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## Corporate governance report

KappAhl AB (publ) is a public Swedish company listed on NASDAQ OMX Stockholm. Corporate governance of KappAhl is based on laws, listing agreements, guidelines and good business practices. This corporate governance report has been drawn up in accordance with the Swedish Code of Corporate Governance ('the Code', available via [www.bolagsstyrning.se](http://www.bolagsstyrning.se)) and Chapter 6, Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2011/2012 financial year. KappAhl's Articles of Association and other information concerning KappAhl's corporate governance is available on the website [www.kappahl.com/ir](http://www.kappahl.com/ir).

### APPLICATION OF THE CODE

KappAhl applies the Code, with the exception that the Audit Committee, in accordance with point 7.3 of the Code shall comprise of at least three board members, while KappAhl's Audit Committee comprises of two board members. The reason for this difference is that the Nominations Committee considers that the Audit Committee works effectively with two board members and fulfils its duties well in accordance with the instructions stipulated by the Board of Directors.

### SHARES AND SHAREHOLDERS ETC.

On 31 August 2012 the share capital of KappAhl was SEK 32,160,000 divided between 225,120,000 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 about 20,923 shareholders on 31 August 2012. The shareholders with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2012 were Dutot Ltd. and Mellby Gård AB. The ten largest shareholders as at 31 August 2012 are listed in the Administration Report on page 23 in the Annual Report 2011/2012.

### GENERAL MEETING OF SHAREHOLDERS

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

The most recent Annual General Meeting held was the Annual General Meeting of 23 November 2011 in Mölndal.

The minutes of the Annual General Meeting can be found on KappAhl's website. The resolutions included re-election of Amelia Adamo, Jan Samuelson and Paul Frankenius as members of the Board. Christian W. Jansson and Sonat Burman-Olsson were elected as new members of the Board. Christian W. Jansson was also elected as the Chairman of the Board. The next Annual General Meeting will be held on 28 November 2012 at 18.00 at Idrottsvägen 14 in Mölndal. A shareholder wishing to have a matter brought before the Annual General Meeting can send a written request to: KappAhl AB, Attention: Chairman of the Board, Box 303, SE-431 24 Mölndal. The request must reach the Board of Directors at least seven weeks prior to the Meeting or in good time that the item, if necessary, can be included in the notice to attend the Meeting.

### NOMINATIONS COMMITTEE

#### *Election of the Board of Directors*

The Annual General Meeting set out instructions and a formal work plan for the Nominations Committee. Under the instructions four ordinary members are to be appointed by the four largest shareholders in the company. The Chairman of the Board of Directors will then contact the four largest shareholders and be co-opted to the committee. The composition of the Nominations Committee for the Annual General Meeting on 28 November 2012 was published on the company's website before 28 May 2012. Christian W. Jansson (appointed by Dutot Ltd.), Rune Andersson (appointed by Mellby Gård AB) and Evert Carlsson (appointed by Swedbank Robur Fonder AB) sit on the Nominations Committee. Contacts were made with additional shareholders in order of size but without being informed in time as to whether one of the shareholders wished to appoint a fourth member. In accordance with information provided on our website the Nominations Committee held its inaugural meeting with three members so that it could start its work. The Nominations Committee represented, on 30 September 2012, about 33.4 per cent of the shareholders' votes.

The Nominations Committee held its inaugural meeting on 10 September 2012, at which time Evert Carlsson was elected as the Committee chairman. The Committee will present its proposals in connection with the notice to attend the Annual General Meeting. Shareholders who wish to submit proposals to the Nominations Committee are referred to our website.

In the event of a material change in ownership among the largest shareholders taking place earlier than six weeks prior to the Annual General Meeting, and if one shareholder, having become one of the four largest shareholders after this material change in ownership, requests to be included in the Nominations Committee, the Nominations Committee shall offer this

shareholder a place on the Nominations Committee as instructed by the Annual General Meeting. This is to be done either by the Nominations Committee deciding that this shareholder is to replace the smallest shareholder after the change or by deciding to increase the Nominations Committee to include one more member. No such material changes in ownership have taken place.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of the Board of Directors should possess. The aim is to create a suitable composition of the Board of Directors and for its members' pooled skills and experience to provide a broad base that is appropriate from the point of view of KappAhl's current phase and market situation. The Committee will also keep itself up to date with general developments in fee and remuneration matters in Swedish listed companies. In 2012 the Chairman of the Board, Christian W. Jansson, commissioned an individual assessment of the work of the Board and its committees. The result has been presented to the Nominations Committee.

The Nominations Committee has made the assessment that no members of the current Board, apart from Christian W. Jansson, are dependent in relation to the company or its major shareholders. Ahead of the Annual General Meeting on 28 November 2012 the Nominations Committee will make its proposals for the chairman of the Meeting, number of Board members, Chairman of the Board, auditor, other AGM elected members and instructions for next year's Nominations Committee. The Nominations Committee will also submit its proposals for fees and remuneration. No separate remuneration has been paid by the company to the members of the Nominations Committee for its work.

#### *Election of auditor*

The 2008 Annual General Meeting appointed PricewaterhouseCoopers AB as audit firm, with Authorised Public Accountant Bror Frid as the auditor-in-charge for the period up to the Annual

General Meeting held in the fourth year after the election of auditor. Bror Frid has reported his observations from the auditing assignment to the Audit Committee and the Board of Directors. Within the framework of the audit assignments mentioned, the annual accounts, the accounting records and the administration of the Chief Executive Officer were examined. In addition to the auditing assignment, which is remunerated in accordance with normal standard charges and the principle of an approved account, during the financial year PricewaterhouseCoopers AB sold services to the company for around SEK 0.5 million, of which most relate to tax consultations, consultations in connection with acquisitions and additional accounting issues.

#### BOARD OF DIRECTORS

##### *General*

The Board of Directors is responsible for the company's administration of its affairs and organisation. Five ordinary members were elected to the Board of Directors at the Annual General Meeting in November 2011. The Board of Directors also includes two trade union representative members, each with a personal deputy. Jonas Frii, member of the Swedish Bar Association, was secretary to the Board of Directors. There are no special provisions in the articles of association concerning the appointment or removal of members of the Board. Since the Annual General Meeting on 23 November up to 31 August 2012 the Board of Directors held nine meetings, all of which were minuted. One meeting was an inaugural Board meeting and five meetings were ordinary meetings. Since 31 August 2012 the Board of Directors has held three meetings. Members' attendance at each meeting is presented in the table below.

The President, the Chief Financial Officer and in some cases other members of the management made presentations at the Board meetings. Remuneration and other benefits to the Board of Directors of KappAhl are presented in Note 4 on page 42 in the Annual Report 2011/2012. Board members' shareholdings in

	Inaugural Board meeting No. 2011:12 23 Nov 2011	Ordinary Board meeting No. 2011:13 5 Dec 2011	Ordinary Board meeting No. 2011:14 20 Dec 2011	Ordinary Board meeting No. 2012:1 18 Jan 2012	Ordinary Board meeting No. 2012:2 2 Feb 2012	Ordinary Board meeting No. 2012:3 26 Mars 2012	Ordinary Board meeting No. 2012:4 29 Mars 2012	Ordinary Board meeting No. 2012:5 28 Juni 2012	Ordinary Board meeting No. 2012:6 30 Aug 2012
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Amelia Adamo	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Absent	Yes
Sonat Burman-Olsson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Paul Frankenius	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Jan Samuelson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bodil Gummesson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Melinda Hedström	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Johan Åberg	–	–	Yes	–	Yes	Yes	Yes	Yes	Yes
Håkan Westin	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

KappAhl are presented on pages 62–63 in the Annual Report 2011/2012. Information on the Board members' other elected positions and independence can be found on the same pages. More information on the Board is also available on KappAhl's website, [www.kappahl.com/ir](http://www.kappahl.com/ir).

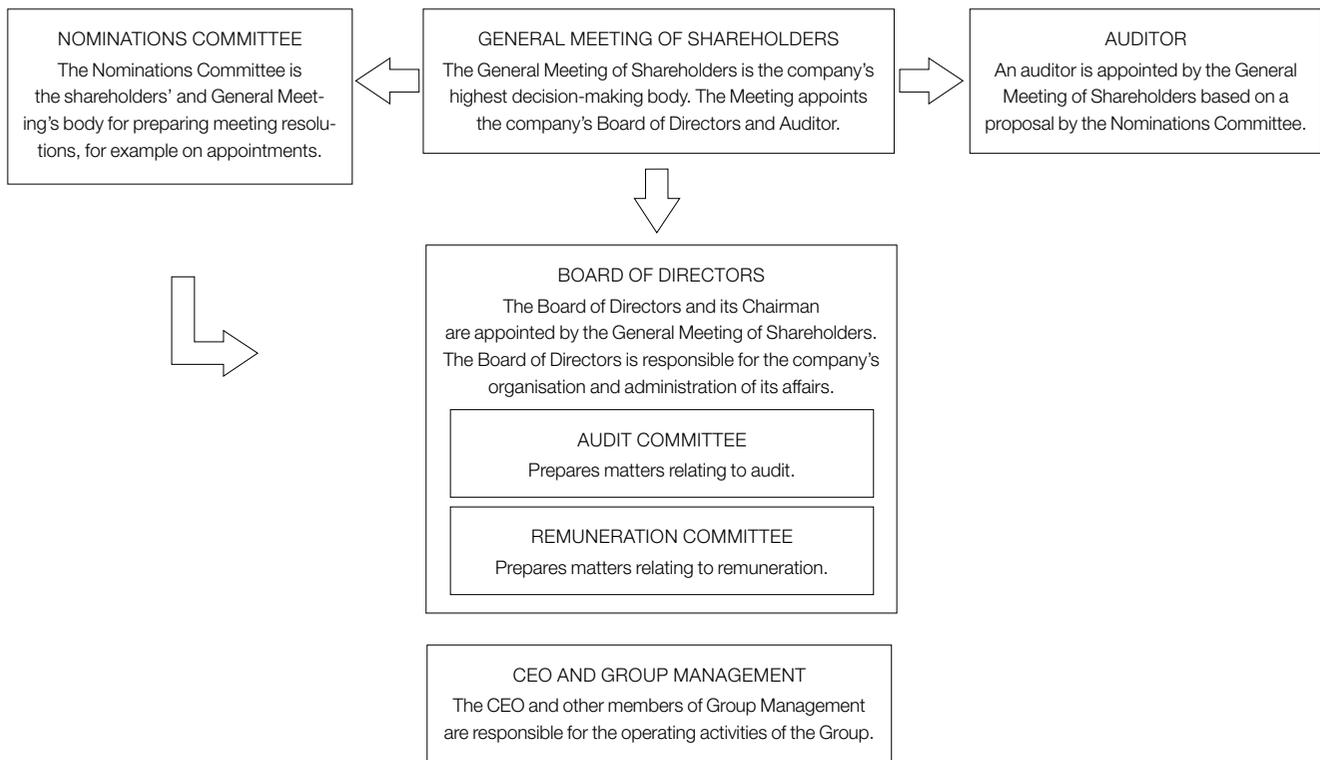
#### *Work of the Board of Directors*

Between each Annual General Meeting the Board of Directors shall hold four to six ordinary meetings. These meetings normally take place in person at the head office in Mölndal. Extra meetings may also be arranged in the form of telephone conferences. The Chairman leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The Chairman in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings for information, discussion or decision. Decisions are made after discussion and after all members present have had an opportunity to express their views. The broad experience of members in various areas often leads to an open and constructive discussion. During the year no Board member has opposed any of the decisions made. 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 23 November 2011 and are revised annually. They stipulate the

division of assignments between Chairman, Board members and committees. The rules of procedure stipulate for example which matters must be dealt with at each ordinary meeting. At each ordinary meeting, reports from the Audit Committee and Remuneration Committee, and a report from senior executives are presented and decisions are made on establishments and investments. Among the more important matters dealt with by the Board during the year were discussions on financing, investments and an action programme. In addition, the President issues a regular memorandum 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 make well-informed decisions. Once a year the Board of Directors evaluates the work of the Chief Executive Officer. 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. In connection with the presentation of the audit report, the Board of Directors met the auditor without the management being present.

#### *Members of the Board of Directors*

KappAhl's Board of Directors comprises seven members, including the Chairman, employee representatives and two deputies. The presentation of the Board members on pages 62–63 in the



Annual Report 2011/2012 includes a list of their other assignments and relevant shareholdings. More information on the Board is available on KappAhl's website.

#### REMUNERATION COMMITTEE

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 28 November 2012 the Committee will comprise Christian W. Jansson (chairman) and Amelia Adamo. 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. The Chairman of the Board of Directors leads the Committee, which has met during the year to examine, among other things, bonus outcome and terms and conditions of employment for a new Vice President of sales. 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 23 December 2011 for senior executives. The adopted policy means, among other things, that senior executives shall be offered a fixed salary that is market-related and based on responsibility and conduct. Salaries shall be set for the calendar year, and a senior executive may, from time to time, be offered a bonus of a maximum of 50% of fixed salary. Any bonuses shall primarily be based on the operating profits of the KappAhl Group. Senior executives and the company must both observe a period of six months' notice of termination. The remuneration policy is reviewed annually and is presented to the Annual General Meeting for approval.

#### AUDIT COMMITTEE

At its inaugural meeting the Board of Directors shall also appoint the Audit Committee. Until the Annual General Meeting on 28 November 2012 the Committee comprises Jan Samuelson (chairman) and Sonat Burman-Olsson. In the opinion of the Board of Directors, which is shared by the Nominations Committee, both members of the Audit Committee are independent in relation to the company and its senior executives and meet the necessary qualification requirements in accounting and auditing. The Audit Committee must, without affecting the Board of Director's responsibilities and tasks in other respects, monitor the financial reporting by the company and the effectiveness of the company's internal controls with regard to financial reporting. The Committee has, in conjunction with the submission of the audit report, met with the auditors without the CEO or other senior executive being present. In 2012 Committee work included preparing issues concerning interim reports, financing, foreign currency issues and internal financial control. Since the Annual General Meeting on 23 November 2011 up to 31 August 2012 the Committee held four meetings, all of which

were minuted. The Committee subsequently held one other meeting. The Board's secretary is also the secretary of the Audit Committee. The Committee works according to written rules of procedure stipulated by the Board of Directors. The Committee minutes are distributed to the Board of Directors and reporting is at each Board meeting.

#### MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on pages 60–61 in the Annual Report 2011/2012 and on KappAhl's website.

#### REPORT ON INTERNAL CONTROLS

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

#### CONTROL ENVIRONMENT

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

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

#### INTERNAL CONTROL RELATING TO FINANCIAL REPORTING

Internal control relating to financial reporting is part of total internal control in KappAhl, whose process proceeds from the business model. Internal control relating to financial reporting aims at providing reasonable assurance concerning the reliability of the external financial reporting in the form of interim reports, annual reports and year-end bulletins and that the external financial reporting is prepared in accordance with law, applicable accounting standards and other requirements of listed companies.

#### RISK ASSESSMENT

KappAhl's risk assessment relating to financial reporting aims to identify and evaluate the most significant risks that affect internal

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

#### INFORMATION AND COMMUNICATION

Internal information and communication is about creating awareness among the Group's employees about external and internal policy instruments, including authorisation and responsibility. Information on internal policy instruments for financial reporting are available to all employees concerned. Important tools for this are KappAhl's intranet and training.

#### ACTIVITIES 2011/2012

During the year one focus has been on valuation of material assets.

#### INTERNAL AUDIT

To date, KappAhl has not considered it necessary to establish a specific internal audit function. The reason is that in the opinion of the Audit Committee the existing control environment is sufficient to achieve the equivalent objective.

Möln dal, 30 October 2012

Christian W. Jansson  
Chairman

Amelia Adamo  
Member of the Board

Paul Frankenius  
Member of the Board

Melinda Hedström  
Employee representative

Jan Samuelson  
Member of the Board

Sonat Burman-Olsson  
Member of the Board

Rose-Marie Zell-Lindström  
Employee representative

Johan Åberg  
President and CEO

## Auditor's report on the Corporate Governance Statement

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

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2011-09-01–2012-08-31 on pages 55–59 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg 31 October 2012  
PricewaterhouseCoopers AB

Bror Frid  
*Authorized Public Accountant*