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The Board of Directors' complete proposal for a resolution according to item 7 on the agenda

As stated below, the Board of Directors of KappAhl AB (publ), corporate id No. 556661-2312, proposes that the Meeting resolves to approve a rights issue of shares with preferential rights for the shareholders. As further stated below, certain conditions for the new issue of shares, such as the number of shares to be issued and what is to be paid for each new share, are to be determined and made public at a later time. In order to create flexibility when determining the final terms of the rights issue, the Board of Directors presents two proposals regarding the amendment of § 4 of the Articles of Association (see a) – b) below), of which only one proposal can be approved by the Meeting. The Board of Directors will therefore withdraw the other proposal which the Board of Directors finds to be less effective with regard to i.a. the final terms for the rights issue. Such withdrawal will be made when the final terms of the rights issue are determined (see further below).

a) Proposal for resolution on amendment of the Articles of Association

To enable the rights issue with preferential rights for current shareholders under item c) below, the Board of Directors proposes that the Meeting resolves that the limits for the share capital in the Articles of Association shall be amended as follows.

The limits of the share capital in the Articles of Association shall be changed from the current minimum of SEK five million 5,000,000 and maximum of SEK twenty million 20,000,000 to minimum of SEK ten million 10,000,000 and maximum of forty million SEK 40,000,000.

Article 4 of the Articles of Association shall thereby be worded as follows:

”The share capital shall amount to no less than SEK ten million (10,000,000) and no more than SEK forty million (40,000,000). The number of shares shall be no less than seventy million (70,000,000) and no more than two hundred and eighty million (280,000,000).”

The Board of Directors proposes that the Board of Directors shall have the right to withdraw its proposal for resolution under this item a), if its proposal for resolution under item b) below is considered more appropriate for the determination of the final terms of issue.

b) Proposal for resolution on amendment of the Articles of Association

To enable the rights issue with preferential rights for current shareholders under item c) below, the Board of Directors proposes that the Meeting resolves that the limits for the share capital and number of shares in the Articles of Association shall be amended as follows.

The limits of the share capital in the Articles of Association shall be changed from the current minimum of SEK five million 5,000,000 and maximum of SEK twenty million 20,000,000 to minimum of SEK twenty million 20,000,000 and maximum of SEK eighty million 80,000,000 and the numbers of shares shall be changed from the current minimum of seventy million 70,000,000 and maximum of two hundred and eighty million 280,000,000 to minimum of one hundred and forty million 140,000,000 and maximum of five hundred and sixty million 560,000,000.

Article 4 of the Articles of Association shall thereby be worded as follows:

”The share capital shall amount to no less than SEK twenty million (20,000,000) and no more than SEK eighty million (80,000,000). The number of shares shall be no less than one hundred and forty million (140,000,000) and no more than five hundred and sixty million (560,000,000).”

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The Board of Directors proposes that the Board of Directors shall have the right to withdraw its proposal for a resolution under this item b), if its proposal for a resolution under item a) above is considered more appropriate for the determination of the final terms of issue.

c) Resolution on approval of the Board of Directors' resolution to issue new shares with preferential rights for current shareholders, subject to the approval of the Meeting

The Board of Directors' proposes that the Extraordinary General Meeting of November 8, 2011 approves the Board of Directors' resolution of October 10, 2011 to increase the Company's share capital by a new issue of shares with preferential rights for the shareholders as set out below.

On October 10, 2011, the Board of Directors has, subject to the approval of the Meeting, resolved on a new issue of shares with preferential rights for the shareholders of the Company.

The Meeting's approval of the Board of Directors' proposal on the rights issue requires that the Articles of Association are amended according to item a) or b) above.

Two of the Company's major shareholders, Dutot Ltd. and Mellby Gård AB, which hold approximately 16.3 and 11.8 percent of the capital and votes in the Company have committed to subscribing for shares in the rights issue in relation to their respective holdings in KappAhl, ie. utilize all allocated subscription rights (the "Subscription undertakings"). In addition, Dutot Ltd. and Mellby Gård AB have undertaken to subscribe for the remaining part of the rights issue that is not subscribed for with or without subscription rights (the "Guarantee undertakings") and such shares shall be distributed by 20 percent to Dutot Ltd. and 80 percent to Mellby Gård AB.

If the rights issue is not fully subscribed for with subscription rights, Dutot Ltd. and Mellby Gård AB may, because of the Subscription undertakings and the Guarantee undertakings, increase their shares of equity and votes in the Company. The maximum share that Dutot Ltd. and Mellby Gård AB may obtain of the Company's equity and votes will be published when the final terms of the rights issue, according to above, have been determined by the Board of Directors. Dutot Ltd. and Mellby Gård AB have been granted an exemption from the Swedish Securities Council (Sw. Aktiemarknadsnämnden) (AMN 2011:26 and AMN 2011:27) from the obligation to make a mandatory public offer in case Dutot Ltd.'s and Mellby Gård AB's share of the votes in the Company would come to exceed 30 percent due to fulfillment of the Subscription undertakings or Guarantee undertaking. The Swedish Securities Council's ruling to grant an exemption from the obligation to make a mandatory public offer, insofar as concerns the Guarantee undertaking, is conditioned upon approval of the Board of Directors' resolution on the rights issue by shareholders representing not less than two-thirds of the votes cast and shares represented at the Meeting, setting aside the shares that are held and represented by Dutot Ltd. and Mellby Gård AB at the Meeting.

In addition to what is set out above, the following terms shall apply for the issue of new shares.

1. The Board of Directors, or a person appointed by the Board of Directors amongst its members, shall be authorized to determine, no later than five weekdays prior to the record date, the amount by which the Company's share capital is to be increased, the number of shares which are to be issued in the rights issue and the subscription price per share.
2. Right to subscribe for new shares shall be preferential for shareholders who are registered on the record date for the rights issue and thus have been assigned subscription rights in relation to their shareholdings on the record date or, if

subscription rights are thereafter transferred, the acquirer of the subscription rights regardless of whether the acquirer was a shareholder on the record date or not. In the event that not all the shares in the rights issue are subscribed for with subscription rights, allotment of the remaining shares, within the maximum amount of the rights issue, shall be made to the person who has subscribed for shares with subscription rights and who has notified its interest to subscribe for shares without subscription rights. In the event that the allotment to such person can not be made in full, allotment shall be made in proportion to the number of subscription rights that each of those who notified an interest to subscribe for shares without subscription rights has exercised for subscription of shares, and to the extent that this is not possible, for the drawing of lots. In the event that not all of the shares can be allotted according to the above, allotment of the remaining shares shall be made to Dutot Ltd. and Mellby Gård AB in their capacity as guarantors and in accordance with the terms of the respectively guarantor's guarantee.

3. The record date for determining which shareholders are entitled to subscribe for new shares with preferential right (assignment of subscription rights) shall be November 11, 2011.
4. Subscription of new shares with subscription rights shall be made through cash payment during the period from November 16, 2011 to November 30, 2011. Subscription for new shares without subscription rights shall be made during the same time. Such subscription shall be made on a separate subscription list. Payment for shares that have been subscribed for without subscription rights shall be made in cash no later than the third banking day after the sales note has been sent, on which the allotted shares are set out. The Board of Directors shall have the right to extend the period of subscription.
5. Subscription – as far as regards possible subscription by Dutot Ltd and Mellby Gård AB in their capacity as guarantors according to the above – shall be done on a separate subscription list no later than the fifth banking day after the above stated time. Payment for such shares that are subscribed for and allotted shall be made in cash no later than on the third banking day after the sales note has been sent, on which the allotted shares are set out. However, the Board of Directors shall have the right to extend the period of such payment.
6. The new shares shall entail a right to profit distribution for the first time on the record date for dividend distribution that occurs closest after the rights issue has been registered with the Swedish Companies Registration Office and the shares have been recorded in the share register at Euroclear Sweden AB.
7. The resolution of the Board of Directors on a new issue of shares is conditional upon the Meeting's subsequent approval and possible amendments of the Articles of Association.
8. A copy of the Annual Accounts for the financial year September 1, 2009- August 31, 2010 with the auditor's report and note concerning the Meeting's resolution on the profits of the Company as well as the Board of Directors' account of material events with the auditor's statement are set out in Appendix 1-3.

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The Chief Executive Officer, or the person who the Chief Executive Officer appoints, shall be authorized to make minor changes in the resolution as may be required in connection with the registration of the decision with the Companies Registration Office and Euroclear Sweden AB.

The Meeting's resolution in accordance with items a) - c) above shall be adopted as one resolution. Such resolution is valid only if approved by shareholders holding at least two-thirds of the votes cast and the shares represented at the Meeting. However, since the exemption that Dutot Ltd. and Mellby Gård AB has received from the Swedish Securities Council contains specific terms for a majority decision it is proposed that the decision moreover shall be conditional upon the shareholders at the Meeting approving the decision by at least two-thirds of the votes cast and the shares represented at the Meeting, without including the shares held and represented at the Meeting by Dutot Ltd. and Mellby Gård AB. Unless this condition of special majority is met, the decision under this item 7 shall be invalid.

Mölndal, October 2011

The Board of Directors of KappAhl AB (publ)