

# CORPORATE GOVERNANCE REPORT

KappAhl AB (publ) is a public Swedish limited company listed on NASDAQ 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.corporategovernanceboard.se](http://www.corporategovernanceboard.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 2015/2016 financial year. The auditor has stated that a corporate governance report has been prepared and that disclosures under Chapter 6, Section 6, second paragraph, points 2–6 of the Annual Accounts Act (for example the most important elements of the company’s internal control and risk management systems in connection with financial reporting) are consistent with the other parts of the annual report. KappAhl’s Articles of Association and other further information concerning corporate governance at KappAhl is available at [www.kappahl.com/ir](http://www.kappahl.com/ir).

## APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

KappAhl’s corporate governance follows the Code and is thus based on principles that follow from law, listing agreements, guidelines and good business practice. During the financial year the company has not infringed any rules applicable to the stock exchange where the company’s shares are traded or breached good practice on the stock market.

## SHARES AND SHAREHOLDERS ETC.

On 31 August 2016, 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 14,191 shareholders on 31 August 2016. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2016 was Mellby Gård AB. The ten largest shareholders as at 31 August 2016 are listed in the Administration Report on page 10.

## GENERAL MEETING OF SHAREHOLDERS

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

The most recent Annual General Meeting held was the Annual General Meeting of 2 December 2015 in Mölndal. The minutes of the Annual General Meeting can be found on KappAhl’s website. It

was then resolved to re-elect Anders Bülow, Susanne Holmberg, Christian W. Jansson and Pia Rudengren as members of the Board of Directors. Kicki Olivensjö and Gustaf Öhrn were elected as new members of the Board of Directors and Anders Bülow was re-elected as the Chairman of the Board. The next Annual General Meeting will be held at 10.00 on 6 December 2016 at Idrottsvägen 14 in Mölndal. Shareholders wishing to have a matter brought before the Annual General Meeting should send a written request to KappAhl AB, Attn: Chairman of the Board of Directors, P.O. 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 6 December 2016 was published on the company’s website before 6 June 2016. Rune Andersson (appointed by Mellby Gård AB), Marianne Nilsson (appointed by Swedbank Robur Fonder AB), Elisabet Jamal Bergström (appointed by Handelsbanken Fonder AB) and Jannis Kitsakis (appointed by the Fourth National Pension Fund) sit on the Nominations Committee. Anders Bülow, Chairman of the Board, has been co-opted to the Nominations Committee. Göran Espelund (appointed by Lannebo Fonder AB) left the Nominations Committee on 25 August 2016 after Lannebo Fonder AB reduced its holding, at which time Jannis Kitsakis joined the Nominations Committee instead, in accordance with the instructions adopted by the Annual General Meeting. The Nominations Committee represented, on 30 September 2016, 33.3 per cent of the shareholders’ votes.

The Nominations Committee held its inaugural meeting on 20 June 2016, at which time Rune Andersson 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 seven weeks prior to the Annual General Meeting, and one shareholder having become one of the four largest shareholders after this material change in ownership, the Nominations Committee shall contact the shareholder and offer this shareholder a place on the Nominations Committee, either by resolving that this shareholder shall replace the smallest shareholder after the change or by resolving to increase the Nominations Committee to include one more member. After resolution in accordance with the previous

sentence the incoming member shall participate and the member appointed by the smallest shareholder shall not participate.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of the Board of Directors should possess. The aim is to create an appropriate 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 the 2015/2016 financial year the Chairman of the Board, Anders Bülow, commissioned an individual assessment of the work of the Board and its committees. The result has been presented to the Nominations Committee.

The Nominations Committee has made the assessment that no members of the current Board, apart from Christian W. Jansson and Anders Bülow, are dependent in relation to the company or its major shareholders. Ahead of the Annual General Meeting on 6 December 2016 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 on 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

At the 2015 Annual General Meeting (and the 2014 Annual General Meeting) Ernst & Young AB was elected as auditors, with authorised public accountant Stefan Kylebäck as auditor in charge, for the period up to the next Annual General Meeting. Ernst & Young AB have reported their findings 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 a fixed account, during the financial year Ernst & Young sold services to the company for around SEK 0.8 million, of which most relates to tax consultations and additional accountancy issues.

## BOARD OF DIRECTORS

### General

The Board of Directors is responsible for the company's administration of its affairs and organisation. At the Annual General Meeting in December 2015, six ordinary members were elected, one of whom resigned during the year (see below under "Members of the Board of Directors"). 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 2 December 2015 up to 31 August 2016 the Board of Directors held five meetings, all of which were minuted. Four of these meetings were ordinary meetings. After 31 August 2016 the Board held three meetings, on 2 September 2016, 27 September 2016 and 12 October 2016. Members' attendance at the respective meetings appears in the table below:

The President, the Chief Financial Officer and in some cases other members of the management made presentations at the Board meetings. Remuneration and other benefits to the Board of Directors of KappAhl are presented in Note 5 on page 26. Board members' shareholdings in KappAhl are presented on page 57. Information on the Board Members' other elected positions can be found on the same page. More information is available at: [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

	Inaugural Board meeting No. 2015:09 2 Dec 2014	Board meeting No. 2016:01 19 Jan 2016	Board meeting No. 2016:02 13 April 2016	Board meeting No. 2016:03 10–11 May 2016	Board meeting No. 2016:04 29 June, 2016	Board meeting No. 2016:05 2 Sept 2016	Board meeting No. 2016:06 27 Sept 2016	Board meeting No. 2016:07 12 Oct 2016
Anders Bülow	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Kicki Olivensjö	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Susanne Holmberg	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Melinda Hedström	Yes	Yes	Yes	Absent	Yes	Absent	Yes	Yes
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gustaf Öhrn	Yes	Yes	Yes	–	–	–	–	–
Michael Bjerregaard Jensen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pia Rudengren	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Anders Düring	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
MarieLouise Jansson Bring	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Danny Feltmann	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

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. 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 2 December 2015 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, Offer 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 an action programme, investments and financing. 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

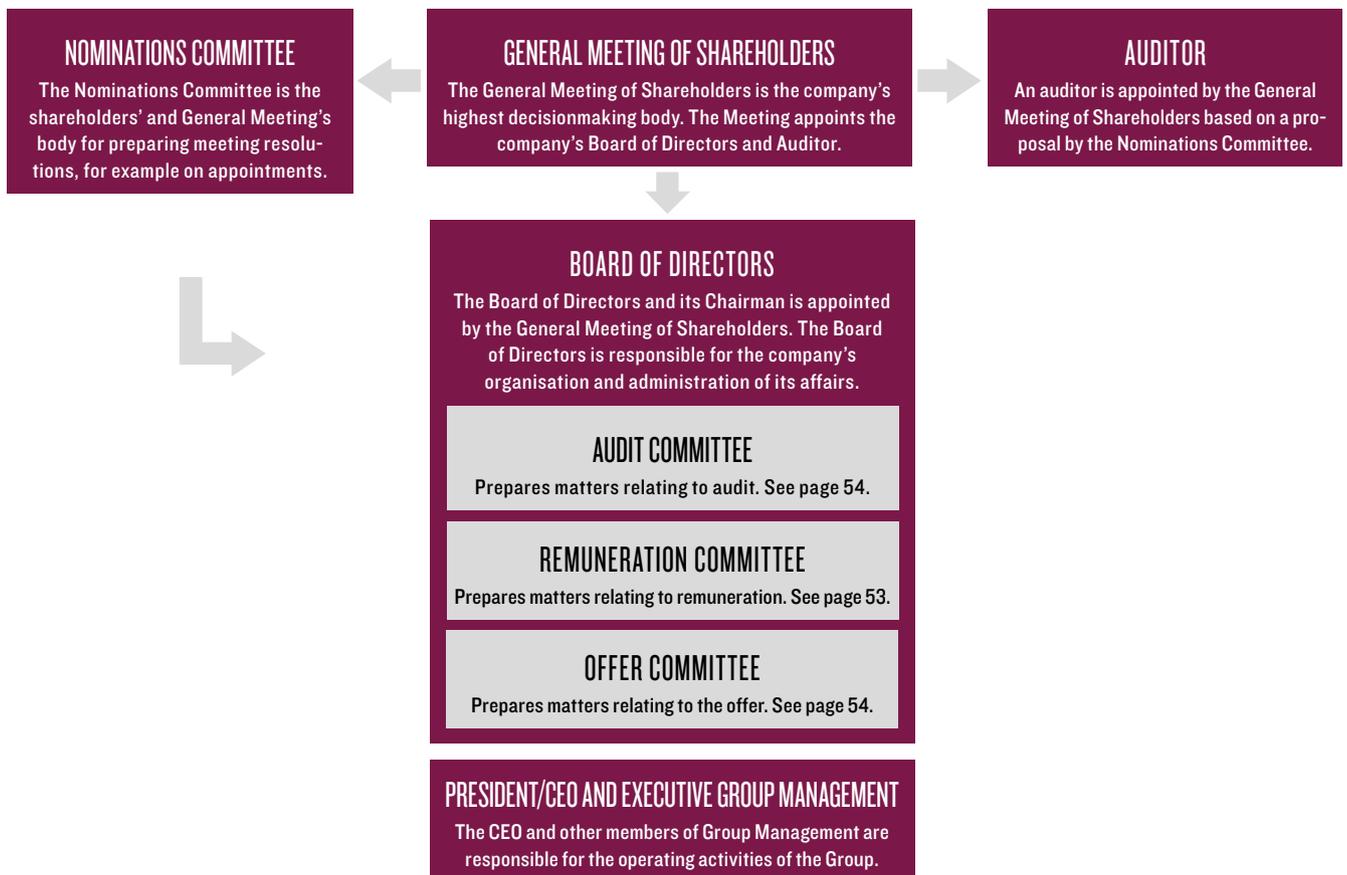
that the Board of Directors can make well-informed decisions. Once a year the Board of Directors evaluates the work of the Chief Executive Officer. No senior executives are present at this evaluation. The Board of Directors assures the quality of financial reporting through its own work, through the preparatory work of the Audit Committee and through contacts with the auditor. 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

When it was clear that Gustav Öhrn was to take up a senior management position in a company conducting competing operations with KappAhl, Gustav Öhrn retired from the board at his own request on 27 April 2016. KappAhl's Board of Directors thereafter comprises seven members, including the Chairman, employee representatives and two deputies. The presentation of the Board members on pages 56–57 includes a list of other assignments and relevant shareholdings. More information is available at: [www.kappahl.com/ir](http://www.kappahl.com/ir).

#### REMUNERATION COMMITTEE

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 6 December 2016 the Committee consists of Christian W. Jansson (Chair), Susanne Holmberg and Anders Bülow. 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 Committee has held four meetings during the year, which all members attended, to review bonus outcomes and terms of employment among other things. 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 2 December 2015 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 6 December 2016 the Committee consists of Pia Rudengren (Chair), Anders Bülow and Christian W. Jansson. In the opinion of the Board of Directors, which is shared by the Nominations Committee, Ria Rudengren and Anders Bülow are independent in relation to the company and its senior executives, Pia Rudengren and Christian W. Jansson 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, 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 2015/2016 committee work included preparing issues concerning interim reports, foreign currency issues and internal financial control. Since the Annual General Meeting on 2 December 2015 up to 31 August 2016 the committee held three meetings, all of which were minuted. The committee has subsequently held one more meeting, on 12 October 2016. 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.

#### **OFFER COMMITTEE**

During the 2013/2014 financial year an Offer Committee was set up with the main duty of preparing questions concerning KappAhl's offer to the market. During the 2015/2016 financial year the Offer Committee consisted of the board members Susanne Holmberg (chair), Kicki Olivensjö and Gustaf Öhrn. After Gustav Öhrn's retirement from the board the Offer Com-

mittee consisted of Susanne Holmberg (chair) and Kicki Olivensjö. The President, Vice President of marketing and Vice President of assortment and design were co-opted to the Committee. 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 49,500 for the 2015/2016 financial year.

#### **MANAGEMENT TEAM**

KappAhl's Management Team and its shareholdings are presented on page 58 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 2015/2016

In the initial part of the 2015/16 financial year the Board of Directors devoted a lot of time to recruitment of a new President/CEO. The subsequent focus was on following the work of drawing up the company's new business plan, "Clarity for the Customer", which entails a far-reaching change in many of

KappAhl's working methods, not least clearer target group analysis, new methods for collection development and new ways of communicating with KappAhl's customers.

Among other important issues the Board has involved itself in during the year can be mentioned the continued restructuring of operations in Poland, price-setting and development of eCommerce as an integrated part of KappAhl's route to the market.

## INTERNAL AUDIT

To date, KappAhl has not considered it necessary to establish a specific internal audit function but there is renewed discussion of the matter. 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 2016

Anders Bülow

Kicki Olivensjö

Pia Rudengren

Christian W. Jansson

Susanne Holmberg

Melinda Hedström

Michael Bjerregaard Jensen

# STATEMENT BY THE AUDITOR ON THE CORPORATE GOVERNANCE REPORT

**To the Annual General Meeting of the Shareholders of KappAhl AB (publ), corporate identity number 556661-2312**

The Board of Directors is responsible for the corporate governance report for the financial year 1 September 2015 to 31 August 2016 on pages 51–55 and for its preparation in accordance with the Annual Accounts Act.

We have read the corporate governance report 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 report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, a corporate governance report has been prepared and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Gothenburg, 31 October 2016

Ernst & Young AB

Stefan Kylebäck  
*Authorised public accountant*