KappAhl

OFFERING TO SUBSCRIBE FOR SHARES IN KAPPAHL AB (PUBL)

Note that the subscription rights are expected to have an economic value.

In order not to lose the value of the Subscription Rights, holders must either:

- Exercise the Subscription Rights to subscribe for new shares no later than on 30 November 2011; or
- Sell the Subscription Rights that have not been exercised no later than on 25 November 2011.

Please note that it is also possible to apply for subscription for new shares without subscription rights. Please note that investors with nominee-registered shareholdings subscribe for new shares through the respective nominee and that the deadline for subscription may vary.

This is an English translation of the Swedish language version that has been approved and registrered with the Swedish Financial Supervisory Authority. In the event of any discrepancies between the Swedish and the English translation, the former shall prevail.

Nordea

Swedbank

Important information

This prospectus has been prepared in accordance with the rules in the Financial Instruments Trading Act (1991:980), directive 2003/71/EC of the European Parliament and of the Council (the "Prospectus Directive") and EU Commission Regulation (EC) No. 809/2004. The prospectus has been approved by and registered with the Swedish Financial Supervisory Authority (Sw: Finansinspektionen) in accordance with the provisions in Sections 25 and 26 of Chapter 2 in the Financial Instruments Trading Act. The approval and registration do not entail that the Swedish Financial Supervisory Authority guarantees the accuracy or completeness of the information in the prospectus. The prospectus has been drawn up in a Swedish language and an English language version. In case of any discrepancies between the different language versions, the Swedish language version shall prevail.

None of the Subscription Rights, the BTAs or the New Shares have been, or will be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or in any jurisdiction outside Sweden. Securities may not, in the absence of such registration, be offered or transferred in or into the United States or to so called U.S. Persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Securities are offered under this prospectus outside the United States pursuant to Regulation S under the Securities Act. The offer pursuant to this prospectus is neither made to persons residing or located in Australia, Canada, Hong Kong, New Zealand, South Africa or Japan, nor to persons, the participation of whom, would require further prospectus or registration or other measures than those imposed under Swedish law. The prospectus may not be distributed in any country where such distribution or the offer in accordance with this prospectus requires such steps or is in breach of applicable rules in such country. A notice of subscription of shares in contradiction with the above may be deemed invalid.

In the member states of the European Economic Area which have implemented the Prospectus Directive, except in Sweden, the offer in accordance with this prospectus can only be made pursuant to an exemption from the requirement to draw up a prospectus.

As a condition to exercise the Subscription Rights or subscribe for the New Shares pursuant to the offer in this prospectus, each subscriber will be deemed to have made, or, in some cases, be required to make, certain representations, that will be relied upon by KappAhl, Nordea, Swedbank and others. KappAhl reserves the right, in its sole discretion, to reject any subscription of the New Shares that the Company or its representatives believe may give rise to a breach or violation of any law, rule or regulation. For further information on the restrictions related to the offering, see "Selling and transfer restrictions".

Swedbank has received an assignment from KappAhl to manage the sale of Subscription Rights that would have been distributed to persons in the United States, Australia, Canada, Hong Kong, New Zealand, South Africa or Japan and not included in the Rights Issue on behalf of such persons and the distribution of sales proceeds, after deduction of fees, to such persons. This prospectus and the offering will be governed by the laws of Sweden. Any disputes arising from the contents of this prospectus or from the legal relationships related thereto shall be settled exclusively by a court of competent jurisdiction in Sweden.

The prospectus has been drawn up by KappAhl based on proprietary information and information from sources that KappAhl believes are reliable. No guarantee, expressed or implied, is given by Nordea or Swedbank as to the accuracy or completeness of the information contained in this prospectus, and nothing contained in this prospectus is, or shall be relied upon as, a representation or warranty in this respect, whether as to the past or the future, as neither Nordea nor Swedbank has undertaken an independent verification of such information. In making an investment decision, investors must rely on their own examination of KappAhl and the offering in accordance with this prospectus, including the circumstances and risks involved, and investors may not rely on any other information than as included in this prospectus and any supplement thereto. No person has been authorised to give any information concerning the offering or to make any statement not included in this prospectus, and, if given or made, any such other information or statement should not be relied upon as having been authorised by KappAhl. Moreover, trading in financial instruments is always associated with risk and risk taking. Since an investment in shares may both increase or decrease in value it is not certain that an investor can recover invested capital. Any investment in KappAhl-shares should therefore be subject to thorough analysis of the Company, its competitors and market and general information on the business sector. An investment in shares should not be seen as a swift way of generating return but rather a long term investment with capital which the investor can do without.

Forward-looking statements and market information etc.

This prospectus includes forward-looking statements, which reflect KappAhl's current views with respect to future events as well as financial and operational development. Words such as "intend", "assess", "expect", "may", "plan", "appreciate" and other statements that contain indications and predictions with regard to future developments or trends and which are not based on historical facts, are forward-looking statements. These forward-looking statements concern only the state of the matters on the date of this prospectus and KappAhl does not undertake to release updates or reviews of forward-looking statements, as a result of new information, future developments or otherwise except pursuant to applicable laws. While KappAhl believes that the expectations described in such forward-looking statements are reasonable there is no guarantee that such forward-looking statements will materialise or are accurate. Consequently, potential investors should not place undue reliance on these and other forward-looking statements. Actual results or developments may differ from forward looking statements because of factors that include, but are not limited to, those described in section "Risk factors".

The prospectus contains historical market information, including information on the size of the markets in which KappAhl operates. This information is based on a number of external sources and KappAhl undertakes to reproduce such information accurately. While the Company believes these sources to be reliable no information has been independently verified, and the accuracy and completeness of such information can not be guaranteed. Any recipient of this prospectus should be aware of that all mentioned information is not verified. Accordingly, there is a risk that it does not produce an accurate picture of the markets and their size or growth potential. In addition, certain information is based on KappAhl's own estimates. See section "Market overview".

Certain financial and other information in this prospectus has been subject to rounding adjustments for ease of reference for the reader. Accordingly the numbers in certain tables may not conform exactly to the total figure given for that table.

Information incorporated by reference

The documents set forth below, which have previously been made public, are incorporated by reference as a part of this prospectus:

1. Audited financial statements of KappAhl AB for 2010/2011, consisting of pages 23–54 in the annual accounts for 2010/2011
2. Audited financial statements of KappAhl AB for 2009/2010, consisting of pages 35–68 in the annual accounts for 2009/2010
3. Audited financial statements of KappAhl AB for 2008/2009, consisting of pages 35–68 in the annual accounts for 2008/2009

The annual accounts of KappAhl for 2008/2009-2010/2011, incorporated by reference, have been audited by PricewaterhouseCoopers AB with Bror Frid as the principal auditor. The auditor's reports for 2008/2009, 2009/2010 and 2010/2011 are included in the annual accounts for respective year. The relevant auditor's reports do not include any remarks. Save for the aforementioned annual accounts, no information in the prospectus has been reviewed or audited by the auditors of the Company.

Copies of the Swedish prospectus and the documents incorporated by reference are available from KappAhl by e-mail: info_se@kappahl.com or by telephone: +46 31-7715500 and can also be downloaded electronically from KappAhl's website www.kappahl.com/ir. The prospectus can also be downloaded electronically from The Swedish Financial Supervisory Authority's website, www.fi.se, Nordea's website, www.nordea.se/placera and Swedbank's website, www.swedbank.se/prospekt.

Definitions

"BTA" means paid subscribed shares (Sw: Betalda Tecknade Aktier);
"Subsidiary" means a company owned wholly or in part by KappAhl AB (publ), excluding affiliated companies;
"Guarantors" means the companies which have undertaken, by virtue of an agreement dated 10 October 2011, to subscribe for shares in the case that the Rights Issue is not fully subscribed for;
"Euroclear Sweden" means Euroclear Sweden AB (formerly VPC AB);
"IFRS" means International Financial Reporting Standards;
"KappAhl" or the "Company" means in this prospectus, depending on the context, KappAhl AB (publ) (corporate registration number 556661-2312) or the group of companies where KappAhl AB is the parent company. "Group" means KappAhl and its subsidiaries;
"NASDAQ OMX Stockholm" means NASDAQ OMX Stockholm AB;
"Nordea" means Nordea Bank AB (publ) (corporate registration number 516406-0120);
"New Shares" means the shares issued in connection with the Rights Issue;
"Rights Issue" means the offer to subscribe for shares in accordance with the terms and conditions in this prospectus;
"Swedbank" or "Swedbank Corporate Finance" means Swedbank AB (publ) (corporate registration number 502017-7753);
"Subscription Rights" means the transferable subscription rights distributed to holders of shares in KappAhl on the record date of the Rights Issue.

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THE RIGHTS ISSUE IN BRIEF

Preferential right

Those persons who, on the record date 11 November 2011 were registered as shareholders have preferential right in the Rights Issue. One (1) existing share in KappAhl entitles the holders to recieve two (2) Subscription Rights. One (1) Subscription Right entitles the holder to subscribe for one (1) share. In addition, investors who have exercised Subscription Rights will be offered the opportunity to subscribe for New Shares without Subscription Rights.

Subscription price

SEK 4.00 per share. No commission will be charged.

Record date for right to participate in the Rights Issue	11 November 2011
Subscription period	16–30 November 2011
Trading in Subscription Rights	16–25 November 2011
Trading in subscribed paid shares (BTAs)	16 November–6 December 2011

Subscription and payment

Subscription by exercise of Subscription Rights will be made by cash payment during the subscription period. Please note that Subscription Rights not intended to be exercised must be sold no later than 25 November 2011 in order not to expire without any value.

Miscellaneous

Short name

Shares	KAHL
Subscription Rights	KAHL TR
BTA	KAHL BTA

ISIN codes

Shares	SE0001630880
Subscription Rights	SE0004297240
BTA	SE0004297257

Financial calendar

Interim reports

September 2011 – November 2011	21 December 2011
December 2011 – February 2012	28 March 2012
March 2012 – May 2012	27 June 2012

SUMMARY

The summary below should be understood as an introduction to the prospectus, and highlights information presented in greater detail elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before you decide to invest. You should carefully read this entire prospectus before investing, including "Risk factors", "Commentary on financial development", "Operations" and the financial statements incorporated by reference as a part of this prospectus.

Any decision to invest in the KappAhl share shall be based on an assessment of the prospectus in its entirety. Investors that file a lawsuit in a court of law on account of information in the prospectus may be liable for the costs in connection with the translation of the prospectus. A person may be held liable for information included in or missing from the summary or a translation of the summary, only if the summary or the translation is misleding or incorrect in relation to the other parts of the prospectus.

THE RIGHTS ISSUE IN BRIEF

In order to strengthen KappAhl's financial position and reduce the Company's debt situation by loan amortization, the Board of Directors resolved on 10 October 2011, subject to the approval by an Extraordinary General Meeting, to increase the Company's share capital by way of a Rights Issue with preferential rights for the Company's shareholders. Such approval was given by the Extraordinary General Meeting on 8 November 2011. The Rights Issue resolution means that those who were registered as shareholders in KappAhl on the record date 11 November 2011, are entitled to subscribe for two (2) New Shares for each existing share held in the Company. If all shares are not subscribed for on the basis of Subscription Rights, those who subscribed for shares by exercising Subscription Rights will also be offered to subscribe for shares without preferential right. If allotment cannot be made in full, allotment will be made in relation to the number of exercised Subscription Rights, and if such allotment cannot be made, it will be made by drawing of lots. In the event all shares are not allotted according to the above, allotment of shares will be made to Dutot Ltd. and Mellby Gård AB in their capacities as Guarantors and in accordance with the terms and conditions of each Guarantor's guarantee undertaking. The Rights Issue, if fully subscribed for, will increase the Company's share capital by 21,440,000 SEK by the issue of 150,080,000 shares. The subscription price has been set at SEK 4.00 per share, which means that KappAhl, if the Rights Issue is fully subscribed for, will raise approximately SEK 600 million before issue costs[1]. Provided full subscription of the Rights Issue, the Company's share capital will amount to SEK 32,160,000 distributed among 225,120,000 shares.

The Company's two largest shareholders, Dutot Ltd. and Mellby Gård AB, representing 16.3 and 11.8 per cent of capital and votes in the Company, have through subscription undertakings undertaken to subscribe for shares in the Rights Issue corresponding to their respective pro rata share holding in KappAhl, which in aggregate corresponds to 28.1 per cent of the shares in the Rights Issue. In addition, Dutot Ltd. and Mellby Gård AB have through guarantee undertakings undertaken to subscribe for any shares in the Rights Issue that have not been subscribed for with or without preferential right, whereby Dutot Ltd.'s undertaking corresponds to 14.4 per cent and Mellby Gård AB's undertaking corresponds to 57.5 per cent of the Rights Issue, together 71.9 per cent of the Rights Issue. Consequently, the Rights Issue is fully guaranteed by means of subscription and guarantee undertakings.

[1] Issue cost is estimated to amount to approximately SEK 18 million, of wich approximately SEK 11 million constitute compensation for guarantee undertakings.

KAPPAHL IN BRIEF

Operations

KappAhl is a leading Nordic fashion chain with stores in Sweden, Norway, Finland, Poland and the Czech Republic. The Company designs, markets and sells clothes for women, men and children through its own store network. As at 31 August 2011 KappAhl had 369 stores, with contracts for another 47 stores. The stores are situated in excellent sales locations, in both large cities and their suburbs as in small towns. In October 2011 KappAhl launched Shop Online which is to be viewed as a complement to the existing stores. In the 2010/2011 financial year net sales were SEK 4,974 (5,111) million and the operating profit was SEK 222 (551) million.

KappAhl's vision is that the Company is to be a significant fashion chain in Europe. This is the vision that drives KappAhl forward. Everything that is done in the working day should ultimately lead to the Company's vision – each initiative, each change, and each decision. KappAhl's mission is "Value-for-money fashion with wide appeal" – for women, men and children. The Company specially targets women aged 30–50 years with families.

KappAhl designs its product range to be able to offer its customers fashionable clothes at attractive prices. The Company has a customer-oriented business model, aimed at adapting fashion trends to products that meet the customer's needs. Consequently the Company itself designs all garments sold in its stores. KappAhl's collections comprise everyday and party clothes, outerwear, underwear and accessories. Most clothes are sold under the KappAhl brand, but the Company also markets clothes under several own and licensed brands. KappAhl offers a broad selection of fashionable and affordable clothes and accessories for women, men and children. The clothes for women, men and children consist of several collections with different styles. In principle KappAhl's entire clothing offer is continually being replaced and is focused on the four seasons, though with some successive overlap to even out seasonal effects. A smaller part of the total product range is basic garments that are always offered for sale, such as a selection of underwear. More than 10,000 articles are produced every year and as a rule the stores receive deliveries of garments two to three times a week. Production is mainly situated in Asia and all products available for store sales passes the distribution centre in Mölndal outside Gothenburg. The distribution centre handles over 60 million clothing and accessory items per year and makes it possible to distribute products on the basis of statistics and historical results from the stores. In that way each store can be supplied with an optimum range of garments, minimising the need for price reductions. According to KappAhl the distribution centre is one of the most modern facilities of its kind in Europe.

The popularity of KappAhl's collections depends on the Company's image and knowledge of customers' needs. The Company endeavours to offer the right quality and fashion content at the right price. KappAhl always works to put the customer in focus and when the latest fashion trends are incorporated into the collections it is done in such a way as to be consistent with the Company's image. This means that the most extreme fashion trends are not adopted, since they do not usually appeal to KappAhl's primary customer group. KappAhl's main target group is women aged 30–50 years with families. KappAhl considers this customer group to be more loyal and more predictable than younger age groups, which are usually influenced more by changing fashion trends.

KappAhl's markets

KappAhl operates in Sweden, Norway, Finland, Poland and the Czech Republic and is above all affected by underlying market trends in these geographical markets. KappAhl estimates that the total clothing market in all of KappAhl's geographical markets was about SEK 190 billion in 2010. The corresponding figure for 2009 was about SEK 196 billion. The competition in the clothing retail trade is fragmented in general, with local chains, independent stores, department stores and international chains that compete with each other. The Company estimates that the following overall market trends affect day-to-day operations:

- Larger chains are increasing their market share generally in the clothing market.
- Clear concepts and a well-defined market position are important success factors.
- Demographic changes – the age group older than 30 is expected to grow and gain greater importance.

Strategy

KappAhl's strategy is aimed at earnings growth and improved profitability. KappAhl focuses on increasing profitability by strengthening the gross margin. The gross margin has for many years been among the highest in the industry, which creates a stable foundation for growth. The gross margin decreased in the 2010/2011 financial year, largely due to increased purchase costs and a high inventory level in the winter and summer season, which resulted in a higher than normal percentage of clearance sales. The Company is working to strengthen profitability, for example through more effective use of its purchasing and logistics resources. The strategy focuses on the following main elements:

- Expanding the store network.
- Continual upgrading of stores.
- Increased sales in existing stores.
- Using economies of scale in the business model.

Competitive advantages

KappAhl considers that it has several competitive advantages that make the Company well-positioned to implement its strategy:

- KappAhl has a strong brand and a strong market presence.
- KappAhl is established in geographical markets with stable macroeconomic development.
- The Company's primary target group, women aged 30–50 years with families, is attractive and growing.
- KappAhl has a customer-oriented business model, aimed at adapting fashion to the customer's needs.
- KappAhl has great retail competence, comprising an internal design department that produces all collections, a cen-

tralised purchasing and logistics function, and a local presence where KappAhl buys its products.

- KappAhl's management team has long experience of the clothing and retail industry.

TARGETS

	Long-term targets	Outcome 2010/2011	Outcome 2009/2010	Outcome 2008/2009
Net interest-bearing debt/EBITDA	<3.0	5.1	2.4	2.8
Store openings/closings, net	20–25	24	26	28
Operating margin	10%[1]	4.5%	10.8%	10.8%
Dividend policy, per cent of the profit after paid tax	40–60%[2]	0%	76.0%	29.7%

[1] Target for operating profit announced on 11 October 2011. Prior target was 12 per cent over a business cycle and no lower than 10 per cent.

[2] Dividend policy announced on 11 October 2011. Prior target was 70-100 per cent of net profit after tax.

Financial targets

- Interest bearing net debt is not to exceed, other than temporary, three times the EBITDA.

Operative targets

- The number of stores is to increase by 20–25 per year.
- The operating margin is to amount to 10 per cent from the fiscal year of 2013/2014 at the latest.

Dividend policy

Dividend is to be 40–60 per cent of the profit after tax provided that the Group reaches the financial targets above.

FINANCIAL INFORMATION

KappAhls's financial development for the period 2008/2009–2010/2011 is presented in the summary below. KappAhl's split financial year runs from 1 September to 31 August.

INCOME STATEMENT IN SUMMARY

SEK m	2010/2011	2009/2010	2008/2009
Net sales	4,974	5,111	4,866
Cost of goods sold	–2,048	–1,954	–1,893
Gross profit	**2,926**	**3,157**	**2,973**
Selling expenses	–2,560	–2,466	–2,315
Administrative expenses	–144	–139	–132
Operating profit	**222**	**551**	**526**
Financial income	1	1	1
Financial expenses	–72	–89	–84
Profit after financial items	**151**	**463**	**443**
Tax	–83	–61	–127
Net profit	**68**	**402**	**316**
Earnings per share before dilution,SEK	0.91	5.36	4.20
Earnings per share after dilution, SEK	0.91	5.36	4.20

BALANCE SHEET IN SUMMARY

SEK m	2010/2011	2009/2010	2008/2009
Intangible assets	1,335	1,329	1,340
Tangible assets	996	1,006	1,060
Deferred tax assets	144	156	87
Total fixed assets	**2,475**	**2,492**	**2,488**
Inventory	858	703	736
Other operating receivables	129	138	109
Cash and cash equivalents	39	26	21
Total current assets	**1,026**	**868**	**866**
Total assets	**3,501**	**3,359**	**3,353**
Equity	**520**	**743**	**379**
Interest-bearing long-term liabilities	2,192	1,878	2,121
Non-interest-bearing long-term liabilities	9	18	7
Interest-bearing current liabilities	113	14	0
Non-interest-bearing current liabilities	668	707	847
Total liabilities	**2,981**	**2,617**	**2,974**
Total equity and liabilities	**3,501**	**3,359**	**3,353**

CASH FLOW STATEMENT IN SUMMARY

SEK m	2010/2011	2009/2010	2008/2009
Cash flow from operating activities before changes in working capital	267	569	591
Changes in working capital	–173	–62	–88
Cash flow from operating activities	**94**	**507**	**504**
Cash flow from investing activities	–241	–201	–261
Operating cash flow	**–146**	**306**	**242**
Dividend	–244	–94	–338
Change in bank overdraft facility	403	–206	84
Cash flow from financing activities	**159**	**–300**	**–254**
Cash flow for the period	**13**	**6**	**–11**
Cash and cash equivalents at beginning of the period	26	21	32
Cash and cash equivalents at the end of the period	39	26	21

WORKING CAPITAL

The Board of Directors assesses the Company's current working capital to be sufficient for the current needs in the coming twelve months. KappAhl finances its operations and continuously pays its liabilities with the cash flow generated from operations and the available credits disposed by the Company.

RISK FACTORS

Potential investors in KappAhl should carefully consider the risk factors associated to financial risks, market related risks, operational risks and risks associated with the shares and the Rights Issue. These risk factors are primarily related to sales and result, indebtedness, capital- and credit market terms, currency risks, interest risks, future financing, tax risks, asset risks, credit risks, cyclical influences, fashion risks, weather and season variations, competitors, access to new store locations, increased production- and distribution costs, supplier risks, inventory risks, information systems, dependence on key persons, allocation of sufficient operational resources, trade restrictions, distribution centre, trademarks, general stock market risks, future offer of shares, major shareholders' influence, extensive sale of KappAhl-shares by major shareholders, future dividends and reliable market statistics.

THE KAPPAHL SHARE

KappAhl's largest shareholders and KappAhl's ownership structure as of 30 September 2011 is illustrated below.

SHAREHOLDERS

Shareholder	No. of shares	Holding/Votes, %
Dutot Ltd.	12,214,700	16.3%
Mellby Gård	8,862,886	11.8%
Swedbank Robur	3,876,865	5.2%
Avanza Pension	3,317,365	4.4%
Svenskt Näringsliv	2,100,000	2.8%
Robur Försäkring	1,668,404	2.2%
Nordnet Pensionsförsäkring	1,132,567	1.5%
Catella Sverige Select	755,000	1.0%
Handelsbanken Nordiska	716,084	1.0%
Banque Öhman S.A.	667,500	0.9%
Other	39,728,629	52.9%
Total	75,040,000	100.0%

OWNERSHIP STRUCTURE

Shareholder by size	No. of shareholders	No. of shares	Holding/ Votes, %
1–500	11,623	2,342,640	3.1%
501–1,000	3,587	3,158,357	4.2%
1,001–5,000	3,576	8,885,242	11.8%
5,001–10,000	528	4,105,888	5.5%
10,001–20,000	236	3,513,292	4.7%
20,001–	210	53,034,581	70.7%
Total	19,760	75,040,000	100.0%

OTHER INFORMATION

Board of Directors, Senior Management and Auditor

The Board of Directors consists of Finn Johnsson (Chairman), Amelia Adamo, Lena Apler, Paul Frankenius, Jan Samuelson, Marie Matthiessen (employee representive), Rose-Marie Zell-Lindström (employee representive) with Bodil Gummesson (employee representive) and Melinda Hedström (employee representive) as deputy board members.

Senior management consists of Christian W. Jansson (President and Chief Executive Officer), Linda Hamberg (Vice President, Sales), Kajsa Räftegård (Vice President, Human Resources and Public Relations), Hans Jepson (Vice President, Store Establishment), Mari Svensson (Vice President, Purchasing), Carina Ladow (Vice President, Marketing), Johanna Kjellberg (Vice President, IT) and Håkan Westin (Chief Financial Officer)

For the next Annual General Meeting on 23 November 2011, Christian W. Jansson has been proposed as new Chairman and Sonat Burman-Olsson as new board member. Sitting Chairman, Finn Johnsson has declined re-election. Johan Åberg has been appointed to succeed Christian W. Jansson as CEO.

At the Annual General Meeting for the financial year 2009/2010, PWC was elected as KappAhl's auditor, with Bror Frid as the principal auditor.

For more information regarding the Board of Directors, senior management and KappAhl's auditor, see "Board of Directors, senior management and auditor".

Proposal for incentive program

For the next Annual General Meeting 23 November 2011, the Board of Directors of KappAhl has submitted a proposal for an incentive program in the form of a warrant program for key personnel in the Company, contributing to a dilution effect of up to three per cent.

Major shareholders and transactions with closely-related parties

As of 30 September 2011, Dutot Ltd. and Mellby Gård AB was KappAhl's largest shareholders with 12,214,700 and 8,862,886 shares respectively, together corresponding to approximately 28.1 per cent of capital and votes in the Company. For further information see "Share capital and ownership structure". For further information regarding transactions with closely-related parties see "Legal considerations and supplementary information".

Advisors

Nordea and Swedbank Corporate Finance act as financial advisor for KappAhl in the Rights Issue, Swedbank as the issuing department and Setterwalls as the legal advisor.

RISK FACTORS

An investment in Subscription Rights, BTA and/or shares is associated with risks. A number of factors outside KappAhl's control, together with a number of factors whose effects KappAhl can influence by its actions, can have a negative impact on the Company's operations, result and financial position or cause the value of the Company's shares and BTA and Subscription Rights to be reduced. Further below a number of risk factors are presented which could have an impact on KappAhl's prospects. The risks are not internally ranked and there is no assurance that the presentation is exhaustive. Further risks and uncertainties which KappAhl does not know about or which presently are not considered to be material can develop into factors which affect KappAhl. In addition to information in the prospectus, any investor should therefore make its own assessment of each risk factor and its importance to the Company's prospects and make a general assessment. The prospectus contains future looking statements that are dependent on future events, risks and uncertainties. The Company's actual result may due to many factors, for example but not limited to the risks presented below or elsewhere in the prospectus, differ substantially from results predicted in any future looking statements.

FINANCIAL RISKS

Risks related to sales and result

There is a risk that KappAhl's sales or result may deviate from the Company's plans. Should the development deviate from the Company's plans it cannot be ruled out that further capital may be necessary and there is a risk that such capital cannot be raised on terms which are acceptable to KappAhl. If KappAhl's sales and result deviate negatively from its plans it may have adverse effects on KappAhl's operations, result and financial position. Furthermore, the Company's bank agreement contains conditions stipulating that KappAhl must fulfill certain commitments regarding the Group's net debt in relation to operating income before depreciation and write-down (EBITDA). If the Company does not meet such undertakings the Company's financing costs or expansion rate may be affected, which could have a negative impact on the Company's results.

Unfavorable capital and credit market terms etc.

KappAhl needs cash or cash equivalents to pay running costs including rent and interest. Without sufficient cash or cash equivalents KappAhl may be forced to limit its expansion or sell store locations. If KappAhl's existing assets would not be sufficient for the Company's needs KappAhl may need to seek further financing at unfavorable terms. The access to further financing is affected by a number of factors such as market terms, market volume, and the total access to credits within the financial sector, as well as KappAhl's credit worthiness and credit capacity. The access to further financing may also be dependent upon that customers and/or banks do not come to have a negative opinion of the Company's long- and short-term financial prospects, which for example could be the case if KappAhl's sales or result is reduced. Furthermore, the Company's bank agreements are entered into on customary conditions, which, inter alia means that the interest rate which the Company shall pay is dependent upon the market interest. If the capital and credit market terms deteriorate, it could have a negative impact on the Company's results.

Currency risks

KappAhl relies on external manufacturers located throughout Asia, Europe and the rest of the world for its finished products, and its purchases from these manufacturers are principally denominated in U.S. dollars. KappAhl's merchandise is marketed and sold in countries each of which has a different currency (Swedish kronor in Sweden, Norwegian kroner in Norway, euro in Finland, Polish zloty in Poland and koruna in the Czech Republic). As KappAhl reports its financial statements in Swedish kronor, and purchases its merchandise primarily in U.S dollars and a substantial portion of KappAhl's sales is in currencies other than the Swedish krona, KappAhl faces considerable exposure to fluctuations in the currency exchange rates for the Swedish krona against U.S. dollars, Norwegian kroner, euro and Polish zloty. This may in the future have an adverse effect on KappAhl's business, results

of operations and financial position. An increase in U.S. dollars against SEK with 0.50 krona means, all else equal, increased purchase costs with approximately SEK 100 million. There is no assurance that KappAhl's hedging strategy will adequately protect KappAhl's operating results from the effects of future exchange rate fluctuations. All transactions between KappAhl and the other companies within the Group are in local currency why currency differences largely only occurs in the Swedish companies in the Group. At group level, currency calculation differences occur when the results and balance sheets of foreign subsidiaries are consolidated. Such exposure is not hedged and can therefore have material impact on the Company's result.

Interest risks

KappAhl partly finances its operation through credit arrangements. It means that part of the cash flow of the Group is used for interest payments referable to debts in the Group, which reduces the means available for the operations and prospects of the Group. A future increase in interest may increase interest payments which may have an adverse effect on the Group's cash flow, financial position and result.

Future financing

KappAhl's finance risks include potential increased costs for, and potential delays in, financing the capital need of the operations and refinancing of the Company's outstanding loans. If the Company's development deviates from the Company's plans it cannot be excluded that further capital may be needed and that there is risk that such capital cannot be raised on terms which are acceptable to KappAhl. If the Company in the future fails in raising necessary capital, the Company's continuous operations may be negatively affected. Risks related to the shares and the Rights Issue is further set forth under "Risks associated with the shares and the Rights Issue".

Tax risks

It cannot be excluded that the Group's interpretations of applicable rules or administrative practice is incorrect, or that rules or practice may change, potentially with retroactive effect. By decision of tax authorities, the Group's previous or existing tax situation may be degraded which may negatively affect the Company's financial development and result.

KappAhl has as a significant asset deferred tax assets. If KappAhl's long-term development deteriorates, KappAhl may be forced to reevaluate deferred tax assets; which would then have an adverse affect on KappAhl's results. Furthermore, a change in ownership of the Company, which means that no owner will hold more than 50 per cent of the votes and capital in the Company, could mean that the possibility of using the available tax losses in KappAhl is limited or completely disappears, which could lead to that the Company's results is negatively affected. There is also a risk that the tax legislation changes in such a way that it prevents the exploitation of the fiscal deficit that KappAhl is in possession of.

Risks related to intangible assets

KappAhl's balance sheet partly includes so called goodwill and trademark rights. As per 31 August 2011, the Company's booked value referable to goodwill was SEK 696 million and SEK 610 million referable to trademark value. For valuation of goodwill and trademarks, assumptions on future, growth, profitability and financing are important factors. Even if the Company presently does not expect to write off aforesaid assets it cannot be guaranteed that this will not happen in the future. If material write-offs are made on KappAhl's goodwill, trademark or other intangible assets it will negatively affect the Company's financial position and result.

KappAhl has substantial leverage and debt service obligations

KappAhl has significant credit and debt service requirements and may incur additional debt in the future. Such level of indebtedness and leverage could have important consequences relevant to a holder of Shares, including, without limitation:

- that KappAhl may be required to dedicate a substantial portion of KappAhl's cash flow to service KappAhl's indebtedness, which would reduce cash available to finance operations, capital expenditures, working capital and other general corporate purposes; and
- that KappAhl's flexibility to plan for, or react to, changes in the apparel retail market is limited.

Any of these or other consequences or events could have a material adverse effect on the Company's ability to satisfy its obligations as they become due, and, as a result, (e.g. as increased costs for financing or refinancing) have a material adverse effect on its business, results of operations or financial position.

Credit risks

KappAhl's credit risks are largely limited to counterparty-risks in connection with banks' or other counterparties' obligations against KappAhl which occur when derivative instruments are acquired. If such counterparty does not fulfill its commitments, KappAhl's sales, financial position or result may be negatively affected.

RISKS RELATED TO THE MARKET

Cyclical influences

Changes in general economic conditions and consumers' spending patterns are affected by a number of general factors beyond KappAhl's control, such as overall business conditions, interest rates, currency exchange rates, rate of inflation or deflation, political uncertainty, taxation, availability of credit, stock market performance, rate of unemployment, other local economic conditions, uncertainties about future economic prospects and shifts in discretionary spending toward other goods and services. A more favorable economical situation means a positive impact on the households' economy, which usually impacts their consumption pattern in positive manners. A less favourable economical situation generally has the opposite effect. KappAhl has operations in Sweden, Norway, Finland, Poland and the Czech Republic. KappAhl cannot provide any assurances that it will be able to maintain KappAhl's historical levels of net sales or remain profitable, particularly if the overall apparel retail market in any of its geographic markets is stagnant or declines. A decline in consumer spending on apparel and accessories, including KappAhl's products, in any of KappAhl's geographic markets could have a material adverse effect on the Company's business, results of operations or financial position.

Fashion risks

KappAhl's success depends on its ability to identify and respond to constantly shifting fashion trends and customer demands and on its ability to timely develop new and appealing products. KappAhl's products must also appeal to a broad range of consumers whose preferences cannot be predicted with certainty. If KappAhl should misjudge consumer trends, or fail to sell existing products, this may result in excess inventories and increased levels of mark-down for some products and missed opportunities for others. Moreover, KappAhl's brand may suffer if customers believe that KappAhl is no longer able to offer them products that they perceive as being fashionable. If KappAhl fails to identify and respond to fashion trends and customer demands, this could have a material adverse effect on KappAhl's business, results of operations and financial position.

Weather and season variations

The apparel industry is affected by changes in weather. Unpredictable weather may reduce the demand for and/or profitability of KappAhl's lines of apparel. Any unprecedented or unusual changes in weather could result in excess inventory and increased levels of mark-down adversely affecting the Company's net sales and gross profit.

Competitors

KappAhl face intense competition across KappAhl's product categories and markets. KappAhl also compete with other fashion retailers for favorable store locations and advantageous lease terms for stores. KappAhl's competitors, both Nordic and international, may sometimes have greater financial, marketing and other resources and may have greater brand recognition than KappAhl has. As a result, these competitors may be better able to adapt to changes in customer requirements, and may be able to devote greater resources to the marketing and design of their products, to store network development and expansion. Increased and continued competition may lead to price pressure and loss of market shares, which could have a material adverse effect on KappAhl's business, results of operations and financial position.

Access to new store locations

KappAhl's strategy includes store expansion and KappAhl's future operating results depend, in part, upon KappAhl's ability to increase sales at existing store locations, to open new stores and to further develop the store concept. KappAhl's ability to open new stores and to upgrade and expand existing stores depend on a number of factors, some of which are outside of KappAhl's control, including the availability of suitable new locations in targeted markets or locations adjacent to existing stores and the terms of the relevant leases. KappAhl must also successfully negotiate acceptable leases for new stores, meet construction and remodeling schedules and manage the store expansion. If KappAhl fails to successfully open new stores or expand and upgrade existing stores, this could have an adverse effect on KappAhl's ability to increase its market shares and sales. It could occur that KappAhl may not be able to renew its leases on acceptable terms or at all. If KappAhl fails to do so, it could lose some of its prime retail locations which could adversely affect KappAhl's retail strategy and force KappAhl to incur relocation costs. KappAhl could also experience lower sales when it relocates or when it expands or upgrades its existing stores. The occurrence of any of the foregoing could have an adverse effect on the Company's business, results of operations or financial position.

OPERATIONAL RISKS

Risk for increased production- and distribution costs

A large part of the products sold by KappAhl are made in countries with lower costs and salaries than in Sweden. This means that KappAhl can sell its products at a lower price than would otherwise be the case if production was based in Sweden. The development in the countries where the production is located is however in many cases rapid and there are no assurances for

how long the relatively low costs will prevail in the relevant countries. Also costs for raw material, for example cotton, can change for suppliers if the market for such raw material changes. KappAhl also has costs for distribution of products to Sweden from the countries where they are produced. Also such costs can increase. Accordingly there is a risk that KappAhl's costs for products bought can increase to such extent that the cost increase can not fully be covered in relation to KappAhl's customers, with decreased marginal as a consequence.

Supplier risks

KappAhl sources all of its apparel and accessories from external manufacturers located throughout Asia, Europe and the rest of the world which exposes it to political, economic and regulatory conditions in those areas and to a variety of local business and labor practice issues. The violation of labor laws, regulations or standards by KappAhl's external manufacturers, or the divergence by its external manufacturers' labor practices from those generally accepted as ethical in the European Union or by international labor standards, could have a material adverse effect on KappAhl's brand name and public image and, as a result, KappAhl's business, results of operations and financial position. KappAhl may not control all external manufacturers actions or omissions.

Inventory risk

KappAhl has a common group distribution center (central warehouse) and inventory stock in the individual stores. Inventory risk means a risk for the inventory not to be sold or expected to be sold at a value exceeding the purchase price (obsolescence). If obsolescence arises the Company shall write down the inventory, which will have an adverse affect on KappAhl's result.

Information systems

KappAhl depends on information systems to coordinate allocation, to manage merchandise inventory, to purchase and transport garments as well as to gather and process operational and statistical information. As a result of any system failures, viruses, computer "hackers" or other causes, KappAhl may experience operational problems with its information systems. Any material disruption or slowdown of the information systems could cause valuable information to be lost or operations to be delayed which in turn – especially if the disruption or slowdown occurred during the peak shopping season, in particular the pre-Christmas period – could have a material adverse effect on KappAhl's business, results of operations or financial position.

Dependence of key persons

It is not certain that KappAhl will be able to retain its senior management. The loss of the services of any member of KappAhl's senior management team or any other key senior personnel could have a material adverse effect on KappAhl's business, results of operations or financial position.

Allocation of sufficient operational resources

Pursuant to the Company's growth strategy, it intends to increase the number of stores. As a result, the operating complexity of the business, as well as the responsibilities of the management, can be expected to increase, which may place significant strain on the Company's managerial and operational resources. Future operating results depend, in significant part, upon the continued contributions of a small number of KappAhl's key senior management and technical personnel. The efficiency in Kappahl's operational and financial systems and managerial controls and procedures that it currently has in place needs to be kept under regular review as KappAhl grows. KappAhl will have to maintain close coordination among its logistical, technical, accounting, finance, marketing and sales. Any failure to obtain the necessary managerial and operational resources or identify weaknesses in the Company's operational and financial systems or managerial controls and procedures could impact the reliability of the financial statements or adversely affect the Company's business, operations or financial position.

Trade restrictions

Any trade restrictions, including increased tariffs, safeguards or quotas on apparel and accessories could have a material adverse effect on KappAhl's business, results of operations and financial position. It cannot be predicted whether any countries in which KappAhl's merchandise is currently manufactured, or may be manufactured in the future, will be subject to additional trade restrictions, nor can it be predicted the likelihood, type and effect of any such restrictions.

Damage to the distribution center

All apparel sold by KappAhl is for the Group processed through the distribution center in Mölndal outside Gothenburg. If the distribution center was destroyed or closed for any reason or the equipment in the distribution center was significantly damaged, the Company would likely be unable to distribute its products to the stores. Such circumstances, to the extent KappAhl is unable to find an alternative distribution center or repair the distribution center or any such equipment in a timely and cost effective manner, could have a material

adverse effect on KappAhl's business, results of operations or financial position. There can be no assurance that KappAhl will be able to fully recover such amounts or that recovered amounts will be sufficient to cover potential losses.

Inability or failure to protect KappAhl's trademarks etc

There can be no assurance that KappAhl can fully protect its trademarks. In addition, the unauthorized use of KappAhl's brand names or trademarks on imitation products, or the imitation of KappAhl's stores, could harm the Company's market image and reputation which could have a material adverse effect on the business, results of operations or financial position. Fashion designers tend to follow similar trends and the designs of KappAhl's products may be similar to the designs of other designers and retailers. From time to time, designers, retailers and other third parties may allege that KappAhl's products infringe their intellectual property rights. While the Company is not currently party to any such proceeding, it cannot provide any assurance that claims will not be brought against the Company in the future. If this were to occur, KappAhl may be required to incur significant expenses.

RISKS ASSOCIATED WITH THE SHARES AND THE RIGHTS ISSUE

Obtained subscription and guarantee undertakings are unsecured

KappAhl has in written form obtained subscription and guarantee undertakings from two large shareholders, pursuant to which the shareholders have undertaken to subscribe for their respective pro rata share in the Rights Issue and to also subscribe for those shares which are not subscribed for with or without preferential right. The Company has, in connection with the received subscription and guarantee undertakings, obtained information that cash or cash equivalents for fulfilling the undertakings are available for each guarantor. The subscription and guarantee undertakings are however not secured through bank guarantee, pledge or otherwise. In the light of the aforesaid, the Company can not guarantee that the subscription and guarantee undertakings will be fulfilled.

Future offer of shares

While KappAhl presently has no plans on issuing further shares (other than through the in-centive program with a maximum of 6,750,000 warrants which is proposed to be resolved upon at the Annual General Meeting 23 November 2011), KappAhl may in the future need to issue shares or other financial instruments for the purpose of for example executing large acquisitions or other investments. Any future issue of shares or other financial instruments by KappAhl could have a negative and material effect on the stock market price for KappAhl-shares.

Major shareholders' influence

As per 10 October 2011, KappAhl's two largest shareholders, Dutot Ltd. and Mellby Gård AB held approximately 16.3 per cent respectively 11.8 per cent of the share capital and votes in the Company. Such owners may as a result of the Rights Issue increase their share holdings in KappAhl since they have undertaken to subscribe for shares in addition to their pro rata share and have been granted exemption from the rules on mandatory offers by the Swedish Securities Council (Sw: Aktiemarknadsnämnden) if their respective share of votes would reach or exceed 30 per cent of the shares in the Company (as described in "Legal issues and additional information – Agreement on subscription and guarantee undertakings").

Dutot Ltd. and Mellby Gård AB may, based on their respective aforesaid shareholding, as a result of agreed subscriptions and guarantee undertakings, hold a maximum of approximately 26 per cent and a maximum of approximately 50 per cent respectively of the share capital and votes in the Company.

In the Swedish Securities Council's exemption from the rules on mandatory offers it is allowed that Dutot Ltd. and Mellby Gård AB, in addition to honor executed subscriptions and guarantee undertakings, acquires. Subscription Rights from other shareholders to subscribe for shares in addition to their respective shareholding in KappAhl, and subscribe for shares without preferential rights – no more, however, than that their respective holdings after such acquisitions and completed allotment amounts to a maximum of 29.9 per cent of the number of shares and votes in the Company (prior to any redemption of the guarantee undertaking). If Dutot Ltd. and Mellby Gård AB respectively, in accordance with the above would use the Subscription Rights acquired from other shareholders or subscribe for shares without preferential rights Dutot Ltd. and Mellby Gård respectively may come to hold no more than approximately 33 per cent, and no more than approximately 43 per cent of the share capital and votes in the Company.

If only Dutot Ltd. (and not Mellby Gård) uses Subscription Rights acquired from other shareholders or subscribes for shares without preferential rights, Dutot Ltd. may hold a maximum of approximately 37 per cent of the capital and votes (and Mellby Gård a maximum of approximately 39 per cent), and if only Mellby Gård (and not Dutot Ltd.) uses Subscription Rights acquired from other shareholders or subscribes for shares without preferential rights, Mellby Gård may hold a maximum of approximately 54 per cent of the capital and votes (and Dutot Ltd. a maximum of approximately 22 per cent).

As a consequence of the above, Dutot Ltd. and Mellby Gård AB, respectively, may be able to significantly influence matters submitted to a vote of all of the shareholders. There is a risk that small shareholders' influence thereby will be further reduced.

Extensive sale of KappAhl-shares by major shareholders may have negative effects on the stock price

If KappAhl's major shareholders would sell a significant number of KappAhl-shares on the stock market, or if the market perceives that such sales could occur, KappAhl's share price may be negatively affected. None of KappAhl's shareholders has (in addition to that the respective guarantor in subscription and guarantee undertakings as customary, agreed not to transfer their shares before he has subscribed for his portion in the Rights Issue), any obligation against KappAhl to keep and maintain its holding, and there are no assurances that major shareholders will keep and maintain the current holdings in KappAhl after the Rights Issue.

Future dividends

For any financial year, the dividend level for shareholders is uncertain. The size of potential future dividends is dependent on the Company's future result, financial position, cash flow, working capital requirements, and other factors. The terms of any existing or future bank or credit agreement may preclude KappAhl from paying any dividends. KappAhl can not guarantee that distributable earnings will be available for any financial year.

INVITATION TO SUBSCRIBE FOR SHARES IN KAPPAHL AB

The Board of Directors of KappAhl has on 10 October 2011 resolved, subject to approval by the Extraordinary General Meeting, on a Rights Issue with preferential rights for the Company's shareholders. On 2 November 2011 the Board of Directors resolved that up to 150,080,000 New Shares will be issued at a subscription price of SEK 4.00 per share. Such approval was given by the Extraordinary General Meeting on 8 November 2011.

The Company´s shareholder will have preferential right to subscribe for New Shares in proportion to their existing holdings. Shareholders will receive two (2) Subscriptions Rights for every share held as at the record date 11 November 2011. One (1) Subscription right entitles the holder to subscribe for one (1) New Share. The subscription period will run from and including 16 November 2011 up to and including 30 November 2011 or such later date as resolved on by the Board of Directors. The New Shares will carry the same rights as the existing shares in the Company. The total Rights Issue proceeds will be SEK 600,320,000 if the Rights Issue is fully subscribed, excluding costs related to the transaction[1]. Assuming full subscription of the Rights Issue, the Company's share capital will increase by SEK 21,440,000 to a total of SEK 32,160,000 distributed among 225,120,000 shares. The shares offered in the Rights Issue correspond to 67 per cent of the share capital and votes in the Company following full completion of the Rights Issue.

Shareholders who refrain from participating in the Rights Issue, will experience dilution of their holdings, but these shareholders can obtain financial compensation for the dilution effect by selling their Subscription Rights. If all New Shares are not subscribed for on the basis of Subscription Rights, the Board of Directors can, up to the maximum issue size, decide on allotment of shares to those who have subscribed for shares without preferential right. It is therefore possible, in addition to the subscription with Subscriptions Rights, to subscribe for New Shares without preferential rights by using a special application form. Only those who subscribe for shares with Subscription Rights in the Rights Issue are entitled to allotment for subscription without preferential rights.

SUBSCRIPTION AND GUARANTEE UNDERTAKINGS[2]

The Company's two largest shareholders, Dutot Ltd. and Mellby Gård AB, representing 16.3 and 11.8 per cent of capital and votes in the Company, have through subscription undertakings undertaken to subscribe for shares in the Rights Issue corresponding to their respective pro rata share holding in KappAhl. In addition, Dutot Ltd. and Mellby Gård AB have through guarantee undertakings undertaken to subscribe for any shares in the Rights Issue that have not been subscribed for with or without preferential right, whereby Dutot Ltd.'s undertaking corresponds to 14.4 per cent and Mellby Gård AB's undertaking corresponds to 57.5 per cent of the Rights Issue, together 71.9 per cent of the Rights Issue. Consequently, the Rights Issue is fully guaranteed by means of subscription and guarantee undertakings.

Shareholders in KappAhl are hereby invited to, with preferential rights, subscribe for New Shares in KappAhl in accordance with the terms and conditions outlined in this prospectus.

Mölndal 11 November 2011

KappAhl AB (publ)
The Board of Directors

[1] From the Rights Issue proceeds, deductions for issue costs are estimated to be made in an amount of approximately SEK 18 million, of which approximately SEK 11 million refer to costs for guarantee undertakings.
[2] For further information, please see section "Legal considerations and supplementary information".

BACKGROUND AND REASONS

KappAhl is a leading fashion company with the Nordics as home market selling affordable fashion to well defined client segments through approximately 370 stores in five countries. The Company has performed well since the stock exchange listing in 2006 and fulfilled both the operational and financial targets up until the fiscal year 2009/2010. Based on the business' strong and stable cash flow, the Company has had an opportunity to administer a strategy of efficient capital structure. This has created room for distribution of a significant share of profits to shareholders in the form of dividends. Since the stock exchange listing in 2006, SEK 1,857 million equal to SEK 24.75 per share has been distributed to the shareholders. During the same period, KappAhl has simultaneously continued its expansion and opened up more than 100 new stores.

During the fiscal year 2010/2011, KappAhl has experienced a significantly weaker demand compared to what the Company has expected and planned for. In addition, the product offering has not sufficiently met the customers' expectations to an extent high enough. This combined has resulted in a weaker sales development than expected. A higher proportion of clearance sales and higher purchase costs have resulted in a deteriorated profitability. The weak sales development has also resulted in an inventory increase and increased tie-up of capital. The Company's debt position in relation to profit level has increased significantly in recent quarters and exceeds the Company's financial targets, primarily due to the weak profitability development. For the fiscal year 2010/2011, no dividend has been proposed.

The debt position, defined as net interest bearing debt in relation to operational profit pre depreciation and amortization of assets, was 5.1 by end of fiscal year 2010/2011 compared to the Company's target of 3.0 at maximum. This has led to a renegotiation of loan agreements with the Company's financing banks where a new three-year loan agreement has been signed with credit facilities amounting to SEK 2,550 million. A number of actions for improving cash flow are taken, including among other things temporarily lower capital expenditure and lower rate of expansion of the store chain as well as reduction of inventory levels which all together is estimated to result in a debt reduction of approximately SEK 200 million in addition to the Rights Issue amount.

KappAhl's Board of Directors has resolved on a new share issue of approximately SEK 600 million with preferential rights for the Company's shareholders for the purpose of strengthening the Company's financial position and reducing the debt position[1]. The Rights Issue proceeds will in its entirety be used for bank loan amortization[2]. The new issue implies that KappAhl's expected financing cost, including fees, for the current fiscal year is approximately 8 per cent of the utilized amount. The Rights Issue creates prerequisites for a faster reduction of the debt position to a level in line with the Company's financial targets. In a continuing uncertain market, KappAhl stands better equipped for maintaining its strong market position and securing the long term growth and profitability potential with a stronger financial position. KappAhl's Board of Directors has, in connection with the Rights Issue resolution, updated the targets for the Group, including among other things a revised dividend policy. Provided that the Group reaches the financial targets, the dividend is to be 40–60 per cent of net profit post tax compared to the former target of 70–100 per cent.

The Board of Directors is responsible for the contents in this prospectus. It is hereby certified that the Board of Directors has taken all reasonable care to ensure that the information in this prospectus, as far as the Board of Directors knows, is in accordance with the facts and that nothing has been omitted that could affect its meaning.

Mölndal 11 November 2011

KappAhl AB (publ)
The Board of Directors

[1] Subscription and guarantee undertakings have been obtained for the entire Rights Issue. The Guarantors' remuneration is based on a maximum amount of the underwriting guarantee, which amount as regards Dutot Ltd. amounts to SEK 87,840,000 and as regards Mellby Gård AB amounts to SEK 351,360,000.

[2] From the proceeds of the Rights Issue, deductions for issue costs are estimated to amount to approximately SEK 18 million, of which approximately SEK 11 million refers to costs for guarantee undertakings.

TERMS, CONDITIONS AND INSTRUCTIONS

PREFERENTIAL RIGHT AND SUBSCRIPTION RIGHTS

Existing shareholders have a preferential right to subscribe for the New Shares pro rata in proportion to the number of existing shares they own. Holders of existing shares in KappAhl will receive two (2) Subscription Rights for each existing share held on the record date. One (1) Subscription Right entitles the holder to subscribe for one (1) New Share.

If the Rights Issue is fully subscribed the number of shares in the Company will increase from 75,040,000 shares to 225,120,000 shares, equivalent to an increase of 200 per cent. The holdings of shareholders who do not participate in the Rights Issue will be diluted, but these shareholders can obtain financial compensation for the dilution by selling their Subscription Rights. Dilution on full subscription amounts to approximately 67 per cent. The dilution as a percentage for shareholders who do not subscribe for New Shares in the Rights Issue is calculated as the number of New Shares divided by the total number of existing shares and New Shares after a fully subscribed rights issue.

Application to subscribe without preferential rights may be made for shares not subscribed for by preferential rights; please refer below under the heading "Subscription for and allotment of New Shares without Subscription Rights".

SUBSCRIPTION PRICE

The New Shares in KappAhl will be issued at a subscription price of SEK 4.00 per new share. No commission will be charged.

RECORD DATE

The record date at Euroclear Sweden to determine the persons who are entitled to receive Subscription Rights was 11 November 2011. As of 9 November 2011 the shares are traded ex-rights to participate in the Rights Issue. The final date for trading including the right to participate in the Rights Issue was 8 November 2011.

SUBSCRIPTION PERIOD

The subscription period for New Shares will be from and including 16 November 2011 up to and including 30 November 2011.

ISSUE STATEMENT TO DIRECTLY REGISTERED SHAREHOLDERS

The prospectus and a pre-printed issue statement with an attached bank giro form will be sent to directly registered shareholders and representatives of shareholders who, on the record date, are registered in the share register maintained by Euroclear Sweden on behalf of KappAhl, with the exception of shareholders resident in certain ineligible jurisdictions. The issue statement includes, among other things, the number of Subscription Rights received and the number of New Shares that may be subscribed for. No securities notification will be sent regarding the registration of Subscription Rights on VP accounts. Shareholders who are included in the special list of pledge holders and trustees that are maintained in conjunction with the share register will not receive any issue statement, although they will be informed separately.

NOMINEE-REGISTERED HOLDINGS

Shareholders whose holdings are nominee-registered at a bank or other nominee will not receive an issue statement. Subscription and payment will instead take place in accordance with the nominee's instructions.

TRADING IN SUBSCRIPTION RIGHTS

Trading in Subscription Rights will take place on NASDAQ OMX Stockholm during the period from and including 16 November 2011 up to and including 25 November 2011. Swedbank and other securities institutions with the required licences will provide brokerage services for the purchase and sale of Subscription Rights. The ISIN-code for the Subscription Rights is SE0004297240.

If a shareholder does not exercise any or all of his or her Subscription Rights by making payment by 30 November 2011 or does not sell his or her Subscription Rights by 25 November 2011, the shareholder's unexercised Subscription Rights will expire without value and the holder will not receive any compensation.

SHAREHOLDERS RESIDENT IN CERTAIN INELIGIBLE JURISDICTIONS

The allotment Subscription Rights and the issuance of New Shares by exercise of Subscription Rights to persons resident in or citizens of countries outside the EEA may be affected by securities legislation prevailing in these countries. Consequently, subject to certain potential exceptions, shareholders whose existing shares are directly registered on VP accounts and whose registered address is in for example Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or USA will not receive the prospectus. Nor will they receive any Subscription Rights on their VP accounts. The Subscription Rights that otherwise would have been registered to such shareholders will be sold and the sales proceeds, less a deduction of costs, will be paid to such shareholders. Amounts less than SEK 100 will not be paid.

RIGHT TO DIVIDENDS

The New Shares will carry right to dividends commencing from the first record date for dividends occurring after the New Shares has been registered at the Swedish Companies Registration Office and introduced in the share register at Euroclear Sweden.

ANNOUNCEMENT OF THE SUBSCRIPTION TAKE-UP IN THE RIGHTS ISSUE

The subscription take-up in the Rights Issue will be announced through a press release from KappAhl around 6 December 2011.

SUBSCRIPTION BY EXERCISE OF SUBSCRIPTION RIGHTS

Subscription for New Shares by exercise of Subscription Rights will be made by way of simultaneous cash payment during the period from and including 16 November 2011 up to and including 30 November 2011. At the end of the subscription period unexercised Subscription Rights will expire and be removed from the holder's VP account without notification from Euroclear Sweden.

In order not to lose the value of the Subscription Rights the holder must either:

- exercise the Subscription Rights to subscribe for New Shares no later than 30 November 2011, or
- sell the Subscription Rights that have not been exercised no later than 25 November 2011.

The Board of Directors of KappAhl are entitled to extend the subscription period, which if necessary, will be announced no later than 30 November 2011. A subscription for New Shares by exercise of Subscription Rights is irrevocable and the shareholder may not cancel or modify a subscription for New Shares.

Directly registered shareholders resident in Sweden

Subscription of new shares on the basis of Subscription Rights will be effected by means of cash payment, either by using the pre-printed bank giro form or the special application form with simultaneous payment in accordance with one of the following alternatives:

- The bank giro form should be used if all Subscription Rights in accordance with the issue statement from Euroclear Sweden are to be exercised.
- The application form should be used if Subscription Rights have been purchased or transferred from another VP account or if for some other reason the number of Subscription Rights to be exercised is not the same as on the pre-printed issue statement. Payment for subscribed New Shares must be made simultaneously when sending in the application form. Payment can be made in the same way as a bank giro payment, for example via internet bank, bank giro or at a bank branch.

An application form can be obtained from KappAhl (website: www.kappahl.com/ir, email: info_se@kappahl.com, telephone: +46 31 775 51 00), Nordea (website: www.nordea.se/placera) or Swedbank (website: www.swedbank.se/prospekt, telephone +46 8 585 900 00, email: emissioner@swedbank.se). Payment must be made no later than 30 November 2011.

Directly registered subscribers not resident in Sweden

Directly registered shareholders entitled to subscribe who are not resident in Sweden and who are not subject to the restrictions described in "Selling and transfer restrictions" and who cannot use the pre-printed bank giro form can pay in Swedish kronor via SWIFT in accordance with the following:

KappAhl AB
c/o Swedbank Emissioner E676
SE-105 34 Stockholm, Sweden
SWIFT: SWEDSESS
IBAN number: SE9680000890119240903568
Account name: KappAhl

When making payment, the subscriber's name, address, VP account number and the reference "Issue KappAhl" must be specified. The application form and payment must have been received by Swedbank, Emissioner E676, SE-105 34 Stockholm, Sweden no later than 30 November 2011.

Subscription by nominee-registered shareholders

Custody account holders who wish to subscribe for New Shares by exercising Subscription Rights must apply for subscription in accordance with the nominee's instructions.

Paid subscribed shares (BTA)

After payment and subscription Euroclear Sweden will send a notice confirming that paid subscribed shares have been registered on the subscriber's VP-account. The New Shares will be registered as paid subscribed share on the VP-account until such time as the Rights Issue has been registered with the Swedish Companies Registration Office. Registration of New Shares is expected to take place with the Swedish Companies Registration Office on or around 12 December 2011. No securities notification will be issued in connection with this re-registration.

Trading in paid subscribed shares

Trading in paid subscribed shares on NASDAQ OMX Stockholm is expected to take place during the period from and including 16 November 2011 up to and including 6 December

2011. Swedbank, Nordea and other securities institutions will provide brokerage services in connection with the purchase and sale of paid subscribed shares. The ISIN code for the paid subscribed shares is SE0004297257.

SUBSCRIPTION FOR AND ALLOTMENT OF NEW SHARES WITHOUT SUBSCRIPTION RIGHTS

Subscription by directly registered shareholders

An application to subscribe for New Shares without Subscription Rights must be made on a special application form. Only one application may be submitted. If several application forms are submitted only the application form first received by Swedbank will be considered. Application forms can be obtained from KappAhl (website: www.kapahl.com/ir, email: info_se@kappahl.com, telephone: +46 31 771 55 00), Nordea (website: www.nordea.se/placera) or Swedbank (website: www.swedbank.se/prospekt, telephone +46 8 585 900 00, email: emissioner@swedbank.se)

The application form should be sent to Swedbank, Emissioner E676, SE-105 34 Stockholm, Sweden. The application form must be received by Swedbank no later than 30 November 2011. The Board of Directors is entitled to extend the period of subscription, which if necessary, will be announced no later than 30 November 2011.

Subscription by nominee-registered shareholders

Custody account holders with a nominee who wish to subscribe for New Shares without Subscription Rights must apply for subscription in accordance with the nominee's instructions.

Allotment

If all New Shares are not subscribed for by exercise of Subscription Rights, allotment within the highest amount of the Rights Issue will be made to those who have subscribed for shares by exercising Subscription Rights and has notified interest in subscription of New Shares without Subscriptions Rights. In the case of oversubscription, allotment will be based on a pro rata basis in proportion to the number of New Shares subscribed for by exercising Subscription Rights, insofar as this cannot be done, by the drawing of lots.

In the case that all New Shares cannot be allotted in accordance with above, remaining shares will be allotted to the Underwriters in their capacity as underwriters and in accordance with the terms and conditions for the Underwriters' respective Subscription and guarantee undertaking.

As confirmation of allotment of New Shares subscribed for without Subscription Rights, a settlement note will be sent to subscribers on or around 6 December 2011. No separate notification will be sent to subscribers that have not been allotted shares. New Shares subscribed for and allotted must be paid for in cash in accordance with the instructions on the settlement note sent to the subscriber. After payment has been made for the subscribed for and allotted New Shares as well as the New Shares have been registered with the Swedish Companies Registration Office, Euroclear Sweden will send out a securities notification confirming that the New Shares have been recorded in the subscribers VP-account. Registration with the Swedish Companies Registration Office is expected to take place around 21 December 2011.

OTHER INFORMATION

The Company is not entitled to discontinue the Rights Issue.

In the event that a subscriber remits money for the New Shares in excess of the amount owed, KappAhl will arrange for the excess amount to be refunded. No interest will be paid on excess amounts.

The New Shares will be traded on NASDAQ OMX Stockholm when the Rights Issue has been completed.

A subscription for New Shares, with or without Subscription Rights, is irrevocable and the shareholder may not cancel or modify a subscription for New Shares.

Incomplete or incorrect application forms may be disregarded. If the subscription payment is made too late, is insufficient or paid incorrectly, the subscription application may be disregarded or subscription may be deemed to have been made for a lesser amount. In such cases, any subscription remittance not accepted for payment will be refunded.

Swedbank is the issuing agent for the Rights Issue, that is, it assists the Company with certain administrative services associated with the Rights Issue. The fact that Swedbank is the issuing agent does not in itself mean that Swedbank regards the subscriber as a customer of Swedbank. The subscriber is only regarded for the investment as a customer of Swedbank if Swedbank has advised the subscriber concerning the investment or otherwise contacted the subscriber individually regarding the investment or if the subscriber has subscribed via a branch of the bank, its Internet bank or Telephone bank. The consequence of Swedbank not regarding the subscriber as a customer for the investment is that the provisions concerning protection of investors under the Securities Market Act will not be applicable to the investment. Among other things, this means that neither client categorisation nor an appropriateness test will be performed with respect to the investment. Consequently, the subscriber is responsible for ensuring that he or she has sufficient experience and knowledge to understand the risks associated with the investment.

Those who participate in the Rights Issue will provide personal information to Swedbank. Personal data submitted to companies within the Swedbank Group will be processed in computer systems to the extent necessary to provide services and to administrate customer engagement in the group. Also personal information collected from other than the customer

which service is intended for can be taken into consideration. It is also possible that personal data are processed in computer systems of companies and organisations with which companies of Swedbank Group cooperates. Information on the processing of personal data is provided by Swedbank's offices, which also receives request for correction of personal information.

Address information may be collected by Swedbank through an automatic data run by Euroclear Sweden.

TAXATION

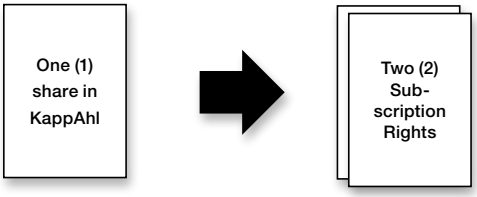
For information concerning taxation, please see the section "Tax issues in Sweden".

HOW TO PROCEED

Terms and conditions	For each share held in KappAhl as at the record date you will receive two (2) Subscription Rights. One (1) Subscription Right entitles the holder to subscribe for one (1) New Share in KappAhl.
Subscription price	SEK 4.00 per share
Record date for participation in the Rights Issue	11 November 2011
Subscription period	16–30 November 2011
Trading in Subscription Rights	16–25 November 2011
Trading in BTA	16 November – 6 December 2011

1. You receive Subscription Rights

For each share in KappAhl you owned as at 11 November 2011…



…you will receive two (2) Subscription Rights

2. How to exercise your Subscription Rights

If you have a VP account:

If your shares in KappAhl are held in a VP account, the number of Subscription Rights which you are entitled to, will appear in the issue statement sent to you by mail together with the prospectus.

If you wish to exercise all Subscription Rights, use the pre-printed subscription form. No subscription form needs to be filled in, you just need to make the actual payment.

If you have purchased, sold or transferred Subscription Rights to/from your VP account, use the special subscription form which can be ordered from Swedbank. (website: www.swedbank.se/prospekt, telephone: +46 8-585 900 00, e-mail: emissioner@swedbank.se).

Pay as you do other bank payments (for example by internet bank, giro or at a bank office) no later than on 30 November 2011.

If you have a custody account:

If your shares in KappAhl are held in a custody account at a bank or other securities institution, your nominee will inform you of the number of Subscription Rights that you have received.

Follow the instructions you receive from you nominee.

MARKET OVERVIEW

The information on GDP, GDP growth, growth in private consumption, market growth, market size, market shares and KappAhl's market position in absolute figures or in relation to competitors stated in the prospectus is KappAhl's overall assessment based on both internal and external sources. The internal sources comprise of data collected from the Company's respective market offices. The external sources comprise of industry statistics. KappAhl's overall assessment is based on sources considered by the Company to be reliable and in those cases where KappAhl has collected information from third parties the information has been correctly reproduced. However, KappAhl has not verified the information from these sources. KappAhl is not aware of any available individual market statistics that provide a relevant picture of KappAhl's markets. As far as KappAhl is aware and can assess, no data has been omitted in a way that could make the reproduced information incorrect or misleading.

GENERAL MARKET TRENDS

KappAhl operates in Sweden, Norway, Finland, Poland and the Czech Republic and is primarily affected by underlying market trends in these geographical markets. According to the Company there is a correlation between GDP development and growth in retail fashion. According to KappAhl, in 2010/2011 the fashion market showed a weak trend and according to the Company there is uncertainty about the trend in the coming year. It is true that development of disposable income has been good, but rising interest rates and energy prices have taken a greater part of the scope for consumption. In addition, according to HUI Research AB (former Handelns utredningsinstitut), more money has been spent on purchases of cars and services. The Company estimates that the following overall market trends affect day-to-day operations:

Larger chains are increasing their market share generally in the clothing market

In recent years there has been a gradual change in the global fashion world, in which local variations have decreased in importance and been replaced by fewer and more similar global fashion trends. This development has facilitated expansion for large international clothing companies, such as H&M, Inditex and GAP, to the detriment of smaller local and regional, often family-run, shops. A similar development has taken place in the Nordic countries, where large players such as KappAhl, Lindex and Dressmann have increased their market share.

Clear concepts and a well-defined market position are important success factors

Competition in today's fashion industry is appreciable. In regards to consumer spending, clothes also compete with other products that provide well-being, such as beauty and training products. KappAhl competes with other international chains, local chains, independent stores, clothing departments in department stores and with supermarkets and specialist sports retailers.

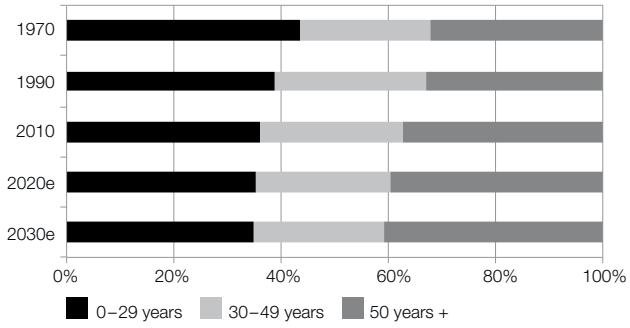
In KappAhls opinion requirements concerning a clear concept and market position in the fashion industry have increased considerably in recent years. Today's clothing consumers are well-informed and have considerable knowledge of different brands and what they represent. In the view of the Company, this has resulted in more selective consumption patterns in which clothes of different styles, fashionability, quality and price are today more mixed than before, which means that it has become even more important for fashion chains to clearly define their market positions and their brand image. KappAhl's well-defined target group in combination with KappAhl's clear message is considered by the Company to be a considerable competitive advantage.

Demographic changes – the age group older than 30 is expected to grow and gain greater importance

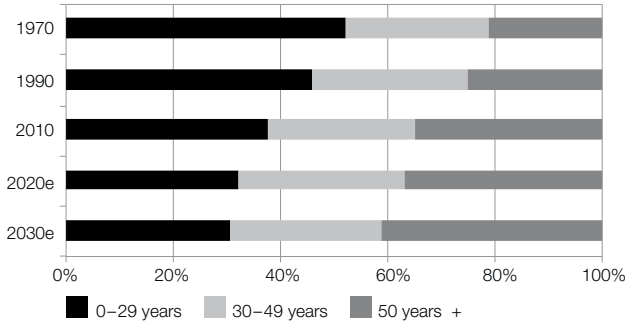
Demographic data in the Company's markets indicates that the population older than 30 is increasing gradually as a proportion of the population as a whole, which can be expected to mean an increased potential customer base for KappAhl. The diagrams below provide an overview of how the age distribution in the population has changed and is expected to change more in KappAhl's five markets.

Demographic trends 1970–2030e[1]

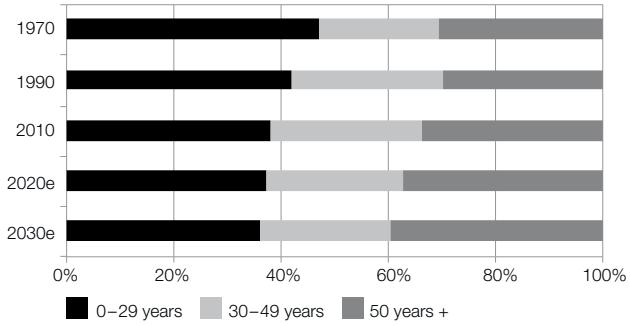
SWEDEN



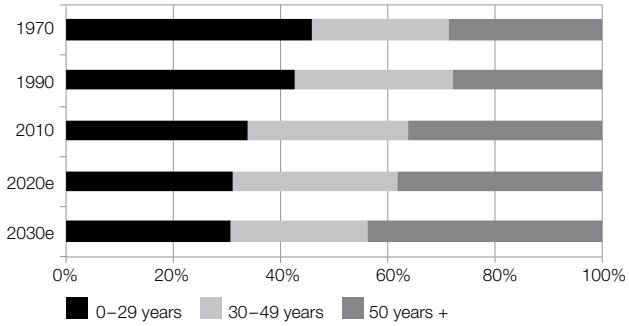
POLAND



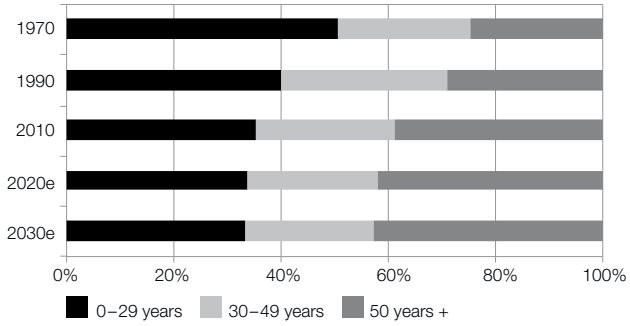
NORWAY



CZECH REPUBLIC



FINLAND



[1] Source: United Nations, 2010.

KAPPAHL'S MARKETS

KappAhl has stores in Sweden, Norway, Finland, Poland and the Czech Republic. Sweden is KappAhl's single largest market. In 2012 KappAhl plans to open stores in Austria, which will then become KappAhl's sixth market.

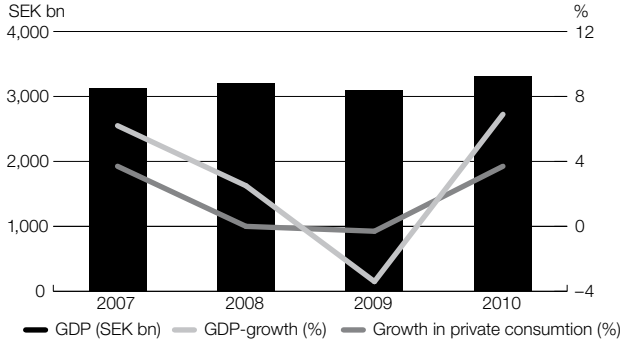
KappAhl's geographical markets

KappAhl estimates that the total clothing market in all of KappAhl's geographical markets was about SEK 190 billion in 2010. The corresponding figure for 2009 was about SEK 196 billion. The competition in the clothing retail trade is fragmented in general, with local chains, independent stores, department stores and international chains that compete with each other.

Sweden

The Company estimates that the size of the Swedish clothing market was about SEK 55 billion in 2010. The corresponding figure for 2009 was about SEK 53 billion. Consumer spending on clothing per capita including VAT amounted to SEK 5,851 in 2010, according to SCB. The Swedish economy, measured in GDP, showed a positive trend between 2009 and 2010. Growth in private consumption was also positive between 2009 and 2010.

Briefly about the Swedish market[1]



Population (2010): 9.4 million
Unemployment (2010): 8.4 per cent

KappAhl in Sweden

The Swedish clothing market is KappAhl's largest market, accounting for 53 per cent of the Company's total net sales for the 2010/2011 financial year. As at 31 August 2011, KappAhl had 159 stores in Sweden. According to the market research company GfK, KappAhl is the second largest clothing chain in Sweden measured in total store sales (excluding mail order), one of the three largest children's clothing chains, the largest supplier of clothes to women over the age of 30 and largest supplier of trousers (excluding shorts). According to the Company, competition in the Swedish clothing retail industry is considerable. KappAhl's main competitors in the Swedish clothing market are Lindex, H&M, Cubus and Dressmann. Lindex is part of Stockmann, and Cubus as well as Dressmann are part of the Varner Group. In addition, competition from hypermarkets (stores with sales areas of more than 2,500 square metres and at least 35 per cent of the sales area devoted to non-food goods) and specialist sports stores has become tougher.

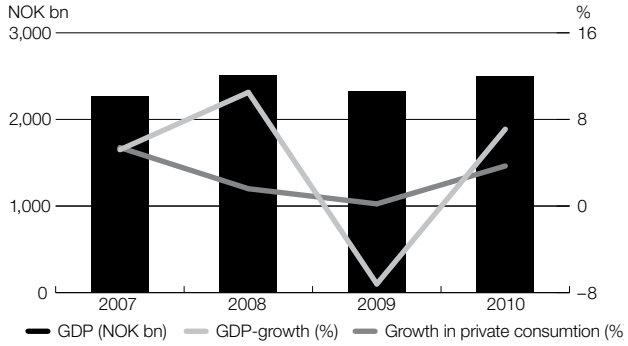
According to GfK, KappAhl's market share is about 7.3 per cent in Sweden.

[1] Source: OECD Statistics.

Norway

The Company estimates that the size of the Norwegian clothing market was about SEK 44 billion in 2010. The corresponding figure for 2009 was about SEK 42 billion. Consumer spending on clothing per capita including VAT amounted to SEK 9,032 in 2010, according to Virke. The Norwegian economy, measured in GDP, showed a positive trend between 2009 and 2010. Growth in private consumption was also positive between 2009 and 2010.

Briefly about the Norwegian market[1]



Population (2010): 4.9 million
Unemployment (2010): 3.5 per cent

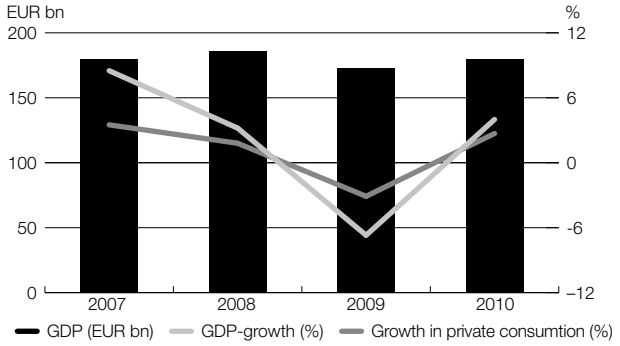
KappAhl in Norway

In the 2010/2011 financial year net sales in Norway accounted for 27 per cent of the Group's net sales and the Company had a total of 99 stores in Norway as at 31 August 2011. KappAhl is established in almost all Norwegian towns, either in the town centre or a shopping centre outside town. The main competitors in Norway are Cubus, Lindex, H&M and Dressmann. According to GfK, KappAhl's market share is about 5.0 per cent in Norway.

Finland

The Company estimates that the size of the Finnish clothing market was about SEK 25 billion in 2010. The corresponding figure for 2009 was about SEK 33 billion. Consumer spending on clothing per capita including VAT amounted to SEK 4,721 in 2010, according to Statistics Finland. The Finnish economy, measured in GDP, showed a positive trend between 2009 and 2010. Growth in private consumption was also positive between 2009 and 2010.

Briefly about the Finnish market[1]



Population (2010): 5.4 million
Unemployment (2010): 8.4 per cent

KappAhl in Finland

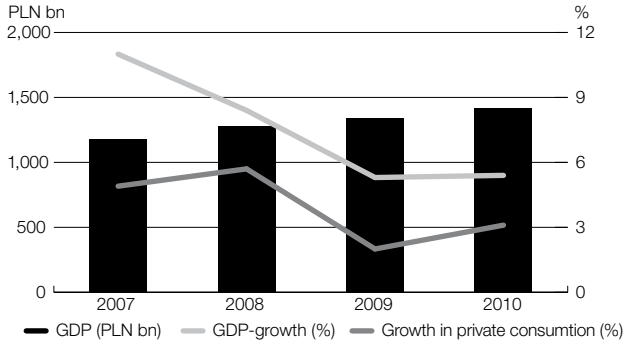
In the 2010/2011 financial year net sales in Finland accounted for 12 per cent of the Group's net sales and the Company had a total of 59 stores in Finland as at 31 August 2011. KappAhl estimates that traditional department stores and hypermarkets account for a large percentage of total clothing sales. The main competitors in Finland are Seppälä, Lindex, H&M and Dressmann.

[1] Source: OECD statistics.

Poland

The Company estimates that the size of the Polish clothing market was about SEK 47 billion in 2010. The corresponding figure for 2009 was about SEK 53 billion. Consumer spending on clothing per capita including VAT amounted to SEK 1,235 in 2010, according to Central Statistical Office of Poland (GUS). The Polish economy, measured in GDP, showed a positive trend between 2009 and 2010. Growth in private consumption was also positive between 2009 and 2010.

Briefly about the Polish market[1]



Population (2010): 38.2 million
Unemployment (2010): 9.6 per cent

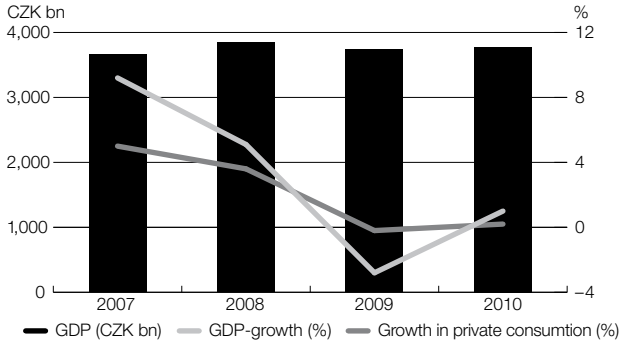
KappAhl in Poland

In the 2010/2011 financial year net sales in Poland accounted for 7 per cent of the Group's net sales. KappAhl was established in the Polish market in 1999 and had a total of 47 stores as at 31 August 2011. The main competitors in Poland are C&A, Inditex, Vistula, H&M and LPP. The Company's assessment is that the Polish market is very fragmented with a large number of independent stores. The market is fragmented mainly because it is immature compared to KappAhl's other markets.

Czech Republic

The Company estimates that the size of the Czech clothing market was about SEK 17 billion in 2010. The corresponding figure for 2009 was about SEK 15 billion. Consumer spending on clothing per capita including VAT amounted to SEK 1,657 in 2010, according to Czech Statistical Office (CZSO). The Czech economy, measured in GDP, showed a positive trend between 2009 and 2010. Growth in private consumption was also positive between 2009 and 2010.

Briefly about the Czech market[1]

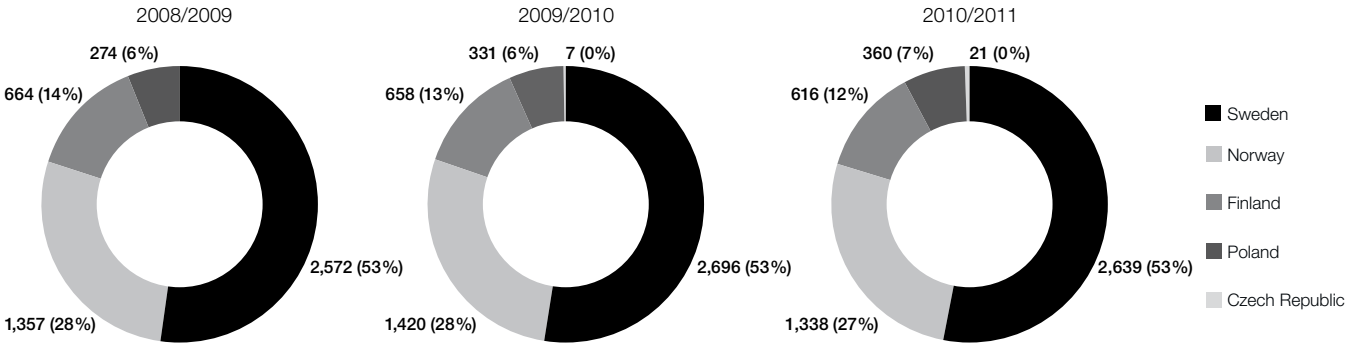


Population (2010): 10.5 million
Unemployment (2010): 7.3 per cent

KappAhl in the Czech Republic

In the 2010/2011 financial year net sales in the Czech Republic accounted for 0.4 per cent of the Group's net sales. KappAhl was established in the Czech market in 2009 and had five stores as at 31 August 2011. The main competitors in the Czech Republic are H&M, Marks & Spencer, Lindex and C&A.

SALES PER COUNTRY, SEK M (2008/2009–2010/2011)



[1] Source: OECD statistics.

VISION, MISSION, TARGETS AND STRATEGIES

VISION

KappAhl's vision is that the Company is to be a significant fashion chain in Europe. This is the vision that drives KappAhl forward. Everything that is done in the working day should ultimately lead to the Company's vision – each initiative, each change, and each decision.

MISSION

KappAhl's mission is "Value-for-money fashion with wide appeal" – for women, men and children. The Company specially targets women aged 30–50 years.

TARGETS

KappAhl's Board of Directors has set up the following operational and financial targets for the Group:

	Outcome 2010/2011	Outcome 2009/2010	Outcome 2008/2009	Outcome 2007/2008	Outcome 2006/2007
Operative targets					
The number of stores is to increase by 20–25 per year	27 new stores opened and 3 closed	27 new stores opened and 1 closed	32 new stores opened and 4 closed	22 stores were established and 3 closed	17 new stores opened and 5 closed
The operating margin is to be 10 per cent at the latest in the 2013/14 financial year[1]	4.5%	10.8%	10.8%	14.1%	13.8%
	As at 31 August	**As at 31 August**	**As at 31 August**	**As at 31 August**	**As at 31 August**
Financial targets					
Interest-bearing net debt is not to exceed 3 times EBITDA other than temporarily	5.1 times EBITDA	2.4 times EBITDA	2.8 times EBITDA	2.3 times EBITDA	1.7 times EBITDA
Dividend policy					
Dividend is to be 40–60 per cent of the profit after tax on condition that the Group meets the financial targets above[2]	The Board of Directors has decided to propose to the Annual General Meeting that no dividend will be distributed	76.0 per cent after paid tax	29.7 per cent after paid tax	77.5 per cent after paid tax	Redemption share equivalent to 125.3 per cent

[1] Operating margin target announced 11 October, 2011. Former target was 12 per cent over a cycle with a minimum of 10 per cent.
[2] Dividend policy announced 11 October, 2011. Former target was 70-100 per cent of profit after tax.

STRATEGY

KappAhl's strategy is aimed at earnings growth and improved profitability. KappAhl focuses on increasing profitability by strengthening the gross margin. The gross margin has for many years been among the highest in the industry, which creates a stable foundation for growth. The gross margin decreased in the 2010/2011 financial year, largely due to increased purchase costs and a high inventory level in the winter and summer season, which resulted in a higher than normal percentage of clearance sales. The Company is working to strengthen profitability, for example through more effective use of its purchasing and logistics resources. The strategy focuses on the following main elements:

Expanding the store network

KappAhl plans to expand its store network and thereby increase its market share. The Company has a clearly defined strategy for new stores, focusing on stores in shopping centres and small to medium-sized towns, which historically have been the most profitable stores for KappAhl.

The capital requirement in KappAhl's business is very low. One of the main advantages of this is that expansion, via investment in new stores, can take place without tying up large amounts of working capital.

In the 2010/2011 financial year the net number of new stores opened was 24, and at year-end the Company had entered into tenancy agreements for a further 47 new stores. KappAhl estimates that in Sweden, Norway and Finland there are not as many unused locations, since KappAhl already has broad geographical coverage in those countries. The Company assesses the potential for establishing new stores in Poland, the Czech Republic and Austria as good. The Company's assessment is that these markets are interesting, with considerable long-term potential. KappAhl plans to open in Austria by autumn

2012 and the Company sees a potential for 30–40 stores in the country. The Company believes that Austria is strategically right for the continued expansion in Europe.

Continual upgrading of stores

KappAhl invests on an on-going basis in improvement and refurbishment of existing stores. Renovated and updated stores generally increase visitor flows, increase percentage of paying customers and improve sales per square metre. Plans for the future include refurbishment of KappAhl's stores on average every fifth to seventh year. Stores in the very best locations are renovated more frequently to retain competitiveness. Effective marketing, improved store layout and goods display and development of the product mix are other important tools that KappAhl uses to increase sales.

Increased sales in existing stores

KappAhl has the ambition to continue to increase sales in the existing store network. Apart from upgrading stores, measures are implemented to increase sales in existing stores, for example through marketing, improved store layout and more selling exposure of the products, as well as development of the product mix. KappAhl uses direct marketing combined with broader marketing campaigns to increase the number of customer visits. KappAhl's customer club makes it possible to direct promotional activities towards specific customer groups based on their historical purchasing patterns. In addition, KappAhl can through sales data from stores adapt the product assortment. KappAhl attaches great importance to displaying goods in such a way that the customer will get new ideas on how different garments can be attractively combined. KappAhl's strategic product groups include trousers, specially designed in view of KappAhl's extensive range of sizes, and volume products, such as tops. To increase sales volumes the Company continually monitors customers' purchasing behaviour and tries to improve product presentation to maximise store sales and increase the inflow of customers to the stores. KappAhl also uses its improved supply and replenishment process to ensure availability of the goods.

Using economies of scale in the business model

When the store network is expanded, KappAhl benefits from economies of scale in the existing structure, which affects the operating margin in a positive direction. KappAhl considers that the present cost structure constitutes a good foundation for future store expansion without the costs of managing and operating the store network increasing as fast as net sales. Examples of such costs are administrative and marketing costs and costs for the head office.

OPERATIONS

OVERVIEW

KappAhl is a leading Nordic fashion chain with stores in Sweden, Norway, Finland, Poland and the Czech Republic. The Company designs, markets and sells clothes for women, men and children through its own store network. In the 2010/2011 financial year net sales were SEK 4,974 (5,111) million and the operating profit was SEK 222 (551) million.

KappAhl designs its product range to be able to offer its customers fashionable clothes at attractive prices. The Company has a customer-oriented business model, aimed at adapting fashion trends to products that meet the customer's needs. Consequently the Company itself designs all garments sold in its stores. KappAhl's collections comprise everyday and party clothes, outerwear, underwear and accessories. Most clothes are sold under the KappAhl brand, but the Company also markets clothes under several own and licensed brands.

KappAhl's main target group is women aged 30–50 years with families. KappAhl considers this customer group to be more loyal and more predictable than younger age groups, which are usually influenced more by changing fashion trends.

HISTORY

In 1953 the Company's founder, Per Olof Ahl, opened his first clothing store in Gothenburg, which sold coats under the "KappAhl" brand. Per Olof Ahl was CEO until 1986 and his objective was to "make it possible for as many people as possible to be well-dressed".

The business expanded rapidly in the 1950s and 1960s when the range was extended to include clothes for both women and men, but coats were still the most important product group. At the end of the 1970s children's clothes were included in the offer and in the 1980s operations expanded to Norway and Finland. KappAhl was sold in 1990 to KF (the Swedish Cooperative Union). Since spring 2002, when KappAhl's present management took over, operations have been streamlined. Among other things a decision was made to concentrate on four geographical markets – Sweden, Norway, Finland and Poland, with Sweden as the base for operations. The Company has also renewed its emphasis on the main customer group, which are women aged 30–50 years with families. KappAhl has also increased its marketing efforts, including frequent campaigns to improve brand recognition, particularly among the main target group. In addition, KappAhl has improved supply of goods through considerable investment in infrastructure and has concentrated logistics to the distribution centre in Mölndal. In December 2004 KF sold KappAhl AB to Nordic Capital, Accent Equity and some members of the senior management.

In February 2006 KappAhl was listed on the Stockholm Stock Exchange O list. Nordic Capital and Accent Equity sold the majority of their holdings at the time of the listing but the President and CEO, Christian W. Jansson and member of the board, Paul Frankenius, continued as main shareholders.

In 2009 KappAhl opened its first store in the Czech Republic, which became KappAhl's fifth market. The expansion continued in 2010 and 2011 and on 31 August 2011 KappAhl had 369 stores and contracts for another 47. In addition, KappAhl decided to expand in Austria, where the Company sees great potential.

IDENTIFIED COMPETITIVE ADVANTAGES

KappAhl considers that it has several competitive advantages that make the Company well-positioned to implement its strategy:

KappAhl has a strong brand and a strong market presence

The brand is among KappAhl's most important assets and it is a well-known brand in KappAhl's Nordic markets. KappAhl believes that its brand is closely associated with a series of positive qualities such as fashion, design, loyalty, credibility and value for money, which reflects KappAhl's strategic positioning in the market.

KappAhl's strong market presence is also confirmed by the store network of 369 stores, as at 31 August 2011, which constitutes the foundation for the loyal customer base. In the 2010/2011 financial year about 300,000 visitors a day were recorded. The Company considers that one of the key factors for implementing its growth strategy is the ability to acquire good store locations that match the customer profile and KappAhl believes that its stores as a rule are sited at excellent store locations in the towns in which KappAhl operates.

KappAhl's brand, in combination with the extensive store network and ability to find suitable store locations, has made it possible to build up a strong market position, particularly in the Company's Nordic markets.

KappAhl is established in geographical markets with stable macroeconomic development

KappAhl is established in Sweden, Norway, Finland, Poland and the Czech Republic. These countries have managed relatively well, compared with other European countries, in recent years. This facilitates day-to-day activities that include decisions on purchases, sales and expansion, as the market is more predictable. On the whole, stable macroeconomic development reduces operational risk.

The Company's primary target group, women aged 30-50 years with families, is attractive and growing

The principal customer group has comprised of women with families since KappAhl was established in 1953. KappAhl considers that the Company's sales potential will benefit from the customer group's increasing percentage of the total population. The Company considers that KappAhl's present position with the customer group, combined with KappAhl's strong market positions and extensive store network, form a basis for utilising the favourable growth in this customer group and to increase the Company's market share in the Nordic markets.

KappAhl has a customer-oriented business model, aimed at adapting fashion to the customer's needs

The Company's business model centres on the principal customer group and KappAhl devotes considerable time to analysing customers' purchasing behaviour. This analysis is based on information from customer surveys, external survey panels, databases and sales history. Based on the analyses KappAhl is developing a product offer that combines the latest fashion trends with customer demand as regards colours, fabric, fit and size.

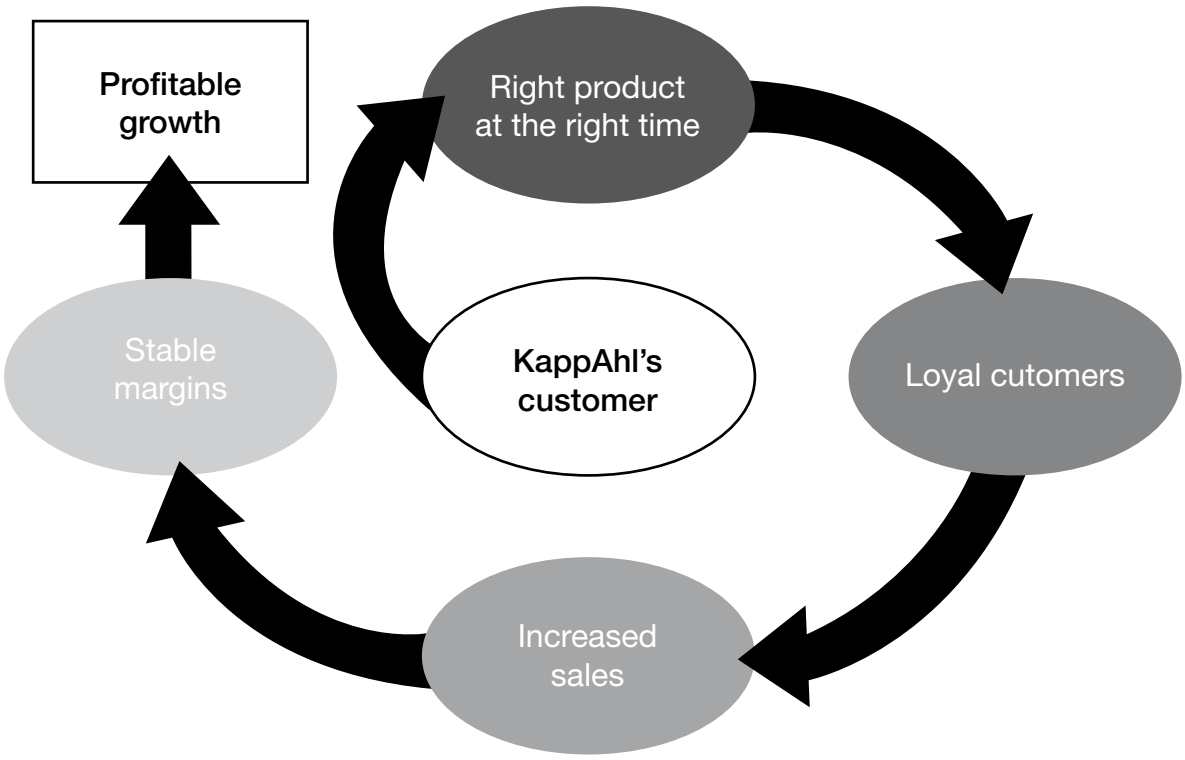
KappAhl considers that the focus should be on customer needs, rather than on the product itself, which allows a more optimised product offer to be supplied to the stores at the right time. The assessment of the Company is that this results in increased full price sales and higher profitability. This approach is also intended to create customer loyalty, which is expected to support the Company's growth going forward.

KappAhl has great retail competence, comprising an internal design department that produces all collections, a centralised purchasing and logistics function, and a local presence where KappAhl buys its products

KappAhl's design organisation is entirely internal and works continually to put together new collections of fashionable and affordable clothing. KappAhl's design, purchasing and production units collaborate closely and work constantly with an open order book, which increases the possibilities of handling changes in fashion trends and demand patterns.

KappAhl's centralised and flexible purchasing and logistics infrastructure was designed for cost-effective and fast deliveries to the stores. On 31 August 2011 there were about 140 people employed in the Company's purchasing department. The distribution centre is located in Mölndal outside Gothenburg and handles over 60 million clothing and accessory items per year. KappAhl's distribution centre makes it possible to distribute products on the basis of statistics and historical results from the stores. In that way each store can be supplied with an optimum range of garments, minimising the need for price

KappAhl's customer oriented business model



reductions. According to KappAhl the distribution centre is one of the most modern facilities of its kind in Europe, with state-of-the art equipment such as a sorting system for packed and hanging garments and steam tunnels. On 31 August 2011 the number of employees at the distribution centre was about 100 people.

KappAhl's management team has long experience of the clothing and retail industry

KappAhl's management team, consisting of eight people, has an average of 22 years' experience of the Nordic clothing and textile market.

CUSTOMERS

Women who are aged 30 years and upwards with families are the main customer group. This customer category usually buys clothes for her partner and children and/or grandchildren. In that way the market is expanded to also cover men's and children's clothes. KappAhl focuses on its principal customer group, since the Company has a particularly good knowledge of its clothing preferences.

It is important that KappAhl is well-informed about who the customers are and how they can best be offered good service, creating a positive shopping experience. The Company designs its collections for women who want to feel modern and well-dressed but who do not feel the need to be very trendy or follow the more extreme expressions of fashion. In Poland KappAhl also attracts younger customers, many of whom are working women aged 25 upwards.

PRODUCTS

Overview

KappAhl offers a broad selection of fashionable and good value clothes and accessories for women, men and children. The clothes for women, men and children consist of several collections with different styles. In principle KappAhl's entire clothing offer is continually being replaced and is focused on the four seasons, though with some successive overlap to even out seasonal effects. A smaller part of the total product range is basic garments that are always offered for sale, such as a selection of underwear.

More than 10,000 articles are produced every year and as a rule the stores receive deliveries of garments two to three times a week. KappAhl sells about 60 million clothing and accessory items in its stores annually.

The popularity of KappAhl's collections depends on the Company's image and knowledge of customers' needs. The Company endeavours to offer the right quality and fashion content at the right price. KappAhl always works to put the customer in focus and when the latest fashion trends are incorporated into the collections it is done in such a way as to be consistent with the Company's image. This means that the most extreme fashion trends are not adopted, since they do not usually appeal to KappAhl's primary customer group.

Women's clothes

KappAhl Woman offers a wide, varied range of clothes for every occasion – party, smart casual and leisure. The collections include complete wardrobes, from underwear to outdoor clothing and accessories.

KappAhl's intention, particularly regarding female customers, is that it should always be possible to find matching combinations of several garments in the stores. The way in which KappAhl's product range is presented is intended to suggest matching of different garments in an attractive way. In addition, great importance is laid on design and sales of garments with a good fit, which is a fundamental condition for maintaining such a wide range of sizes as KappAhl offers. Trousers constitute a strategic product group and KappAhl is according to market research company GfK market leader in trousers and jeans in Sweden. The Company's trousers are specially designed to meet KappAhl's extensive range of sizes. Moreover, KappAhl is strong on outerwear and market leader in party clothes, underwear, nightwear and "cosy clothes".

KappAhl is careful to follow up the women's collection with specially selected, matching accessories, such as bracelets, necklaces, belts, shawls, scarves, gloves, hats and bags. The Company considers that the accessories are an important part of and a valuable complement to the garments offered in KappAhl's collections. Accessories are presented in the stores together with the clothing collections. For the 2010/2011 financial year sales of women's clothes accounted for 57 per cent of net sales.

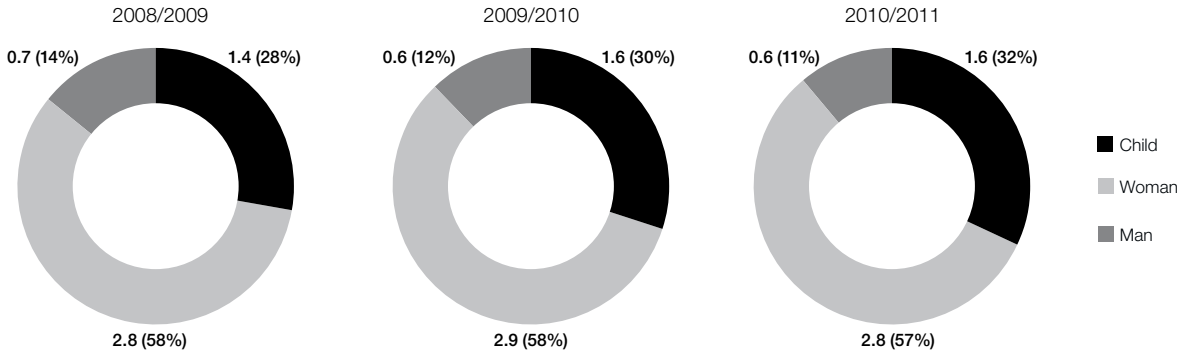
Men's clothes

KappAhl Man offers a varied range of clothes – party, smart casual and leisure. The collections contain coordinated ranges, with everything from underwear to outdoor clothing and accessories.

The Hampton Republic collection contains clothes of classic, masculine American fashion with a modern twist, the Madison Avenue collection contains clothes of a modern style with well-finished details, while the Redwood collection covers leisure clothes. Outerwear is included in all three collections. In addition KappAhl offers underwear, nightwear, socks and swimwear for men under the Body Zone brand. There is also a complete Body Zone Sport collection for men. The objective is to continue to develop KappAhl's own brands and ensure that customers can always find matching clothes and combinations in the stores.

KappAhl is strong on trousers and jeans and what is generally designated as basic fashion. In addition KappAhl is good

SALES PER BUSINESS AREA SEK BN (2008/2009 – 2010/2011)



at jersey, shirts, outerwear and underwear, which is an important product group. Apart from basic accessories, seasonal products such as hats and gloves are sold. For the 2010/2011 financial year sales of men's clothes accounted for 11 per cent of net sales.

Children's clothes

KappAhl Child has a broad target group from babies up to "tweens" – a group of young people between children and teenagers. KappAhl's children's collection must be good value, hardwearing, safe, comfortable and of high quality. The objective is to further develop KappAhl's own children's brands and focus on baby clothes and clothes for children who have not reached school age. The range covers both basic clothing and more fashion-oriented clothes. The children's collection, which has grown considerably in recent years, consists of five size categories (baby, mini girl, mini boy, big girl and big boy). Newbie includes functional and soft garments for the very smallest children, with a traditional sophisticated style and neutral, soft colour scale. All the details create a feeling of simplicity with a suggestion of nature. Newbie has been a great success, both in terms of sales and the media, enabling KappAhl to reach many new customers. In autumn 2010 High Fashion was launched, for older girls. This is a collection where the very latest fashion for slightly older "tweenies" is interpreted by KappAhl's designers, who work very freely. The styles vary, with something new every sixth week. The Lab Industries collection contains trendy jeans, the Woxo collection contains outerwear of high tech quality, the KAXS collection contains playful and colourful everyday clothes, KAXS Proxtec contains comfortable functional garments. In addition to this, everything from underwear and socks to nightwear, dressing gowns and swimwear are offered under the Body Zone brand. One of the strategic product groups is trousers and jeans. Another area where KappAhl holds a strong position is in outerwear, above all functional outerwear.

Accessories for children cover bags, belts, hair accessories, jewellery, socks, canvas bags for boys and girls and seasonal products, such as summer and winter hats, sunglasses, scarves and mittens. KappAhl also sells party clothes for children. For the 2010/2011 financial year sales of children's clothes accounted for 32 per cent of net sales.

VALUE CHAIN

The value chain consists of 6 steps from design to store sales:

Step 1: Design

KappAhl designs all clothes and accessories internally and also produces its own patterns and prints. KappAhl's designers do not create the fashion but instead try to adapt current or coming fashion trends to garments that appeal to KappAhl's customers. The Company's designers cross check their colour themes and trends for all collections with each other, partly to utilise market statistics, partly to ensure conformity with the KappAhl brand. Travel to international fairs and fashion shows is an important element in the search for new fashion trends and KappAhl's designers and buyers often travel together. At fashion and textile fairs they can capture ideas and are also able to investigate quality and materials. KappAhl's designers also seek inspiration from other sources, such as various professional fashion databases or industry organisations. The Company has more than 30 designers.

Step 2: Purchasing

KappAhl has a centralised and purchase-driven supply of goods. The purchasers are individually responsible for the gross profit from sales of particular garments. In that way they follow up each individual garment from design via production to store. Finally they also decide if and when the article's price should be reduced.

KappAhl's buyers are also themselves responsible for a particular category of garment, such as leisure trousers or jumpers. The purchasers decide which articles are to be produced and can to some extent change the design of a certain product, for example to simplify production. The purchasers also determine the number of garments to be manufactured, set the price of the garments and negotiate purchase prices with KappAhl's manufacturers together with the production offices in Asia and Europe. According to the Company, KappAhl's buyers are skilled at identifying trends and then transforming them by means of fast purchasing decisions. The purchasing department consists of about 140 employees.

Step 3: Production

Supply and production department

KappAhl's supply and production department coordinates supply and purchases for the individual collections, takes care of quality control and coordinates, along with the production offices, the work of ensuring that independent manufacturers comply with KappAhl's Code of Conduct. The majority of production offices report directly to KappAhl's supply and production department.

International offices

All production takes place at external manufacturers. Not owning the production side is a conscious choice. This leads to lower tied-up capital and creates flexibility, enabling KappAhl to easily change to another production technology or supplier when necessary. KappAhl has several production offices with a total of about 150 employees who are responsible for product acquisition. To create an effective and quality assured production process KappAhl has production offices in the important purchasing markets in China, India, Bangladesh, Lithuania and Turkey. KappAhl carries out frequent spot checks at all stages of the production process.

In 2011 about 70 per cent of KappAhl's products are estimated to have been manufactured in Asia and 30 per cent in Europe. About 30 producers accounted for about 60 per cent of all external purchases. A total of about 240 manufacturers were engaged during the period. The production offices carefully monitor sub-contracted production to ensure that all products meet KappAhl's quality requirements. Normally purchases are made order by order and there are no exclusive undertakings that oblige the Company to buy from a particular manufacturer. KappAhl considers that the Company has good relations with its manufacturers and estimates that even if the number of stores increases, there will be sufficient resources to produce a sufficient number of quality goods within reasonable delivery times and on reasonable financial terms.

Quality control

Quality specifications and quality assurance are given particular priority in KappAhl's goods supply. All articles are tested as to size and fit and undergo quality controls before production starts. Quality inspections of the clothes are important for further strengthening the brand image and to ensure that the customer's expectations and demand for garments of a high quality are met. KappAhl carries out tests several times during the production process to ensure that these clothes meet quality requirements. In general, quality control is managed by KappAhl's own quality control department, which carries out extensive tests and inspection programmes and decides which requirements apply to the various product categories and materials. KappAhl also requires that independent manufacturers carry out certain tests in the factories, while some tests are sub-contracted. One of KappAhl's requirements is that the garments must not contain harmful substances or chemicals. The percentage of garments in which production defects have arisen has decreased in recent years and the figure today is less than one per cent.

Step 4: Distribution

Storage space in KappAhl's stores is limited, since areas must preferably be used for selling. That is why the timing of distribution is important. The goods must reach the store at exactly the right moment, to maximise sales and reduce the need to cut prices. Here the distribution system plays an important part.

Logistics for the entire Group are coordinated at KappAhl's head office. The Company has endeavoured to automate the

logistics chain and uses advanced information technology to facilitate logistics operations.

The distribution centre in Mölndal was brought into operation in 2002 and currently employs about 100 people. KappAhl considers that it is one of Europe's most modern distribution centres. It covers an area of about 40,000 square meters and is more or less fully automated with state-of-the art equipment such as sorting systems for packed and hanging garments, and steam tunnels.

KappAhl's information system collects statistical information, which is processed and analysed in the allocation system in order to refine allocation of products to the store network. Allocation is optimised, taking into consideration such things as quantity, timing, sizes and colour, as well as the climate in the regions where the respective store is localised. The system also makes cross-border and cross-business segment coordination possible.

The Company considers that its logistics costs are competitive within the industry and that the Company can monitor quality better than some of its competitors, since KappAhl has full control over the logistics chain and does not use any external logistics services other than for actual shipping.

Step 5: Marketing

The success of KappAhl's collections and accessories is to a considerable extent dependent on the brand image and customers brand recognition. The stores constitute an important channel of communication in marketing. In general KappAhl carries out a Group-wide store campaign every second or third week throughout the Group. For each new sales campaign store displays, including window displays, are changed in a coordinated way in all stores. All marketing is coordinated at Group level.

KappAhl's loyalty programmes and the Company's own club card are important marketing tools that have been successfully established in all markets. The loyalty programme provides valuable information about customer profile and purchase history, in turn making it possible for KappAhl to carry out direct targeted marketing campaigns through text messages and direct advertising to different customer groups at a low contact cost per customer. During the year a new programme was launched, the fashion club Life & Style by KappAhl. Loyalty programmes are of great importance for sales, since card customers show greater loyalty and spend more than the average customer.

Step 6: Store sales

Stores

As at 31 August 2011 KappAhl had 369 stores, with contracts for another 47 stores. The stores are situated in excellent sales locations, in both large cities and their suburbs as in small towns. The stores are designed as stand-alone stores on major streets or stores in shopping centres, hypermarkets or outlet villages. The average store area is about 850 square metres, which is also the target size of new stores. The average sales per square metre in the 2010/2011 financial year were about SEK 20,000 (including VAT).

KappAhl plans to continue investing in the store network. A targeted store expansion strategy is currently being implemented, focusing on stores in shopping centres and small to mid-sized towns, which normally have the best conditions for reaching KappAhl's primary customer group.

In October 2011 KappAhl launched Shop Online which is an important marketing channel and is to be viewed as a complement to the existing stores. Shop Online makes it possible to reach customers who for various reasons have difficulty in visiting a physical store. It also makes it possible for customers to plan their purchases and drives traffic to the stores.

The table below shows the development of KappAhl's stores.

Country	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
Sweden	131	138	144	153	159
Norway	84	87	92	95	99
Finland	42	46	53	56	59
Poland	15	20	30	40	47
Czech Republic	0	0	0	1	5
Total	272	291	319	345	369

Store design and staffing

KappAhl considers that it is important to display the goods in a way that makes it easier for customers to shop and has therefore put a lot of work into creating clear displays of the collections. Different marketing activities overlap to make the store feel full of life and moving with the times. KappAhl aims to always have sufficient goods in the store to avoid empty shelves.

KappAhl offers both full-time and part-time employment to adapt and optimise staffing and costs for sales staff to variations in demand between different days of the week and seasons. The number of employees per store varies depending on size, location and type of store. KappAhl's aim is for its store staff to know the entire range and be able to assist customers in their choice of clothes. Their attitude to those visiting the store is of great importance for whether a visitor leaves the store as a satisfied customer or not.

Since staff knowledge and skills are important factors of competition, the Company allocates considerable resources to recruitment, training and skills development. KappAhl holds theme days for store staff and works strategically on skills development of staff at different levels. All store managers also participate in a management training programme. To guarantee KappAhl a continuous flow of store managers, selected candidates can also participate in a one-year training programme.

COMPETITION

Competition in the clothing industry in KappAhl's five geographical markets is considerable. The most important competition factors in KappAhl's area of operations include brand image and brand recognition, product range, design, presentation, quality, pricing, store layout, customer service and convenience. Competition may also increase in this sector, since there are few obstacles to establishment and KappAhl's successes may attract more competitors. KappAhl mainly competes with other retailers, department stores, mail order and online companies that sell clothes and accessories for women, men and children. In parallel with the traditional stores there are also direct marketers who target customers via catalogues and the Internet. The Company not only competes for sales, but also for favourable store locations and rental terms. See further the "Market overview" section.

KappAhl perceives Lindex, H&M, Cubus (mainly in Norway) and Dressman (for men) as its foremost competitors and in some markets also Seppälä, C&A, Inditex, Vistula, LPP, Marks & Spencer and C&A. H&M is one of the largest competitors in the Company's five geographical markets. The Company competes with Lindex as regards women's and children's clothing in Sweden, Norway, Finland and the Czech Republic.

SUSTAINABLE DEVELOPMENT

Environmental issues

In 1999 KappAhl was the first fashion chain in the world to be certified under ISO 14001, an international environment management standard. Each year an external audit is made of KappAhl's environmental management system by the SP Technical Research Institute of Sweden. ISO 14001 certification covers the entire product flow organisation, management and administration, distribution and store operation in Sweden and Finland. Certification of stores in Norway is also carried out on the basis of a nationally recognised standard.

In 1993 KappAhl launched eco fashion for the first time. Today more than 12 million, just over 20 per cent, of the garments have Öko-Tex, EU Flower or Organic Cotton labels.

All garments in KappAhl's stores meet the same strict quality requirements, regardless of whether they are certified by an independent external body or examined by internal test units. The areas examined include the product quality itself, the manufacturing process and use of chemicals – both in the garment itself and the manufacturing. The garments are also examined by external independent laboratories. KappAhl has its own process for random checks for chemicals, "No-Risk", which has been used regularly for four years. KappAhl also has its own quality inspectors who check all orders before they are allowed to be shipped. Checks are also made to ensure child safety and compliance with other physical requirements.

The sustainability perspective permeates all parts of operations. For example, KappAhl has been using green electricity wherever possible since 1999. In addition, all shipments of folded garments are packed in crates of recycled plastic and all customer bags are made of recycled plastic.

In goods transport KappAhl is working consciously to transfer goods to modes of transport that have less environmental impact, such as ships and trains, where possible. KappAhl cooperates with Green Cargo, for example. Consolidated shipments and effective route planning are also used to save the environment and money.

Buyers and management make most business trips at KappAhl, which was first in the industry to purchase carbon offsets for this type of travel. In 2010/2011 KappAhl bought carbon offsets for 100 tonnes of carbon dioxide. This means an allocation of about SEK 25,000. KappAhl has compensated for emissions of 2,600 tonnes of carbon dioxide since the start in 2007, which corresponds to an allocation of almost SEK 675,000. The money has been invested in a UN certified wind power project for the textile industry in India.

KappAhl is positive towards working with other stakeholders regarding sustainability, since this increases access to expertise and puts more force behind implementation.

Cotton is KappAhl's most important raw material and its cultivation affects many people. So KappAhl works together with other fashion chains in a unique cooperation project for sustainable cotton cultivation. Through KappAhl's membership of the Better Cotton Initiative, BCI, the Company contributes to an increase in the percentage of sustainable cotton. Together with others KappAhl can speed up the process and achieve so much more than could be done individually. Another example of cooperation is STWI, Sweden Textile Water Initiative – a cooperation project relating to water issues in production countries. KappAhl is a member of Business for Social Responsibility (BSR). This is a global, non-profit organisation that contributes competence and helps member companies to do business with respect for ethical values, individuals, society in general and the environment.

Apart from that KappAhl participates in the Ethical Trading Initiative, the Nordic Chemicals Group and the Swedish Standards Institute standardisation group SIS/TK 160 that deals with such issues as safety in children's clothes and chemicals.

Ethical standards and Code of Conduct

KappAhl controls manufacturing conditions for the goods through the supply and purchasing department and the production offices ensuring that garments are manufactured ethically and responsibly. In 1997 a Code of Conduct was adopted, which regulates the work environment, health and safety, child labour, wages and working hours. The Code of Conduct

is based on the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child and the ILO Conventions on labour law and working conditions. KappAhl's Code of Conduct also stipulates, for example, that manufacturers must follow local legislation and ordinances. During the financial year 479 inspections and follow-up visits were carried out. In addition there are all the visits from KappAhl's quality organisation, which makes two inspections per order.

KappAhl is also a member of the Norwegian organisation, the Ethical Trading Initiative, which aims to increase the knowledge, understanding and commitment of companies and the public concerning ethical trading, so that more goods can be manufactured in an ethically defensible way.

EMPLOYEES

As at 31 August 2011 KappAhl had a total of 4,856 employees (100 people worked at the distribution centre and 275 people at the head office including the purchasing department). The average age of the employees was 36.6 years. The percentage of women employed was 92.4 and of men 7.6 per cent. In December 2010 KappAhl won the "Sweden's best workplace" award for the second year in a row.

KappAhl assesses the future recruitment requirement to be less extensive and will mainly concern store staff, due to the planned store network expansion. The table below presents the average number of employees (number of employees restated as full-time equivalents) per country for the periods specified.

STORE PREMISES

KappAhl evaluates new potential store locations internally under the direction of the establishment director and to a small extent also real estate agents to find properties in certain places. The Company's major costs for seeking new store locations are travel costs, drawings, cost estimates and the two employees responsible for negotiating tenancy agreements, searching for premises and monitoring contract periods. Apart from the two people stationed in Sweden and Norway, each country manager is responsible for tenancy agreements for the stores and for searching for new locations.

All operations in KappAhl are conducted in rented store premises in accordance with customary tenancy agreements, with the exception of the distribution centre and head office, which are owned by the Company. The duration of the tenancy agreements for the store premises normally varies from three to five years with automatic extension, unless either party gives notice of termination of the agreement before a certain date, usually between nine and twelve months before the end of the rental period. The individual agreements are renegotiated on a continuous basis. As regards rent for store premises in Poland and the Czech Republic, the fixed rent usually applies, that is most often the minimum rent.

KappAhl considers that the Company is highly attractive as a tenant to potential landlords. In the Company's five geographical markets there are often a few dominant property owners who are counterpart in the rent negotiations. In all countries where KappAhl operates there are four traditional types of store property on the market: stores on main streets, in shopping centres, hypermarket premises and retail parks. There are also several small or mid-sized store premises that are free-standing, both in the suburbs and in small surrounding shopping centres. KappAhl endeavours to always establish its premises in the best store locations. The Company considers that its rental costs are at market level in the respective geographical markets.

Rent for stores in Sweden is largely based on sales in accordance with the prevailing trend in the Swedish retail markets. KappAhl's stores in Sweden are often relatively large.

In Norway the rental market has not been affected by international influences in the same way as Sweden. KappAhl's stores in Norway are as a rule smaller than in Sweden. In Norway the market for store premises is characterised by large differences in rental levels, where location is the decisive price factor. In Finland the international influence is greater because some international property investors have established themselves in the rental market and there are also several international chain stores there. The percentage of sales-based rents has increased in the market for premises, particularly for chain stores.

KAPPAHL'S INFORMATION SYSTEMS

KappAhl's information systems were designed to provide high quality information to contribute to effective management and control of the operations. Some of these systems were developed internally by KappAhl.

At store level, sales information is entered from the cash registers in the stores by the sales reporting system. KappAhl's cash system consists of cash registers with integrated price lists

AVERAGE NUMBER OF EMPLOYEES

Financial year ending	Sweden	Norway	Finland	Poland	Czech Republic	Asia	Total
31 August 2009	1,565	603	337	229	-	145	2,879
31 August 2010	1,585	634	352	290	13	158	3,032
31 August 2011	1,657	638	368	342	55	158	3,218

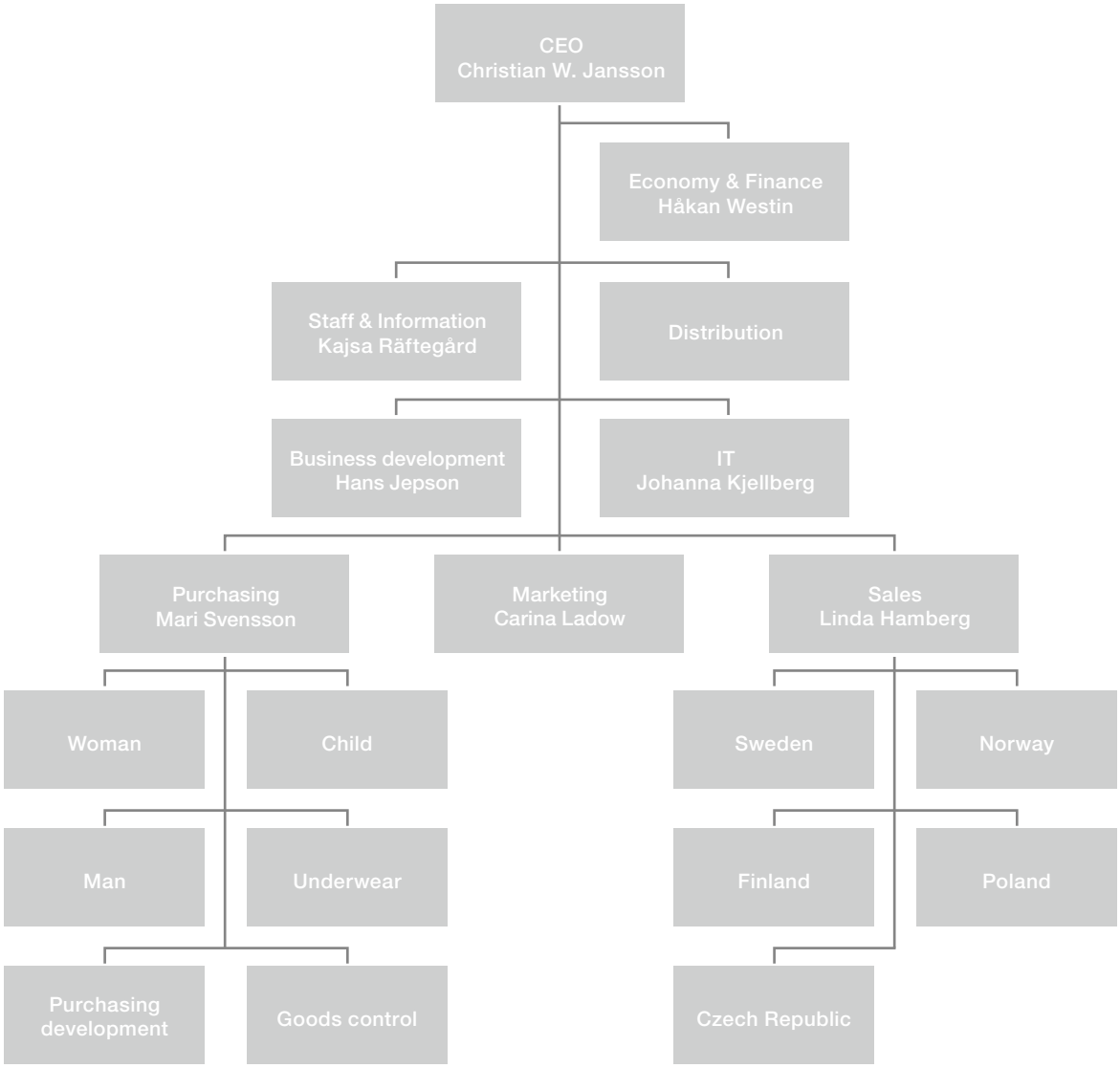
and scanning of price tags with bar codes and identity control. By means of automatic exchange of information at night with each of the stores, sales and other information is transferred to the server system at head office. The nightly communication with the stores also enables data on inventory transfers and physical inventory data to be collected. KappAhl uses the information transferred to determine which goods are selling and to adapt to changed purchasing patterns. At the same time customer transaction data is also transferred to update various customer databases.

KappAhl's inventory management system is designed to maximise profitability in the products offered and to increase inventory turnover. Inventory turnover in the stores is continually followed up and KappAhl uses pricing and campaigns to maximise sales and profitability as well as to achieve inventory turnover targets. The Company has an advanced programme to prevent wastage that is integrated both with the store operations and the accounting department. The programme consists of electronic monitoring systems in most of the stores, monitoring of returns, employee sales and training staff in how to minimise wastage.

KAPPAHL'S OPERATIVE ORGANISATION

KappAhl's operative organisation consists of three business units, Purchasing, Marketing and Sales. Besides the business areas there are also a number of group functions such as Personnel & Information, Business Development, IT, Distribution as well as Accounting and Finance. See "Board of Directors, senior management and auditor" for a description of the senior management.

KappAhl's operative organisation and senior management are presented below.



GROUP STRUCTURE

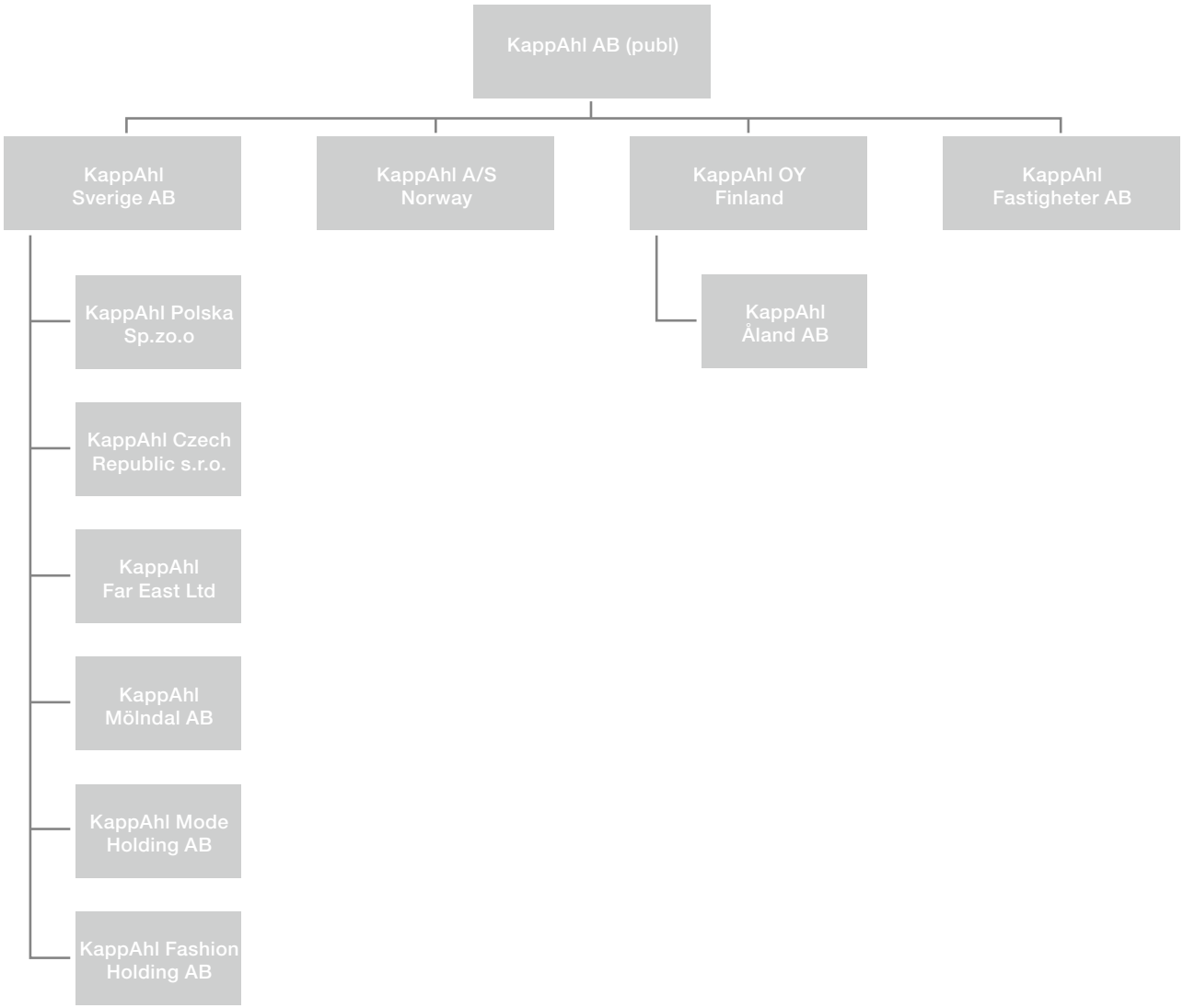
Since the acquisition in 2004, KappAhl AB (publ) is the parent company of the KappAhl Group. Operations are mainly conducted through the wholly-owned subsidiary KappAhl Sweden AB, which also has production offices in Lithuania, Ukraine and Turkey, KappAhl A/S in Norway and KappAhl Oy in Finland with the wholly-owned subsidiary KappAhl Åland AB in Finland. Operations in Poland are conducted through KappAhl Sweden AB's wholly owned subsidiary KappAhl Polska Sp.zo.o and in the Czech Republic through KappAhl Czech Republic s.r.o. KappAhl Far East Limited in Hong Kong has production offices in Hong Kong, China, India and Bangladesh.

The company in Hong Kong is responsible for contacts with new manufacturers and monitors production and deliveries in Asia. The Group's sales companies are responsible for store sales in their respective countries. Operations at production offices consist of purchasing support and quality control in the respective countries.

Country managers for Sweden, Norway, Finland and Poland report directly to the sales executive team at the head office in Mölndal. The head office also houses functions for design, purchasing, marketing, store management and administration. At present there are no plans to make major organisational changes in the structure described above.

The table below presents information on the most important subsidiaries.

Company/corporate identity number	Country of registration	Percentage share
KappAhl Sverige AB (556060-4158)	Sweden	100%
KappAhl Polska Sp.zo.o (526-22-60-963)	Poland	100%
KappAhl Czech Republic s.r.o (26447142)	Czech Republic	100%
KappAhl Far East Ltd (438724)	Hong Kong	100%
KappAhl i Mölndal AB (556714-1444)	Sweden	100%
KappAhl Mode Holding AB (556545-0037)	Sweden	100%
KappAhl Fashion Holding AB (556541-5980)	Sweden	100%
KappAhl A/S (947659138)	Norway	100%
KappAhl Oy (07585064)	Finland	100%
KappAhl Åland AB (1737564-2)	Mariehamn	100%
KappAhl Fastigheter AB (556750-5481)	Sweden	100%



SUMMARY OF FINANCIAL DEVELOPMENT

FINANCIAL OVERVIEW OF THE YEARS 2008/2009–2010/2011 AS A WHOLE

KappAhl's financial statements for the last three financial years are incorporated into the prospectus by reference. The financial statements incorporated by reference are audited annual report KappAhl AB (publ) 2008/2009, audited annual report KappAhl AB (publ) 2009/2010 and audited annual report KappAhl (publ) 2010/2011. Audited annual reports and interim reports for KappAhl are available in digital form at the Company's website, www.kappahl.com/ir. The summary below refers to the financial years 2008/2009–2010/2011. KappAhl administers split financial year running from and including 1 September up to and inluding 31 August. KappAhl's annual reports for financial years 2008/2009, 2009/2010 and 2010/2011 have been audited by PWC with principal auditor Bror Frid and have been prepared in accordance with IFRS. For notes on the Group's account, see section "Commentary on financial development".

INCOME STATEMENT IN SUMMARY

SEK m	2010/2011	2009/2010	2008/2009
Net sales	4,974	5,111	4,866
Cost of goods sold	–2,048	–1,954	–1,893
Gross profit	2,926	3,157	2,973
Selling expenses	–2,560	–2,466	–2,315
Administrative expenses	–144	–139	–132
Operating profit	222	551	526
Financial income	1	1	1
Financial expenses	–72	–89	–84
Profit after financial items	151	463	443
Tax	–83	–61	–127
Net profit	68	402	316
Earnings per share before dilution, SEK	0.91	5.36	4.20
Earnings per share after dilution, SEK	0.91	5.36	4.20

BALANCE SHEET IN SUMMARY

SEK m	2010/2011	2009/2010	2008/2009
Intangible assets	1,335	1,329	1,340
Tangible assets	996	1,006	1,060
Deferred tax assets	144	156	87
Total fixed assets	2,475	2,492	2,488
Inventory	858	703	736
Other operating receivables	129	138	109
Cash and cash equivalents	39	26	21
Total current assets	1,026	868	866
Total assets	3,501	3,359	3,353
Equity	520	743	379
Interest-bearing long-term liabilities	2,192	1,878	2,121
Non-interest-bearing long-term liabilities	9	18	7
Interest-bearing current liabilities	113	14	0
Non-interest-bearing current liabilities	668	707	847
Total liabilities	2,981	2,617	2,974
Total equity and liabilities	3,501	3,359	3,353

CASH FLOW STATEMENT IN SUMMARY

SEK m	2010/2011	2009/2010	2008/2009
Cash flow from operating activities before changes in working capital	267	569	591
Changes in working capital	–173	–62	–88
Cash flow from operating activities	94	507	504
Cash flow from investing activities	–241	–201	–261
Operating cash flow	–146	306	242
Dividend paid	–244	–94	–338
Change in bank overdraft facility	403	–206	84
Cash flow from financing activities	159	–300	–254
Cash flow for the period	13	6	–11
Cash and cash equivalents at beginning of the period	26	21	32
Cash and cash equivalents at the end of the period	39	26	21

KEY RATIOS

	2010/2011	2009/2010	2008/2009
Growth and margin			
Sales growth	–2.7%	5.0%	5.3%
Gross margin	58.8%	61.8%	61.1%
Operating margin	4.5%	10.8%	10.8%
Return			
Return on capital employed	8.2%	21.5%	20.9%
Return on equity	10.8%	71.7%	70.1%
Capital structure at the end of the period			
Interest-bearing net debt, SEK m	2,266	1,866	2,100
Interest-bearing net debt /EBITDA, times	5.1	2.4	2.8
Equity/assets ratio	14.9%	22.1%	11.3%
Interest coverage ratio, times	3.1	6.2	6.3
Share data			
Earnings per share before dilution, SEK	0.91	5.36	4.20
Earnings per share after dilution, SEK	0.91	5.36	4.20
Dividend per share, SEK	0[1]	3.25	1.25
Number of shares before dilution, no	75,040,000	75,040,000	75,040,000
Number of share after dilution, no	75,040,000	75,040,000	75,040,000
Per share at the end of the period			
Equity per share before dilution, SEK	6.93	9.90	5.05
Equity per share after dilution, SEK	6.93	9.90	5.05
Other			
Investments, SEK m	241	201	261
Operating profit before depreciation and amortization (EBITDA), SEK m	441	785	760
Depreciation, SEK m	219	234	233
Operating profit (EBIT), SEK m	222	551	526
Total number of employees, no	4,856	4,386	4,271
Average number of full-time positions (restated), no	3,218	3,040	2,887

[1] The Board of Directors proposal for the Annual General Meeting on 23 November 2011.

DEFINITIONS

Sales growth
Percentage change in sales for a period compared to an earlier period.

Gross margin
Gross profit divided by net sales.

Operating margin
Operating profit divided by net sales.

Return on capital employed
Operating profit plus financial income as a percentage of capital employed.

Capital employed
Total assets less interest-free provisions and liabilities .

Return on equity
Net profit as a percentage of average equity.

Interest-bearing net debt
Interest-bearing liabilities minus cash and cash equivalents.

Interest-bearing net debt by EBITDA (times)
Net interest-bearing liabilities divided by EBITDA for the trailing twelve months.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
Earnings before net financials, taxes, depreciation and amortization.

Equity/assets ratio
Equity as a percentage of total assets.

Interest rate coverage (times)
Operating profit plus interest cost, divided by interest cost, for the trailing twelve month.

Earnings per share
Net profit after tax divided by the number of shares.

Earnings per share after dilution
Net profit after tax divided by the number of shares after full dilution.

Equity per share
Equity at the end of the period divided by the number of shares at the end of the period.

Equity per share after dilution
Equity at the end of the period divided by the number of shares at the end of the period after full dilution.

EBIT (Earnings Before Interest and Taxes)
Operating profit, equal to net profit before net financials and tax.

COMMENTARY ON FINANCIAL DEVELOPMENT

This information should be read in connection with the section "Summary of the Group's financial development" and KappAhl's annual reports and associated notes for the financial years 2008/2009–2010/2011. The Company's annual reports for the years 2008/2009–2010/2011 are incorporated by reference in the prospectus and are available on the Company's website www.kappahl.com/ir. This section provides a more detailed description of KappAhl's financial development with a comparison between financial years.

2010/2011 COMPARED WITH 2010/2009

Sales and earnings

Net sales for the 2010/2011 financial year decreased by SEK 137 million compared with 2009/2010, and were SEK 4,974 million (5,111), a decrease of 2.7 per cent. The change was attributable to a net increase of 24 stores (4.6 per cent), development in comparable stores (–4.3 per cent) and translation differences in foreign currency (–3.0 per cent). The negative development in comparable stores was mainly due to a weaker market and the range of products not sufficiently meeting customers' expectations. All Nordic markets reported decreased sales. Sweden decreased by 2.1 per cent, Norway by 5.7 per cent and Finland by 6.4 per cent. Reported growth in Poland and the Czech Republic was 8.9 and 226.3 per cent respectively. The change in sales stated in local currency for the export markets was –0.4 per cent in Norway, 2.3 per cent in Finland, 16.4 per cent in Poland and 240.5 per cent in the Czech Republic. The strong growth in Poland and the Czech Republic was mainly driven by an increase in the number of stores. In Poland the number of stores increased from 40 to 47 and in the Czech Republic the number of stores increased from 1 to 5.

The gross margin decreased in 2010/2011 and was 58.8 per cent, compared with 61.8 per cent in the previous financial year. The decreased gross margin was mainly due to higher production costs and a higher percentage of clearance sales. The operating profit was SEK 222 (551) million, which is equivalent to an operating margin of 4.5 (10.8) per cent. The deterioration was mainly a consequence of lower sales and lower gross margin.

Net financial income improved in 2010/2011 and was SEK –71 (–88) million, corresponding to 1.4 per cent of the Company's total costs for the year. The improvement was a consequence of lower interest expenses.

The tax cost was SEK 83 (61) million, corresponding to a tax rate of 55.0 per cent. The tax cost was negatively affected by not recording a deferred tax asset for losses in Poland and the Czech Republic. The cashflow effect of tax payments made was SEK –114 million. The difference between reported and paid tax concerned mainly the tax cost in Sweden and Norway, where a considerable part refers to the previous year. Profit after tax was SEK 68 (402) million.

Capital expenditure and depreciation

Net investments in 2010/2011 were SEK 241 (201) million, which largely referred to investments in existing and newly opened stores. The increased investment level in 2010/2011 was mainly due to a historically low investment level for the Company in 2009/2010 due to restraint in connection with the financial crisis. Depreciation referring mainly to property, plant and equipment in the form of stores, decreased by SEK 15 million compared with the previous financial year and was SEK 219 million.

Financial position, cash flow and equity/assets ratio

Interest-bearing net debt was SEK 2,266 (1,866) million as at 31 August 2011, an increase of SEK 400 million compared with the previous year. Interest-bearing net debt consisted of long-term interest-bearing liabilities of SEK 2,140 million, provisions for pensions of SEK 52 million, liabilities to credit institutions of SEK 50 million, bank overdraft facilities of SEK 62 million and cash and cash equivalents of SEK 39 million. The increased interest-bearing net debt was mainly due to increased capital tied up and a lower operating profit.

Cash flow from operating activities during the 2010/2011 financial year was SEK 94 million compared with SEK 507 million in the previous year. The decrease was due to lower earnings combined with deteriorated working capital, primarily affected by a higher level of inventories. Cash flow from investing activities amounted to SEK –241 (–201) million and the operating cash flow, defined as cash flow from operating activities after cash flow from investing activities, amounted to SEK –146 (306) million in 2010/2011. Cash flow from financing activities was SEK 159 (–300) million, which referred to changes in loans raised and bank overdraft facilities of SEK 403 (–206) million as well as dividend paid of SEK –244 (–94) million.

Equity was SEK 520 million as at 31 August 2011, a decrease of SEK 223 million compared with 31 August 2010. At the same time the equity/assets ratio decreased from 22.1 to 14.9 per cent. The decrease in equity in 2010/2011 was due to lower earnings combined with higher dividend compared with the previous financial year.

2009/2010 COMPARED WITH 2008/2009

Sales and earnings

Net sales for the 2009/2010 financial year increased by SEK 245 million compared with 2008/2009, and were SEK 5,111 million (4,866), an increase of 5.0 per cent. The increase was attributable to a net increase of 26 stores (6.8 per cent), development in comparable stores (–0.7 per cent) and translation differences in foreign currency (–0.6 per cent). Sweden and Norway reported increased sales of 4.8 and 4.6 per cent respectively, while Finland reported decreased sales of 0.9 per cent. The greatest growth was in Poland, where sales increased by 20.9 per cent. The change in sales stated in local currency for the export markets was 3.1 per cent in Norway, 5.3 per cent in Finland and 26.2 per cent in Poland. The strong growth in Poland was mainly driven by an increase in the number of stores, from 30 on 31 August 2009 to 40 on 31 August 2010.

The gross margin increased somewhat in 2009/2010 and was 61.8 per cent, compared with 61.1 per cent in the previous financial year. The increased gross margin was mainly due to more favourable purchasing conditions and a strong product offering. The operating profit was SEK 551 (526) million, which is equivalent to an operating margin of 10.8 per cent, which is the same operating margin as in the previous year. Selling and administrative expenses increased by SEK 159 million and amounted to SEK 2,606 (2,447) million. The increase was an effect of an increased number of stores, among other things.

Net financial income deteriorated in 2009/2010 and was SEK –88 (–83) million, corresponding to 1.9 per cent of the Company's total costs for the year. The deterioration was a consequence of higher interest expenses for bank loans.

The tax cost was SEK 61 (127) million in 2009/2010, corresponding to a tax rate of 13.2 per cent. The cashflow effect of tax payments made was SEK –142 (–94) million, corresponding to 30.7 per cent of pre-tax profits. The difference between reported and paid tax was mainly attributable to value changes in acquired loss carry-forwards. Profit after tax was SEK 402 (316) million.

Capital expenditure and depreciation

Net investments in 2009/2010 were SEK 201 (261) million, which largely referred to investments in existing and newly opened stores. The level of investment fell in 2009/2010 for reasons of prudence in light of the financial crisis. Depreciation was largely unchanged compared with the previous financial year, amounting to SEK 234 million.

Financial position, cash flow and equity/assets ratio

Interest-bearing net debt was SEK 1,866 (2,100) million as at 31 August 2010, a decrease of SEK 234 million compared with the previous year. Interest-bearing net debt consisted of long-term interest-bearing liabilities of SEK 1,835 million, provisions for pensions of SEK 42 million, bank overdraft facilities of SEK 14 million and cash and cash equivalents of SEK 26 million. The reduced interest-bearing net debt was above all due to a lower than normal share dividend in relation to earnings.

Cash flow from operating activities during the 2009/2010 financial year was SEK 507 million compared with SEK 504 million in the previous year. Cash flow from investing activities amounted to SEK –201 (–261) million and the operating cash flow improved by SEK 62 million and amounted to SEK 306 (243) million. The higher operating cash flow was mainly due to reduced investment in property, plant and equipment. Cash flow from financing activities amounted to SEK –300 (–254) million, which referred to changes in loans taken and bank overdraft facilities of SEK –206 (84) million and share dividends paid of SEK –94 (–338) million.

Equity was SEK 743 million as at 31 August 2010, which implied an increase of SEK 364 million compared with 31 August 2009. At the same time the equity/assets ratio increased from 11.3 to 22.1 per cent. The increase in equity was mainly attributable to a historically low dividend payout ratio for the Company in 2008/2009 of 29.7 per cent of profit after tax and SEK 41 million in positive changes in unrealised values from cash flow hedges.

2008/2009 COMPARED WITH 2007/2008

Sales and earnings

Net sales for the 2008/2009 financial year increased by SEK 244 million compared with 2007/2008, and were SEK 4,866 (4,622) million, an increase of 5.3 per cent. The change was attributable to a net increase of 28 stores (5.8 per cent), development in comparable stores (–2.3 per cent) and translation differences in foreign currency (1.8 per cent). The negative trend in comparable stores was mainly due to a weaker market as a result of the financial crisis. The Company reported increased net sales for all active markets in 2008/2009. The strongest development was in Finland and Poland, which increased by 18.9 and 19.2 per cent respectively. Reported growth in Sweden and Norway was 2.0 and 3.3 per cent respectively. The change in sales stated in local currency for the export markets was 1.6 per cent in Norway, 5.6 per cent in Finland and 24.6 per cent in Poland. The strong growth in Poland was mainly driven by an increase in the number of stores, from 20 on 31 August 2008 to 30 on 31 August 2009.

The gross margin decreased somewhat in 2008/2009 and was 61.1 per cent, compared with 62.4 per cent in the previous financial year. The decreased gross margin was mainly due to a weak Swedish currency and high purchase costs. The operating profit was SEK 526 (651) million, a decrease of 19.2 per cent compared with the previous year. The 2007/2008 operating profit includes non-recurring revenue of SEK 11 million

as compensation for vacating a store sight, and reduced selling and administrative expenses of SEK 20 million referring to a reduction in pension commitments in connection with a change in pension solution. If the positive one-off effects totalling SEK 31 million are excluded, the operating profit fell by 15.2 per cent compared with 2007/2008. The operating margin was 10.8 (14.1) per cent, a decrease of 3.3 percentage points compared with the previous year. The deterioration was mainly a consequence of lower gross profit and increased selling expenses of SEK 209 million due to the increased number of stores.

Net financial income deteriorated in 2008/2009 and was SEK –83 (–53) million, corresponding to 1.9 per cent of the Company's total costs. The decline in net financial income is mainly attributable to a positive one-off effect of SEK 23 million referring to early repayment of loans for finance leases for real property, which had a positive impact on the previous year's net financial income.

The tax cost was SEK 127 (162) million, corresponding to a tax rate of 28.9 per cent. The cash flow effect of tax payments made was SEK –94 million, corresponding to 21.2 per cent of pre-tax profits. The difference between reported and paid tax was mainly attributable to utilisation of loss carry forwards. Profit after tax was SEK 315 (436) million.

Capital expenditure and depreciation

Net investments in 2008/2009 were SEK 261 (692) million, which largely referred to investments in existing and newly opened stores. The high investment level in 2007/2008 was mainly due to acquisition of the real property where the head office and distribution centre are located, which reduced the cash flow by SEK 462 million. Adjusted for this, net investments increased by SEK 31 million in 2008/2009. Depreciation referring mainly to property, plant and equipment in the form of stores, increased by SEK 12 million compared with the previous financial year and was SEK 233 million.

Financial position, cash flow and equity/assets ratio

Interest-bearing net debt was SEK 2,100 (1,979) million as at 31 August 2009, an increase of SEK 121 million compared with the previous year. Interest-bearing net debt consisted of long-term interest-bearing liabilities of SEK 2,056 million, provisions for pensions and similar obligations of SEK 65 million and cash and cash equivalents of SEK 21 million.

Cash flow from operating activities during the 2008/2009 financial year was SEK 504 million compared with SEK 730 million in the previous year. The decreased cash flow was due to a lower profit after tax and a greater amount of working capital tied up. Cash flow from investing activities amounted to SEK –261 (–692) million and the operating cash flow improved, however, and was SEK 242 million compared with SEK 38 million for 2007/2008. The operating cash flow for 2007/2008 was affected by a non-recurring item in the form of the acquisition of real property for SEK 462 million. Cash flow from financing activities amounted to SEK –254 (–66) million, which referred to changes in loans taken and bank overdraft facilities of SEK 84 (759) million and share dividends paid of SEK –338 million. No dividend was paid for the 2006/2007 financial year, but KappAhl's shareholders instead received the equivalent of SEK 11 per share through a share redemption programme totalling SEK 825 million.

Equity was SEK 379 million as at 31 August 2009, a decrease of SEK 141 million compared with 31 August 2008. At the same time the equity/assets ratio decreased from 16.0 to 11.3 per cent. The reduced equity was above all due to a negative change in the value of unrealised cash flow hedges of SEK 109 million, actuarial losses on post-employment benefits of SEK 10 million and dividend of SEK 338 million.

IMPORTANT TRENDS IN THE CURRENT FINANCIAL YEAR 2011/2012

During the fiscal year 2010/2011 ending 31 August 2011, KappAhl experienced a weak market as a result of among other things that consumers have become more restrictive due to the uncertain economic outlook. In addition, KappAhl has been negatively affected by that the product offering did not fully meet the customers' expectations. During September and October, the two first months of the first quarter of the fiscal year 2011/2012, the Company's sales in comparable stores is estimated to have declined by 13 per cent compared to the same period last year, according to a press release announced on 31 October 2011. The gross margin is estimated to have declined by 4.5 percentage points during the same period.

Actions are taken for ensuring that the product offering shall satisfy the customers' desires to a higher extent going forward, which is estimated to realize with a couple of months time-lag. Cost reductions are carried out and are estimated to implicate only a minor increase of the Company's administrational and operational costs for the fiscal year 2011/2012 compared to the last fiscal year, despite a continued growth in the number of stores.

The Company estimates that KappAhl's market position remains strong. The market development for the current fiscal year 2011/2012 is however uncertain and the Company expects a continued weak market. Actions for reducing the inventory level will result in a negative effect on the gross margin during a period of time, but at the same time there are indications of that the purchase costs are developing in a positive direction which has a positive effect on the gross margin in a longer perspective. A reduced inventory level combined with lower capital expenditure has a positive effect on cash flow which together with the Rights Issue will result in a lower

debt ratio and a stronger financial position during the year. In September 2011, KappAhl entered into a new three-year bank agreement with credit facilities of SEK 2,550 million in total.

IMPORTANT EVENTS AFTER THE END OF FINANCIAL YEAR 2010/2011

Beyond what is mentioned above, there have been no significant changes in the Company's financial condition or market position.

CAPITAL STRUCTURE AND OTHER FINANCIAL INFORMATION

FINANCIAL POSITION ON 31 AUGUST 2011

Shareholders equity and liabilities

SEK m	31 August 2011
Total current liabilities	780
Guaranteed	-
Secured	-
Unguaranteed/unsecured	780
Total long-term liabilities	2,201
Guaranteed	-
Secured	-
Unguaranteed/unsecured	2,201
Equity	520
Share capital	11
Other capital provided	205
Reserves	–56
Profit brought forward	360

Interest-bearing net debt

SEK m	31 August 2011
(A) Cash and cash equivalents	39
(B) Liquidity (A)	39
(C) Liabilities to credit institutions	50
(D) Bank overdraft facilities	63
(E) Short term interest-bearing debt (C)+(D)	113
(F) Short term interest-bearing net debt (E)–(B)	74
(G) Provisions	52
(K) Non-current bank loans	1,450
(L) Liabilities to credit institutions	690
(M) Long term interest-bearing debt (G)+(K)+(L)	2,192
(N) Long term interest-bearing net debt (M)–(B)	2,153
(O) Interest-bearing net debt (M)+(E)–(B)	2,266

Current liabilities amounts to SEK 780 million whereof SEK 113 million is interest bearing and refers to bank overdraft facilities of SEK 63 million and liabilities to credit institutions of SEK 50 million. Other current liabilities amounts to SEK 668 million and refers to trade payables of SEK 212 million, current tax liabilities of SEK 28 million, accrued expenses and deferred income of SEK 256 million and other liabilities of SEK 172 million. Accrued expenses and deferred income refers to liabilities to staff of SEK 171 million, financial expenses of SEK 1 million and other of SEK 84 million. Other liabilities refers to value added tax of SEK 39 million, liabilities to staff of SEK 38 million, gift vouchers of SEK 24 million, interest derivatives of SEK 38 million, currency derivatives of SEK 28 million and other of SEK 5 million.

Long-term liabilities amounts to SEK 2,201 million whereof SEK 2,192 million refers to interest bearing debt in relation to bank loans of SEK 1,450 million, bank overdraft facilities of SEK 690 million and provisions of SEK 52 million. Other long-term liabilities amounts to SEK 9 million and refers to deferred tax liabilities in its entirety.

Provisions of SEK 52 million stated in the table above constitute provisions and similar obligations post-employment.

FINANCING STRUCTURE

KappAhl has historically tried to obtain an efficient capital structure, meaning that a significant part of operating surplus has been distributed to the shareholders and that operations have been financed by bank loans. KappAhl's financial target is that interest-bearing net debt should not exceed 3.0 times EBITDA other than temporarily. As at 31 August 2011, interest-bearing net debt by EBITDA amounted to 5.1 times. If the Rights Issue would have been carried out as at 31 August 2011, interest-bearing net debt by EBITDA would, all else equal, amount to 3.8 times (given full subscription of the Rights Issue and after issue costs). The Rights Issue proceeds will in its entirity be used for amortization of the Company's bank loan.

Interest-bearing net debt at financial year end

	2010/2011	2009/2010	2008/2009
Interest-bearing net debt/EBITDA, times	5.1	2.4	2.8
Interest-bearing net debt, SEK m	2,266	1,866	2,100

As at 31 August 2011, SEK 2,253 million of the former credit facility was utilised. In September 2011, a new three-year bank agreement was reached with the banks financing the Company regarding a new loan facility of SEK 2,550 million, see section "Legal considerations and supplementary information – Bank agreement with Swedbank AB (publ) and Nordea AB (publ)" for further information. Previous bank agreement, which was outstanding as at 31 August 2011, contained loan facilities of equivalent amount. The loan facility according to the new bank agreement is utilised from November 2011. There has not been any significant change in utilised amount since 31 August 2011. As a result of the new bank agreement, KappAhl's annual inter-

est rate for bank loans including periodized arrangement fees will amount to 8 per cent of utilised amount, which is an increase from the previous loan agreement. Depending on the development of interest-bearing net debt in relation to EBITDA, the interest margin may decrease over time. KappAhl meets the conditions for the new credit facility. There is no borrowing need in excess of above mentioned loan facility.

WORKING CAPITAL

The Board of Directors assesses the Company's current working capital to be sufficient for the current needs in the coming twelve months. KappAhl finances its operations and continuously pays its liabilities with the cash flow generated from operations and the available credits disposed by the Company according to above through available credit facilities.

KappAhl's single largest current asset is the inventory. KappAhl's inventory consists of goods in the stores and goods on transport to the stores. Goods pass through KappAhl's distribution centre on the way from the production units to the stores, but there is no central storage. The reported inventory level has been increasing during the last year, amounting to SEK 858 million as at 31 August 2011. Current level is approximately SEK 100 million higher than the Company's aimed level and KappAhl has taken measures and undertake activities to gradually reduce inventory level. The Company's largest short term liabilities are accounts payables and accrued expenses, where the latter mainly relates to liabilities to staff.

INVESTMENTS

The major part of KappAhl's investments relates to refurbishment of existing stores and investments in new stores. In total, these investments represent approximately 90 per cent of KappAhl's total investments, of which, during a normal year, slightly more than half refers to refurbishment and slightly less than half refers to investment in new stores. The remaining 10 per cent is mainly investments in KappAhl's distribution centre and in equipment and IT. Investments in the store network vary geographically depending on where new stores are opened and where there are renewal needs in existing stores.

KappAhl's ongoing investments in refurbishment and renovations are made in order to gain enhanced visitor flows, increased proportion of paying customers and improved sales per square meter. According to plan, KappAhl's stores should be renewed every five to seven years.

With the exception of current financial year 2011/2012, where investments are projected to be lower than normal and amount to approximately SEK 150 million, future investments in KappAhl are estimated to follow a historical pattern. There are no decisions made regarding future investments of material nature which differs from the normal investment pattern.

Investments 2008/2009–2010/2011

	2010/2011	2009/2010	2008/2009
Investments, SEK m	241	202	261

TANGIBLE ASSETS

KappAhl's tangible assets, with book value of SEK 996 million as at 31 August 2011, refers to the property including head office and distribution centre with a book value of SEK 437 million and furnishing and interior in KappAhl's store network and own property amounting to SEK 559 million. The property where KappAhl's headquarters and distribution centre are included are pledged under the new bank agreement, see section "Legal considerations and supplementary information – Important agreements etc".

INTANGIBLE ASSETS

KappAhl's book value of intangible assets amounted to SEK 1,335 million as at 31 August 2011. Of this amount, SEK 696 million refers to goodwill which arose when the current parent company acquired the company which formerly constituted parent company in the KappAhl Group. Impairment test of goodwill is conducted annually and in the event of indications of a need for write-down. No write-down has been conducted so far. The other material asset refers to the brand with a book value amounting to SEK 610 million, which also arose from the creation of the current group structure according to above. Other intangible assets constitutes of software amounting to SEK 25 million and tenancy rights amounting to SEK 4 million. The brand name KappAhl is pledged under the new bank agreement, see section "Legal considerations and supplementary information – Important agreements etc".

FINANCIAL RISK MANAGEMENT

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.

The 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 of Directors.

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

overall objective of the finance department is to provide cost-effective financing and to minimise the negative effects of market fluctuation on the Group's profit.

Liquidity risk

Liquidity risk (also called financing risk) is the risk that the Company's financing will not be able to be maintained, or only maintained at a significantly increased cost. According to the financial policy, there should always be sufficient cash funds to cover unforeseen expenses and investments. In addition, the maturity dates of the financial liabilities have been set in the longer term so as not to restrict liquidity.

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 changes interest rate risk is the interest rate adjustment period. Long interest rate adjustment periods mainly affect the cash flow risk. Shorter adjustment periods affect the price risk.

Of the Group's debt, 60 per cent has been converted to fixed interest debt through interest swaps. 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 type of exposure. Under the financial policy, approximately 75 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 2011, the Company had interest swaps with a contractual value of SEK 1,400 (1,600) million, which is regarded as being in line with the Company's policy. The net fair value of the swaps on 31 August 2011 was SEK –38 (–64) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 38 (64) million. Total interest expense, including interest swaps, amounted to about SEK 72 (89) million for the financial year, which corresponds to around 1.5 per cent of the Group's costs. A change in the interest rate level of one percentage point would have an impact on the annual interest expense of about SEK 20 million (on full utilisation of the limit).

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. As the Group makes its purchases primarily in USD, exposure is greatest in that currency. An increase in USD against SEK of SEK 0.50 implies, all else being equal, increased purchase costs of about SEK 100 million.

Transaction exposure

The Group has income and expenses in a number of currencies. Thus KappAhl is exposed to exchange rate fluctuations. This risk is called transaction exposure and affects the Group's operating profit. The financial policy sets the parameters for managing this risk and this involves hedging the flows up to twelve months. The foreign companies essentially generate income and expenses in their local currencies. This means that the Group's transaction exposure can most easily be illustrated by looking at the currency flows in Sweden:

	2010/2011		2009/2010	
Currency	Outward	Inward	Outward	Inward
MUSD	205	-	168	-
MEUR	29	39	33	37
MNOK	-	555	-	563
MPLN	-	52	-	51

The Group classifies forward contracts that are used to hedge forecast transactions as cash flow hedging. The fair value of forward contracts used to hedge forecast flows totalled a net amount of SEK –26 (18) million as at 31 August 2011. Assets amounted to SEK 2 (26) million and liabilities to SEK 28 (8) million, which are recorded in the balance sheet.

Translation exposure

KappAhl uses Swedish kronor for its income statement and balance sheet. Parts of the Group use currencies other than Swedish kronor 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.

Credit risk

Financial credit risk

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.

Customer credit risk

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

BOARD OF DIRECTORS, SENIOR MANAGEMENT AND AUDITOR

Information below on KappAhl's Board of Directors and senior management is based on actual conditions per the date of this prospectus. According to the notice to the Annual General Meeting in KappAhl, published on 25 October 2011, alterations are proposed of the Board of Directors for the Annual General Meeting to consider. The Annual General Meeting is held on 23 November 2011, which means that it occurs during the subscription period for the Rights Issue which closes on 30 November 2011. In the notice to the Annual General Meeting it is stated that the current CEO Christian W. Jansson will be proposed as new Chairman of the Board of KappAhl and that Sonat Burman-Olsson will be proposed as new Board member. Christian W. Jansson is dependent in relation to one of the Company's major shareholders, while Sonat Burman-Olsson is independent in relation to the Company, the Company's management and the Company's major shareholders. The current Chairman of the Board Finn Johnsson and Board member Lena Apler has declined re-election and is leaving the Board of Directors in connection with the Annual General Meeting on 23 November, 2011. Christian W. Jansson may not simultaneously be Chairman of the Board and CEO of KappAhl. KappAhl has by separate press release announced that Johan Åberg has been appointed as the new CEO of KappAhl starting no later than the beginning of 2012. Current CEO Christian W. Jansson will therefore, in connection with the Annual General Meeting, leave his current position as member of the senior management.

BOARD OF DIRECTORS

Finn Johnsson, *Chairman of the Board*
Elected: 2004.
Born: 1946.
Education: Master of Science in Business and Economics, the Stockholm School of Economics.
Other current assignments: Chairman of the Board in Aktiebolaget Geveko, Västsvenska Handelskammaren Service AB, Luvata Oyj, Thomas Concrete Group AB, EFG (European Furniture Group AB), EFG Holding AB, Poseidon Diving Systems Aktiebolag, Poseidon Diving Group, Diving Finn Board AB, Diving Finn AB and Ovako AB. Board member in Norske Skog. Holder in Finn Johnsson Ingeröd – sole proprietorship.
Previous assignments during the past five years: Chairman of the Board in Aktiebolaget Volvo (year 1998–2010), City Airline Aktiebolag (year 2005–2011) and Core of Gothenburg AB (year 2007–2010). Board member in Skanska AB (year 1998–2011), Aktiebolaget Industrivärlden (year 2000–2011), Västsvenska Handelskammaren Service AB (year 2005–2008), City Airline Aktiebolag (year 2011) and Rederiaktiebolaget Gunilla (year 2004–2006).
Previous positions: Senior management in several companies, e.g. Areno Machine Co, Tarkett AB and Mölnlycke Healthcare.
Other positions: Farmer of the property Ingeröd 1:16; Brastad.
Bankruptcy, liquidation, receivership of bankruptcy or similar: Rederiaktiebolaget Gunilla, liquidation ended 2008-06-04.
Notification obligation: At one point during the time Finn Johnson was a board member of Skanska AB, new holding of shares in Skanska AB was reported too late because of the gift from a relative. The breach occurred due to gift and travel. Finn Johnsson was levied special charge from the Swedish Financial Supervisory Authority with SEK 2000.
Shareholding: 2,000.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Amelia Adamo, *Board member*
Elected: 2004.
Born: 1947.
Education: Bachelor's degree, Social Sciences, University of Stockholm.
Other current assignments: Board member in Bonnier Tidskrifter AB, SSRS Holding AB, SSRS Fastighets Aktiebolag, Söders Media and PR konsult Aktiebolag.

Previous assignments during the past five years: Board member in KappAhl Sverige AB (year 2005–2007), Adlibris Aktiebolag (year 2003–2006), Sveriges Tidskrifter AB (year 1999–2008) and AB Kvällstidningen Expressen (year 2008–2011). Board member and CEO in Allt om Mat på Nätet AB (year 2002–2007) and AlltomBarn i Stockholm AB (year 1999–2007).
Previous positions: Publisher in charge, Amelia Publishing Group. Editor in chief of Bonnier Tidsskrifter, Amelia and Vecko-Revyn. Assistant Managing Editor, Aftonbladet.
Bankruptcy, liquidation, receivership of bankruptcy or similar: -
Shareholding: 50,000.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Lena Apler, *Board member*
Elected: 2010.
Born: 1951.
Education: Business economics, special course on Handelsinstitutet,
SEB's internal higher education and various university courses.
Other current assignments: Chairman of the Board and CEO in Collector Securities AB, Collector Credit AB and Collector Capital AB. Chairman of the Board in Collector Finance & Law AB and Lorensberg Villastad AB. Board member in Skogssällskapet AB, Svenska Garantiprodukter AB, Svolder Aktiebolag, Prosolvia Aktiebolag, ÖoB Finans AB, Helichrysum Gruppen AB, Bostadsrättsföreningen Viktor Rydbergsgatan 16 and Västsvenska Handelskammaren Service AB.
Previous assignments during the past five years: Chairman of the Board in Collector Finans AB (year 2006–2008), SVEFO Stockholm AB (year 2006), ETARUCCA Norden AB (year 2006), Etarucca Europa AB (year 2006) and Zinwin AB (year 2008–2010). Board member in Skogssällskapets Förvaltning Aktiebolag (year 1998–2007), StrategiQ Capital AB (year 2006–2007), Relpa Consult AB (end date 2007-10-23), Collector Finance & Law AB (year 2005–2006), Jernhusen AB (end date 2006-04-28), ETARUCCA Norden AB (year 2005–2006), SVEFO Stockholm AB (year 2005–2006), Musyrhcileh AB (year 2005–2010), Etarucca Europa AB (year 2005–2006), CI Förvaltning AB (year 2005–2009), Fond & Finans Asset Management i Norden AB (year 2007–2008), Lorensberg Villastad AB (year 2009–2011) and Bostadsrättsföreningen Vasastaden 27:1 (year 2010–2011). Limited partner in www.invest Sweden Kommanditbolag (year 1999–2011).
Previous positions: Founder of Collector. Senior management in inter alia SEB and Securum.
Bankruptcy, liquidation, receivership of bankruptcy or similar: Prosoliva Aktiebolag, liquida-tion started 1998-12-28, Relpa Consult AB liquidation ended 2008-07-13, ETARUCCA Norden AB liquidation resolved 2007-07-16, liquidation ended 2009-11-16, Musyrhcileh AB liquidation ended 2011-03-07 and Etarucca Europa AB liquidation resolved 2007-07-16, liquidation ended 2009-05-15.
Shareholding: 10,000.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Paul Frankenius, *Board member*
Elected: 2006.
Born: 1958.
Education: 3-year high school with finance focus. Single courses at Textile Institute in Borås and at PolyU in Hong Kong.
Other current assignments: Chairman of the Board in Swedbank Sjuhärad AB, Härryda Ter-minalen AB, Logistikfastigheter i Sverige AB, Ryda Finans AB, Lagershop Halland AB, Bockasjö AB, Dubai Real Estate AB, Lagershop Umeå AB, Bockasjö Skogar AB, Bockasjö Logistic AB, R40 Terminalen AB, Lagershop Linköping AB, Lagershop Holding AB, Lagershop Helsingborg AB, E4 Terminalen AB, 4633 Terminalen AB, Lyckebovägen 26 AB, Lyckebovägen Förvaltning AB and Bockasjö AB. Board member in Scorett Foot Wear AB, Sandryds Handels Aktiebolag, Frankenius Förvaltning AB, Frankenius Invest Aktiebolag, Happy Land Holding AB, Rydsand Holding AB, Synergera MMN AB. Deputy Board member in Blue Water Systems AB, Borås Öfwre AB, Happy Toscana AB, Skorockan i Vbg AB and Trollhättan Property Investors AB. Limited partner in Kommanditbolaget Bäckaströmsgatan 6.
Previous assignments during the past five years: Chairman of the Board in Sandryds Handels Aktiebolag (year 2003–2006), Happy Land Holding AB (year 2006–2008), Sveareal Sjöbacka AB (year 2006–2007), Viaredsterminalen AB (year 2005–2007), Rydaterminalen AB (year 2005–2007) and Rydaterminalen III AB (year 2006–2007). Board member in Aditro Logistics Borås AB (year 1996–2006), Happy Land Holding AB (year 2001–2006), Sveareal Sjöbacka AB (year 2004–2006), Ateljé Margaretha AB (year 2005–2006), Ateljé Margaretha Intressenter AB (year 2005–2006) and Vivoline Medical AB (year 2008–2010). Deputy Board member in Simbel Investment Aktiebolag (year 2006–2007), Aditro Logistics Ryda AB (year 2002–2006), Star Republic AB (year 2006–2009), Supply on Demand i Kungsbacka AB (year 2004–2006), Star Republic Holding AB (year 2006–2009) and Fastighets AB Betesängen (year 2008–2009).
Previous positions: Vice President, and Senior Advisor, KappAhl. Vice President and Pur-chasing manager, Jeans & Clothes Sweden AB.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-
Shareholding: 0.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Jan Samuelson, *Board member*
Elected: 2004.
Born: 1963.
Education: Master of Science in Business and Economics, the Stockholm School of Economics.
Other current assignments: Board member in Invisio Communications AB, Business Partner Sweden AB, Independia AB, Independia Invest AB and Axholmen AB.
Previous assignments during the past five years: Chairman of the Board in Euroflorist Holding AB (year 2006–2007) Semantix SpråkCentrum AB (year 2009–2010), Euroflorist Aktiebolag (year 2002–2007), Semantix Holding AB (year 2008–2010) and Solvatten AB (year 2010–2011). Board member in KappAhl Sverige AB (year 2005–2007), Aktiebolaget Annas Pepparkakor (year 2005–2008), Scandic Hotels Aktiebolag (year 2007–2011), Jetpak Group AB (year 2009–2011), DJO Nordic Aktiebolag (year 2005–2007), Wernerson Ost AB (year 2005–2007), Independia Private Equity Partner AB (year 2007–2010), Independia Holding Aktiebolag (year 2003–2008), Cefar-Compex Medical Aktiebolag (year 2003–2007), NE Advisory AB (year 2002–2009), Cefar Matcher AB (year 2005–2007), Accent Equity Partners Aktiebolag (year 2005–2010), Wernerson Ost Holding AB (year 2005–2007), Annas Pepparkakor Holding AB (year 2005–2008), EuroFlorist Holding AB (year 2005–2007), ONOFF Sverige AB (year 2011), Qidnax Holding AB (year 2007–2011), Jetpak Holding AB (year 2009–2011), Scandic Hotels Holding AB (year 2007–2011), Candyking Holding AB (year 2008) and Sunstorm Holding AB (year 2010–2011). Deputy Board member in Nordico AB (year 2002–2010), Tesab Holding AB (year 2006), Candyking Holding AB (year 2008). Holder in Partner Adventiv (end date 2010-04-15).
Previous positions: Senior partner at Accent Equity Partners.
Bankruptcy, liquidation, receivership of bankruptcy or similar: Independia Private Equity Partners Ltd, liquidation resolved 2010-10-06 and ONOFF Sweden AB liquidation started 7 July 2011 (Jan Samuelson resigned from the Board of Directors at his own request on 1 July 2011).
Shareholding: 0.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Marie Matthiessen, *Board member and employee representative*
Elected: 2008.
Born: 1965.
Education: Education for Board members held by NASDAQ OMX.
Other current assignments: Salesperson, KappAhl.
Previous assignments during the past five years: -
Previous positions: -
Bankruptcy, liquidation, receivership of bankruptcy or similar:-
Shareholding: 0.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Rose-Marie Zell-Lindström, *Board member and employee representative*
Elected: 2005.
Born: 1947.
Education: Education for Board members held by NASDAQ OMX.
Other current assignments: Store manager, KappAhl.
Previous assignments during the past five years: Board member in KappAhl Sverige AB (year 1996–2007).
Previous positions: Store manager.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-.
Shareholding: 0.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Bodil Gummesson, *Deputy Board member and employee representative*.
Elected: 2008.
Born: 1955.
Education: Education for Board members held by NASDAQ OMX and education for Board members held by Unionen Örebro.
Other current assignments:-
Previous assignments during the past five years:-
Previous positions:-
Bankruptcy, liquidation, receivership of bankruptcy or similar:-
Shareholding: 0.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

Melinda Hedström, *Deputy Board member and employee representative*.
Elected: 2011.
Born: 1966.
Education: Education for Board members held by NASDAQ OMX.
Other current assignments: Salesperson KappAhl, Board member in Skellefteå City Airport AB, Handelsanställdas Förbund. Deputy Board member in Provenia AB, Handelsanställdas Förbund A-kassa. Standby in municipal executive board in Skellefteå.
Previous assignments during the past five years: Deputy Board Member in KappAhl AB (publ) (year 2005–2008). Deputy Board member in Pro Tel Communication i Skellefteå AB (year 2004–2006) and Handelsanställdas Förbund, Handelsanställdas Förbund A-kassa (year 2006–2010).

Previous positions: -
Bankruptcy, liquidation, receivership of bankruptcy or similar: Provenia AB liquidation re-solved and Protel Communication i Skellefteå AB, liquidation ended.
Shareholding: 0.
Independent in relation to KappAhl and KappAhl's management: Yes.
Independent to KappAhl's major shareholders: Yes.

SENIOR MANAGEMENT

Christian W. Jansson, *President and Chief Executive Officer*
Employed: 2002.
Born: 1949.
Education: Doctor of Economics h.c. and Master of Science in Business and Economics, Lund University.
Other current assignments: Chairman of the Board in Apoteket Aktiebolag (publ), KappAhl Mode Holding AB, KappAhl Mölndal AB, KappAhl Fastigheter AB, Svensk Handel AB, Vivoline Medical AB and KappAhl Fashion Holding AB. Board member in Bong AB, Blue Water Systems AB, Kontanten AB, Fata Morgana AB, Jäger & Jansson Galleri AB, Ideella föreningen Svenskt Näringsliv and BRIS. Deputy Board member in Ann Lindh & Co Marknadsföring AB and Slow Or Hasty Options S.O.H.O. AB.
Previous assignments during the past five years: Chairman of the Board in Carmel Pharma Aktiebolag (year 2002–2006), Semcon Aktiebolag (year 2000–2007), Simbel Investment Aktiebolag (year 2006–2007), Detaljhandel Logistik i Mölndal AB (year 2003– 2008), Ateljé Margaretha AB (year 2005–2006), Ateljé Margaretha Intressenter AB (year 2005–2006) and Fastighets AB Betesängen (year 2008–2009). Board member in Svensk Handel AB (year 2007–2010,) Västsvenska Handelskammaren Service AB (year 2004–2009), Gothia Financial Group AB (year 2005–2006), AnSa Protection Aktiebolag (year 2008–2011), Carl Westin Associates AB (year 1997–2010) and Silverbergs Clan AB (year 2003–2010).
Previous positions: Chairman of the Board and Board member in KappAhl Sverige AB, Chairman of the Board and Board member in KappAhl Mölndal 2 AB. CEO in KappAhl Sverige AB.
Bankruptcy, liquidation, receivership of bankruptcy or similar: AnSa Protection Aktiebolag, liquidation ended 2011-08-26, Projob Workwear AB, company reorganization initiated 2000-07-20 and Detaljhandel Logistik i Mölndal AB, liquidation ended 2009-01-27.
Shareholding: 12 214 700 (via Dutot Ltd.).
Independent in relation to KappAhl and KappAhl's management: No
Independent to KappAhl's major shareholders: No

Linda Hamberg, V*ice President, Sales*
Employed: 1981.
Born: 1951.
Education: Master of Science in Business and Economics, Gothenburg School of Economics.
Other current assignments: Board member AMF Fastigheter.
Previous assignments during the past five years:-
Previous positions: Business Unit Manager Men and Business Unit Manager Children, Marketer and Controller.
Bankruptcy, liquidation, receivership of bankruptcy or similar:
Shareholding: 252,000.

Kajsa Räftegård, *Vice President, Human Resources and Public Relations*
Employed: 2002.
Born: 1965.
Education: Bachelor in Social studies, Gothenburg University.
Other current assignments: Board member in Histocenter-Skandinaviskt Centrum för Histo-teknik Aktiebolag.
Previous assignments during the past five years:-
Previous positions: Several positions in KappAhl.
Shareholding: 152,000.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-

Hans Jepson, *Vice President, Expansion*
Elected: 2008.
Born: 1956.
Employed: Construction engineer, Sven Ericssonskolan in Borås.
Other current assignments: Board member in Högbergs Rör i Borås AB.
Previous assignments during the past five years: Chairman of the Board in Högbergs Rör i Borås AB (year 1999–2008). Deputy Board member in Lindex Sverige AB (year 2007–2008). External authorized signatory in Aktiebolag Lindex (year 2003–2008).
Previous positions: Vice President, Expansion, in Lindex AB.
Shareholding: 3,700. Related parties' shareholding: 300.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-

Mari Svensson, *Vice President, Purchasing*
Employed: 2000.
Born: 1963.
Education: Master of Science in Business and Economics, Gothenburg School of Economics.
Other current assignments: Board member in EFG (European Furniture Group Aktiebolag).
Previous assignments during the past five years:-
Previous positions: Several positions in KappAhl.
Shareholding: 212,000.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-

Carina Ladow, Vice President, Marketing

Employed: 2010.
Born: 1957.
Education: 2-year economics at municipal adult education and management team education at IFL.
Other current assignments:-
Previous assignments during the past five years:-
Previous positions: Manager of ladies section, purchasing manager, design manager, fashion press officer of KappAhl.
Shareholding: 84,000.
Potential conflict of interest: Carina Ladows husband, John Ladow, is a partner of Atlas De-sign Group AB. Atlas Design previously licensed the brand U.S. Polo Association to KappAhl. The license agreement is now terminated by KappAhl. Atlas Design, however, is still selling other license products to KappAhl within the range lingerie and children's clothing on market terms. In fiscal year 2008/2009, 2009/2010 and 2010/2011 KappAhl's total purchases from Atlas Design amounted to SEK 37,290,386.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-

Johanna Kjellberg, Vice President, IT

Employed: 2008.
Born: 1958.
Education: Master's Degree in Industrial Organization and Production, Chalmers University of Technology.
Other current assignments:-
Previous assignments during the past five years:-
Previous positions:-
Shareholding: 0.
Bankruptcy, liquidation, receivership of bankruptcy or similar:

Håkan Westin, Chief Financial Officer

Employed: 1989.
Born: 1959.
Education: Master of Science in Business and Economics, Gothenburg School of Economics and MBA London Business School.
Other current assignments: Board member in KappAhl Sverige AB, KappAhl Fashion Hold-ing AB, KappAhl Mode Holding AB, KappAhl Mölndal AB, KappAhl Fastigheter AB, Gossbydal Fastigheter AB and NetOnNet.
Previous assignments during the past five years: Board member in KappAhl Mölndal 2 AB (year 2007), Simbel Investment Aktiebolag (year 2006–2007), Detaljhandel Logistik i Mölndal AB (year 2003–2008) and Fastighets AB Betesängen (year 2008–2009).
Previous positions:-
Shareholding: 300,000.
Bankruptcy, liquidation, receivership of bankruptcy or similar:-

ADDITIONAL INFORMATION ON THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

None of KappAhl's Board members or senior management has any family relationship with other Board member or senior management. There is no conflict of interest between above Board members or senior management's obligations towards KappAhl and their private interest or other obligations. It is noted, however, that Carina Ladows husband as stated above has business relations with KappAhl. In addition to what has been stated above none of the Company's Board members or senior management has in the previous five years been involved in bankruptcy, liquidation, receivership of bankruptcy or similar. None of the Company's Board members or senior management has in the previous five years (i) been convicted to fraudulent offences (ii) been subject to allegations or sanctions by the authorities, save for what has been stated for Finn Johnsson and special fee levied by the Swedish Financial Supervisory Authority, or approved professional affiliations, (iii) been disqualified by a court from acting as a member of a company's management or supervisory body. No Board member has an agreement with KappAhl implying the right to compensation at the cessation of the assignment. The Board members and the senior management have the following business address: c/o KappAhl AB, Box 303, SE-431 24 Mölndal.

AUDITOR

At the Annual General Meeting in 2008 PWC was appointed audit firm, with Bror Frid as auditor in charge, for the period until the Annual General Meeting which is held during the fourth fiscal year after the auditor election. Bror Frid has to the Audit Committee and the Board of Directors reported his observations from the audit process. As part of that work the annual accounts, the accounting records and the Board of Directors and senior management's administration have been audited for the fiscal year 2010/2011. In addition to the audit assignment, which is remunerated in accordance with normal standards, the PWC has for the fiscal year 2010/2011 been providing services for approximately SEK 0.8 million most of which concerns tax consultations, consultations in connection with acquisitions and accounting consultations of various kinds. Bror Frid is a member of FAR. PWC's address is SE-405 32 Göteborg.

OTHER

John Åberg is the assuming president, born 1961, last relevant education is IHM Business School and studies at UCLA in economics and architecture, and has his last position within Jula and before that, Bauhaus Sweden.

CORPORATE GOVERNANCE

KappAhl AB (publ) is a public Swedish company listed on NASDAQ OMX Stockholm. Corporate governance in KappAhl is based on laws, listing agreements, the Swedish Code of Corporate Governance ("the Code"), guidelines and good business practices. KappAhl applies the Code, with the exception that the audit committee, in accordance with point 10.1 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.

GENERAL MEETING

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 amendments 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 a general meeting. There is no limit to the number of votes each shareholder may cast. Shareholders who can not attend can be represented by proxy.

The general meeting decides on articles of association, election of chairman, Board of Directors and auditors, establishes accounts, decides on any dividends and other appropriations of earnings and discharge of liability for the Board of Directors. The general meeting also resolves, inter alia, on guidelines for salary and other remuneration to senior management, any new share issues and the introduction of any share-based incentive programs such as warrant programs.

The most recent Annual General Meeting held was the Annual General Meeting of 23 November 2010 in Mölndal. The minutes of the Annual General Meeting can be found on KappAhl's website. At that time it was resolved, among other things, to re-elect a Board of Directors consisting of Finn Johnsson (Chairman), Amelia Adamo, Jan Samuelson and Paul Frankenius. Lena Apler was elected as a new member of the Board of Directors. The next Annual General Meeting will be held on 23 November 2011 at 10.00 at Idrottsvägen 14 in Mölndal.

NOMINATIONS COMMITTEE

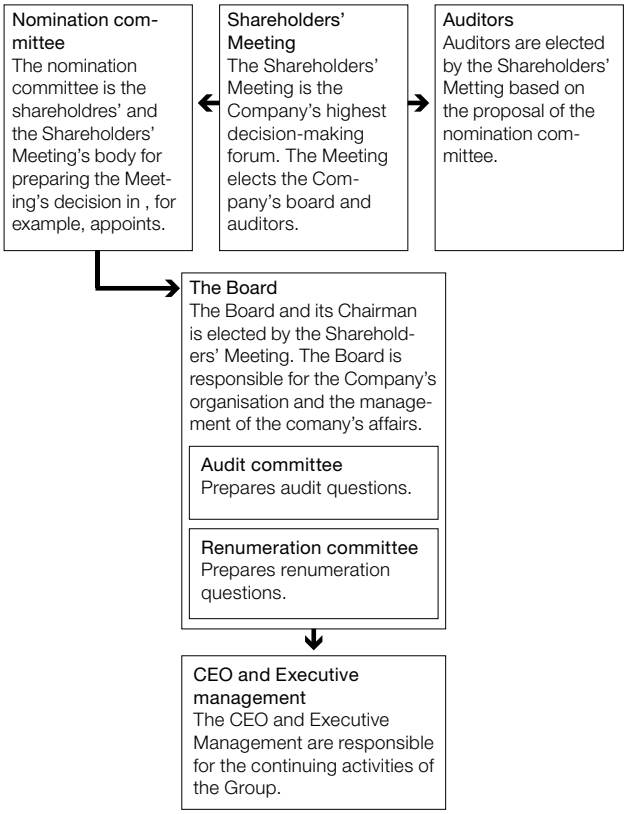
The nominations nommittee's task is to present proposals for the Annual General Meeting, inter alia regarding, the chairman and other members of the Board of Directors, the Board of Directors' remuneration and remuneration for committee work. The Annual General Meeting sets out instructions and a formal work plan for the nominations committee. The latter shall consist of three ordinary members, to be appointed by the three largest shareholders in the Company. The Chairman of the Board of Directors shall contact the three largest shareholders and be co-opted to the committee. The composition of the nominations committee for the Annual General Meeting on 23 November 2011 was published on the Company's website before 23 May 2011. Kristian Lundius (Dutot Ltd.) and Evert Carlsson (Swedbank Robur Fonder AB) sit on the nomination committee. Finn Johnsson, Chairman of the Board, has been co-opted to the nominations committee. After a change in ownership Rune Anderson (Mellby Gård AB) also sits on the nominations committee. Jessica Malmfors (Skandia Fonder AB) has left the nominations committee after a change in ownership. The nominations committee represented, on 30 September 2011, about 34 per cent of the shareholders' votes.

In the event of a material change in ownership among the largest shareholders taking place earlier than six weeks prior to an Annual General Meeting, and if a shareholder, having become one of the three largest shareholders after this material change in ownership, requests to be included in the nominations committee, the nominations committee shall as instructed by the Annual General Meeting offer this shareholder a place on the nominations committee. 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. As a result of this procedure Rune Andersson (Mellby Gård AB), became a member of the nominations committee and Jessica Malmfors (Skandia Fonder AB) left the committee. 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 2011 the Chairman of the Board, Finn Johnsson, commissioned an individual assessment of the work of the Board and its committees (a corresponding assessment was carried out in the previous year). The result has been presented to the nominations committee. The nominations committee has made the assessment that the Board of Directors functioned well in performing its duties, that it is well composed and balanced, and that its members have sound knowledge and experience of various areas

and complement each other well. The nominations committee has made the assessment that no members of the current Board are dependent in relation to the Company or its major shareholders. For the Annual General Meeting on 23 November 2011, the nominations committee has proposed that re-election of Amelia Adamo, Paul Frankenius and Jan Samuelson. Finn Johnsson and Lena Apler have declined re-election. The committee proposes the election of Christian W. Jansson and Sonat Burman-Olsson as new members of the Board of Directors and that Christian W. Jansson is elected Chairman of the Board of Directors. The nominations committee has also proposed that the fee to the Board of Directors and its committees shall be SEK 1,360,000 (previously SEK 1,570,000). The proposal means that the Chairman of the Board is awarded SEK 360,000 and each other elected member of the Board is awarded SEK 180,000, that the chairman of the audit committee is awarded SEK 145,000 and that the other members of the committee are awarded SEK 95,000 and that the chairman of the remuneration committee is awarded SEK 30,000 and that the other members of the committee are awarded SEK 10,000. The fee to the auditors shall be unchanged in accordance with customary standards and approved invoice. The nominations committee has also proposed that the Chairman of the Board Finn Johnsson be appointed chairman of the Annual General Meeting. No remuneration is awarded for the work in the nominations committee from the Company to the members in the nominations committee.

BOARD OF DIRECTORS

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 2010. The Board of Directors also includes two trade union representative members, each with a personal deputy. There are no special provisions in the articles of association concerning the appointment or removal of members of the Board of Directors. Since the Annual General Meeting on 23 November up to 31 August 2011, the Board of Directors held seven meetings, all of which minutes were kept. One meeting was an inaugural board meeting and six meetings were ordinary meetings. Since 31 August 2011, the Board of Directors held further meetings on 16 and 28 September 2011 (with a continuing meeting on 29 September 2011), 10 and 24 October 2011 and the 2 November 2011 respectively. The members' attendance at each meeting is presented in the table below. The CEO, CFO and in some cases other members of the management made presentations at the board meetings. Remuneration and benefits to the Board of Directors of KappAhl are presented in the table below. For information of the Board members' shareholdings in KappAhl and other assignments, se the section ("Board of Directors, senior management and auditor"). More information on the Board is also available on KappAhl's website, www.kappahl.com/ir.



The composition of the Board of Directors

KappAhl's Board of Directors comprises seven members, including the Chairman, employee representatives and two deputies. In the section ("Board of Directors, senior management and auditor") a presentation is found of the Board of Directors', their tasks and other assignments and relevant holdings of shares.

The work in the Board of Directors

Between each Annual General Meeting, the Board of Directors is to 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 that all members present have had an opportunity to express their views. The broad experience of the 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 2010 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. Further at each ordinary meeting, reports from the audit committee and remuneration committee, and a report from senior management are presented and decisions are made on establishments and investments. Among the more important matters dealt with by the Board of Directors during the year were discussions on financing, investments and actions program. After significant events, or in connection with longer intervals between Board meetings, the CEO circulates a memorandum to the members that describes the business and market conditions. 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 CEO, at which evaluation, no representatives of the senior management are present. 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 with the auditor.

The Board of Directors' independence

According to the Code, the majority of the elected Board members shall be independent of the Company and its management. At least two Board members need to be independent from the Company and its management shall also be independent from the Company's major shareholders. The Board members' independence is presented in the table below. The, at the Annual General Meeting on 23 November 2011, proposed new members' independence is stated in the section ("Board of Directors, senior management and auditors").

COMMITTEES

The remuneration committee

The remuneration committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 23 November 2011, the committee will comprise Finn Johnsson (chairman) and Amelia Adamo. The remuneration committee prepares questions about the remuneration and other terms and conditions of employment for the senior management and bonus outcome for management and any share-based bonus programs. In the opinion of the Board of Directors, which is shared by the nominations committee, all members of the remuneration committee are independent of KappAhl's senior management team. 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 CEO. The committee works according to written rules of procedure stipulated by the Board of Directors. Apart from reporting to each Board meeting, the committee must also submit a written report to the Board of Directors at least once

THE BOARD SINCE THE ANNUAL GENERAL MEETING 2009/2010

					Independance from	
	Elected	Board meetings	Remuneration Committee	Audit Committee	The Company and Management	The Company's major shareholders
Elected at Annual General Meeting						
Finn Johnsson	2004	12 (O)	2		•	•
Amelia Adamo	2004	10 (L)	2		•	•
Lena Apler[1]	2010	11 (L)		6	•	•
Paul Frankenius	2006	12 (L)			•	•
Jan Samuelson	2004	12 (L)		6	•	•
Employee representatives						
Marie Matthiessen	2008	12 (L)				
Rose-Marie Zell-Lindström	2004	11 (L)				
Bodil Gummesson	2008	10 (S)				
Melinda Hedström[2]	2011	7 (S)				
Helena Blixt	2008	7 (S)				
Total		12		6		

C=Chairman M=Member D=Deputy

[1] Included in the Board of Directors from the Annual General Meeting 23 November, 2010.
[2] Included in the Board of Directors from 17 August, 2011.

a year. The committee does not have the authority to make decisions, other than as part of the remuneration policy for senior managements adopted by the Annual General Meeting on 23 November 2010.

The audit committee

At its inaugural meeting the Board of Directors shall also appoint the audit committee. Until the Annual General Meeting on 23 November 2011 the committee comprises Jan Samuelson (chairman) and Lena Apler. 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 management and meet the necessary qualification requirements in accounting and auditing. The audit committee shall, without affecting the Board of Director's responsibilities and tasks in other respects, monitor the financial reporting of the Company and the effectiveness of the Company's internal control 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 management being present. 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 done at each Board meeting.

CEO AND GROUP MANAGEMENT

The senior management comprises the President and the CEO, the Vice President of Sales, the Vice President of Human Resources and Public Relations, the Vice President of Expansion, the Vice President of Purchasing, the Vice President of Marketing, the Vice President of IT and the CFO. It is the senior management's task to develop detailed strategies and guidelines for the Group's operations as instructed by the Board of Directors, and to enforce the implementation of same.

INTERNAL CONTROL

Internal control regarding financial reporting

Internal control regarding the financial reporting is part of the total internal control in KappAhl, which process proceeds from the business model. Internal control regarding 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 ensuring that the external financial reporting is prepared in accordance with law, applicable accounting standards and other requirements of listed companies.

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 with the principal task of ensuring compliance with principles established for financial reporting and internal control and maintaining appropriate relations with the Company's auditor. The Board of Directors has also drawn up instructions for the CEO and for financial reporting to the Board of KappAhl. The Group's CFO 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.

Risk assessment

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

REMUNERATION TO THE BOARD OF DIRECTORS, CEO AND MANAGEMENT

	2010/2011			
SEK m	Base salary and directors remuneration	Bonus	Pension expenses	Total
Chairman of the Board Finn Johnsson	0.5	-	-	0.5
Board member Amelia Adamo	0.2	-	-	0.2
Board member Lena Apler[1]	0.2	-	-	0.2
Board member Paul Frankenius	0.2	-	-	0.2
Board member Jan Samuelson	0.3	-	-	0.3
Board member Pernilla Ström[2]	0.1	-	-	0.1
Rest (5 members)	0.1	-	-	0.1
President and CEO	4.2	-	1.4	5.6
Management	9.5	-	3.2	12.7
Total	15.3	-	4.6	19.9

[1] From the Annual General Meeting 23 November, 2010.
[2] Until the Annual General Meeting 23 November, 2010.

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 and communication on internal policy instruments for financial reporting are available to all employees concerned. Important tools for this are KappAhl's intranet and training sessions.

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 enough to achieve the same purpose.

Guidelines for remuneration to senior management

The senior management shall be offered a fixed salary that is market related and based on the person's responsibility and conduct. The salary will be set per calendar year. The senior management may, from time to time, be offered a bonus. The maximum bonus payable is 50 per cent of the fixed salary. A member of the senior management may, on his or her own initiative, convert a bonus into extra pension payments. Bonuses are to be primarily based on the operating profit (EBIT) of the Group. Bonuses will be set per financial year.

Severance pay

Senior management

Upon termination of employment by the employer, members of the senior management have an agreement on an unchanged salary for 6–12 months. Pension benefits are based on a public pension plan from the age of 65.

CEO

Upon termination of employment by the employer, the current CEO has an agreement on an unchanged salary for 6 months. Pension benefits are based on a public pension plan from the age of 60.

Incentive program

In the notice to attend the Annual General Meeting in KappAhl on 23 November 2011, which was published on 25 October 2011, a proposal of a long-term incentive program is presented, in which the Board of Directors proposes that KappAhl shall issue, offer and assign warrants to certain key employees of the Company. Each warrant shall include the right, in the future, to subscribe for one share in the Company at a subscription price set at 125 per cent of the shares of the Company on the NASDAQ OMX Stockholm traded volume weighted average closing price during the period from 22 December 2011 to 5 January 2012. The Key Personnel (defined below) shall be offered to acquire warrants on market conditions during the period from 9 January 2012 until 16 January 2012. The warrants shall, in deviation from the shareholders pre-emption rights, only be subscribed for, free of charge, by a wholly owned subsidiary of the Company during the period from 16 January to 18 January 2012 with the obligation for the subsidiary to offer and assign the warrants to the Key Personnel. The warrants expire on 6 February 2015 and can only be used during the last 10 business days of the period.

Upon full acceptance, the program may lead to a dilution of maximum three per cent of the capital and votes in the Company per the day of the Annual General Meeting, which amounts to no more than 6,750,000 warrants. The contemplated CEO of the Company shall have the right to subscribe for a maximum of 11.2 per cent of the warrants (group 1), each person in the Group's senior management shall have the right to subscribe for a maximum 4.5 per cent of the warrants (group 2) and each other Key Personnel in the Group who reports to the senior management shall have the right to subscribe for a maximum 2.3 per cent of the warrants (group 3), all in posts of at least 100 warrants. Mentioned employees in group 1 to 3 are collectively called "Key Personnel". Group 1 comprise of one person, group 2 comprise approximately 7 people and group 3 approximately 30 people. Only employees in Sweden are covered by the program. The Board of Directors does not have the right to apply for subscription of warrants through the program. The Board of Directors' motives for the proposal and the reason for the deviation from the shareholders pre-emption rights is in part to create opportunities for the Group to recruit and retain skilled key employees, in part by offering a long-term ownership commitment among key employees, encourage them to an increased interest in the activities and earning development, and increase the sense of solidarity with the Group. In case of oversubscription, the Key Personnel shall primarily be allotted pro rata in relation to the number of warrants comprised by the application, and thereafter by the drawing of lots. The Board of Directors allots in accordance with the mentioned guidelines. For each warrant the Key Personnel shall pay a premium corresponding to the warrant's market value calculated in accordance with the Black Scholes formula and conventional assumptions on i.a. volatility and risk-free interest rate at the time of the offer, which assumptions are based on measures made during the measuring period. Calculation of the market value of the warrants will be made by a well reputed financial institute engaged by the Company. It is not expected to be any social security costs in connection with the program. There are no outstanding share-based incentive programs in the Company.

SHARE CAPITAL AND OWNERSHIP STRUCTURE

SHARE CAPITAL ETC.

Under KappAhl's articles of association, the share capital shall not be less than SEK 10,000,000 and not more than SEK 40,000,000 divided into not less than 70,000,000 shares and not more than 280,000,000 shares. The Company has one series of shares and all shares represent one (1) vote each and entitles its holders to an equal share in the Company's assets and profits and potential surplus in the event of liquidation.

The Company's registered share capital, before the forthcoming Rights Issue, is SEK 10,720,000 divided into 75,040,000 shares. Each share has a quota value of SEK 1/7 (corresponding to approximately SEK 0.14). Assuming that the Rights Issue is subscribed in full, the number of shares in the Company will increase from 75,040,000 to 225,120,000, corresponding to an increase of 200 per cent. For shareholders who refrain from subscribing for shares in the Rights Issue, there will be a dilution effect of a total of 150,080,000 New Shares, corresponding to approximately 67 per cent of the share capital in the Company after the Rights Issue. These shareholders can obtain financial compensation for the dilution effect by selling their Subscription Rights.

SHARE CAPITAL DEVELOPMENT

Year and transaction	Change in no. of shares	Change in share capital, SEK	Total no. of shares	Total share capital, SEK
2004 Founding	1,000	100,000	1,000	100,000
2004 Split 100:1	99,000	-	100,000	100,000
2005 Rights issue 1	9,900,000	9,900,000	10,000,000	10,000,000
2005 Rights issue 2	366,000	366,000	10,366,000	10,366,000
2005 Subscription for new shares (subscription rights)	354,000	354,000	10,720,000	10,720,000
2006 Split 7:1	64,320,000	-	75,040,000	10,720,000
2008 Split 2:1	75,040,000	-	150,080,000	10,720,000
2008 Redemption 1:2	–75,040,000	-	75,040,000	10,720,000
2011 Rights issue[1]	150,080,000	21,440,000	225,120,000	32,160,000

OWNERSHIP STRUCTURE

The number of sharesholders as at 30 September 2011 was 19,760. The ten largest shareholders controlled 47.1 per cent of the votes and capital. The table below illustrate the Company's largest shareholders, according to Euroclear Sweden as at 30 September 2011.

SHAREHOLDERS

Shareholder	No. of shares	Holding/Votes, %
Dutot Ltd.	12,214,700	16.3%
Mellby Gård	8,862,886	11.8%
Swedbank Robur	3,876,865	5.2%
Avanza Pension	3,317,365	4.4%
Svenskt Näringsliv	2,100,000	2.8%
Robur Försäkring	1,668,404	2.2%
Nordnet Pensionsförsäkring	1,132,567	1.5%
Catella Sverige Select	755,000	1.0%
Handelsbanken Nordiska	716,084	1.0%
Banque Öhman S.A.	667,500	0.9%
Other	39,728,629	52.9%
Total	75,040,000	100.0%

ONWERSHIP STRUCTURE

Shareholder by size	No. of shareholders	No. of shares	Holding/ Votes, %
1–500	11,623	2,342,640	3.1%
501–1,000	3,587	3,158,357	4.2%
1,001–5,000	3,576	8,885,242	11.8%
5,001–10,000	528	4,105,888	5.5%
10,001–20,000	236	3,513,292	4.7%
20,001–	210	53,034,581	70.7%
Summa	19,760	75,040,000	100.0%

SHAREHOLDERS' AGREEMENTS

To the best of the Board of Directors' knowledge, no shareholders' agreements or equivalent agreements exist between shareholders in the Company with the objective of creating joint influence over the Company. To the best of the Board of Directors' knowledge, there are no agreements or equivalent arrangements that may lead to a change in control over Company, except for change of control which may arise from redemption of guarantee undertakings as per section "Legal

[1] This articles of association, with new limits for share capital, was approved at the Extraordinary General Meeting as at 8 November 2011. At the time of this prospectus, this articles of association was not yet registered at the Swedish Companies Registration Office (Sw: Bolagsverket).

[2] Under the condition that the Rights Issue is fully subscribed.

considerations and supplementary information – Agreement regarding subscription of New Shares".

MANDATORY BIDS

Pursuant to the Swedish Act on Public Tender Offers (Sw: (2006:451) lagen om offentliga uppköpserbjudanden på aktiemarknaden), any holder of shares representing less than 30 per cent of the votes in a Swedish company whose shares are traded on a regulated market, or in a equivalents market outside the European Economic Area, must make a public offer for the acquisition of all remaining shares in the Company (alone or together with related party), a shareholding representing at least 30 per cent of the total votes in the Company (a mandatory bid).

In this context, a related party can be a company within the same corporate group as the acquirer as well as anyone who cooperates with the acquirer in order to gain control over the Company.

The public offer shall be made within four weeks after the acquisition that triggered the mandatory bid requirement, unless the acquirer within such time divests shares so that the shareholding represents less than 30 per cent of the total votes in the Company.

After an application has been submitted, the Swedish Securities Council (Sw: Aktiemarknadsnämnden) may, under certain circumstances, grant exemption from the provisions of the takeover rules.

Exemption for Dutot Ltd. and Mellby Gård AB

Dutot Ltd. and Mellby Gård have been granted exemption from the rules on mandatory offers by the Swedish Securities Council (Sw: Aktiemarknadsnämnden) if their respective share of votes would reach or exceed 30 per cent of the shares in the Company as a result of subscription of shares in the Rights Issue and in accordance with the subscription and guarantee undertakings which is described in section "Legal considerations and supplementary information". The Securities Council's ruling was conditioned upon approval of the Rights Issue resolution at the Extraordinary General Meeting by shareholders representing not less than two-thirds of the votes cast and shares represented at the Extraordinary General Meeting, not including any shares held and represented at the meeting by Dutot Ltd. and Mellby Gård. In addition, the Securities Council has stated that the obligation to make a mandatory offer would be triggered if any of the underwriters as a result of the Rights Issue would reach a shareholding of 30 per cent or more of the votes in KappAhl and the guarantors subsequently acquire additional shares in the Company and thereby increase their respective voting share. The Extraordinary General Meeting approved on 8 November 2011 the Board of Director's resolution on a Rights Issue with the majority which the Swedish Securities Council decision regarding exemption from mandatory offer required according to above.

EUROCLEAR AFFILIATION

The Company and the shares are cleared through the electronic securities system, the VP system, operated by Euroclear Sweden, the Swedish central securities depository (Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden). The shares are registered on the person and denominated in SEK.

DIVIDEND AND DIVIDEND POLICY

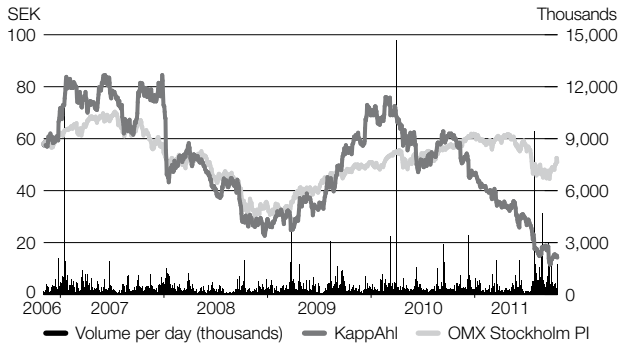
The Company's target is that the dividend shall amount to 40–60 per cent of profit after tax under the prerequisite that the Group achieves their financial targets according to section "Vision, mission, targets and strategies". The Board of Directors has proposed for the Annual General Meeting to be held on 23 November 2011 that no dividend will be distributed for the financial year 2010/2011. See section "Legal considerations and supplementary information – Corporate information".

INCENTIVE PROGRAM

On 25 October 2011, the notice convening the Annual General Meeting in KappAhl was published to be held on 23 November 2011. The notice included a proposal for a long term incentive program for key personnel in KappAhl. By means of the incentive program, eligible persons can acquire warrants, which if fully subscribed for, can dilute capital and votes in the Company by a maximum of three per cent, see section "Corporate governance – Incentive program".

SHARE PRICE DEVELOPMENT

KappAhl's share has been listed on NASDAQ OMX Stockholm (Mid Cap) since 23 February 2006. The chart below shows the turnover and price development during the period from 1 November 2006 to 31 October 2011.



Source: NASDAQ OMX Stockholm

ARTICLES OF ASSOCIATION

ARTICLES OF ASSOCIATION[1]

§ 1 Company name

The name of the Company is KappAhl Holding AB (publ).

§ 2 Registered office

The Board of Directors shall have its registered office in Mölndal.

§ 3 Business

The object of the Company's business shall be to, directly or indirectly, carry on retail trade business regarding clothing for ladies, gentlemen and children and to pursue other business related thereto.

§ 4 Share capital

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 eighty million (280,000,000).

§ 5 Board of Directors and Auditors

The Board of Directors shall consist of four (4) up to nine (9) directors.

The Company shall have one to two auditors with the same number of deputies, or one or two registered public accounting firms.

§ 6 Notice

Notice to attend a shareholders' meeting shall be published in Post och Inrikestidningar and at the Company's website. The fact that notice to attend a shareholders' meeting has been announced shall be published in Göteborgs Posten and Svenska Dagbladet.

§ 7 The right of a shareholder to take part in a general meeting

A shareholder who wants to take part in the negotiations at a general meeting shall, on the one hand be listed in a print-out or any other description of the share register in whole regarding the circumstances five weekdays prior to the general meeting, on the other hand, notify the Company at the latest at noon on the day that is set forth in the notice convening the general meeting. The last mentioned day shall not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and shall not occur earlier than on the fifth weekday before the general meeting.

§ 8 Annual general meeting

The following matters shall be addressed in the course of the annual general meeting:

1. Election of a chairman to preside at the meeting.
2. Preparation and approval of a voting list.
3. Approval of the agenda.
4. Election of one or two persons to check the minutes.
5. Examination of whether the general meeting has been properly convened.
6. Presentation of the annual report and the auditor's report and, whenever applicable, the consolidated accounts and the group auditor's report.
7. Resolutions with respect to
   a. The adoption of the Company's profit and loss account and balance sheet and, whenever applicable, the consolidated profit and loss account and the consolidated balance sheet.
   b. The appropriation of the Company's profit or loss according to the balance sheet adopted.
   c. The discharge of the directors of the Board of Directors and the Managing Director from their liability.
8. Establishing of the number of directors and deputies and, whenever applicable, auditor and deputy auditor.
9. Determination of fees for the Board of Directors and, whenever applicable, of the auditor.
10. Election of the Board of Directors and, whenever applicable, auditor, deputy auditor or registered public accounting firm.

§ 9 Financial year

The financial year of the Company is 0901-0831.

§ 10 Record day of provision

The shares of the Company shall, in accordance with the Swedish Financial Instruments Act (1998:1479), be registered in a record day register.

[1] This articles of association, with new limits for share capital, was approved at the Extraordinary General Meeting as at 8 November 2011. At the time of this prospectus, this articles of association was not yet registered at the Swedish Companies Registration Office (Sw: Bolagsverket).

LEGAL CONSIDERATIONS AND SUPPLEMENTARY INFORMATION

CORPORATE INFORMATION

KappAhl AB (publ), corporate registration no. 556661-2312, is a Swedish public limited liability company with its registered office in Mölndal, incorporated under and registered in accordance with Swedish law. The Company was registered with the Swedish Companies Registration Office on 25 February 2004. The Company's legal form of business is governed by, and the shareholders' rights can only be changed in accordance with the procedure stated in the Swedish Companies Act (2005:551). The Company is a Euroclear company and its share register is kept by Euroclear Sweden. The Company's shares are denominated in Swedish kronor. KappAhl's articles of association was adopted on an Extraordinary General Meeting on 8 November 2011, see section "Articles of association". KappAhl's head office is located on Idrottsvägen 14, SE-431 23 Mölndal (telephone: +46 31 771 55 00). The Company shall in accordance with the articles of association have, as the object of the business activities, to directly or indirectly, carry on retail trade business regarding clothing for ladies, gentlemen and children and pursue other business related thereto. Decisions on dividends shall be taken at a general meeting. Dividends are normally paid in cash administered by Euroclear, but can also be made in other things than cash. The record date as regards the right to receive dividends may not be later than the day prior to the next Annual General Meeting. A shareholder's right to dividend remains even if Euroclear cannot get in contact with the relevant shareholder, and is only limited by rules regarding limitation. In case of limitation, the distribution amount accrues to the Company. Neither restrictions nor any specific procedures exists or is applicable on dividend to shareholders who are residents in other countries than Sweden. The Board of Directors in KappAhl has, in connection with the decision regarding the Rights Issue on 10 October 2011, updated the Group's targets which included inter alia a modified dividend policy. See further section "Share capital and ownership structure – Dividend and dividend policy". At the time of this prospectus, KappAhl's share capital is SEK 10,720,000 divided into 75,040,000 shares. See section "Share capital and ownership structure".

The nominations committee has, prior to the Annual General Meeting on 23 November 2011, proposed that Christian W. Jansson shall be elected as ordinary board member in KappAhl and that he shall be elected chairman. The current CEO, Christian W. Jansson cannot be chairman of the board and CEO simultaneously. Johan Åberg has been appointed, but not yet acceded, the position as President and CEO of KappAhl starting not later than the beginning of 2012. See further section "Board of Directors, senior management and auditor".

GROUP STRUCTURE

For information about KappAhl's legal group structure, please see section "Operations – Group structure". The Company is, directly or indirectly, in possession of all shares and votes in all subsidiaries.

AGREEMENT REGARDING SUBSCRIPTION OF NEW SHARES

Two of the Company's major shareholders, Dutot Ltd. and Mellby Gård AB[1], which hold 16.3 and 11.8 per cent respectively of the capital and votes in the Company, have through subscription undertakings committed to subscribe for shares in the Rights Issue in relation to their respective holdings in KappAhl, which in total corresponds to 28.1 per cent of the shares in the Rights Issue. In addition, Dutot Ltd. and Mellby Gård AB have, through guarantee undertakings undertaken to subscribe for the shares in the Rights Issue that may not have been subscribed for with or without subscription rights, whereby Dutot Ltd.'s commitment is equivalent to 14.4 per cent and Mellby Gård AB's commitment is equivalent to 57.5 per cent of the Rights Issue, together 71.9 per cent of the Rights Issue. The Company entered into the agreements regarding subscription undertakings and guarantee undertakings with the Guarantors on 10 October 2011. This means that the Rights Issue is fully guaranteed by subscription undertakings and guarantee undertakings. Each of Dutot Ltd. and Mellby Gård AB has undertaken to work for implementation of the Rights Issue through inter alia (i) voting for approval of the Rights Issue at the Extraordinary General Meeting, (ii) utilizing its preferential rights in the Rights Issue, (iii) not, directly or indirectly, transfer or assign shares in the Company before the Extraordinary General Meeting or in any other way, waiving the right to vote for its shares on the Extraordinary General Meeting, the Guarantors shall be entitled to remuneration for its respective undertaking with an amount equal to 2.5 per

[1] With registered address Dutot Ltd., 67 Kennedy Avenue, 4th floor, office 401, 1076 Nicosia, Cyprus and Mellby Gård AB, Box 5322, SE-200 72 Malmö respectively.

cent of its respective portion of the guaranteed subscription amount (the portion of the Rights Issue that is not comprised of Dutot Ltd.'s and Mellby Gård AB's subscription undertakings), in addition of applicable VAT[2]. No remuneration shall be associated with Dutot Ltd.'s and Mellby Gård AB's subscription undertakings. The above mentioned subscription undertakings and underwriting guarantees are not secured. See further section "Risk factors – Risks associated with the shares and the Rights Issue". The Guarantors may, as a result of the agreed subscription undertakings and guarantee undertakings, increase its portion of shares and votes in KappAhl. The Swedish Securities Council has granted the Guarantors exemption from the obligation to make a mandatory public offer in case its respective portion of the votes in the Company would come to exceed 30 per cent due to subscription in the Rights Issue. The Swedish Securities Council's ruling to grant an exemption from the obligation to make a mandatory public offer is conditioned upon approval on the Extraordinary General Meeting by shareholders representing not less than two-+thirds of the votes cast and shares represented at the general meeting, setting aside the shares that are held and represented by the Guarantors. In addition, the Swedish Securities Council has announced that the obligation to make a mandatory public offer arises if the Guarantors in the Rights Issue individually achieves a shareholding of 30 per cent or more of the voting rights in KappAhl and the Guarantors subsequently acquire additional shares in the Company and thereby increase its respective vote portions. Please see section "Share capital and ownership structure – Mandatory bids".

IMPORTANT AGREEMENTS ETC.

Bank agreement with Swedbank AB (publ) and Nordea Bank AB (publ)

KappAhl has for several years been a party to and utilized bank contracts with the captioned banks. As previously announced by KappAhl on 30 September 2011, KappAhl has agreed on a new bank agreement with a credit limit, which bank agreement was entered into with the captioned banks and has a term of three years. The total limits of the facility amounts to SEK 2,550 million, the interest expense is described in section "Capital structure and other financial information". The bank agreement contains customary conditions, guarantees and commitments. The loan conditions are linked to a number of agreed covenants. The credit facilities are, inter alia, conditional upon KappAhl's fulfilment of certain commitments regarding the Group's net debt compared to operating income before depreciation and amortization (EBITDA). Amortization in an amount of SEK 400 million shall be made during the term of the loan, which is well in accordance with the Company's target to once again have a interest bearing net debt/EBITDA less than 3.0 (see section "Vision, mission, targets and strategies"). The bank agreement also contains customary provisions that give the lender, in case of a change of control, the right to require that the borrower shall repay the loan prematurely, as well as limitations for the Group to grant securities and dispose assets, grant loans, and ability to make borrowings. As security for all its obligations towards the banks, the Company has provided the banks with floating charge certificates and inter alia pledged the shares in KappAhl Sverige AB and the Group's real property.

No single contract, except that the bank agreement with Swedbank AB (publ) and Nordea Bank AB (publ) is deemed essential for the business activities. Please also see Section "Agreement regarding subscription of New Shares" above.

LEASE AGREEMENTS

KappAhl's existing lease agreements for business premises normally have a term of three to five years with automatic prolongation unless either party terminates the relevant agreement prior to a specific date, which date usually is between nine and twelve months before the end of the term of the relevant lease. The agreements are also otherwise in accordance with customary conditions for the industry. As a rule, the rental charge is, at least partially, based on the turnover of the relevant store. Some of the lease agreements validity is conditional upon the Company granting the landlord a guarantee or security in the form of a bank guarantee.

INTELLECTUAL PROPERTY RIGHTS

The Group holds intellectual property rights in the form of inter alia trademarks. The Company believes that the trademark "KappAhl" is essential for KappAhl's activities. The trademark KappAhl is registered as a trademark (word) both nationally and as a community trademark.

INSURANCES

KappAhl has customary property and liability insurances. The current insurance protection, including the level of insurance and the insurance terms, gives, according to the Board of Directors, the Company an adequate insurance coverage taken into account the insurance premiums and the feasible risks related to the business activities. KappAhl can however not guarantee

[2] The Guarantor's remuneration is based on a maximum amount of the underwriting guarantee, which amount as regards Dutot Ltd. amounts to SEK 87,840,000 and as regards Mellby Gård AB amounts to SEK 351,360,000 which results in that the remuneration for Dutot Ltd. amounts to SEK 2,196,000 and that the remuneration for Mellby Gård AB amounts to SEK 8,784,000.

that losses will not arise or claims will not be presented beyond what is covered by the current insurance policies.

LEGAL DISPUTES AND ARBITRATION PROCEDURES

There is no process in court or arbitration procedure against the Company or companies within the Group that, regardless of the result, are expected to have significant effects on the Company's financial position or profitability. As far as can be assessed there exists no reason to fear any such process. Nevertheless it is noted that:

The Norwegian subsidiary KappAhl AS has for some time had a dispute with the Norwegian Customs Authority. The Customs Authority has, after a legally binding judgment by the district court in Oslo, made a decision that is not consistent with either KappAhl's interpretation of the judgment, ditto interpretation of applicable law or the EEA Agreement rules on freedom of establishment and provision of services. The Customs Authority has repaid an amount and taken a new decision on customs duty etc. KappAhl is however still of the opinion that the latest decision is incorrect and contrary to both the Oslo district court's previous judgment, the applicable Norwegian case law and the EEA Agreement and has appealed the Customs Authority's decision. As far as can be assessed, the risk is limited to the claim KappAhl has booked on the Custom Authority due to already paid fees which claim amounts to just over SEK 4 million.

Apart from the above, the Company or companies within the Group have not been part to any legal or arbitration proceedings (including pending or threatened matters or matters which the Company are aware of can arise) during the last twelve months that recently have had or could have significant effects on the Company's or Group's financial position or profitability.

TRANSACTIONS WITH RELATED PARTIES

No important agreement has been entered into among related parties and any company in the Group with the exception of contracts described above in section "Agreement regarding subscription of New Shares" and as regards the member of the senior management Carina Ladow which is described in section "Board of Directors, senior management and auditor". KappAhl has not granted any loans, guarantees or collateral for the benefit for directors, senior management or auditors. None of the members of the Board of Directors of KappAhl, senior management or auditors has, directly or indirectly through affiliates or through close family member, been involved in business transactions with KappAhl except on strictly commercial terms.

ADVISORS

In the Rights Issue, Nordea and Swedbank Corporate Finance assist as financial advisors to KappAhl, Swedbank as issuing agent and Setterwalls as legal advisor. The engaged advisors do not have any financial interests in KappAhl except the following. Nordea and Swedbank respectively are lenders to KappAhl (see section "Legal considerations and supplementary information – Bank Agreement with Swedbank AB (publ) and Nordea Bank AB (publ)"). Nordea and Swedbank and a few related parties to the same have in addition provided, and may in the future provide, various bank, financial, investment, commercial and other services to KappAhl, KappAhl's shareholders, KappAhl's directors and management, for which services Nordea and Swedbank respectively may receive remuneration.

SUPPLEMENTS TO THIS PROSPECTUS

As set out in sections "Board of Directors, senior management and auditor", "Corporate governance – Incentive program" and in the notice to attend the Annual General Meeting on 23 November 2011, changes in the Board of Directors, senior management and implementation of an incentive program is proposed. KappAhl does not intend to prepare any supplements to this prospectus provided that a decision in accordance with the proposal in the notice is made at the Annual General Meeting.

SUPPLY OF DOCUMENTS

Copies of the following documents will, during this prospectus' validity period be available for review at the Company's head office in Mölndal, Idrottsvägen 14, SE-43123 Mölndal (telephone: +46 31 771 55 00) during office hours on workdays and also at the Company's website, www.kappahl.com/ir:

1. KappAhl's articles of association adopted on Extraordinary General Meeting on 8 November 2011,
2. KappAhl's audited annual reports including the audit reports for the financial years 2008/2009, 2009/2010 and 2010/2011, and
3. this prospectus.

TAX ISSUES IN SWEDEN

The following is a summary of certain Swedish tax consequences that may arise from the allocation of Subscriptions Rights and the offer to subscribe for New Shares in the Company with or without Subscription Rights ("the Rights Issue"). It is based on Swedish tax legislation currently in effect and is intended only as general information for shareholders who are resident in Sweden for tax purposes, unless otherwise stated. The summary does not deal comprehensively with all tax consequences that may occur in this context. For instance, it does not cover:

- the specific rules that apply when shares are held as current assets in a business operation;
- the rules that apply when shares are held by partnerships or limited partnerships;
- the rules that in certain cases may apply in the corporate sector with respect to tax exempt capital gains and dividends on "shares held for business purposes" (Sw: näringsbetingade andelar) or "share based securities" (Sw: aktiebaserade delägarrätter);
- the specific rules that may apply to shares in companies that have been "closely held" (Sw: fåmansföretag) or shares acquired by virtue of shareholding in a closely held company.

Special tax consequences that are not described below may also apply for certain categories of shareholders, including investment companies and mutual funds. The tax consequences for each shareholder depend partly on that shareholders' particular situation. Each shareholder should consult a tax advisor for information with respect to the special tax consequences that may arise from the Rights Issue, including the applicability and effect of foreign tax legislation, tax treaties and other rules which may be applicable.

GENERAL INFORMATION

Individuals

Capital income, such as capital gains and dividends on the sale of listed shares and other listed securities taxed in the same manner as shares, is generally taxable as income from capital at a rate of 30 per cent. The capital gain or capital loss is calculated as the difference between the sales proceeds, after deduction for sales expenses, and the acquisition cost for tax purposes (i.a the acquisition cost and any imposed costs). The acquisition cost is calculated according to the "average method" (Sw: genomsnittsmetoden). This means that the acquisition cost for all shares of the same type and series are added together and calculated collectively, with respect to changes to the holding. Paid subscribed shares (BTAs) are not considered to be of the same type and series as common shares until the Rights Issue has been registered. For listed shares, the acquisition cost for tax purposes may, as an alternative, be determined to 20 per cent of the sales proceeds, after deduction for sales expenses, under the "standard rule" (Sw: schablonregeln).

Capital losses on listed shares and other listed securities taxed in the same manner as shares are (except for listed shares in mutual funds containing only Swedish receivables), are fully deductible against taxable capital gains on such assets or on non-listed shares in Swedish limited liability companies and foreign legal entities. Any excess capital loss is deductible to 70 per cent against any other taxable income from capital.

Capital losses on non-listed shares in Swedish limited liability companies and foreign legal entities are deductible to five sixths of the loss. If capital losses pertain to both listed and non listed shares, the losses pertaining to the listed shares are deductible prior to the losses on the non-listed shares. 70 per cent of any excess amount is deductible according to the main rule or five sixths of 70 per cent is deductible if the capital loss relates to non-listed shares.

Capital losses on listed shares in mutual funds containing only Swedish receivables are fully deductible against any income from capital.

If a deficit arises in the income from capital category, a reduction of the tax on income from employment and from business operations, as well as the real estate tax and the municipal real estate fee, is allowed. The tax reduction amounts to 30 per cent of any deficit not exceeding SEK 100,000 and 21 per cent of any deficit in excess of SEK 100,000. The deficit may not be carried forward to a later fiscal year.

For individuals residing in Sweden for tax purposes, preliminary tax at a rate of 30 per cent will be withheld on received dividends. Preliminary tax is normally withheld by Euroclear Sweden or, for nominee–registered shares, by the nominee.

Legal entities

Limited liability companies are normally taxed on all income, including capital gains and dividends, as income from business operations at a rate of 26.3 per cent.

Taxable capital gains and capital losses are calculated in the same manner as described above regarding "Individuals". A capital loss on shares may be offset only against taxable gains on shares or other securities that are taxed in the same manner as shares. Such a capital loss may be offset against capital gains on such securities within the same group of companies, provided the requirements for group contributions (Sw: koncern-

bidrag) are met and if each of the companies requests it for the same year of assessment. Capital losses on shares, which have not been deducted from capital gains within a certain year, may be carried forward and be offset against such capital gains in future years without any limitation in time.

EXERCISE OF SUBSCRIPTIONS RIGHTS

No tax liability will arise when Subscription Rights are used to subscribe for New Shares. When the Subscriptions Rights are received due to existing shareholding in KappAhl the acquisition cost for tax purposes for the New Shares will be the Subscription Price for the New Shares.

SALE OF SUBSCRIPTION RIGHTS

Shareholders who do not wish to exercise their preferential right to participate in the Rights Issue may divest the Subscription Rights received. The disposal of Subscription Rights will mean that a taxable capital gain shall be calculated. Subscription Rights received due to existing shareholding are considered to be acquired without cost. The entire revenue from the sale of such Subscription Rights, after deduction for sales expenses, will be subject to tax. The standard rule may not be used and the acquisition cost of the original shares is not affected.

PURCHASED SUBSCRIPTION RIGHTS

The acquisition cost for Subscription Rights that are purchased or acquired in a similar manner on the market is the actual purchase price. No tax is imposed on the exercise of the Sub-scription Rights. The acquisition cost for tax purposes for the Subscription Rights' should be included when computing the acquisition cost of the New Shares, received due to exercise of the Subscription Rights. If the Subscription Rights are sold, capital gains taxation will arise. The Subscription Rights' acquisition cost is computed according to the average method (see above). The standard rule may be applied on listed Subscription Rights that are acquired as described above.

SHAREHOLDERS RESIDING OUTSIDE OF SWEDEN

For shareholders who are not residing in Sweden for tax purposes and who receive dividends from a Swedish limited liability company, Swedish withholding tax is normally withheld on the dividend. The withholding tax rate is 30 per cent. This tax rate is, however, generally reduced by tax treaties which Sweden has with other countries for the avoidance of double taxation. In Sweden, Euroclear Sweden or, for nominee-registered shares, the nominee, normally impose the withholding tax.

Shareholders who are not residing in Sweden for tax purposes and who are not carrying on business operations from a permanent establishment in Sweden are generally not liable for Swedish capital gains taxation on the disposal of shares. Shareholders may, nevertheless, be subject to tax in their country of residence. However, as far as non-resident individuals are concerned, capital gains on the sale of Shares and Subscriptions Rights issued by KappAhl, may in some cases be subject to Swedish tax if the individual has been a resident of or permanently lived in Sweden at any time during the calendar year of the sale or any of the 10 preceding calendar years. This provision is, nevertheless, in many cases limited by tax treaties which Sweden has with other countries for the avoidance of double taxation.

SELLING AND TRANSFER RESTRICTIONS

The grant of Subscription Rights and issue of New Shares upon or without exercise of Subscription Rights (the "Offering") to persons resident in, or who are citizens of, countries other than Sweden, may be affected by the laws of the relevant jurisdiction. Investors should consult their professional advisers as to whether they require any governmental or other consent or need to observe any other formalities to enable them to exercise Subscription Rights or otherwise subscribe for New Shares.

GENERAL

The Company will not take any action to permit a public offering of Subscription Rights or New Shares included in the Offering (pursuant to the exercise of Subscription Rights or otherwise) in any jurisdiction other than Sweden. Receipt of this prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this prospectus is for information only and should not be copied or redistributed. Except as otherwise disclosed in this prospectus, if an investor receives a copy of this prospectus in any jurisdiction other than Sweden, the investor may not treat this prospectus as constituting an invitation or offer. Nor shall the investor in any circumstances deal in the Subscription Rights or the New Shares, unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to the relevant investor, or the Subscription Rights or the New Shares could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, an investor who receives a copy of the prospectus, shall not distribute or send the same, or transfer Subscription Rights or New Shares, to any person in or into any jurisdiction where to do so may contravene with local securities laws or regulations. If any person (including a financial intermediary) forwards the prospectus into any such jurisdictions (whether under a contractual or legal obligation or otherwise), such person shall draw the recipients' attention to the contents of this section. Except as otherwise expressly noted in this prospectus, the following applies: (i) the Subscription Rights and New Shares being granted or offered, respectively, in the Offering may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any member state of the European Economic Area that has implemented the Prospectus Directive (see below for definition), except Sweden, unless they are granted or offered pursuant to an applicable exemption from prospectus requirements under the Prospectus Directive, or in or into the United States, Canada, Australia, New Zealand, South Africa, Hong Kong, Japan or any other jurisdiction in which it would be forbidden to offer the Subscription Rights or the New Shares ("Ineligible Jurisdictions"); (ii) the prospectus may not be sent to any person in any Ineligible Jurisdiction; and (iii) the crediting of Subscription Rights to a book-entry account of a shareholder or other person in an Ineligible Jurisdiction or citizen of an Ineligible Jurisdiction (each an "Ineligible Person") does not constitute an offer to such persons of the New Shares and Ineligible Persons may not exercise Subscription Rights. If an investor takes up, delivers or otherwise transfers Subscription Rights, exercises Subscription Rights to obtain New Shares or trades or otherwise deals in Subscription Rights or New Shares being granted or offered, respectively, in the Offering, that investor will be deemed to have made, or, in some cases, be required to make, the following representations and warranties to the Company and any person acting on behalf of the Company, unless the Company waives such requirement:

(a) the investor is not located in an Ineligible Jurisdiction;
(b) the investor is not an Ineligible Person;
(c) the investor is not acting, and has not acted, on the account or for the benefit of an Ineligible Person;
(d) the investor is located outside the United States, and any person for whose account or benefit it is acting on a non-discretionary basis is located outside the United States and, upon acquiring New Shares, the investor and any such person will be located outside the United States;
(e) the investor understands that neither the Subscription Rights nor the New Shares being granted and offered in the Offering have been or will be registered under the Securities Act and that they may not be offered, sold, pledged, resold, delivered, allotted, taken up or otherwise transferred within the United States or to, by an act or to the benefit of a person resident in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; and
(f) the investor may lawfully be offered, take up, subscribe for and receive the Subscription Rights and New Shares being offered in the Offering in the jurisdiction in which the person concerned resides or is currently located.

The Company, Nordea, Swedbank and any other persons acting on behalf of the Company rely upon the investor's representations and warranties. Any provision of false information or subsequent breach of these representations and warranties may subject the investor to liability for damages. If a person is acting on behalf of a holder of Subscription Rights (for exam-

ple as a nominee, custodian or trustee), that person will be required to provide the foregoing representations and warranties to the Company with respect to the exercise of Subscription Rights on the holder's behalf. If such person does not or cannot provide the foregoing representations and warranties, the Company will not be bound to authorize the allocation of any Subscription Rights or New Shares to that person or the person on whose behalf the other is acting. Subject to the specific restrictions described below, if an investor (including its nominees, custodians and trustees) located outside Sweden wishes to exercise or otherwise deal in Subscription Rights or subscribe for the New Shares, the investor is responsible for reviewing and observing applicable laws of any relevant jurisdiction, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any taxes due by reason of the Offering in such territories. The information set out in this section is intended as a general guide only. If the investor is in any doubt as to whether it is eligible to exercise its Subscription Rights or subscribe for the New Shares, that investor should consult its professional adviser without delay.

As regards shareholders who on the record date of 11 November 2011 hold shares in the Company through a nominee, Subscription Rights will initially be credited to the nominee for the account of such shareholders. A nominee may not exercise any Subscription Rights on behalf of any person located within an Ineligible Jurisdiction or any Ineligible Persons and may be required in connection with any exercise of Subscription Rights to certify the same. Subject to certain exceptions, nominees are not permitted to send the prospectus or any other information about the Offering into any Ineligible Jurisdiction or to any Ineligible Person. The crediting of Subscription Rights to persons in Ineligible Jurisdictions or to Ineligible Persons does not constitute an offer of New Shares to such persons. Nominees, e.g. banks and brokers a well as other financial intermediaries, with holdings for the account of Ineligible Persons, may consider selling any and all Subscription Rights held for the account of such person to the extent permitted under their arrangements with such persons and applicable law and to remit the net proceeds to the accounts of such persons. Subject to certain exceptions, instructions or proof of subscription sent from or postmarked in any Ineligible Jurisdiction will be deemed to be invalid, and the New Shares being offered in the Offering will not be delivered to an addressee in an Ineligible Jurisdiction. The Company reserves the right to reject any exercise or revoke an exercise in the name of any person who provides an address in an Ineligible Jurisdiction for acceptance or delivery of such New Shares, who is unable to represent or warrant that such person is not in an Ineligible Jurisdiction and is not an Ineligible Person, who is not acting on a discretionary basis for such persons, or who appears to the Company or its agents to have executed its exercise instructions in, or dispatched them from, an Ineligible Jurisdiction. Furthermore, the Company reserves the right, in its absolute sole discretion to treat as invalid any exercise of Subscription Rights which appear to the Company to have been executed, effected or dispatched in a manner that may involve a violation of the laws or regulations of any jurisdiction. Despite any other provision of this prospectus, the Company reserves the right to permit a holder to exercise Subscription Rights if the Company in its sole discretion is satisfied that the transaction in question is exempt from or not subject to the laws or regulations giving rise to the restrictions in question. Applicable exemptions in certain jurisdictions are described below. In any such case, the Company does not accept any liability for any actions that a holder takes or for any consequences that it may suffer by reason of the Company accepting the holder's exercise of Subscription Rights.

USA

None of the Subscription Rights or the New Shares has been, or will be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States.

Until 40 days after the commencement of the Offering, an offer, sale or transfer of the Subscription Rights or New Shares within the United States by a dealer (whether or not participating in the Offering) may violate the requirements of the Securities Act. Neither the Subscription Rights nor the New Shares have been approved or been subject to a rejection by any United States securities regulatory authority, on federal or state level, or of a United States supervisory authority. Nor have any of such authorities examined or endorsed the Offering, in respect of the Subscription Rights and the New Shares or the accuracy, adequacy or completeness of the prospectus. Any representation to the contrary is a criminal offence in the United States.

EUROPEAN ECONOMIC AREA

In relation to other member states of the European Economic Area, except Sweden, which has implemented the Prospectus Directive, an offer to the public of any Subscription Rights or New Shares mentioned in the prospectus may not be made, except that offers may be made under the following exemptions from the Prospectus Directive, if they have been fully implemented in their latest version in the relevant member state:

(a) to "qualified investors" as defined in the Prospectus Directive;

(b) to fewer than one hundred (100) natural or legal persons (other than qualified investors as defined in the Prospectus Directive); provided that no such offer shall result in a requirement for the publication by the Company, Nordea or Swedbank of a prospectus in the relevant member state pursuant to Article 3 of the Prospectus Directive.

For the purposes of the provisions above, the expression an "offer to the public" in relation to any Subscription Rights or New Shares in any relevant member state, means the communication in any form and by any means of sufficient information on the terms of the Offering and the Subscription Rights and New Shares offered so as to enable an investor to decide to purchase any of these securities. The expression "Prospectus Directive" means the Commission's Directive 2003/71/EC as changed through Commission Directives 2010/73/EC and 2010/78/EC and includes any relevant implementing measure in each relevant member state.

[1] One hundred and fifty (150) in the member states which have already implemented Commission Directive 2010/73/EC.

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