previous periods	–0.1	–0.2	0.9	4.1
Effective tax	**–8.9**	**–13.8**	**–20.4**	**–57.6**

Parent company SEK million	1/9/2018– 31/8/2019 (%)	1/9/2018– 31/8/2019	1/9/2017– 31/8/2018 (%)	1/9/2017– 31/8/2018
Profit/loss before tax		54.7		47.2
Income tax calculated in accordance with tax rate in Sweden (22%)	–22.0	–12.0	–22.0	–10.4
Expenses not deductible for tax purposes	–0.2	–0.1	0.0	0.0
Non-taxable revenue	19.4	10.6	22.0	11.0
Deductible unrecorded costs	0.4	0.2	–	–
Adjustment of current tax for previous periods	–	–	0.0	0.1
Effective tax	**–2.4**	**–1.3**	**0.0**	**0.7**

Recognised on the balance sheet
Deferred tax assets and liabilities

Group SEK MILLION	Net 31/8/2019	 31/8/2018
Deferred tax assets		
Goodwill	1.8	2.4
Other unutilised tax deductions	53.1	47.7
Provisions for pensions and obligations	16.0	8.9
Other taxable temporary differences	8.7	10.3
Deferred tax assets	**79.6**	**69.3**
Netting against deferred tax liability	–15.8	–8.9
Total deferred tax assets	**63.8**	**60.4**
Deferred tax liabilities		
Market value of derivatives	–	–3.3
Accelerated depreciation on plant and equipment	–14.5	–15.5
Trademarks and brands	–125.7	–134.2
Temporary difference referring to inventories	–13.1	–7.3
Deferred tax liability	**–153.3**	**–160.3**
Netting against deferred tax asset	15.8	8.9
Total deferred tax liability	**–137.5**	**–151.4**

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. As at 31 August 2019 SEK 64 (60) 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 231 (346) million. These losses refer to Finland, SEK 95 million, and Poland, SEK 135 million and they are included in other unutilised tax deductions above to the extent it is estimated that they can be used. During the year previously unmeasured loss carry-forwards for losses in Poland of SEK 7 million were capitalised. 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 above.

Expiry periods, unutilised loss carry-forwards

SEK MILLION	31/8/2019	31/8/2018
after 1 year	77.4	76.8
after 2 years	56.3	77.8
after 3 years	1.0	59.7
after 4 years	0.7	1.7
after 5 years	16.9	15.1
after 6 years or more	78.5	115.1
Total	**230.8**	**346.3**

NOTE 10 INTANGIBLE ASSETS

Group SEK MILLION	Computer software	Trademarks and brands	Goodwill	Construction in progress	Total
Cost of acquisition					
Opening balance, 1 September 2017	208.2	610.2	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**	**695.8**	**32.0**	**1,448.0**
Opening balance, 1 September 2018	110.0	610.2	695.8	32.0	1448.0
Purchases	31.6	–	–	10.3	41.9
Sales/retirements	–1.2	–	–	–	–1.2
Reclassification	–0.1	–	–	–	–0.1
Translation differences	–0.2	–	–	–	–0.2
Closing balance, 31 August 2019	**140.1**	**610.2**	**695.8**	**42.3**	**1488.4**
Depreciation/amortisation and impairment					
Opening balance, 31 August 2017	–156.4	–0.2	–	–	–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**			**–42.7**
Opening balance, 31 August 2018	–42.5	–0.2	–	–	–42.7
Depreciation/amortisation for the year	–24.3	–	–	–	–24.3
Sales/retirements	0.0	–	–	–	0.0
Reclassification	1.2	–	–	–	1.2
Translation differences	0.1	–	–	–	0.1
Closing balance, 31 August 2019	**–65.5**	**–0.2**	**–**	**–**	**–65.7**
Carrying amounts					
As at 31 August 2018	**67.5**	**610.0**	**695.8**	**32.0**	**1,405.3**
As at 31 August 2019	**74.6**	**610.0**	**695.8**	**42.3**	**1,422.7**

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

	Group		Parent Company	
SEK MILLION	1/9/2018–31/8/2019	1/9/2017–31/8/2018	1/9/2018–31/8/2019	1/9/2017–31/8/2018
Cost of goods sold	–0.7	–0.5	–	–
Administrative expenses	–12.8	–6.5	–	–
Selling expenses	–10.8	–10.1	–	–
Total	**–24.3**	**–17.1**	**–**	**–**

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 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 9.3 (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	Construction in progress	Total
Cost of acquisition				
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**
Opening balance, 1 September 2018	15.0	858.5	12.8	886.3
Purchases	–	132.9	6.7	139.6
Sales/retirements	–	–42.2	–	–42.2
Reclassification	–	–	–5.7	–5.7
Translation differences	–	–0.6	–	–0.6
Closing balance, 31 August 2019	**15.0**	**948.6**	**13.8**	**977.4**
Depreciation/amortisation and impairment				
Opening balance, 1 September 2017	–	482.3	–	–482.3
Depreciation/amortisation for the year	–	–134.5	–	–134.5
Reversal of depreciation/amortisation	–	–	–	–
Sales/retirements	–	143.6	–	143.6
Reclassification	–	–	–	–
Translation differences	–	–29.4	–	–29.4
Closing balance, 31 August 2018	**–**	**–462.0**	–	**–462.0**
Opening balance, 1 September 2018	–	–462.0	–	–462.0
Depreciation/amortisation for the year	–	–133.6	–	–133.6
Reversal of depreciation/amortisation	–	–	–	–
Sales/retirements	–	36.4	–	36.4
Reclassification	–	–	–	–
Translation differences	–	–0.1	–	–0.1
Closing balance, 31 August 2019	**–**	**–559.3**	**–**	**–559.3**
Carrying amounts				
As at 31 August 2018	**15.0**	**396.5**	**12.8**	**424.3**
As at 31 August 2019	**15.0**	**389.4**	**13.7**	**418.1**

Carrying amounts	31/8/2018	31/8/2017
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.

	Group		Parent Company	
SEK MILLION	1/9/2018–31/8/2019	1/9/2017–31/8/2018	1/9/2018–31/8/2019	1/9/2017–31/8/2018
Cost of goods sold	–6.9	–6.4	–	–
Administrative expenses	–9.0	–7.2	–	–
Selling expenses	–117.7	–120.9	–	–
Total	**–133.6**	**–134.5**	**–**	–

NOTE 12 INVENTORIES

Group SEK million	31/8/2019	31/8/2018
Finished goods and trading goods	854.2	763.8
Total	**854.2**	**763.8**

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

	Group		Parent Company	
SEK MILLION	31/8/2019	31/8/2018	31/8/2019	31/8/2018
Prepaid rental costs	79.5	74.4	–	–
Other	34.8	44.4	2.1	1.8
Total	**114.3**	**118.8**	**2.1**	**1.8**

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	31/8/2019	31/8/2018
Non-current liabilities		
Provisions for pensions and similar obligations	80.2	56.5
Bank loans	–	–
Total	**80.2**	**56.5**
Current liabilities		
Bank loans	200.0	200.0
Bank overdraft facilities	299.7	153.1
Interest rate derivatives	–	–
Total	**499.7**	**353.1**
Total	**579.9**	**409.6**

Parent Company SEK MILLION	31/8/2019	31/8/2018
Non-current liabilities		
Provisions for pensions and similar obligations	–	–
Bank loans	–	–
Total	**–**	**–**
Current liabilities		
Bank loans	200.0	200.0
Bank overdraft facilities	613.5	444.4
Interest rate derivatives	–	–
Total	**813.5**	**644.4**
Total	**813.5**	**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 0.8 (0.9) 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	1/9/2018–31/8/2019	1/9/2017–31/8/2018
Present value of pension obligations	279.4	247.7
Fair value of plan assets	–199.2	–191.2
Net obligation for defined benefit plans	**80.2**	**56.5**

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

Provisions for pensions	80.2	56.5

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		Norway	
Sweden and Norway	2019	2018	2019	2018
Shares and funds listed (KappAhl AB (publ) is included at 0)	59.1	60.5	2.7	2.6
Shares and funds not listed	–	–	–	–
Debt securities	104.7	100.8	4.8	4.3
Property	26.7	22.0	1.2	0.9
Other	–	–	–	–
Total	**190.5**	**183.3**	**8.7**	**7.9**

Change in present value of the obligation

	Sweden		Norway	
Group SEK MILLION	31/8/2019	31/8/2018	31/8/2019	31/8/2018
Opening balance as at 1 September	226.2	205.0	21.5	21.3
Benefits earned during the period	–	–	0.3	0.3
Transfer of ITPK	–	–	–	–
Pension payments	–5.5	–5.3	–1.9	–2.0
Interest	5.4	5.6	0.5	0.4
Revaluations	34.1	20.9	–0.8	0.1
Translation differences	–	–	–0.4	1.4
Closing balance	**260.2**	**226.2**	**19.2**	**21.5**

Note 15 cont.

Net revaluation of the debt is SEK 28.4 million, of which Sweden 29.1 and Norway SEK –0.7 million. This consists of:

- experience based adjustments of SEK –4.7 million, of which Sweden –4.1 and Norway SEK –0.6 million.
- effects of changed financial assumptions of SEK 33.0 million, of which Sweden SEK 33.1 million and Norway –0.1 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 31/8/2019	 31/8/2018	Norway 31/8/2019	 31/8/2018
Opening balance as at 1 September	183.3	174.8	7.9	6.5
Interest income on plan assets	4.4	4.8	0.1	0.0
Funds contributed	1.8	1.0	0.9	0.8
Reimbursement/pension payments	–3.9	–3.8	–	–
Revaluations	4.9	6.5	–0.1	0.1
Translation differences	–	–	–0.1	0.5
Closing balance	**190.5**	**183.3**	**8.7**	**7.9**

Cost reported in the income statement for defined benefit plans

Group SEK million	Sweden 1/9/2018–31/8/2019	 1/9/2017–31/8/2018	Norway 1/9/2018–31/8/2019	 1/9/2017–31/8/2018
Costs relating to service in current period	–	–	0.3	0.3
Interest on obligation	5.4	5.6	0.5	0.4
Interest income on plan assets	–4.4	–4.8	–0.1	0.0
Total net cost in the income statement	**1.0**	**0.8**	**0.7**	**0.7**

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

Group SEK million	Sweden 1/9/2018–31/8/2019	 1/9/2017–31/8/2018	Norway 1/9/2018–31/8/2019	 1/9/2017–31/8/2018
Selling expenses	–	–	0.3	0.3
Financial income/expenses	1.0	0.8	0.4	0.4
Total recognised in the income statement	**1.0**	**0.8**	**0.7**	**0.7**
Amount recognised in other comprehensive income				
Revaluation of defined benefit pension plans	29.1	14.4	–0.7	0.0
Payroll tax referring to revaluation of defined benefit pension plans	7.1	3.5	0.0	0.0
Total recognised in other comprehensive income	**36.1**	**17.9**	**–0.7**	**0.0**

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 2019	 2018	Norway 2019	 2018
Discount rate as at 31 August	1.65	2.40	1.28	2.24
Future salary increases	n/a	n/a	0.00	0.96
Inflation	1.90	1.90	2.00	2.20

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
Discount rate +/– 0.5%	286.2	260.2	237.4
Inflation +/– 0.5%	237.2	260.2	286.2
Life expectancy +/–1 year	248.7	260.2	272.1

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 68.5 (66.5) 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 2019 Alecta’s surplus in the form of the collective consolidation level was 144 (154) 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 19.0 (18.1) million. Expected charges in the next reporting period for insurance policies taken out with Alecta amount to SEK 17.6 million.

The Group’s share of total savings premiums for the Alecta ITP 2 plan amounts to 0.043 (0.048) per cent. The Group’s share of the total number of actively insured in the ITP 2 plan amounts to 0.067 (0.069) 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 2019 was SEK 13.4 (12.0) million. Special payroll tax is reported in the item Accrued expenses and deferred income.

NOTE 16 OTHER LIABILITIES

Group SEK MILLION	31/8/2019	31/8/2018
Current liabilities		
Value added tax	152.9	91.5
Employee withholding taxes	36.2	35.3
Gift vouchers	29.3	32.8
Currency derivatives	–	–
Other	1.9	1.0
Total	**220.3**	**160.6**

During the financial year the liability changed in that we issued new gift vouchers to the value of SEK 42 million (46), SEK 44 million (41) was used and SEK 2 million (3) was recognised as income/expired.

NOTE 17 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
SEK MILLION	31/8/2019	31/8/2018	31/8/2019	31/8/2018
Accrued wages/salaries and social security contributions	168.1	166.1	1.6	13.0
Customer bonus	43.6	52.1	–	–
Rent	21.3	5.5	–	–
Other	73.0	54.3	7.6	0.9
Total	**306.0**	**278.0**	**9.2**	**13.9**

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 aim of KappAhl's financial operations is to minimise potential negative impact on KappAhl's profit, equity and cash flow, as well as to finance ongoing business operations and investments and thus safeguard KappAhl's solvency in the long and short term.

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 from operations, partly due to positive earnings and to working capital being 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 of the Group 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 increased its interest-bearing liabilities by SEK 161 million; see Note 14. This means that on the balance sheet date the Group has net interest-bearing debt of SEK 534 million, compared with the previous year's net financial debt of SEK 373 million. For information on the key figure Interest-bearing liabilities/Adjusted EBITDA, please see the multi-year and quarterly review on page 74.

Financing risk and liquidity risk

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

A three-year credit agreement was signed in February 2017 with the company's banks, which runs until February 2020. The Board estimates that the bank financing will be replaced before the current credit agreement expires and therefore the annual report has been prepared on the basis of a going concern assumption.

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 1,049 (1,050) million, of which SEK 499 (353) 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 2018/19. 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, a maximum of 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 2019, the company had interest swaps with a contractual value of SEK 0 (0) million.

Total financial expense, including interest swaps, amounted to about SEK 22 (8) million for the financial year, which corresponds to around 0.2 (0.2) per cent of the Group's costs. A change in the interest rate level of one percentage point would have an impact on the forecast interest expense for 2019/20 of about SEK 4.8 (2.6) million, all other variables being constant.

Credit risk

Credit risk associated with financial activities

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

Credit risk associated with trade receivables

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

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 78 (65) million. To hedge this exchange effect, under its financial policy KappAhl has the possibility of entering into currency forwards and options referring to cash flows for purchases of

Note 18 cont.

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. There were no open foreign exchange contracts at the year-end closing. 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 taking into account currency hedging, of SEK 35 (26) million and for PLN of SEK 7 (6) million. The Group has no material exposure to EUR.

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.

	1/9/2018–31/8/2019		1/9/2017–31/8/2018	
Currency	Outflow	Inflow	Outflow	Inflow
USD m	160	–	147	–
EUR m	23	24	24	17
NOK m	–	656	–	484
PLN m	–	58	–	58

Forward contracts
The table below shows a summary of outstanding forward exchange contracts by currency pair as at 31 August 2019. They all mature within one year.

Currency pair	Book and fair value		Nominal amount		Average remaining term in months.	
Sells/buys	2019	2018	2019	2018	2019	2018
SEK/USD	–	15	–	392	–	3

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

Option contracts
The Group has no currency options as at 31 August 2019.

Translation exposure
KappAhl uses Swedish kronor for its income statement and balance sheet. Parts of the Group use currencies other than SEK for their accounts, 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	31/8/2019	31/8/2018
Currency	Amounts in SEK million	Amounts in SEK million
NOK	86	98
EUR	158	145
PLN	54	-67
HKD	31	12
GBP	1	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	31/8/2019	31/8/2018
Other long-term receivables	3,0	–
Trade receivables	4,3	0,9
Cash and cash equivalents	45,9	36,3
Currency derivatives	–	15,1
Total	**53,2**	**52,3**

Liabilities on the balance sheet, SEK million	31/8/2019	31/8/2018
Other financial liabilities measured at amortised cost		
Long-term interest-bearing liabilities	80.2	56.5
Short-term interest-bearing liabilities	499.7	353.1
Trade payables	188.3	177.7
Other financial liabilities measured at amortised cost	**768.7**	**587.3**
Financial liabilities at fair value through profit or loss		
Interest rate derivatives	–	–
Currency derivatives	–	–
Financial liabilities at fair value through profit or loss	–	**–**
Total	**768.7**	**587.3**

Parent Company Assets on the balance sheet	31/8/2019	31/8/2018
Other financial receivables	3.0	–
Receivables from group companies	3.5	14.3
Cash and cash equivalents	16.9	15.6
Currency derivatives	–	–
Total	**23.4**	**29.9**

Parent Company Liabilities on the balance sheet, SEK million	31/8/2019	31/8/2018
Other financial liabilities measured at amortised cost		
Long-term interest-bearing liabilities	–	–
Short-term interest-bearing liabilities	813.5	644.4
Trade payables	1.0	0.3
Liabilities to group companies	663.8	726.3
Other financial liabilities measured at amortised cost	**1,478.3**	**1,371.0**
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	**1,478.3**	**1,371.0**

Fair value hierarchy:
The Group applies IFRS 13 for financial instruments measured at fair value in the balance sheet and uses the following hierarchy to classify instruments on the basis of the valuation technique:
Level 1 – Quoted prices (unadjusted) on active markets for identical assets or liabilities
Level 2 – Other inputs than the quoted prices included in Level 1, that are observable for the asset or liability either direct (i.e. as prices) or indirect (i.e. derived from prices)
Level 3 – Inputs for the asset or liability in question that are not based on observable market data (non-observable inputs)

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 measured at fair value based on level 2 inputs in the fair value hierarchy.

The Group and Parent Company also hold financial instruments in level 3 in the form of investments in unlisted shares in the company Renewcell AB. Measurement is primarily on the basis of an external valuation where a transaction with at least one external party has been made in the company within the past 12 months. If such valuation is not possible, or if there are objective reasons to do so, as an alternative option, an internal valuation is made based on assumed, discounted cash flow.

2018/2019	Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value via profit or loss:				
Unlisted shares	–	–	–	3.0
Currency forwards	–	–	–	–
Liabilities				
Financial liabilities at fair value via profit or loss:				
Currency forwards	–	–	–	–

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

2017/2018	Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value via profit or loss:				
Currency forwards	15	–	15	–
Currency options	–	–	–	–
Interest swaps	–	–	–	–
Liabilities				
Financial liabilities at fair value via profit or loss:				
Currency forwards	50	–	50	–
Currency options	6	–	6	–
Interest swaps	50	–	50	–

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

Financial instruments level 3 Liabilities on the balance sheet, SEK million	31/8/2019	31/8/2018
Opening value	–	–
Acquisition	3.0	–
Revaluation	–	–
Closing value	**3.0**	**–**

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

2018/2019 SEK MILLION	0–3 months	4–12 months	More than 1 years	Total contracted cash flow
Bank loans and bank overdraft facilities	200	300	–	500
Interest	2	4	–	6
Trade payables	188	–	–	188
Forward exchange contracts inflow	–	–	–	–
Forward exchange contracts outflow	–	–	–	–

2017/2018 SEK million	0–3 months	4–12 months	More than 1 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

NOTE 19 OPERATING LEASES

Group	Annual cost		Future lease charges and rental costs		
SEK MILLION	2018/2019	2017/2018	Year 1	Year 2–5	Year 5-
Tenancy agreement	707.0	693.2	594.1	979.0	144.5
Vehicles and equipment	4.3	3.7	2.3	1.8	0.2
Total	**711.3**	**696.9**	**596.4**	**980.8**	**144.7**

The operating profit has been charged with SEK 707 (693) million referring to costs of rented store premises. Of this, the fixed rent is SEK 685 (666) million and the turnover based rent is SEK 22 (27) million.

The Parent Company has no lease agreements.

Note 19 cont.

IFRS 16 will be applied from 1 September 2019 and KappAhl has decided to use the simplified transition method that does not entail restating the comparative figures. The standard will mainly impact the reporting of the Group's operating leases, above all leases for premises. Under IFRS 16 an asset (the right to use a leased asset) and a financial liability referring to the obligation to make lease payments must be recognised. For the remaining lease commitments KappAhl expects to recognise rights of use amounting to about SEK 2,245 million as at 1 September 2019 and lease liabilities of SEK 2,245 million. The costs of these leases will be recognised in the income statement as depreciation or interest expense, which will affect performance measures such as EBITDA, operating profit and net financial income. Short-term leases and leases where the underlying asset has a low value have been excluded.

Reconciliation transition to IFRS 16

Group	
Operating lease commitments as at 31 August 2019	**1,721.9**
Discounting using the Group's weighted average marginal borrowing rate, 1.36%	–56.6
In addition: liabilities for finance leases as at 31 August 2019	0.0
Less: Short-term leases and leases for which the underlying asset is of low value that are expensed on a straight-line basis	–42.9
In addition: adjustments due to estimates concerning exercise of extension options or termination of contract	622.4
Lease liability recognised as at 1 September 2019	**2,244.7**

NOTE 20 CAPITAL COMMITMENTS

Group
There were no material capital commitments as at 31/8 2019.

NOTE 21 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
SEK MILLION	31/8/2019	31/8/2018	31/8/2019	31/8/2018
Pledged assets				
Floating charges	232.8	230.9	–	–
Shares in subsidiaries	3,049.7	3,002.0	2,711.2	2,711.2
Total pledged assets	**3,282.5**	**3,232.9**	**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 15 (26) 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 2.1 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 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. In July 2019, 131,579 options with a maturity of 3 years and 54,645 options with a maturity of 5 years were issued from Mellby Gård AB to Elisabeth Peregi, President/CEO. They were acquired at a price of SEK 1,52 and SEK 1.83 and an exercise price of SEK 17.04 per 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	31/8/2019	31/8/2018
Opening book value	2,711.2	2,711.2
Unconditional shareholders' contributions paid	–	–
Impairment loss	–	–
Total	**2,711.2**	**2,711.2**

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

Subsidiary / Corporate identity number / Country	Number of shares	Percentage share	31/8/2019 Carrying amount	31/8/2018 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	–	–
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	54,156	100.0	–	–
Dama 1 Sp. z o.o likwidacji, 527-27-66-090, Poland	10	100.0	–	–
Dama 2 Sp. z o.o likwidacji, 527-27-66-109, Poland	10	100.0	–	–
Dama 3 Sp. z o.o likwidacji, 527-27-65-943, Poland	10	100.0	–	–
Dama 4 Sp. z o.o likwidacji, 527-27-65-966, Poland	10	100.0	–	–
Dama 6 Sp. z o.o likwidacji, 527-27-65-972, Poland	10	100.0	–	–
Dama 14 Sp. z o.o likwidacji, 527-27-66-003, 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

	Group		Parent Company	
SEK MILLION	1/9/2018–31/8/2019	1/9/2017–31/8/2018	1/9/2018–31/8/2019	1/9/2017–31/8/2018
Interest received	0.1	0.9	38.5	16.7
Interest paid	–11.6	–7.9	–39.4	–18.0
Total	**–11.5**	**–7.0**	**–0.8**	**–1.3**

Adjustments for non-cash items

	Group		Parent Company	
SEK MILLION	1/9/2018–31/8/2019	1/9/2017–31/8/2018	1/9/2018–31/8/2019	1/9/2017–31/8/2018
Depreciation/ amortisation of non-current assets	157.9	151.6	–	–
Impairments of investments in subsidiaries	–	–	–	–
Capital gains/losses on sale/retirement of non-current assets	3.8	10.5	–	–
Provisions for pensions	–11.2	–6.5	–	–
Group contribution received	–	–	-15.6	–21.8
Other adjustments	20.5	13.1	–0.5	–
Total	**171.0**	**168.7**	**–16.1**	**–21.8**

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 2018/2019 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 2019. The income statements and balance sheets will be presented to the Annual General Meeting on 6 December 2019.

Mölndal, 31 October 2019

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
Member

Elisabeth Peregi
CEO

Our auditor's report was issued on 31 October 2019

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 2018 to 31 August 2019.

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 and the group as of 31 August 2019 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 2019 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.

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.

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

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 1–31 and 66–77. 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.

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 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.

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 2018 to 31 August 2019 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' 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.

Gothenburg 31 October 2019
PricewaterhouseCoopers AB

Eva Carlsvi
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

KappAhl AB (publ) is a Swedish public limited company. During the 2018/2019 financial year the company's shares were listed on Nasdaq Stockholm. After a public takeover bid, as of 7 October 2019 Mellby Gård AB controls more than 90 per cent of the shares. The share was accordingly delisted from Nasdaq Stockholm and the last day of trading was 30 October 2019.

While the company's shares were listed on Nasdaq Stockholm corporate governance in KappAhl was based on law, listing agreements, guidelines and good business practice. KappAhl's Articles of Association and further information is available at www.kappahl.com/ir.

APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

KappAhl's corporate governance during the financial year complied with the Code and was based on principles that follow from law, listing agreements, guidelines and good business practice. During the financial year KappAhl reports the following non-conformance with the Code.

Member of the Board Göran Bille was acting President and Chief Executive Officer of KappAhl during the financial year and as a result is considered to be dependent in relation to the company and the company management. As Göran Bille was considered to be dependent in relation to the company and the company management, his participation in the Remuneration Committee constituted non-conformance with rule 9.2* of the Code. However, in the view of the Board of Directors, Göran Bille's knowledge of and experience of matters concerning remuneration to senior management in the retail business has made a valuable contribution to the ability of the Remuneration Committee to handle remuneration issues appropriately and rationally. The Board of Directors has therefore made the assessment that the value of Göran Bille's participation in the Remuneration Committee's work outweighed any drawbacks resulting from his being considered to be dependent in relation to the company and the company management. On the grounds set out above the Board of Directors considers that the non-conformance with rule 9.2 of the Code was justified.

During the financial year, other than as stated above, the company has not infringed any rules applicable to the stock exchange where the company's shares were traded or otherwise breached good practice on the stock market.

SHARES AND SHAREHOLDERS ETC.

On 31 August 2019 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 18,929 shareholders on 31 August 2019. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2019 was Mellby Gård AB. The ten largest shareholders as at 31 August 2019 are listed in the Administration Report on page 34.

* Göran Bille did not, however, participate as a member in the work of the Remuneration Committee during the period he was temporarily appointed as acting President and Chief Executive Officer of KappAhl.

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.

In view of its decision to apply for delisting of KappAhl's shares from Nasdaq Stockholm, the Board of Directors of KappAhl has decided to postpone the 2019 Annual General Meeting of Shareholders that was previously intended to be held on 6 December 2019. The Board intends to announce a new date for the 2019 Annual General Meeting. A shareholder wishing to have a matter brought before the Annual General Meeting can send a written request to: KappAhl AB, Attention: Chair 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

The 2018 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 Chair 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 2019 Annual General Meeting was published on the company's website before 6 June 2019. As only three shareholder representatives could be appointed, despite letters to the next shareholders in size, the Nominations Committee decided to hold its inaugural meeting with three ordinary members ahead of the 2019 Annual General Meeting and not to appoint a fourth ordinary member.

The Nominations Committee held its inaugural meeting on 27 June 2019 with Rune Andersson (chair of the Nominations Committee) (appointed by Mellby Gård AB), Marianne Nilsson (appointed by Swedbank Robur Fonder AB) and Rikard Andersson (appointed by SEB Fonder). Anders Bülow, Chair of the Board, was co-opted to the Nominations Committee.

The Nominations Committee has complied with the instructions and rules of procedure adopted by the Annual General Meeting on 6 December 2018 and has held a total of three meetings, with contact between them. In the 2018/2019 financial year the Chairman of the Board, Anders Bülow, commissioned an individual assessment of the work of the Board and its committees. 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.

In view of the fact that Swedbank Robur Fonder AB and SEB Fonder sold their shares as part of the public takeover offer to KappAhl shareholders and that the bidder Mellby Gård AB announced on 7 October 2019 that it would fulfil its public takeover bid as it controls more than 90 per cent of the shares and votes in KappAhl, Marianne Nilsson (appointed by Swedbank Robur Fonder AB) and Rikard Andersson (appointed by SEB Fonder) left the Nominations Committee ahead of the 2019 Annual General Meeting. The work of nomination in KappAhl will in future accordingly be carried out by the company's majority shareholder, Mellby Gård AB. Ahead of the Extraordinary General Meeting in the company on 7 November 2019, Mellby Gård AB has proposed that the resolution of the Annual General Meeting of 6 December 2018 concerning the Nominations Committee be rescinded.

Election of auditors

At the Annual General Meeting held on 6 December 2018 PwC (PricewaterhouseCoopers 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 400 thousand, 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 on 6 December 2018. The Board of Directors also includes employee representatives; currently two members and two deputies. There are no special provisions in the articles of association concerning the appointment or removal of members of the Board. During the 2018/2019 financial year the Board held 13 meetings. All the meetings were minuted. The President, the Chief Financial Officer and in some cases other members of the management made presentations at the Board meetings. The attendance of the members of the Board at Board meetings in the 2018/2019 financial year is presented in the table below.

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 KappAhl's head office in Mölndal. Extra meetings may also be arranged in the form of telephone conferences. The Chair leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The Chair in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings for information, discussion or decision. Decisions are made after discussion and after all members present have had an opportunity to express their views. The broad experience of members in various areas often leads to an open and constructive discussion. Open questions are followed up continually. The Board of Directors has not divided responsibilities among members other than as provided by the Board's and the Committees' rules of procedure. These rules of procedure were established at the inaugural board meeting on 6 December 2018 and are revised annually. They stipulate the division of assignments between Chair, 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

	Board meeting no: 2018:10 9 Oct 2018	Board meeting no: 2018:11 10 Oct 2018	Board meeting no: 2018:12 1 Nov 2018	Board meeting no: 2018:13 23 Nov 2018	Board meeting no: 2018:14 6 Dec 2018	Board meeting no: 2018:15 6 Dec 2018	Board meeting no: 2018:15A 12 Dec 2018	Board meeting no: 2018:16 18 Dec 2018	Board meeting no: 2019:1 11 Jan 2019	Board meeting no: 2019:2 19 March 2019	Board meeting no: 2019:3 10 May 2019	Board meeting no: 2019:4 24–25 June 2019	Board meeting no: 2019:5 27 Aug 2019
Anders Bülow	x	x	x	x	x	x	x	x	x	x	x	x	x
Pia Rudengren	x	x	x	x	x	x	x	x	x	x	x	x	x
Susanne Holmberg	x	x	x	x	x	x	x	x	x	x	x	x	x
Kicki Olivensjö	x	x	x	x	x	x	x	x	x	x	x	x	x
Göran Bille	x*	x*	x*	x*	x*	x*	x*	x	x	x	x	x	x
Cecilia Kocken	x	x	x	x	x	x	x	x	x	x	x	x	x
Thomas Gustafsson	x	x	x	x	x	x	x	x	x	x	x	x	x
Marie-Louise Jansson Bring	x	x	x	x	x	x	x	x	x	x	x	x	x
Johanna Bergqvist	x	x	x	x	x	x	x	x	x	x	x	x	x
Håkan Jirlow	x	x	x	x	x	x	x	x	x	x	x	x	x
Carita Lundqvist	x	x	x	x	x	x	x	x	x	x	x	x	x
			By correspondence	By correspondence	Inaugural		By correspondence	Telephone					Telephone

* At the time of this board meeting, board member Göran Bille was also acting President and Chief Executive Officer of KappAhl

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

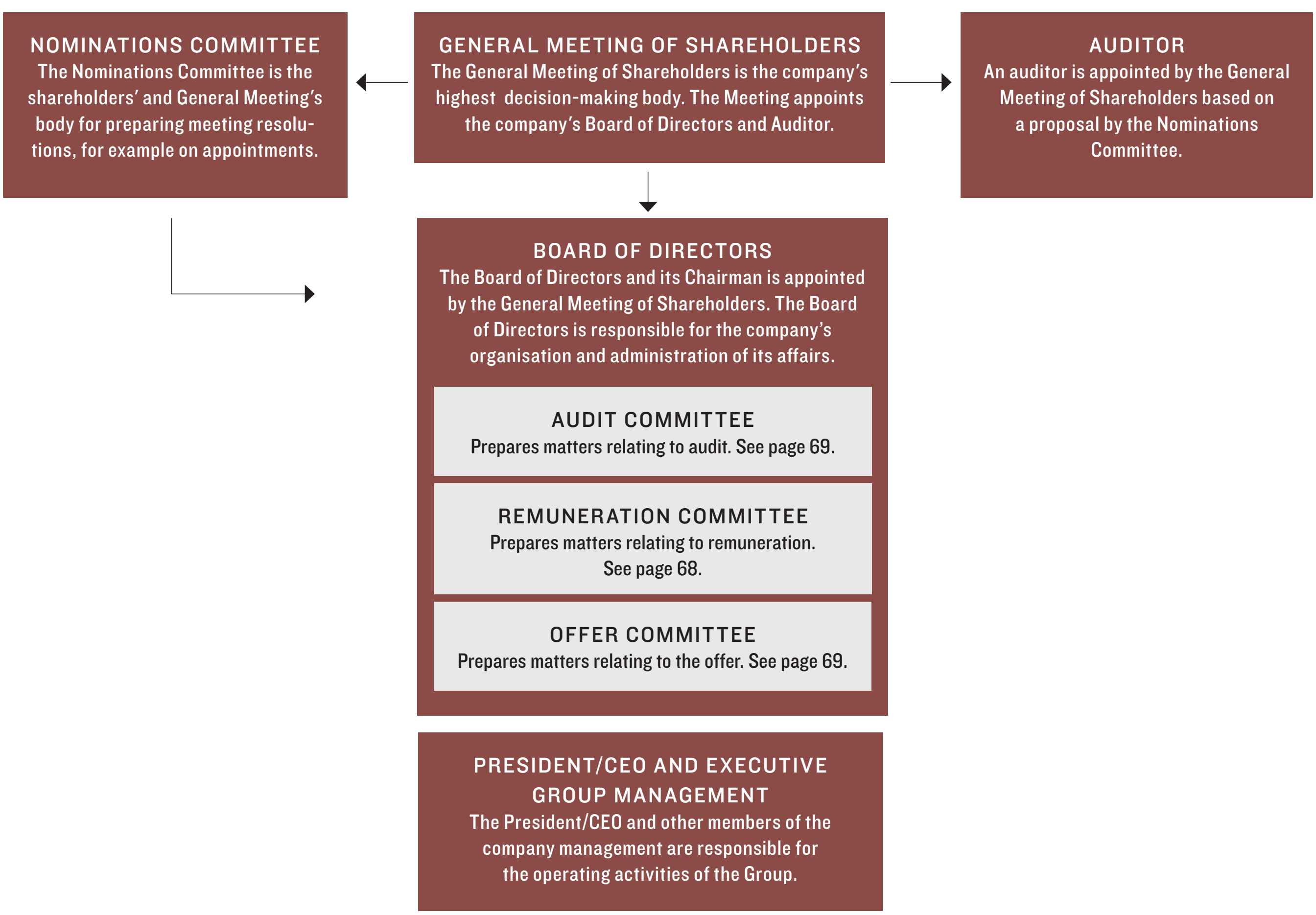
KappAhl's Board of Directors comprises nine members, including the Chair, employee representatives and two deputies. Remuneration and other benefits to the Board of Directors of KappAhl are presented in Note 5 on page 50. The presentation of the Board members on page 73 includes information on their elected positions and relevant shareholdings. Information on the Board of Directors is also available at: 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, 92 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 2019 Annual General Meeting the Committee consists of Susanne Holmberg (chair), Anders Bülow and Göran Bille. The Remuneration Committee prepares questions about the remuneration and other terms and conditions of employment for senior executives and about bonus outcome for management and any share-based



bonus programmes in the company. During the 2018/2019 financial year the Committee held four meetings, in which all members participated and all were minuted, for reviewing among other things bonus outcomes and terms and conditions of employment[1]. The Committee works according to written rules of procedure stipulated by the Board of Directors. The committee does not have the authority to make decisions, other than as part of the remuneration policy adopted by the Annual General Meeting on 6 December 2018 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. Until the 2019 Annual General Meeting the Committee consists of Pia Rudengren (chair), Anders Bülow and Göran Bille. In the opinion of the Board of Directors, Pia Rudengren and Anders Bülow are independent in relation to the company and its management, Pia Rudengren and Göran Bille are independent in relation to major shareholders, and the members meet the necessary qualification requirements in accounting and auditing. The Audit Committee must, without affecting the Board of Director's responsibilities and tasks in other respects, among other things 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 the 2018/2019 financial year, committee work included preparing issues concerning interim reports, inventory valuation, foreign currency issues and internal financial control. During the 2018/2019 financial year the Committee held six meetings, in which all members participated and all were minuted[2]. 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. Up to the 2019 Annual General Meeting the Offer Committee consists of the board members Thomas Gustafsson (chair), Susanne Holmberg, Kicki Olivensjö and Cecilia Kocken. The President, employee representatives on the Board, Vice President of marketing and Vice President of assortment and design were co-opted to the Committee. During the 2018/2019 financial year the Committee held four 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 84 thousand for the 2018/2019 financial year.

MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on page 71 and at www.kappahl.com/ir.

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.

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

[1] During the period of the 2018/2019 financial year when Göran Bille was temporarily appointed as acting President and Chief Executive Officer of KappAhl he did not participate as a member in the work of the Remuneration Committee.

[2] During the period of the 2018/2019 financial year when Göran Bille was temporarily appointed as acting President and Chief Executive Officer of KappAhl he did not participate as a member in the work of the Audit Committee.

processes. The most significant risks identified in the Group's work on internal control relating to financial reporting are managed through 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 2018/2019

At the start of the year the Board of Directors devoted a lot of time to recruitment of a new President & CEO. In addition, a major transition was started, including both short-term and long-term measures, which were led during the autumn by board member and acting President/CEO Göran Bille, and thereafter by KappAhl's CFO Peter Andersson, until Elisabeth Peregi took over in the spring.

The Board has continued the work of change in close cooperation with KappAhl's new President & CEO and Group Management. A central component of the company's development and its operations is a clearer customer focus, intended to identify more distinctly who KappAhl's core customer groups are and to develop processes to increase knowledge about these customers' needs and expectations. Other essential issues to which much time has been devoted are the brand strategy and the ambition to create clearer responsibility for business and profitability for the various parts that make up KappAhl's total operations.

On 29 July 2019 Mellby Gård AB announced an offer to the shareholders of KappAhl AB to acquire all shares in KappAhl AB for SEK 20 per share. In response to this, the Board of Directors appointed from among its members an independent bid committee. The bid committee has represented the company in connection with the offer and has consisted of the board members Pia Rudengren (chair), Susanne Holmberg, Kicki Olivensjö, Göran Bille, Cecilia Kocken, Marie-Louise Jansson Bring, Johanna Bergqvist, Håkan Jirlow and Carita Lundqvist. Due to a conflict of interest, the board members Anders Bülow and Thomas Gustafsson did not participate in the work of the bid committee. The bid committee in turn appointed SEB Corporate Finance, Skandinaviska Enskilda Banken AB as financial advisor and Roschier Advokatbyrå AB as legal advisor. The bid committee evaluated Mellby Gård's offer together with its advisers and obtained a valuation in the form of a fairness opinion from Ernst & Young AB. The bid committee unanimously recommended the shareholders to accept Mellby Gård's public offer.

Besides these strategic questions, the Board of Directors has followed up operations on a continuous basis as well as, not least, discussing and reaching a decision to start the work of investing in new IT support, a project that will run for the next two to three years. The purpose is to create a more flexible, more effective and scalable IT environment that can support KappAhl's various operations better than the existing outdated system.

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.

Mölndal, 31 October 2019

Anders Bülow	Pia Rudengren	Susanne Holmberg
Kicki Olivensjö	Göran Bille	Cecilia Kocken
Thomas Gustafsson	Johanna Bergqvist	Marie-Louise Jansson Bring

MANAGEMENT

1. ELISABETH PEREGI
Born 1971. President & Chief Executive Officer since April 2019. Elisabeth holds a Master of Science in Economics from the School of Business, Economics and Law at the University of Gothenburg.
Shareholding: 5,500 shares*. 186,224 options in KappAhl via Mellby Gård.

2. 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 Gård.

3. MALIN LUNDELL
Born 1986. Acting Vice President, Assortment & Design since March 2019 and employed since 2017. Malin holds a master's degree in business administration from the School of Business, Economics and Law at the University of Gothenburg.
Shareholding: 0 shares*.

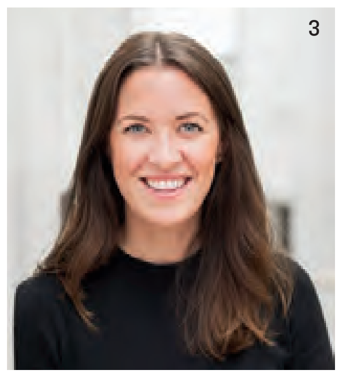
4. ANNA KARIN HOLCK
Born 1968. Vice President, Customer Experience since 2017 and employed since 2013. Anna Karin is a market economics graduate of the IHM Business School.
Shareholding: 1,975 shares*.

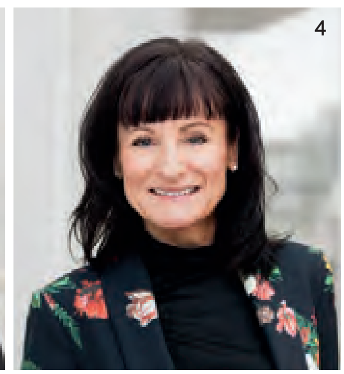
5. JOHANNA NORDHOLM
Born 1975. Vice President, IT/CIO since August 2019 and employed since 2013. Johanna holds a master's degree in computer technology from Chalmers University of Technology.
Shareholding: 1,828 shares*.

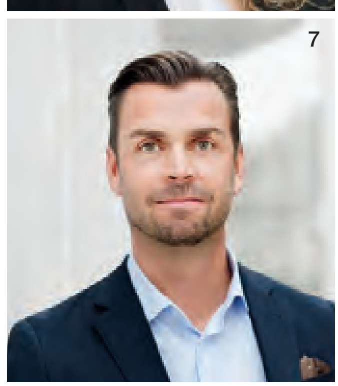
6. ANNA ANDIHN
Born 1976. Vice President HR, Communications & Sustainability since October 2017 and employed since 2011. Anna is a graduate in Human Resource Management and Labour Relations from the Mid Sweden University.
Shareholding: 0 shares*.

7. MARTIN BARDEN
Born 1975. Country manager KappAhl Sweden since 2018. Martin is a market economics graduate of IHM Business School.
Shareholding: 0 shares*.

8. LIV BERSTAD
Born 1961. Country manager KappAhl Norway since 1996 and employed since 1989. Liv is a graduate in business economics from BI Norwegian Business School.
Shareholding: 0 shares*.







* Shareholdings as at 31 August 2019.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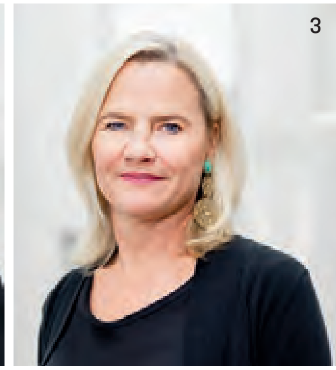
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BOARD OF DIRECTORS

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 MellbyGård AB as well as Chairman of the Board and member of the board of companies wholly or partly owned by MellbyGård and also chairs the board of AcadeMedia AB. Anders holds a BSc in Business Administration from Stockholm University.
Shareholding: 114,586 shares via a company*.

2. SUSANNE HOLMBERG
Born 1961. Susanne Holmberg has been a member of the board of KappAhl since 2014. Susanne is CPO of Nordic Web Trading AB. Previous appointments as Business Area Manager at Coop Sverige AB and CPO and Head of Business Area at Axstores AB. Susanne also has experience of directorships in Linum AB, 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 and Boliden AB. 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 holds an 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 Assortment and Purchasing for the Venue Retail Group. Kicki previously worked as Business Area Manager and Design & Purchasing Manager at Åhléns, Design & Purchasing Manager at Lindex and Design & 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 a member of the board of KappAhl since December 2016. Göran was previously CEO and Group CEO of Gina Tricot and Lindex, as well as earlier a member of the senior management of H&M. Göran is a member of the board of Gunnebo and a Graduate in Economics and Business Administration.
Shareholding: 6,000 shares

6 CECILIA KOCKEN
Born 1979. Cecilia Kocken has been a member of the board of KappAhl since December 2016. Cecilia is Senior Brand and Category Director and a member of the Swedish management 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 Duni AB and Smart Eyes International AB, among others, and a qualified market economist.
Shareholding: 45,000 shares via a company*.

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*.

* Shareholdings as at 31 August 2019.

MULTI-YEAR AND QUARTERLY REVIEW

THE GROUP'S KEY FIGURES

	September–August 2018/2019	September–August 2017/2018	September–August 2016/2017	September–August 2015/2016	September–August 2014/2015
Net sales, SEK million	4,901.4	4,760.0	4.916.2	4.723.6	4,588.2
Sales growth, %	3.0	–3.2	4.1	3.0	3.3
Operating profit (EBIT), SEK million	167.8	282.1	448.6	349.3	197.8
Adjusted operating profit (EBIT), SEK million	210.8	282.1	448.6	349.3	207.5
Operating profit (EBITDA), SEK million	362.2	433.1	579.2	479.8	333.4
Adjusted operating profit (EBITDA), SEK million	405.2	433.1	579.2	479.8	342.8
Total depreciation/amortisation, SEK million	159.9	151.0	130.6	130.5	135.3
Gross margin %	59.5	61.8	62.2	61.8	60.1
Operating margin, %	3.4	5.9	9.1	7.4	4.3
Adjusted operating margin, %	4.3	5.9	9.1	7.4	4.5
Interest coverage ratio (multiple)	7.8	36.1	20.2	35.1	9.0
Net interest-bearing liabilities (+)Net financial assets (–) SEK million	534.0	373.4	–168.2	144.2	282.3
Net interest-bearing liabilities/Adjusted EBITDA (multiple)	1.3	0.9	0.3	0.3	0.8
Equity-assets ratio, %	52.4	57.6	67.4	58.1	56.6
Equity per share, SEK	20.69	21.43	26.58	23.50	21.36
Equity per share after dilution, SEK	20.69	21.43	26.58	23.50	21.30
Cash flow from operating activities per share, SEK	2.62	3.83	7.46	3.94	4.75
Market price, SEK	19.9	34.8	45.0	42.7	25.90
Market value, SEK million	1,526.4	2,676.4	3,456.9	3,280.2	1,989.6
P/E ratio (multiple)	10.9	11.9	9.5	13.4	17.9
Dividend yield, %	7.7	–5.7	4.4	2.9	2.9
Market price/equity per share, %	96	162	169	182	82
Earnings per share, SEK*	1.83	2.92	4.73	3.19	1.45
Dividend per share, SEK (proposed 2018/2019)	–	2.00	2.00	1.25	0.75
Weighted average number of shares	76,820,380	76,820,380	76,820,380	76,820,380	76,296,003
Number of shares at close of period	76,820,380	76,820,380	76,820,380	76,820,380	76,820,380
Number of shares after dilution	76,820,380	76,820,380	76,820,380	76,820,380	76,296,003

CONSOLIDATED INCOME STATEMENT (SEK MILLION)

	September–August 2018/2019	September–August 2017/2018	September–August 2016/2017	September–August 2015/2016	September–August 2014/2015
Net sales	4,901.4	4,760.0	4.916.2	4.723.6	4,588.2
Cost of goods sold	–1,984.6	–1,818.4	–1,860.0	–1,806.4	–1,831.9
Gross profit	**2,916.8**	**2,941.6**	**3,056.2**	**2,917.2**	**2,756.3**
Selling expenses	–2,547.5	–2,431.9	–2,402.6	–2,356.0	–2,384.8
Administrative expenses	–201.5	–227.7	–205.0	–211.9	–173.7
Other operating income	–	–	0.0	–	–
Operating profit	**167.8**	**282.1**	**448.6**	**349.3**	**197.8**
Adjusted operating profit	**210.8**	**282.1**	**448.6**	**349.3**	**207.5**
Financial income	–9.2	–8.0	0.9	–1.2	–0.7
Financial expenses	–22.4	–8.0	–22.3	–10.1	–21.8
Profit/loss before tax	**154.6**	**282.1**	**427.2**	**340.5**	**176.7**
Taxes	–13.8	57.6	–63.5	–95.6	–65.3
Profit/loss for the year	**140.8**	**224.5**	**363.7**	**244.9**	**111.4**

QUARTERLY INCOME STATEMENTS FOR THE GROUP (SEK MILLION)

	Q4 18/19	Q3 18/19	Q2 18/19	Q1 18/19	Q4 17/18	Q3 17/18	Q2 17/18	Q1 17/18	Q4 16/17	Q3 16/17	Q2 16/17	Q1 16/17
Net sales	1,322	1,200	1,185	1,194	1,239	1,242	1,115	1,166	1,248	1,217	1,189	1,261
Cost of goods sold	–571	–470	–504	–438	–506	–441	–460	–413	–491	–442	–489	–437
Gross profit	**751**	**730**	**681**	**756**	**733**	**801**	**655**	**753**	**757**	**775**	**700**	**824**
Selling expenses	–598	–672	–625	–653	–606	–625	–594	–607	–568	–606	–602	–626
Administrative expenses	–45	52	–54	–51	–61	–55	–56	–56	–50	–50	–51	–54
Other operating income	–	–	–	–	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–	–	0	0	–	–	–	–
Operating profit	**108**	**6**	**2**	**52**	**66**	**121**	**5**	**90**	**139**	**119**	**47**	**144**
Adjusted operating profit	**108**	**49**	**2**	**52**	**66**	**121**	**5**	**90**	**139**	**119**	**47**	**144**
Financial income	2	3	3	1	2	2	2	2	0	0	4	4
Financial expenses	–6	–7	–6	–3	–3	–2	–2	–1	–15	–9	0	–5
Profit/loss before tax	**104**	**2**	**–1**	**50**	**65**	**121**	**5**	**91**	**124**	**110**	**–51**	**143**
Taxes	–8	4	0	–9	16	–27	0	–14	–17	–29	–17	–36
Profit for the period	**96**	**6**	**–1**	**41**	**49**	**94**	**5**	**77**	**141**	**81**	**34**	**107**

	Q4 15/16	Q3 15/16	Q2 15/16	Q1 15/16	Q4 14/15	Q3 14/15	Q2 14/15	Q1 14/15	Q4 13/14	Q3 13/14	Q2 13/14	Q1 13/14
Net sales	1,248	1,195	1,116	1,165	1,149	1,132	1,133	1,174	1,185	1,201	1,114	1,243
Cost of goods sold	–524	–420	–462	–401	–490	–433	–478	–431	–482	448	–471	–456
Gross profit	**724**	**775**	**654**	**764**	**659**	**699**	**655**	**743**	**703**	**753**	**643**	**787**
Selling expenses	–574	–614	–570	–597	–563	–612	–604	–606	–598	–617	–603	–651
Administrative expenses	–51	–58	53	–50	–44	–45	–42	–42	–36	35	–37	–37
Other operating income	–	–	–	–	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–
Operating profit	**99**	**103**	**31**	**117**	**52**	**42**	**9**	**95**	**69**	**101**	**3**	**99**
Adjusted operating profit	**99**	**103**	**31**	**117**	**62**	**42**	**9**	**95**	**92**	**101**	**3**	**99**
Financial income	1	0	0	0	1	0	0	0	0	0	0	0
Financial expenses	–5	0	–2	–2	–6	–5	–3	8	10	38	–8	12
Profit/loss before tax	**95**	**103**	**–29**	**115**	**47**	**37**	**6**	**87**	**59**	**63**	**–5**	**87**
Taxes	–36	–14	–15	–32	–17	–14	–9	26	–27	–21	–2	25
Profit for the period	**59**	**89**	**14**	**83**	**–30**	**23**	**–3**	**–61**	**–32**	**42**	**–7**	**62**

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	The key ratio is used to assess, from an owner's perspective, the development of the investment
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 clear the effect of a new issue and reverse split
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 (EBIT=earnings before interest and tax)	This key figure makes it possible to compare profitability regardless of corporate tax rate and independent of the company's financing structure
Items affecting comparability	Items affecting comparability, such as restructuring and impact of acquisitions	Separating items affecting comparability increases comparability between periods
Adjusted operating profit (EBIT)	Total profit before net financial income and income tax adjusted by items affecting comparability	This key figure increases the comparability of EBIT
Operating profit (EBITDA)	Operating profit before amortisation and impairment	This key figure is used to measure cash flow from operating activities, regardless of the effects of financing and valuation of non-current assets
Adjusted operating profit (EBITDA)	Operating profit before amortisation and impairment adjusted by items affecting comparability	This key 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	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

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