

Proposal of the Board of Directors of KappAhl AB (publ) for resolution at the AGM concerning resolution on directed warrant issue and adoption of an incentive program to employees and approval of transfer

The Board of Directors of KappAhl AB (publ.), corporate id No. 556661-2312, ("KappAhl"), proposes that the extraordinary general meeting on 8 November 2011 (i) decide on an issue of no more than 6,750,000 warrants entitling to subscription of a maximum of 6,750,000 shares in KappAhl (the "Warrants") directed to a by KappAhl indicated Swedish wholly owned company in the KappAhl group, ("KappAhl Warrant Administration"), and (ii) agrees that a maximum of 6,750,000 such Warrants are transferred to certain key persons in accordance with clause 2 below of the KappAhl group, i.e. adopts an incentive program for the employees of the KappAhl group (the "Program"). All in all, the program entails that KappAhl's share capital, in case of full subscription, may be increased by no more than SEK 964,285,71 through an issue of no more than 6,750,000 new shares.

The following terms and conditions shall otherwise apply for the Program:

1. Issue of warrants

- 1.1 The issue shall comprise a maximum of 6,750,000 Warrants. Each Warrant entitles the holder to subscribe for one new share in KappAhl, enabling subscription of a maximum of 6,750,000 shares, each with a quota value of SEK 1/7.
- 1.2 Subscription for the Warrants shall be gratuitous from January 16 to January 18, 2012. The reason for issuing the Warrants without consideration is that they shall be utilized to a wholly owned subsidiary as a part of the establishment of the incentive program.
- 1.3 Oversubscription cannot be done.
- 1.4 With deviation from shareholders' pre-emption rights, the Warrants may only be subscribed for by KappAhl Warrant Administration with an obligation for KappAhl Warrant Administration to offer and assign the Warrants to certain key personnel in accordance with clause 2 below.
- 1.5 The reasons for the deviation from the shareholders' pre-emption rights are partly to create opportunities for the KappAhl group to maintain and recruit qualified key employees, partly by offering a long-term ownership commitment among key employees, to encourage them to an increased interest in the business and its financial development as well as to increase the sense of solidarity to the KappAhl group.
- 1.6 For the Warrants and the subscription right of the Warrants, the terms stipulated in the enclosed "Warrant terms 2012/2015 in KappAhl AB (publ)", Appendix 1, (the "Warrant Terms") shall apply.
- 1.7 The Warrant Terms i.a. stipulate that:

- (a) Each Warrant shall entitle the holder to subscribe for one share in KappAhl at a subscription price set at 125 percent of the noted volume weighted average settled price for shares in KappAhl at Nasdaq OMX Stockholm's official stock exchange list during the period as from December 22, 2011 up until January 5, 2012 (the "Measuring Period"). If there is no note of a settled price for one of the days in question, the bid price noted as closing price shall instead be included in the calculation. Days without both closing price and bid price shall not be included in the calculation. The subscription price according to the above shall be rounded to the nearest ten öre, and five ören shall be rounded down. The subscription price, however, shall not fall below the quota value of the share.
- (b) the subscription price may be subject to adjustments as set out in the Warrant Terms;
- (c) the Warrants may be used up until February 6, 2015, however, the Warrants may only be used during the last 10 banking days of the period;
- (d) the date of the subscription of the Warrants may, as set out in clause 8 of the Warrant Terms, be advanced.
- (e) share which has supervened after subscription under Warrant entitles to dividend for the first time on the record date for dividend, that occur immediately after subscription has been executed.

2. Transfer of Warrants to certain key personnel in the KappAhl group

2.1 The Program implies that when KappAhl Warrant Administration has subscribed for all 6,750,000 Warrants, certain key personnel in the KappAhl group shall be offered to acquire Warrants on market terms during the period from January 9, 2012 to January 16, 2012.

2.2 For each Warrant, the key personnel shall pay a premium corresponding to the Warrant's market value calculated in accordance with Black & Scholes and conventional assumptions on i.a. volatility and risk-free interest rate at the time of the offer, assumptions which are based on measures made during the Measuring Period. Calculation of the market value of the Warrants will be done KappAhl's hiring of Nordea Bank AB (publ) or another well-reputed financial institute. Based on the closing price of the KappAhl share and other preliminary assumptions as of November 1, 2011, the Warrant premium is expected to be approx. SEK 0.82 per Warrant pro-forma upon full subscription of the, by the Board of Directors, approved new share issue and provided it is approved by the EGM on November 8, 2011. If such issue is not approved by the EGM on November 8, 2011, the Warrant premium amount to approximately SEK 1.20 per Warrant based on the same basic assumptions.

- 2.3 The following categories of current employees in the KappAhl group, shall be offered Warrants:
- (a) the incoming CEO of KappAhl (group 1) shall be entitled to acquire 750,000 Warrants in blocks of a minimum of 100 Warrants;
 - (b) each member of the KappAhl group's management team (group 2) shall be entitled to acquire 300,000 Warrants per person, in blocks of a minimum of 100 Warrants; and
 - (c) each other key personnel in the KappAhl group who reports to the management team (group 3) shall be entitled to acquire 150,000 Warrants per person, in blocks of a minimum of 100 Warrants.

Afore-mentioned employees in groups 1 to 3 are here jointly referred to as "Key Personnel". Group 1 consists of one person, group 2 of approx. seven persons and group 3 of approx. 30 persons. Only employees in Sweden are encompassed by the Program.

- 2.4 Board members of KappAhl shall not be entitled for subscription for Warrants in the Program.
- 2.5 In the event of over-subscription, Key Personnel shall primarily be allotted Warrants pro rata in relation to the number of Warrants comprised by the application and thereafter by drawing of lots. The Board of Directors allocates in accordance with said principles.
- 2.6 The purpose of the Program is partly to create opportunities for the KappAhl group to maintain and recruit qualified key employees, partly by offering a long-term ownership commitment among key employees, to encourage them to an increased interest in the business and its financial development as well as to increase the sense of solidarity to the KappAhl group.

3. Dilutive effect and other information

- 3.1 Upon full subscription of the offer and full subscription to the above transferred Warrants respectively, the share capital of KappAhl may increase to no more than SEK 964,285,71, by issuance of no more than 6,750,000 shares, each with a quota value of SEK 1/7. This corresponds to a dilutive effect of approximately three percent of the shares and votes in KappAhl, which, however, is subject to the approval of the new share issue resolved of the Board of Directors by the AGM on November 8, 2011. If such issue is not approved by the AGM on November 8, 2011, the maximum number of Warrants that may be issued in the Program shall automatically be reduced to 2,250,000 and those numbers of Warrants which each category may acquire according to clause 2.3 above shall be reduced to a third, i.e. group one 1,250,000 pc, group 2 100,000 pc and group 3, 50,000 pc.
- 3.2 Apart from this, KappAhl has no outstanding share based incentive schemes.

- 3.3 The CEO or a person appointed by the Board of Directors is authorized to make minor adjustments and clarifications of the issue resolution (including the terms) that may be required in connection with registration with the Swedish Companies Registration Office or Euroclear Sweden AB.
- 3.4 The Board of Directors has the right, to a limited extent, to extend the application time as well as the subscription time if it is necessary for practical reasons for the implementation of the Program.
- 3.5 The Remuneration Committee has prepared the issue of the Program. The Board of Directors have considered the proposal of the Program in October and the beginning of November 2011, and is of the opinion that it fits well with the KappAhl group's other remunerations. The Program is not expected to cause any costs for social security contributions.
- 3.6 The issue is covered by the provisions of the Swedish Companies Act, chapter 16. Therefore, a legally binding resolution requires that this proposal is supported by shareholders representing at least nine tenths of both the votes cast and the shares represented at the meeting.

Mölndal, November 2011

KappAhl AB (publ)

The Board of Directors