KAPPAHL 2016

ANNUAL REPORT PART 2 ADMINISTRATION REPORT | GRI INDEX | CORPORATE GOVERNANCE

"During the year we developed our customer offer and strengthened the gross margin"

KappAhl

KAPPAHL WAS FOUNDED IN 1953 in Gothenburg and is now one of the leading Nordic fashion chains with 400 stores in Sweden, Norway, Finland and Poland as well as Shop Online.

WE OFFER VALUE-FOR-MONEY FASHION of our own design with wide appeal – to women, men and children, with special focus on guiding and inspiring women in the prime of life. 38 per cent of the range is sustainability-labelled and our ambition is to increase this every year.

IN 2015/2016 NET SALES WERE SEK 4.7 billion and the number of employees was about 4,000 in nine countries. KappAhl has been listed on Nasdaq Stockholm since 2006.

CONTENTS

This report is an unofficial translation of the corresponding Swedish document. In the event of any discrepancies between the text contained in this document and the Swedish document, the latter shall prevail.

SHARE PRICE UP 66.8 PER CENT DURING THE YEAR

The KappAhl share has been listed on Nasdaq Stockholm, Mid-cap since 23 February 2006. The KappAhl share is included in the Nasdaq Stockholm Consumer Discretionary Index.

The number of shares in KappAhl is 76,820,380. One share entitles the holder to one vote. All shares have equal rights to a share in KappAhl's assets and profits.

PRICE PERFORMANCE AND TRADING

From the start of the financial year (1 September 2015) to 31 August 2016 the value of the KappAhl share increased by 66.8 per cent.

This can be compared with the Nasdaq Stockholm All-Share index that increased in value by 4.4 per cent and Nasdaq Stockholm General Retailers that decreased by 16.0 per cent in the same period. The highest price paid was SEK 45.0 on 25 August 2016 and the lowest price paid was SEK 20.9 on 29 September 2015. At the close of the financial year KappAhl's market value was SEK 3,280 million and the P/E ratio estimated on profit for the year was 13.4.

In the period 1 September 2015 to 31 August 2016 a total of 54,995,042 KappAhl shares were traded to the value of SEK 1,778.3 million, based on the average price, SEK 32.0 This means that each share was traded 0.72 times over the year, corresponding to an average of 218,234 shares traded per day.

OWNERSHIP STRUCTURE

On 31 August 2016 KappAhl had 14,191 shareholders. The largest shareholder was Mellby Gård AB (Rune Anderson) with a holding of 20.5 per cent and Swedbank Robur Fonder with 5.2 per cent, followed by Handelbanken Fonder with 5.0 per cent.

Of the shareholders, 4.3 per cent own more than 5,000 shares. Shareholdings registered with companies and institutions amounted to 85.1 per cent.

DIVIDEND

The Board of Directors proposes a dividend of SEK 1,25 (0.75) per share for the 2015/2016 financial year.

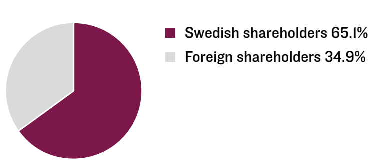
STOCK MARKET INFORMATION

KappAhl's information to the stock market and shareholders is to be characterised by correctness, relevance, transparency and speed.

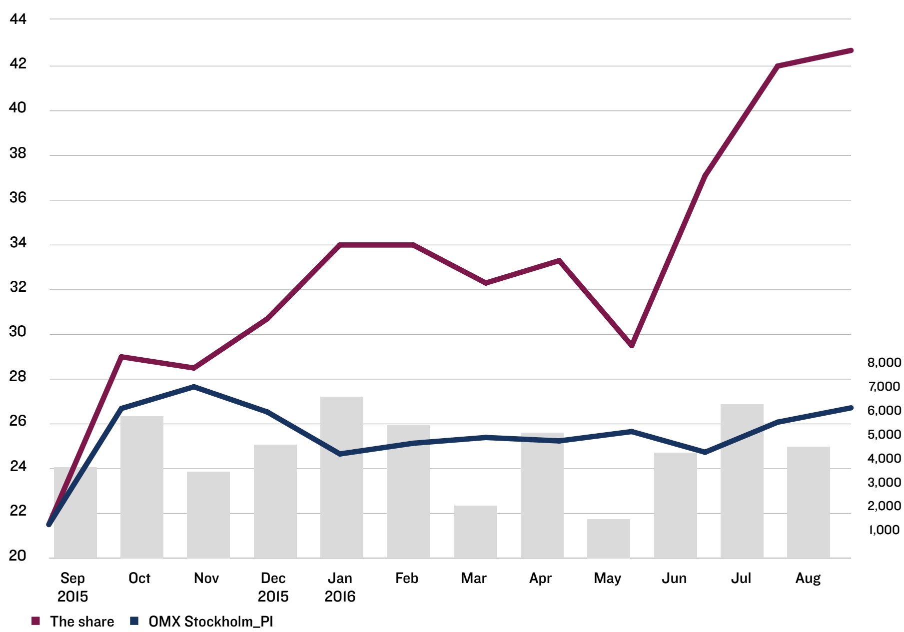
KappAhl's press releases, quarterly reports and annual reports are available at www.kappahl.com/ir. Here you will also find additional information about the company, financial performance and the KappAhl share and how to subscribe to information from KappAhl.

Holding as at 31 August 2016 (SEK thousand)	Number of shareholders	Number of shares	Shareholding (%)	Votes (%)
1–500	10,028	1,558,611	70.7	70.7
501–1,000	1,713	1,460,072	12.1	12.1
1,001–5,000	1,839	4,404,622	13.0	13.0
5,001–10,000	280	2,106,259	2.0	2.0
10,001–15,000	69	880,356	0.5	0.5
15,001– 20,000	47	845,938	0.3	0.3
20,001–	215	65,564,522	1.5	1.5
Total	**14,191**	**76,820,380**	**100.0**	**100.0**

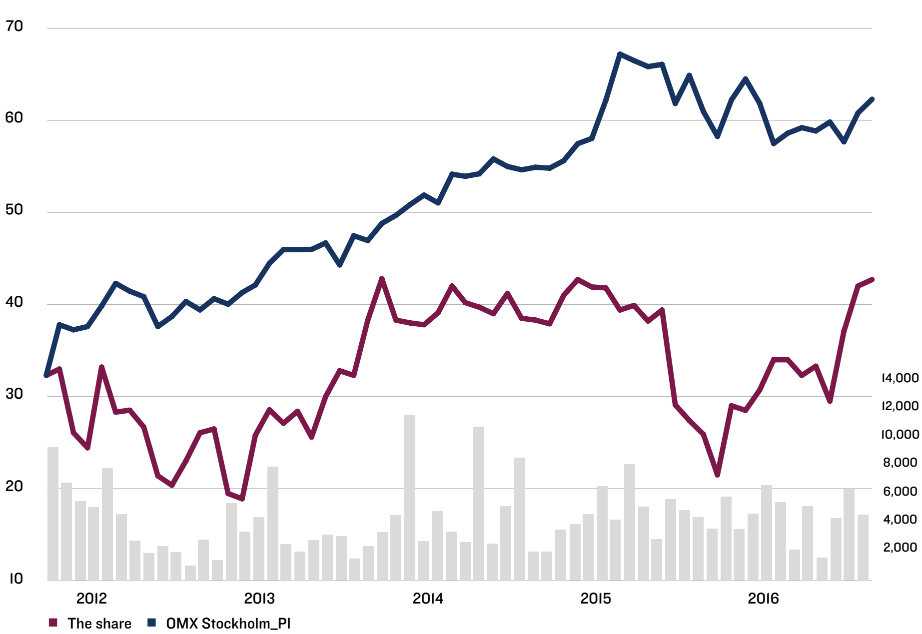
OWNERSHIP STRUCTURE, GEOGRAPHICAL DISTRIBUTION



KAPPAHL SHARE PERFORMANCE 2015/2016



KAPPAHL SHARE PERFORMANCE, 1 SEPTEMBER 2011–31 AUGUST 2016



MULTI-YEAR AND QUARTERLY REVIEW

KEY FIGURES

	September–August 2015/2016	September–August 2014/2015	September–August 2013/2014	September–August 2012/2013	September–August 2011/2012
Net sales	4,723.6	4,588.2	4,742.9	4,750.9	4,586.8
Sales growth, %	3.0	–3.3	–0.2	3.6	–7.8
Operating profit (EBIT), SEK million	349.3	197.8	272.1	252.3	–64.7
Adjusted operating profit (EBIT), SEK million	349.3	207.5	295.1	202.3	53.2
Operating profit (EBITDA)	479.8	333.4	400.6	395.9	155.4
Adjusted operating profit (EBITDA), SEK million	479.8	342.8	423.6	345.9	273.3
Total depreciation/amortisation, SEK million	130.5	135.3	128.5	140.6	220.1
Gross margin %	61.8	60.1	60.8	59.2	56.7
Operating margin, %	7.4	4.3	5.7	5.3	–1.4
Adjusted operating margin, %	7.4	4.5	6.2	4.3	1.2
Interest coverage ratio (multiple)	35.1	9.0	4.0	2.9	0.39
Net interest-bearing liabilities, SEK million	144.2	282.3	460.0	660.9	1,672.6
Net interest-bearing liabilities/Adjusted EBITDA (multiple)	0.3	0.8	1.1	1.7	10.7
Equity-assets ratio, %	58.1	56.6	56.1	49.4	26.2
Equity per share, SEK	23.50	21.36	20.12	18.42	3.85
Equity per share after dilution, SEK	23.50	21.30	19.99	18.42	3.85
Cash flow from operating activities per share, SEK	3.94	4.75	4.60	3.06	0.68
Market price, SEK	42.7	25.90	38.30	38.34	6.40
Market value, SEK million	3,280.2	1,989.6	2,874.0	2,877.0	1,440.8
P/E ratio (multiple)	13.4	17.9	22.3	31.6	neg
Dividend yield, %	2.9	2.9	2.0	0.0	0.0
Market price/equity per share, %	182	82	188	208	166
Earnings per share, SEK	3.19	1.45	1.71	1.32	–5.30
Dividend per share, SEK (proposed 2015/2016)	1.25	0.75	0.75	0.00	0.00
Weighted average number of shares	76,820,380	76,296,003	75,040,000	68,474,000	42,272,533
Number of shares at close of period	76,820,380	76,820,380	75,040,000	75,040,000	225,120,000
Number of shares after dilution	76,820,380	76,296,003	75,522,814	75,040,000	225,120,000

CONSOLIDATED INCOME STATEMENT (SEK MILLION)

	September–August 2015/2016	September–August 2014/2015	September–August 2013/2014	September–August 2012/2013	September–August 2011/2012
Net sales	4,723.6	4,588.2	4,742.9	4,750.9	4,586.8
Cost of goods sold	–1,806.4	–1,831.9	–1,856.6	–1,937.1	–1,988.1
Gross profit	**2,917.2**	**2,756.3**	**2,886.4**	**2,813.8**	**2,598.7**
Selling expenses	–2,356.0	–2,384.8	–2,468.9	–2,486.8	–2,526.9
Administrative expenses	–211.9	–173.7	–145.4	–150.2	–136.5
Other operating income	–	–	–	75.5	–
Operating profit	**349.3**	**197.8**	**272.1**	**252.3**	**–64.7**
Adjusted operating profit	**349.3**	**207.5**	**295.1**	**202.3**	**53.2**
Financial income	1.2	0.7	0.4	0.1	0.3
Financial expenses	–10.1	–21.8	–68.1	–87.3	–165.9
Profit/loss before tax	**340.5**	**176.7**	**204.4**	**165.1**	**–230.3**
Taxes	–95.6	–65.3	–75.1	–74.0	6.0
Net profit/loss for the year	**244.9**	**111.4**	**129.3**	**91.1**	**–224.3**

QUARTERLY INCOME STATEMENTS (SEK M)

	Q4,15/16	Q3,15/16	Q2,15/16	Q1,15/16	Q4,14/15	Q3,14/15	Q2,14/15	Q1,14/15	Q4,13/14	Q3,13/14	Q2,13/14	Q1,13/14
Net sales	1,248	1,195	1,116	1,165	1,149	1,132	1,133	1,174	1,185	1,201	1,114	1,243
Cost of goods sold	–524	–420	–462	–401	–490	–433	–478	–431	–482	–448	–471	–456
Gross profit	**724**	**775**	**654**	**764**	**659**	**699**	**655**	**743**	**703**	**753**	**643**	**787**
Selling expenses	–574	–614	–570	–597	–563	–612	–604	–606	–598	–617	–603	–651
Administrative expenses	–51	–58	–53	–50	–44	–45	–42	–42	–36	–35	–37	–37
Other operating income	–	–	–	–	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–
Operating profit	**99**	**103**	**31**	**117**	**52**	**42**	**9**	**95**	**69**	**101**	**3**	**99**
Adjusted operating profit	**99**	**103**	**31**	**117**	**62**	**42**	**9**	**95**	**92**	**101**	**3**	**99**
Financial income	1	0	0	0	1	0	0	0	0	0	0	0
Financial expenses	–5	0	–2	–2	–6	–5	–3	–8	–10	–38	–8	–12
Profit/loss before tax	**95**	**103**	**29**	**115**	**47**	**37**	**6**	**87**	**59**	**63**	**–5**	**87**
Taxes	–36	–14	–15	–32	–17	–14	–9	–26	–27	–21	–2	–25
Net profit/loss for the year	**59**	**89**	**14**	**83**	**30**	**23**	**–3**	**61**	**32**	**42**	**–7**	**62**

	Q4,12/13	Q3,12/13	Q2,12/13	Q1,12/13	Q4,11/12	Q3,11/12	Q2,11/12	Q1,11/12	Q4,10/11	Q3,10/11	Q2,10/11	Q1,10/11
Net sales	1,148	1,210	1,148	1,245	1,129	1,146	1,119	1,193	1,208	1,237	1,188	1,341
Cost of goods sold	–494	–470	–516	–457	–485	–469	–538	–496	–556	–493	–508	–491
Gross profit	**654**	**740**	**632**	**788**	**644**	**677**	**581**	**697**	**652**	**744**	**680**	**850**
Selling expenses	–575	–627	–636	–650	–579	–615	–685	–648	–616	–651	–624	–669
Administrative expenses	–36	–49	–31	–34	–36	–33	–34	–33	–33	–36	–40	–35
Other operating income	–	–	–1	77	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–
Operating profit	**43**	**64**	**–36**	**181**	**29**	**29**	**–138**	**16**	**3**	**57**	**16**	**146**
Adjusted operating profit	**57**	**76**	**–36**	**105**	**46**	**46**	**–55**	**16**	**3**	**57**	**16**	**146**
Financial income	0	0	0	0	0	0	0	0	1	0	0	0
Financial expenses	–7	–21	–17	–43	–59	–34	–47	–26	–18	–22	–15	–17
Profit/loss before tax	**36**	**43**	**–53**	**138**	**–30**	**–5**	**–185**	**–10**	**–14**	**35**	**1**	**129**
Taxes	–29	–11	–11	–23	–10	–5	22	–1	–40	–9	0	–34
Net profit/loss for the year	**7**	**32**	**–64**	**115**	**–40**	**–10**	**–163**	**–11**	**–54**	**26**	**1**	**95**

DEFINITIONS

Some information in this report used by company management and analysts to assess the Group's development has not been prepared in accordance with IFRS. The company management considers that this information makes it easier for investors to analyse the Group's performance and financial structure. Investors should regard this information as a complement to rather than a replacement for financial reporting in accordance with IFRS.

Key figures	Definition/calculation	Purpose
Margins		
Gross margin	Gross profit as a percentage of net sales	Gross margin is used to measure profitability of goods distribution
Operating margin	Operating profit as a percentage of net sales	Operating margin is used to measure operative profitability
Adjusted operating margin	Adjusted operating profit as a percentage of net sales	Adjusted operating margin is used to measure operative profitability excluding items affecting comparability
Return		
Dividend yield, %	Dividend / share price	Dividend yield shows the size of the dividend in relation to the share price.
Capital structure		
Net interest-bearing liabilities	Interest-bearing liabilities minus cash and cash equivalents	Used to measure the capacity for repaying interest-bearing liabilities with available cash and cash equivalents if these fell due on the date of the calculation
Net interest-bearing liabilities/ Adjusted EBITDA (multiple)	Net interest-bearing liabilities / adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation) for immediately preceding twelve-month period	Net debt/adjusted EBITDA gives an estimate of the company's capacity to pay its interest bearing liabilities
Equity-assets ratio	Equity / balance sheet total at the close of the period	This key ratio shows financial risk, expressed as the proportion of total capital that is financed by the owners
Data per share		
Equity per share	Equity / number of shares	Equity per share measures the company's net value per share and determines whether a company increases the shareholders' wealth over time
Cash flow from operating activities per share	Cash flow from operating activities for the period / number of shares for the period	Cash flow from operating activities per share measures the cash flow the company generates per share before capital investment and cash flows referring to the company's financing
Earnings per share	Profit after tax / average number of shares	This key ratio is used to assess the development of the investment from the point of view of the owners
Earnings per share after dilution	Profits after tax / average number of shares after full dilution	This key ratio is used to assess the development of the investment from the point of view of the owners
Price/equity per share, %	Price / equity	This key ratio measures how the market values the company at a given point in time
P/E ratio (multiple)	Market price at year-end / earnings per share	This key ratio shows how high the market values the company's profit
Number of shares after dilution	Adjusted for events that have changed the number of ordinary shares	Number of shares after dilution makes the effect of new issues and reverse split clear
Other definitions		
Gross profit	Net sales less cost of goods sold	Gross profit is used to measure profitability of goods distribution
Operating profit (EBIT)	Profit before net financial income and income tax (EBIT=earnings before interest and tax)	This key ratio makes it possible to compare profitability regardless of corporate tax rate and independent of the company's financing structure
Adjusted operating profit (EBIT)	Total profit before net financial income and income tax adjusted by items affecting comparability	This key ratio increases the comparability of EBIT
Operating profit (EBITDA)	Operating profit before amortisation and impairment (EBITDA=earnings before interest, tax, depreciation and amortisation)	This key ratio is used to measure cash flow from operating activities, regardless of the effects of financing and valuation of non-current assets
Adjusted operating profit (EBITDA)	Operating profit before amortisation and impairment adjusted by items affecting comparability	This key ratio increases comparability of EBITDA, since items affecting comparability have been excluded
Sales in comparable stores	Change in sales in comparable units (on a like-for-like basis) after adjustment for opened/closed stores and foreign exchange effects	This key ratio makes it possible to analyse sales excluding opened/closed stores and foreign exchange effects
Interest coverage ratio (multiple)	Operating profit plus interest income / interest expense for the preceding twelve—month period	This key ratio shows the company's capacity to cover its financial expenses
Sales growth	The Group's total sales during the period compared with the corresponding period in the previous year.	This key ratio makes it possible to compare sales over time
Market value, SEK million	Number of shares at the end of the period multiplied by the market price at the close of the period	This key ratio shows the market value of the shares

ADMINISTRATION REPORT

The Board of Directors and the President of KappAhl AB (publ), corporate identity number 556661-2312, with its registered office in Mölndal, hereby submit the annual report and consolidated accounts for the financial year 1 September 2015 to 31 August 2016.

BUSINESS OPERATIONS

The Group operates in retail sales of clothes and accessories for women, men and children through its own network of 368 stores in four countries.

In addition to the parent company, KappAhl AB (publ), the Group includes the operating wholly owned companies KappAhl Sverige AB, sales companies in Norway, Finland and Poland and a purchasing company in China. The Group also has production offices in China, Turkey, Bangladesh, India and Myanmar.

KappAhl Sverige AB and the sales companies in Norway, Finland and Poland are responsible for retail sales in their respective countries. A full list of Group companies is given in Note 23.

At KappAhl more than 4,000 employees work at about 400 workplaces in nine countries. More information is available in part 1 on page 15 and page 45.

The company in China and the foreign production offices are responsible for making contact with new suppliers, quality control and overseeing production and delivery in the markets close to them. The production offices also play an important part in sustainability.

Sales channels

The Group's sales are both in stores and online, via Shop Online. Apart from our 368 stores, KappAhl also operates Shop Online in all countries where there are physical stores. Shop Online in Poland was started in 2016.

Twelve new stores were opened during the financial year; eight in Sweden, two in Poland and two in Norway. In the same period one store in Sweden, seven in Poland, two in Norway and two stores in Finland were closed. Thus the total number of closed stores was twelve. The total number of stores was 368 (368) at the end of the financial year. Of these, there are 174 in Sweden, 100 in Norway, 59 in Finland and 35 in Poland.

NUMBER OF STORES PER COUNTRY

	31/8/ 2016	31/8/ 2015	31/8/ 2014	31/8/ 2013	31/8/ 2012	31/8/ 2011	31/8/ 2010	31/8/ 2009	31/8/ 2008
Sweden	174	167	166	165	165	159	153	144	138
Norway	100	100	101	103	103	99	95	92	87
Finland	59	61	63	65	62	59	56	53	46
Poland	35	40	47	52	53	47	40	30	20
Czech Republic	–	–	–	5	5	5	1	–	–
Total	**368**	**368**	**377**	**390**	**388**	**369**	**345**	**319**	**291**

BUSINESS DURING THE YEAR

Net sales and gross profit

KappAhl's net sales for the financial year were SEK 4,724 (4,588) million, corresponding to an increase of 3.0 per cent compared with the previous financial year. This is explained by the effect of new and closed stores, 2.6 per cent; change in comparable stores, 2.7 per cent and currency translation differences, –2.3 per cent.

Gross profit was SEK 2,917 (2,756) million, an increase of 5.9 per cent. The gross margin was 61.8 (60.1) per cent.

Operating profit

The Group's operating profit for the financial year was SEK 349 (198) million, an increase of 76.8 per cent. The operating profit corresponds to an operating margin of 7.4 (4.3) per cent. Selling and administrative expenses amounted to SEK 2 568 (2 558) million, meaning that the costs are slightly higher than in the previous year.

Profit/loss before tax

Profit before tax was SEK 341 (177) million, which is an improvement compared with the previous year of SEK 164 million. Net financial income amounted to SEK –9 (–21) million, which is an improvement compared with the previous year of SEK 12 million.

Taxes

Effective tax reported for the financial year was 28.1 (36.9) per cent. The reason for the lower effective tax rate compared with the previous year, is that the unreported deferred tax asset referring to losses in subsidiaries in relation to the Group's profit before tax is lower. The unreported deferred tax asset refers to losses in Poland and Finland of SEK –23 (–24) million; see Note 9. During the year the tax rate in Norway was also reduced by 2 per cent, from 27 per cent to 25 per cent.

FINANCIAL POSITION AND CASH FLOW

The Group continues to have a strong financial position with an equity/assets ratio of 58.1 (56.6) per cent. Net interest-bearing liabilities at the financial year-end were SEK 144 (282) million. At the close of the period net interest-bearing liabilities/adjusted EBITDA amounted to 0.3, compared with 0.8 as at 31 August 2015. Cash and cash equivalents amounted to SEK 314 (188) million as at 31 August 2016. At the period close there were unutilised credit facilities of about SEK 590 (578) million.

The company's external financing is primarily in the form of bank loans and overdraft facilities.

The Group's cash flow from operating activities before changes in working capital was SEK 439 (333) million. The improvement is mainly the result of a better operating profit. Cash flow from changes in working capital was SEK –136 (–33) million and has mainly been impacted by increased inventories, SEK 820 (725) million. Increased inventories are mainly related to exchange rate fluctuations.

Investments of SEK 120 (199) million were made during the period, mainly in existing and newly opened stores and IT related investments.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The purpose of the Group's financial policy is to control commercial activities. The policy is to reduce the risks of negative impact on earnings and increase the predictability of future performance. As part of the financial policy, currency policy is a central and critical success factor. To fulfil the policy, inflow of surplus liquidity from subsidiaries and purchases of goods for the Group are hedged. Hedging of flows with 1–9 months' forward planning is through futures, swaps and options. KappAhl is exposed above all to USD for purchasing goods, as well as liquidity surpluses from subsidiaries in NOK and PLN. Further information is available in Note 18.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Danny Feltmann took up the position as new President and CEO on 1 December 2015.

FUTURE DEVELOPMENT

Over a long period there have been changes in the industry that have affected KappAhl. Some of these are increased competition, changes in consumer behaviour, preferences and technological development. Over the past year and in the immediate future the opinion is that changes in the industry have taken place and will take place faster than before. This will entail greater challenges, while at the same time opportunities will increase. The consensus is that business environment factors offer continued opportunity for growth in the industry in line with the previous year.

MATERIAL RISKS AND UNCERTAINTIES

KappAhl is exposed to a number of risks, relating both to its own operations and to the industry as a whole. Most risk areas can be managed through internal procedures and controls, while some are governed more by external factors, such as the weather. The risks can be divided into business-related or operational risks and financial risks.

The financial risks and their management are described in more detail in Note 18. Risk management is also described in the corporate governance report, page 54, under the heading "Internal control regarding financial reporting".

Other material areas of identified risks and uncertainties are described in brief below, together with how KappAhl addresses each of these risk areas.

Competition

The fashion industry is characterised by great competition, in terms of both product range and markets. The main competitors are other chains, department stores and internet shopping, in the sale of clothes to women, men and children. There is also competition related to store locations and rental terms.

KappAhl focuses on clear concepts and market positioning through a well-defined target group, combined with a clear fashion expression and message.

Fashion

KappAhl's success is due to its ability to identify and adapt to constantly shifting fashion trends and customer needs and its timely introduction of new and attractive products. The products must attract a broad range of customers, whose perception of fashion cannot be predicted with certainty. If consumer trends and collections are misread it can lead to a surplus of stock, price cuts and reduced margins.

The brand could be damaged if customers believe that KappAhl is unable to offer them products they perceive as attractive. These risks are offset by recruiting talented designers and buyers who work constantly to spot and predict trends. Moreover the company has a customer-oriented business model where customer purchase patterns and behaviour are constantly analysed.

Trade restrictions

About 90 per cent of KappAhl's products are bought from Asia and the rest from Europe. Any trade restrictions, including customs tariffs, protective measures or quotas for clothes and accessories may have an impact on the cost or availability of products and mean that purchasing routines must be changed. It is impossible to predict if any of the countries in which clothes and accessories are manufactured, currently or in the future, will be subject to further trade restrictions and, if so, what the effects will be.

Development of the store network

KappAhl continues to develop the store network. At the same time, stores are continually being upgraded and developed, which requires considerable investment and management resources. There is no guarantee that investments will generate sufficient return. The ongoing digitalisation of the retail trade may in future affect the store network. The management regularly evaluates the performance of individual stores in relation to targets and ambition. This is done continually to ensure that growth targets and profitability requirements in the store operations are possible to achieve.

Trademarks and brands
It is KappAhl's policy to register and protect its brands and name. There are, however, no guarantees that these measures are sufficient to protect the brand and property. Moreover, unauthorised use of the brands on pirate copies or imitation of KappAhl's stores damage the company's image and reputation.

Information systems and information security
KappAhl relies on system support to manage the supply chain from purchase to sales in KappAhl's various sales channels, as well as to compile operative and statistical information. The risks include appropriateness of existing systems and safeguarding business-sensitive information. Any long interruption or lack of functionality in the systems can mean the loss of important information or the prevention or delay of actions.

The existing system structure is consequently regularly evaluated for the purpose of ensuring that the systems comply with current requirements. There is also a sharp focus on information security assurance in all parts of the Group. The Group's work also includes developing plans and processes for dealing with disruptions and interruptions. Multi-year plans for measures and action have been drawn up for modernisation and upgrading of the Group's IT tools.

The economy
The industry in which KappAhl operates is affected by changes in the economy that impact total demand and consequently the level of consumption. Consumer patterns are affected by a number of general factors beyond the control of the company, including general business conditions, interest rates, exchange rates, inflation and deflation levels, taxes, access to credit, stock market trends, unemployment levels, uncertainty about the economic outlook for the future and shifts in consumer patterns from consumer discretionary goods to other goods and services.

PARENT COMPANY

INFORMATION CONCERNING THE COMPANY'S SHARES
As at 31 August 2016 the total number of outstanding shares was 76,820,380.

The KappAhl share is listed on Nasdaq Stockholm, Mid Cap. Each share carries one vote. A shareholder may vote for all shares he or she owns or represents. All shares have the same dividend entitlement and there are no other rights restrictions attaching to the shares. The General Meeting of Shareholders has not issued any authorisation to the Board to acquire or issue new shares.

Stock options
KappAhl currently has no outstanding share-based incentive programmes.

Transferability
There are no restrictions on the transferability of the shares under the articles of association or current legislation.

The company is not otherwise aware of any contracts between shareholders restricting the transferability of shares.

Shareholding
As at 31/8/2016 the ten largest shareholders of KappAhl AB (publ) were as follows:

	Number of shares	Percentage of shares and votes
Mellby Gård AB	15,759,875	20.52
Handelsbanken Fonder AB RE JPMEL	4,002,768	5.21
Swedbank Robur Fonder	3,859,023	5.02
Fidelity Funds – Nordic Fund	2,066,099	2.69
Lannebo fonder	1,993,393	2.59
Catella Fondförvaltning	1,938,854	2.52
Fourth National Pension Fund	1,871,227	2.44
Försäkringsaktiebolaget, Avanza Pension	1,596,652	2.08
CBNY-Norges Bank	1,528,182	1.99
State Street Bank	1,434,508	1.87
Other shareholders	40,769,799	53.07
Total	**76,820,380**	**100.00**

No shares are owned by employees through pension funds or similar. The company does not hold any shares of its own.

Agreements with clauses on change of ownership
The Group has no agreements, apart from customary rules concerning change of ownership in credit agreements, which can be terminated on change of ownership. Apart from what is stated on page 11 concerning the President's terms of employment, there are no agreements between the company and members of the Board or employees providing for compensation, apart from salary during the period of notice, if their employment or engagement ceases due to a public takeover bid.

RESULT AND FINANCIAL POSITION
Sales amounted to SEK 23 (25) million and refer for the most part to inter-company invoicing of services. There were no external sales. Net financial income was SEK 22 (50) million. The pre-tax profit was SEK 11 (35) million. Regarding the number of employees, wages, salaries and other remuneration and terms of employment, please refer to Note 5.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No events of a material nature have occurred after the close of the financial year.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The company's guidelines for remuneration to senior executives were adopted by the Annual General Meeting on 2 December 2015. The Board of Directors proposes that the 2016 Annual General Meeting adopts guidelines that are by and large unchanged in comparison with 2015 and are worded as follows:

Basic salary

Pay and other conditions of employment shall be such that KappAhl can attract and retain competent senior executives. Senior executives will be offered a fixed salary that is market related and based on the person's responsibility and performance. Salary will be set per calendar year.

Variable remuneration

The senior executive may, from time to time, be offered a bonus. The maximum bonus payable is 50 per cent of the fixed salary. The senior executive may, on his or her own initiative, convert the bonus into extra pension payments. Bonuses will be primarily based on the operating profit (EBIT) of the KappAhl Group. Bonuses will be set per financial year.

Other benefits

Senior executives are entitled to extra health care insurance as well as all benefits covering the Group's other employees.

Pension

Apart from the provisions of collective agreements or other agreements, senior management executives are entitled to arrange pension solutions on an individual basis. Salary or bonus waivers can be used to increase allocation to a pension plan, provided the cost to KappAhl is unchanged over the period.

Notice of termination etc.

Senior executives and KappAhl must observe a period of six months' notice of termination. In the event of notice of termination from the employer, the following applies: the current President retains full salary for six months and receives severance pay, less any salary from other employment.

Corporate Governance

Information is provided in a separate Corporate Governance report. For further reading, please see page 51.

Sustainable development

KappAhl takes active responsibility for people and the environment and contributes to development in the countries where the company operates. More information can be found at www.kappahl.com/sustainability.

THE BOARD OF DIRECTORS' PROPOSED APPROPRIATION OF PROFITS

The following profits are at the disposal of the Annual General Meeting	SEK 2,200,287,031
The Board of Directors proposes the following dividend to shareholders SEK 1.25 per share	SEK –96,025,475
To be carried forward	SEK 2,104,261,556

The Board of Directors proposes that a dividend of SEK 96,025,475, equivalent to SEK 1.25 per share, be distributed.

The Board of Directors proposes that payment of the dividend be made at the time of the Annual General Meeting.

In the opinion of the Board of Directors the proposed appropriation of profits is justifiable, taking into account the Group's and the parent company's financial position and continued freedom of action as well as observing the requirements that the nature and extent of the business, its risks and future expansion plans impose on the group's and the parent company's equity and liquidity.

CONSOLIDATED INCOME STATEMENT

Amounts in SEK million	Note	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Net sales	3, 4	4,723.6	4,588.2
Cost of goods sold		–1,806.4	–1,831.9
Gross profit	7	**2,917.2**	**2,756.3**
Selling expenses	7	–2,356.0	–2,384.8
Administrative expenses	7	–211.9	–173.7
Operating profit	5, 6, 7	**349.3**	**197.8**
Financial income	8, 24	1.2	0.7
Financial expenses	8, 24	–10.1	–21.8
Net financial income	8	**–8.9**	**–21.1**
Profit/loss before tax		**340.5**	**176.7**
Taxes	9	–95.6	–65.3
Net profit/loss for the year		**244.9**	**111.4**
Earnings per share			
before dilution (SEK)		3.19	1.46
after dilution (SEK)		3.19	1.45
average number of outstanding shares in issue before dilution		76,820,380	76,078,555
average number of outstanding shares in issue after dilution		76,820,380	76,296,003

Net profit for the year refers entirely to the parent company KappAhl AB's shareholders.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in SEK million	Note	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Net profit/loss for the year		**244.9**	**111.4**
Items not to be recognised in net profit for the year			
Actuarial gains/losses		–8.2	20.8
Tax effect	9	1.8	–4.6
Total items not to be recognised in net profit for the year		**–6.4**	**16.2**
Items that have been reposted or may be reposted to net profit for the year			
Year's translation differences		3.2	–6.7
Cash flow hedges – value changes	18	9.4	15.0
Cash flow hedges recognised in income		–15.0	–16.2
Tax effect	9	1.2	0.3
Total items that have been reposted or may be reposted to net profit for the year		**–1.2**	**–7.6**
Total comprehensive income attributable to parent company's shareholders		**237.3**	**120.0**

CONSOLIDATED BALANCE SHEET

Amounts in SEK million	Note	2016-08-31	2015-08-31
ASSETS			
Non-current assets			
Intangible assets	10	1,351.3	1,348.7
Property, plant and equipment	11	428.8	459.4
Deferred tax assets	9	30.2	10.9
Other long-term receivables	18	0.8	–
Total non-current assets		**1,811.1**	**1,819.0**
Current assets			
Inventories	12	820.4	725.2
Trade receivables	18	18.5	1.5
Current tax assets	9	7.3	9.5
Prepaid expenses and accrued income	13	111.5	101.8
Other receivables	18	25.3	25.2
Cash and cash equivalents	18	313.6	188.3
Total current assets		**1,296.6**	**1,051.5**
Total assets		**3,107.7**	**2,870.5**
EQUITY AND LIABILITIES			
Equity			
Share capital		65.8	65.8
Other contributed capital		1,160.9	1,160.9
Reserves		–14.0	–12.8
Retained earnings including profit for the year		592.1	411.2
Total equity		**1,804.8**	**1,625.1**
Liabilities			
Non-current liabilities			
Other interest-bearing liabilities	14, 18, 21	400.0	400.0
Provisions for pensions and similar obligations	14, 15	48.1	48.0
Deferred tax liabilities	9	151.4	89.0
Total long-term liabilities		**599.5**	**537.0**
Current liabilities			
Interest-bearing liabilities	14, 18, 21	9.7	22.3
Trade payables		194.7	258.9
Current tax liabilities		44.6	8.1
Other liabilities	16, 18	134.8	123.6
Accrued expenses and deferred income	17	319.6	295.5
Total current liabilities		**703.4**	**708.4**
Total liabilities		**1,302.9**	**1,245.4**
Total equity and liabilities		**3,107.7**	**2,870.5**

Equity refers entirely to the parent company KappAhl AB’s shareholders.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in SEK million	Share capital	Other contributed funds	Hedging reserve[1]	Translation reserve[2]	Retained earnings including profit for the year	Total equity
	Equity attributable to the parent company's shareholders					
Opening equity, 1/9/2014	**64.3**	**1,111.2**	**12.3**	**–17.5**	**339.9**	**1,510.2**
Net profit/loss for the year	–	–	–	–	111.4	111.4
Other comprehensive income						
Cash flow hedges – value changes	–	–	15.0	–	–	15.0
Cash flow hedges recognised in income	–	–	–16.2	–	–	–16.2
Year's translation differences	–	–	–	–6.7	–	–6.7
Actuarial gains/losses	–	–	–	–	20.8	20.8
Tax effect attributable to items in other comprehensive income	–	–	0.3	–	–4.6	–4.3
Total comprehensive income	**–**	**–**	**–0.9**	**–6.7**	**127.6**	**120.0**
Transactions with shareholders						
Staff options plan	1.5	49.7	–	–	–	51.2
Dividend	–	–	–	–	–56.3	–56.3
Total transactions with shareholders	**1.5**	**49.7**	**–**	**–**	**–56.3**	**–5.1**
Closing equity, 31/8/2015	**65.8**	**1,160.9**	**11.4**	**–24.2**	**411.2**	**1,625.1**

Amounts in SEK million	Share capital	Other contributed funds	Hedging reserve[1]	Translation reserve[2]	Retained earnings including profit for the year	Total equity
	Equity attributable to the parent company's shareholders					
Opening equity, 1/9/2015	**65.8**	**1,160.9**	**11.4**	**–24.2**	**411.2**	**1,625.1**
Net profit/loss for the year	–	–	–	–	244.9	244.9
Other comprehensive income						
Cash flow hedges – value changes	–	–	9.4	–	–	9.4
Cash flow hedges recognised in income	–	–	–15.0	–	–	–15.0
Year's translation differences	–	–	–	3.2	–	3.2
Actuarial gains/losses	–	–	–	–	–8.2	–8.2
Tax effect attributable to items in other comprehensive income	–	–	1.2	–	1.8	3.0
Total comprehensive income	–	–	–4.4	3.2	238.5	**237.3**
Transactions with shareholders						
Staff options plan	–	–	–	–	–	–
Dividend	–	–	–	–	–57.6	–57.6
Total transactions with shareholders	–	–	–	–	–	–
Closing equity, 31/8/2016	**65.8**	**1,160.9**	**7.0**	**–21.0**	**592.1**	**1,804.8**

[1] The hedging reserve includes the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred.
[2] The currency translation reserve includes all translation differences that arise in connection with restating financial statements from foreign operations that have prepared their financial statements in a currency other than the Group's presentation currency.

CONSOLIDATED CASH FLOW STATEMENT

Amounts in SEK million	Note	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Operating activities			
Profit/loss before tax		340.5	176.7
Adjustment for non-cash items	24	108.9	153.1
Income tax paid		–10.8	3.0
Cash flow from operating activities before changes in working capital		**438.6**	**332.8**
Cash flow from changes in working capital			
Decrease (+)/Increase (–)in inventories		–95.2	7.9
Decrease (+)/Increase (–)in operating receivables		–35.2	1.1
Decrease (–)/Increase in (+) in operating liabilities		–5.3	23.7
Cash flow from operating activities		**302.9**	**365.5**
Investing activities			
Acquisition of property, plant and equipment		–100.2	–180.5
Acquisitions of intangible fixed assets		–19.0	–18.6
Investments in non-current financial assets		–0.8	–
Cash flow from investing activities		**–120.0**	**–199.1**
Financing activities			
Dividend		–57.6	–56.3
Staff options plan		–	51.2
Amortisation of debt		–	–295.0
Loans raised		–	400.0
Decrease (–)/Increase (+)in bank overdraft facilities		–	–121.4
Cash flow from financing activities		**–57.6**	**–21.5**
Cash flow for the year		**125.3**	**146.5**
Cash and cash equivalents at beginning of the year		188.3	43.4
Exchange rate differences in cash and cash equivalents		0.0	–1.6
Cash and cash equivalents at close of the year		**313.6**	**188.3**

PARENT COMPANY INCOME STATEMENT

Amounts in SEK million	Note	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Net sales		23.3	24.5
Cost of goods sold		–	–
Gross profit		**23.3**	**24.5**
Other operating expenses		–34.2	–39.2
Operating profit	5, 6	**–10.9**	**–14.7**
Profit from financial items:			
Dividends from subsidiaries	8	12.8	36.5
Group contribution received	8	25.8	42.9
Other interest income and similar profit/loss items	8, 24	12.4	13.4
Interest expense and similar profit/loss items	8, 24	–28.7	–43.0
Net financial income		**22.3**	**49.8**
Appropriations		–	–
Profit/loss before tax		**11.4**	**35.1**
Taxes	9	0.2	–
Net profit/loss for the year		**11.6**	**35.1**

STATEMENT OF COMPREHENSIVE INCOME FOR THE PARENT COMPANY

Amounts in SEK million	Note	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Net profit/loss for the year		**11.6**	**35.1**
Other comprehensive income		–	–
Total other comprehensive income		**11.6**	**35.1**

PARENT COMPANY BALANCE SHEET

Amounts in SEK million	Note	31/8/2016	31/8/2015
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	23	3,143.3	3,106.2
Deferred tax assets		0.2	–
Other long-term receivables	18	0.8	–
Total financial assets		**3,144.3**	**3,106.2**
Total non-current assets		**3,144.3**	**3,106.2**
Current assets			
Current receivables			
Receivables from group companies		285.9	279.4
Current tax asset		0	1.9
Prepaid expenses and accrued income	13	0.8	1.0
Other interest-bearing receivables		0.3	–
Cash and bank balances		2.9	38.2
Total non-current assets		**289.9**	**320.5**
Total assets		**3,434.2**	**3,426.7**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (76,820,380 shares at SEK 0.86)		65.8	65.8
Statutory reserve		205.1	205.1
Total restricted equity		**270.9**	**270.9**
Non-restricted equity			
Share premium reserve		959.5	955.8
Retained earnings		1,229.2	1,255.5
Net profit/loss for the year		11.6	35.1
Total non-restricted equity		**2,200.3**	**2,246.4**
Total equity		**2,471.2**	**2,517.3**
Provisions			
Provisions for pensions	14	0.8	–
Non-current liabilities			
Other interest-bearing liabilities	14, 21	400.0	400.0
Total long-term liabilities		**400.0**	**400.0**
Current liabilities			
Other interest-bearing liabilities	14, 18, 21	353.6	336.4
Trade payables		0.3	0.4
Liabilities to group companies		192.2	153.8
Income tax liability		0.1	–
Other liabilities		1.9	3.5
Accrued expenses and deferred income	17	14.1	15.3
Total current liabilities		**562.2**	**509.4**
Total equity and liabilities		**3,434.2**	**3,426.7**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

Amounts in SEK million	Share capital	Statutory reserve	Share premium reserve[1)]	Retained earnings	Total equity
Opening equity, 1/9/2014	**64.3**	**205.1**	**906.1**	**1,311.8**	**2,487.3**
Net profit/loss for the year	–	–	–	35.1	35.1
Other comprehensive income					
Cash flow hedges – value changes	–	–	–	–	–
Cash flow hedges recognised in income	–	–	–	–	–
Tax attributable to cash flow hedges	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–**	**35.1**	**35.1**
Transactions with shareholders					
Staff options plan	1.5	–	53.4	–3.8	51.1
Dividend	–	–	–	–56.3	–56.3
Total transactions with shareholders	**1.5**	**–**	**53.4**	**–60.1**	**–5.2**
Closing equity, 31/8/2015	**65.8**	**205.1**	**959.5**	**1,286.8**	**2,517.2**

Amounts in SEK million	Share capital	Statutory reserve	Share premium reserve[1)]	Retained earnings	Total equity
Opening equity, 1/9/2015	**65.8**	**205.1**	**959.5**	**1,286.8**	**2,517.2**
Net profit/loss for the year	–	–	–	11.6	11.6
Other comprehensive income					
Cash flow hedges – value changes	–	–	–	–	–
Cash flow hedges recognised in income	–	–	–	–	–
Tax attributable to cash flow hedges	–	–	–	–	–
Total comprehensive income	–	–	–	11.6	11.6
Transactions with shareholders					
Staff options plan	–	–	–	–	–
Dividend	–	–	–	–57.6	–57.6
Total transactions with shareholders	–	–	–	–	–
Closing equity, 31/8/2016	**65.8**	**205.1**	**959.5**	**1,240.8**	**2,471.2**

[1)] The share premium reserve consists of the part of the price at the time of a new issue that exceeds the nominal value. The year's change refers to the part of the staff options plan that exceeds the nominal value.

HISTORY OF NUMBER OF SHARES AND SHARE CAPITAL

	Number of shares	Carrying amount
2005-01-01	10,000,000	10,000,000
New share issue, January 2005	366,000	366,000
Subscription for new shares, December 2005	354,000	354,000
Split 7:1, January 2006	64,320,000	–
Split 2:1, February 2008	75,040,000	–
Redemption 1:2 2008	–75,040,000	–
Rights issue November 2011	150,080,000	21,440,000
Rights issue November 2012	225,120,000	32,160,000
Reverse split 6:1 December 2012	–375,200,000	–
Subscription for new shares (warrants) February 2015	1,780,380	1,526,040
Closing amounts, 31/8/2016	**76,820,380**	**65,846,040**

PARENT COMPANY CASH FLOW STATEMENT

Amounts in SEK million	Note	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Operating activities			
Profit/loss before tax		11.4	35.1
Adjustment for non-cash items	24	–58.9	–79.4
Income tax paid		2.0	–0.3
Cash flow from operating activities before changes in working capital		**–45.5**	**–44.6**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		32.0	113.2
Increase (+)/Decrease (–) in operating liabilities		6.9	–2.2
Cash flow from operating activities		**–6.6**	**66.4**
Investing activities			
Capital injection to subsidiaries		–	–
Investments in non-current financial assets		–0.8	–
Cash flow from investing activities		**–0.8**	**–**
Financing activities			
Staff options plan		–	51.2
Dividend		–57.6	–56.3
Loans raised		–	400.0
Amortisation of debt	18	–	–295.0
Decrease (–)/Increase (+)in bank overdraft facilities	18	29.7	–204.7
Cash flow from financing activities		**–27.9**	**–104.8**
Cash flow for the year		**–35.3**	**–38.4**
Cash and cash equivalents at beginning of the year		38.2	76.6
Cash and cash equivalents at close of the year		**2.9**	**38.2**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 Accounting policies

COMPLIANCE WITH STANDARDS AND LAWS

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. Additional information in accordance with the Swedish Financial Reporting Board recommendation RFR 1 "Supplementary accounting rules for groups" has also been taken into account.

The parent company applies the same accounting policies as the Group, except in the cases indicated below under the heading "Parent company's accounting policies". The deviations between the parent company's and the group's accounting policies are due to restrictions imposed by the Annual Accounts Act and the Act on Safeguarding Pension Commitments affecting the parent company's ability to apply IFRS, and in some cases for tax reasons. In addition the Swedish Financial Reporting Board recommendation RFR 2 "Accounting for legal entities" has been applied.

The accounting policies, unless otherwise stated, have been applied consistently in all periods presented in the Group's financial statements.

BASIS FOR THE PREPARATION OF THE PARENT COMPANY AND GROUP FINANCIAL STATEMENTS

The functional currency used by the parent company in its operations is Swedish kronor and this is also the reporting currency of the parent company and the Group. This means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise indicated, are rounded to one decimal place to the nearest million kronor. Assets and liabilities are recognised at their historic cost of acquisition, with the exception of financial assets and liabilities, which are stated at their fair value. Financial assets and liabilities stated at their fair value consist of derivative instruments, such as interest swaps, currency forwards and currency swaps.

Preparing statements in accordance with IFRS requires the use of a number of important accounting estimates. Furthermore, the management must make certain judgments when applying the Group's accounting policies. The areas that entail a high degree of judgment, which are complex or of such a nature that assumptions and estimates are critical to the consolidated accounts are specified in note 2.

The Group's accounting policies have been applied consistently in all reporting and consolidation of subsidiaries.

NEW AND AMENDED ACCOUNTING POLICIES

As of 1 September 2015 the Group does not apply any new standards or amendments.

NEW AND AMENDED STANDARDS, INTERPRETATIONS PUBLISHED BUT NOT YET EFFECTIVE

When preparing the consolidated accounts as at 31 August 2016 several standards, interpretations and amendments had been published but not yet come into force or adopted by the EU.

IFRS 9 "Financial instruments" is published in three parts: Classification and Measurement, Impairment and Hedge Accounting and will replace the current IAS 39 Financial Instruments: Recognition and measurement. The company management assesses that application of IFRS 9 will impact the Group's financial statements. However, it is not yet possible to quantify how great the effects may be. The standard will be applicable from 1 January 2018.

IFRS 15 "Revenue from contracts with customers", which is a new framework for reporting revenue with associated disclosure requirements. IFRS 15 will replace IAS 18 Revenue and IAS 11 "Construction contracts" and will be applied as of 1 January 2018. The premise is that everything starts with an agreement between two parties on the sale of a good or service. Initially a contract with a customer is to be identified, which for the seller generates an asset (rights, a promise of remuneration) and a liability (commitment, a promise to transfer goods/services). According to the model the company then recognises revenue, thereby demonstrating the company's performance of an obligation to supply the promised goods or services to the customer. The current assessment by the company's management is that the standard will not entail any material difference for the Group.

IFRS 16 "Leases" is a new standard for leases published by the IASB in January 2016. It will supersede IAS 17 "Leases" and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities referring to all leases, with some exceptions, be recognised in the balance sheet. This accounting is based on the view that the lessee has the right to use an asset for a specific period of time and at the same time an obligation to pay for this right. The lessor's accounting will essentially be unchanged. The standard is applicable to financial years starting on or after January 1 2019. The company management assesses that the standard will impact reporting of material assets and liabilities referring to the Group's tenancy agreements for premises, but has not quantified the effects.

No other IFRS or IFRIC interpretations that as yet have not come into force are expected to have any material impact on the Group.

CONSOLIDATION PRINCIPLES

Consolidation

The consolidated accounts include the parent company KappAhl AB (publ) and the companies over which KappAhl AB has a controlling influence, directly or indirectly. Subsidiaries are all companies over which the Group has a controlling interest. The Group has a controlling influence over a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Equity in the Group includes equity in the parent company and the part of equity in the subsidiary that was generated after acquisition. All internal transactions between the Group company and inter-company transactions are eliminated in the consolidated accounts.

Business combinations

The purchase method is used to account for subsidiaries. Acquired identifiable assets, liabilities and contingent liabilities are measured at fair value on the acquisition date. The excess of the cost of acquisition for the acquired interests over the total fair value of the identifiable net assets and liabilities acquired is recorded as goodwill. The cost of acquisition is the fair value of the assets transferred to the seller and liabilities incurred or assumed at the date of exchange. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. All acquisition related costs are recognised as expenses. Companies acquired during the current year are included in the consolidated accounts as of the date of acquisition. Divested companies are included in the consolidated accounts up to and including the date of divestment.

FOREIGN CURRENCY

Transactions in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated to the functional currency using the exchange rate prevailing on the balance sheet date. Translation differences that arise in connection with translation are recorded in the income statement. Translation differences on non-monetary assets and liabilities, recorded at historical cost, are translated at the exchange rate on the transaction date. Non-monetary assets and liabilities that are reported at their fair values are translated into the functional currency using the exchange rates prevailing at the time they are recognised at their fair value. The translation differences are then reported in the same way as other changes in the amounts of assets and liabilities.

The functional currency is the currency of the primary economic environment in which the company operates. The companies of the Group are the parent company and subsidiaries. The parent company's functional currency and reporting currency is Swedish kronor. The Group's reporting currency is Swedish kronor. The functional currency of the subsidiaries is the local currency in the respective country.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and other consolidated surpluses and deficits, are translated into Swedish kronor at the exchange rate in effect on the balance sheet date. The income and expenses of foreign operations are translated into Swedish kronor at an average rate that is an approximation of the rates on the respective transaction dates. Translation differences that arise in connection with translation of foreign operations are recognised in other comprehensive income as a translation reserve. When a foreign operation is divested, the accumulated translated differences pertaining to the operations are realised after deduction of possible hedging in the consolidated income statement.

INCOME

Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards associated with ownership of the goods have been transferred to the buyer. Revenue is not recognised if it is probable that the economic benefits will not accrue to the Group, if there is significant uncertainty concerning payment, associated costs or risk of returned goods. Revenue is recognised at the fair value of the consideration received or expected to be received, less any discounts given.

All sales are made on a 30-day sale-or-return basis. Revenue is recognised on the date of the sale, subject to sale-or-return.

The Group has a loyalty programme in which customer club members earn bonus points and can later use them as payment in the form of bonus cheques. For accounting purposes the bonus earned is recognised by reducing net sales at the time the bonus reward is earned with a corresponding deferred income item in the balance sheet.

OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSES

Payments relating to operating leases

Payments relating to operating leases are reported in the income statement on a straight-line basis over the leasing period. Benefits received in connection with the signing of an agreement are reported as part of the total leasing expense in the income statement.

Financial income and expense

Financial income and expense consists of interest income on bank balances, interest expense relating to loans and other financial items.

FINANCIAL INSTRUMENTS

Financial instruments recorded in the balance sheet include, on the assets side, cash and cash equivalents, trade receivables and derivatives reported as other current receivables. Liabilities include loan liabilities to credit institutions, trade payables and derivatives reported as other current receivables. Financial instruments are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are removed from the balance sheet when the contractual right to receive the cash flow from the asset ceases. Financial liabilities are removed from the balance sheet when the contractual obligation is discharged, annulled or expires.

Loans and receivables

The category mainly covers cash and balances with banks and trade receivables. Cash and balances with banks are measured at nominal amounts. Trade receivables have a short expected maturity and are measured without discounting at the original invoiced amount less expected loss risk.

Other financial liabilities

Financial liabilities not held for trading are measured at amortised cost. Liabilities to financial institutions are classified as 'Other interest-bearing liabilities', which means recognition at amortised cost, at which time directly attributable costs such as arrangement fees, are accrued over the life of the loan using the effective interest method. Long-term liabilities have an expected maturity of more than 1 year, while current liabilities have a maturity of less than 1 year. Trade payables are assigned to this category. They have a short expected maturity and are recorded at nominal amounts without discounting.

Financial assets and liabilities measured at fair value

All derivatives are initially and subsequently recognised at fair value in the balance sheet. Profit/loss on revaluation of derivatives used for hedging is recognised as described in the section 'Derivatives and hedge accounting'.

DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are currency forwards, currency swaps and interest swaps that are used to handle the risk of exchange rate fluctuation and exposure to interest risk. The Group's financial gains and risk management are described in Note 18.

CASH FLOW HEDGING

Foreign currency exposure relating to future forecast cash flows is hedged through currency forwards. Currency forwards that protect the forecast cash flows are reported in the balance sheet at their fair value.

Interest rate swaps are used to hedge interest risk. Interest rate swaps are stated at their fair value in the balance sheet.

The effective portion of the change in fair value of a derivative instrument identified as a cash flow hedge and satisfying the criteria for hedge accounting, is reported in other comprehensive income and only recognised in income in the periods when the hedged item affects profit or loss (for example when the hedged forecast transaction takes place). The gain or loss referring to the ineffective portion is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset (such as inventories or non-current assets), the gains or losses previously reported in equity will be transferred from equity and included in the initial cost of acquisition of the asset. These amounts recognised as assets will be reported later in 'Cost of goods sold' as regards inventories or in 'Depreciation' as regards non-current assets.

When hedging instruments mature, are sold, liquidated or redeemed, or the company breaks the identification of the hedging relationship before the hedged transaction has taken place and the forecast transaction is still expected to take place, the reported accumulated gain or loss remains in the hedging reserve in equity and is recorded in a similar way as above when the transaction takes place. If the transaction is no longer expected to take place, the hedging instruments accumulated gains or losses are immediately recognised in the income statement.

PROPERTY, PLANT AND EQUIPMENT

Owned assets

Property, plant and equipment are recognised as assets in the balance sheet if it is likely that the company will receive future economic benefits and the cost of acquisition of the asset can be reliably measured.

Property, plant and equipment are recognised in the consolidated accounts at cost of acquisition, deducting accumulated depreciation and any impairment loss. The cost of acquisition includes the purchase price and costs directly relating to the asset to put it in place in a condition enabling it to be used for the purpose for which it was acquired.

Leased assets

In the consolidated accounts leases are classified either as finance leases or operating leases. A lease is a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee, otherwise it is an operating lease. The Group has no material financial leases.

Depreciation principles

Straight-line depreciation is used over the estimated useful life of the asset. Estimated useful life periods;

– equipment, tools, fixtures and fittings	3–10 years

Annual impairment tests are made of the residual value of assets and their useful life.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the difference between cost of acquisition of the business combination and the fair value of acquired assets and liabilities and contingent liabilities.

Goodwill is recognised at cost of acquisition minus any accumulated impairment losses. Goodwill is distributed to cash-generating units and is not amortised, but impairment tests are carried out on an annual basis.

Computer software

Computer programs acquired or developed internally by KappAhl are recorded at cost of acquisition minus accumulated depreciation and impairment.

Trademarks and brands

Trademarks acquired by KappAhl are recorded at cost of acquisition minus accumulated impairment. The value of the brand is not amortised but is tested annually for impairment.

Tenancy rights

Tenancy rights for the stores are recorded in the accounts at their cost of acquisition with an estimated useful life of 10 years.

Amortisation

Amortisation is recorded in the income statement on a straight-line basis over the estimated useful life of the intangible asset, unless the useful life is indefinite. Goodwill, trademarks and brands have an indefinite useful life and an impairment test is conducted annually, or as soon as there are indications that the asset in question has fallen in value. Amortisable intangible assets are amortised from the date they are available for use. The estimated useful life periods are:

– software	3–5 years
– tenancy rights	10 years

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The net realisable value is the estimated selling price in current operations, after deduction for the cost of achieving a sale.

The cost of acquisition of inventories is calculated using the first-in, first-out method (FIFO) and includes costs incurred in connection with the acquisition of the inventory items.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank assets that can be accessed immediately, held in banks and similar institutions.

IMPAIRMENT LOSS

The reported values of the Group's assets with the exception of inventories, actuarial plan assets used for financing employee benefits and deferred tax assets are reviewed on each balance sheet date to assess if impairment is indicated. If such an indication exists, the asset's recoverable value is assessed. The value of assets that are exempt as stated above is reviewed according to the relevant standards in place.

The recoverable value of goodwill, trademarks and brands with an indefinite useful life and intangible assets that are not yet ready for use, are assessed annually.

If it is not possible to establish the individual cash inflow of an individual asset when impairment testing is carried out, the assets are grouped at the lowest level where it is possible to identify essentially independent cash flows. Impairment is indicated when an asset's or a cash-generating unit's carrying amount exceeds the recoverable value. Impairment losses are recognised in the income statement. Goodwill is monitored in the Group's management accounting at Group level, and therefore impairment testing is carried out for the Group as a whole. Goodwill, trademarks and brands were acquired in connection with the acquisition of the KappAhl Group in December 2004.

EMPLOYEE BENEFITS

Defined contribution plans

The company's obligations with respect to contributions to defined contribution plans are recognised in the income statement when they fall due.

Defined benefit plans

The Group's net obligation with respect to defined benefit plans is calculated individually for each plan by estimating the future benefit the employees will have earned from their employment for both current and previous periods; this benefit is discounted to its present value and the fair value of any plan assets is deducted.

The discount rate is the rate of interest on the balance sheet date of first class corporate bonds with a maturity that corresponds to the Group's pension obligations. When there is no active market for such corporate bonds, the market interest rate on government bonds with the equivalent maturity is used. As of 2009/2010 a discount rate based on the mortgage bond market is used for KappAhl Sverige AB and a discount rate based on the government borrowing rate is used for KappAhl AS. See Note 15. A qualified actuary performs the calculation using the projected unit credit method.

Remeasurements, consisting of actuarial gains and losses, return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), change in the effect of the asset ceiling, excluding amounts included in the net interest on the net defined benefit liability (asset) are recognised in other comprehensive income in the period in which they arise. This type of remeasurement is never recognised in income in future periods.

Past service costs are recognised in income either at the time of the change or reduction in the plan or when the Group recognises related restructuring costs.

The net interest is calculated on the defined benefit net liability. The interest rate used is the discount rate above. The interest is recorded as financial expense/income. Service costs are recorded in the following items in the income statement: cost of goods sold, selling expenses and administrative expenses. The pension obligations whose value is dependent on the value of a capital insurance policy are recorded at the value of the capital insurance policy.

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy or in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of employees according to a detailed formal plan without possibility of withdrawal.

PROVISIONS
A provision is reported in the balance sheet when the Group has an existing legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. When the effect of the timing of the payment is of material significance, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects current market assessments of the money's time value, and where appropriate, the risks that are associated with the liability.

CONTINGENT LIABILITIES
Contingent liabilities are reported when there is a possible obligation arising from past events and the existence of which is only confirmed by one or more uncertain future events or when there is an obligation not reported as a liability or provision because it is not probable that an outflow of resources will be required.

SEGMENT REPORTING
KappAhl does not report additional operating segments under IFRS 8, as the Group's reportable segments are deemed to constitute only one operating segment.

The assessment is based on the assumption that the Group's management team constitutes the "chief operating decision-maker". The company's business activities consist entirely of selling fashion in by and large similar geographical markets. The operations have a group-wide integrated purchasing and logistics function. The financial reporting is based on a group-wide functional organisation and management structure.

TAXES
Income taxes consist of current tax and deferred tax. Income taxes are recorded in the income statement except when the underlying transaction is recognised in other comprehensive income or equity, in which case the associated tax effect is also recognised in other comprehensive income or equity.

Current tax is tax that must be paid or may be recovered for the current year using the tax rates in effect or substantively in effect as at the balance sheet date. Deferred tax is calculated using the balance sheet method based on temporary differences between the carrying amount and tax base value of assets and liabilities. The following temporary differences are not taken into account: temporary differences that have arisen upon initial recognition of goodwill; initial recognition of assets and liabilities that are not business combinations and at the time of the transaction do not affect the reported or taxable profit; Moreover, temporary differences relating to participations in subsidiaries that are not expected to be reversed in the foreseeable future are not taken into account either. The value of deferred tax is based on how the reported amounts of assets or liabilities are expected to be realised or paid. Deferred tax is calculated using the tax rates and tax rules that are in effect or substantively in effect as at the balance sheet date.

Deferred tax assets relating to temporary tax-deductible differences and loss carry-forwards are only recognized when it is probable that they can be used in the future. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be used.

Deferred tax assets and tax liabilities are offset when they refer to income tax debited by the same tax authority and when the Group intends to settle the tax on a net basis.

PARENT COMPANY ACCOUNTING POLICIES
The parent company presents its annual accounts in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for Legal Entities". RFR 2 means that the Parent Company, in its separate financial statements, must apply all the IFRS and statements adopted by the EU as far as possible, subject to the Annual Accounts Act and the Act on Safeguarding Pension Obligations, due to considerations of the connection between accounting and taxation. The recommendation specifies the exemptions and additions that must be made in relation to IFRS. The differences between the Group's and the Parent Company's accounting policies are presented below.

The accounting policies outlined below for the parent company have been consistently applied to all periods that are presented in the parent company's financial statements and remain unchanged compared with last year.

Participations in subsidiaries
Participations in subsidiaries are reported in the Parent Company accounts at cost of acquisition less any impairment loss.

Accounting for group contributions
Group contributions received from subsidiaries are reported as financial income. However, group contributions given to a subsidiary are reported as an increase in the carrying amount of the investment.

Taxes
Untaxed reserves in the Parent Company include deferred tax liabilities. The consolidated accounts, however, divide untaxed reserves into deferred tax liability and equity.

NOTE 2 Important accounting estimates

When preparing the financial statements, estimates and assumptions are made about the future that affect the balance sheet and income statement items and supplementary disclosures presented in the annual accounts. These estimates and assumptions are evaluated regularly and are based on historical experience and the various assumptions considered by the management and Board to be reasonable under the current circumstances. The actual outcome may therefore deviate from estimates and assumptions made. It is assessed that as at 31 August 2016 there are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the coming financial year.

NOTE 3 Distribution of revenue

Net sales in the Group consist entirely of the sale of goods. No segment information is given because the Group as a whole constitutes an operating segment.

NOTE 4 Net sales

Net sales by geographical market

Group SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Sweden	2,666.2	2,516.0
Norway	1,216.2	1,195.8
Finland	558.7	562.2
Poland	282.5	314.2
Total	**4,723.6**	**4,588.2**

Non-current assets by geographical market

Group SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Sweden	252.0	291.5
Norway	83.6	95.8
Finland	43.0	47.4
Poland	50.1	67.6
Total	**428.8**	**502.3**

Goodwill and trademarks are not included in non-current assets by country as they cannot be allocated by country

NOTE 5 Employees and staff costs

Average number of employees

	1/9/2015 31/8/2016	Of which men	1/9/2014 31/8/2015	Of which men
Parent company				
Sweden	7	42.8%	7	50.0%
Total parent company	**7**	**42.8%**	**7**	**50.0%**
Subsidiaries				
Sweden	1,403	10.0%	1,417	10.0%
Norway	597	2.0%	601	2.0%
Finland	336	1.0%	356	1.0%
Poland	336	5.0%	365	6.0%
Asia	140	42.0%	146	40.0%
Total, subsidiaries	**2,812**	**8.2%**	**2,885**	**7.5%**
Group, total	**2,819**	**8.2%**	**2,892**	**7.5%**

Gender breakdown of company management

	31/8/2016 Percentage of men	31/8/2015 Percentage of men
Parent company		
Board of Directors	47.0%	40.0%
Other senior executives	42.9%	42.9 %
Group, total		
Board of Directors	42.9%	33.3%
Other senior executives	42.9%	33.3%

Salaries, remuneration and social security costs

	1/9/2015–31/8/2016			1/9/2014–31/8/2015		
SEK million	Salaries and remuneration	Social security costs	Pension costs	Salaries and remuneration	Social security costs	Pension costs
Parent company	18.8	6.8	4.1	22.6	8.4	4.3
Subsidiaries	878.6	220.6	48.0	908.1	205.6	29.8
Group, total 2)	**897.4**	**227.4**	**52.1**	**930.7**	**214.0**	**34.1**

Salaries and remuneration

	1/9/2015–31/8/2016			1/9/2014–31/8/2015		
SEK million	Board and President 1)	of which variable salary component	Other employees	Board and President	of which variable salary component	Other employees
Parent company	7.7	1.9	11.1	12.5	–	10.1
Subsidiaries in Sweden	–	–	503.8	–	–	502.0
Subsidiaries in Norway	2.7	–	213.0	2.6	–	235.2
Subsidiaries in Finland	2.2	–	89.7	1.8	–	93.4
Subsidiaries in Poland	1.6	–	32.6	0.8	–	37.5
Subsidiaries in Asia	–	–	33.0	1.3	–	33.5
Group total	**14.2**	**1.9**	**883.2**	**19.0**		**911.7**

1) includes current and previous members of the board, President and Vice President
2) Of the Group's pension costs, SEK 1.1 million (SEK 1.4 million) refers to the Board of Directors and President, including current and previous members of the Board, the President and Vice President.

Of the salaries and remuneration paid to other employees in the Group, SEK 9 (10) million is for senior executives other than the Board of Directors and President.

Severance pay
In the event of notice of termination from the employer, some senior executives have contracts that guarantee them the right to retain their salaries in full for 6–12 months. Retirement benefits are based on a general pension plan from 65 years of age.

President's conditions of employment
In the event of notice of termination from the employer, the current President has a contract guaranteeing the right to retain full salary for 6 months and receive severance pay, less any salary from other employment. Retirement benefits are based on a general pension plan from 60 years of age.

Other
For information on post-employment and other employee benefits, please see Note 15. KappAhl currently has no outstanding share-based incentive programmes.

Note 5 cont.

Benefits for senior executives

Remuneration and other benefits during the year

SEK million	1/9/2015–31/8/2016 Basic salary/ Board fee	Variable remuneration	Pension cost	Total	2014-09-01–2015-08-31 Basic salary/ Board fee	Variable remuneration	Pension cost	Total
Chairman of the Board Anders Bülow	0.5	–	–	0.5	0.5	–	–	0.5
Member of the Board Christian W. Jansson	0.4	–	–	0.4	0.4	–	–	0.4
Member of the Board Pia Rudengren (from 1 December 2013)	0.5	–	–	0.5	0.3	–	–	0.3
Member of the Board Amelia Adamo (to 23 December 2015)	0.1	–	–	0.1	0.2	–	–	0.2
Member of the Board Susanne Holmberg	0.2	–	–	0.2	0.1	–	–	0.1
Member of the Board Kicki Olivensjö (from 23 December 2015)	0.1	–	–	0.1	–	–	–	–
Member of the Board Gustaf Öhrn (23 December 2015–28 April 2016)	0.1	–	–	0.1	–	–	–	–
Other (5 board members)	0.1	–	–	0.1	0.1	–	–	0.1
President/CEO Johan Åberg (to 30 June 2015)	–	–	–	–	10.9	–	1.4	12.3
President /CEO Anders Düring (1 July 2015–30 November 2015)	0.8	0.4	0.2	1.4	–	–	–	13.0
President/CEO Danny Feltmann (from 1 December 2015)	3.1	1.5	0.9	5.5	–	–	–	13.0
Management Team (6 people)	8.9	2.6	3.0	14.4	10.1	–	2.9	13.0
Total	**14.7**	**4.5**	**4.1**	**23.3**	**22.6**	**–**	**4.3**	**26.9**

NOTE 6 Fees and remuneration to auditors

SEK million	Group 1/9/2015 31/8/2016	Group 1/9/2014 31/8/2015	Parent company 1/9/2015 31/8/2016	Parent company 1/9/2014 31/8/2015
Ernst & Young AB				
Audit assignments	1.0	1.0	0.1	0.2
Audit business in addition to audit	0.4	0.2	0.2	0.1
Tax consultancy	0.2	0.6	0.1	0.1
Other services	0.2	0.1	–	–
Total	**1.8**	**1.9**	**0.5**	**0.4**
Other auditors				
Audit assignments	0.1	0.1	–	–
Audit business in addition to audit	–	0.2	–	–
Tax consultancy	–	0.1	–	–
Other services	–	0.1	–	0.2
Total	**0.1**	**0.5**	–	**0.2**

Audit assignments refer to the examination of the annual accounts, the accounting records and the administration by the Board of Directors and the President. Audit business in addition to the audit assignment entail other quality assurance services to be performed in accordance with statutes, articles of association, by-laws or agreement. The amount includes review of the interim report. Tax consultancy includes both advisory services and review of compliance in the area of taxation. Other services are other assignments.

NOTE 7 Operating expenses

Group SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Raw materials and consumables	1,853.6	1,775.8
Personnel costs	1,144.8	1,154.6
Rental costs	859.8	881.5
Depreciation/amortisation	132.3	135.3
Reversal of impairment losses	–1.8	–11.4
Other operating expenses	385.6	454.6
Total	**4,374.3**	**4,390.4**

NOTE 8 Financial income and expense

Group

SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Loans and loan receivables		
Interest income	1.2	0.7
Loans and trade receivables	**1.2**	**0.7**
Financial liabilities recorded at amortised cost.		
Interest expense	–8.5	–16.9
Other financial expenses	–1.7	–4.9
Financial liabilities recorded at amortised cost.	**–10.2**	**–21.8**
Total net financial expense	**–8.9**	**–21.1**

Parent company

SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Profit from participations in subsidiaries		
Dividends from subsidiaries	12.8	36.5
Group contribution received	25.8	42.9
Profit from participations in subsidiaries	**38.6**	**79.4**
Loans and loan receivables		
Interest income	12.4	13.4
Loans and loan receivables	**12.4**	**13.4**
Financial liabilities recorded at amortised cost.		
Interest expense	–27.0	–38.2
Other financial expenses	–1.7	–4.8
Financial liabilities recorded at amortised cost.	**–28.7**	**–43.0**
Total net financial expense	**22.3**	**49.8**

NOTE 9 Taxes

Reported in the income statement

Group SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Current tax expense (–)		
Current tax on profit for the year	–45.5	–2.5
Adjustment of tax relating to previous years	–5.1	–
Deferred tax expense (–) /tax credit (+)		
Deferred tax relating to temporary differences	12.2	–0.9
Deferred tax in change in loss carry-forwards	–57.2	–61.9
Total reported tax in the Group	**–95.6**	**–65.3**
Tax reported in other comprehensive income		
Cash flow hedges – value changes	1.2	0.3
Translation differences	–	–4.2
Actuarial gains/losses	1.8	–4.6
Total tax reported in other comprehensive income	**3.0**	**–8.5**

Parent company SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Current tax credit (+)		
Tax credit for the period	–	–
Deferred tax expense (–) /tax credit (+)	–	–
Deferred tax relating to temporary differences	0.2	–
Other changes in deferred tax assets	–	–
Total reported tax in the parent company	**0.2**	**–**
Tax reported in other comprehensive income		
Cash flow hedges – value changes	–	–
Total tax reported in other comprehensive income	**–**	**–**

Note 9 cont.

Reconciliation of effective tax

Group SEK million	1/9/2015 31/8/2016 (%)	1/9/2015 31/8/2016	1/9/2014 31/8/2015 (%)	1/9/2014 31/8/2015
Profit/loss before tax		340.5		176.7
Tax at effective tax rate for parent company	–22.0	–74.9	–22.0	–38.9
Effect of other tax rates for foreign subsidiaries	–2.0	–6.7	–2.6	–4.5
Expenses not deductible for tax purposes	–5.6	–19.2	–7.5	–13.3
Non-taxable revenue	4.6	15.8	0.2	0.4
Utilisation of loss carry forwards not previously reported	–	–	8.3	14.7
Losses for which no loss carry-forwards have been reported	–6.7	–23.0	–13.4	–23.7
Temporary differences referring to non-deductible costs	4.3	14.8	–	–
Tax adjustment due to changed tax rate	–0.4	–1.4	–	–
Adjustment of tax for previous periods	–0.3	–0.9	–	–
Effective tax	**–28.1**	**–95.6**	**–36.9**	**–65.3**

Parent company SEK million	1/9/2015 31/8/2016 (%)	1/9/2015 31/8/2016	1/9/2014 31/8/2015 (%)	1/9/2014 31/8/2015
Profit/loss before tax		11.4		35.1
Tax at effective tax rate for parent company	–22.0	–2.5	–22.0	–7.7
Non-taxable revenue	24.6	2.8	22.9	8.0
Expenses not deductible for tax purposes	–2.6	–0.3	–0.9	–0.3
Adjustment of current tax for previous periods	0.0	0.0	–	–
Effective tax	**0.0**	**0.0**	**0.0**	**0.0**

Reported in the balance sheet
Deferred tax assets and liabilities

Group SEK million	Net 31/8/2016	 31/8/2015
Carry-forward of unused tax losses	–	57.2
Other tax-deductible temporary differences	78.4	64.6
Deferred tax assets	**78.4**	**121.8**
Netting against deferred tax liability	–48.2	–110.9
Total deferred tax assets	**30.2**	**10.9**
Market value of derivatives	–2.1	–3.3
Accelerated depreciation on plant and equipment	–21.3	–21.7
Trademarks and brands	–134.2	–134.2
Other taxable temporary differences	–42.0	–40.7
Deferred tax liabilities	**–199.6**	**–199.9**
Netting against deferred tax asset	48.2	110.9
Total deferred tax liability	**–151.4**	**–89.0**

In the past year all loss carry-forwards in Sweden were utilised. Deferred tax assets and tax liabilities are offset when they refer to income tax debited by the same tax authority and when the Group intends to settle the tax on a net basis. Swedish taxes are thus netted against deferred tax assets of SEK 48 million. Deferred tax assets referring to loss carry-forwards are only recognised if it is probable that the deductions can be applied against future taxation. At the close of the financial year there were loss carry-forwards amounting to just over SEK 515 (463) million where deferred tax assets have not been taken into account. Expiry periods of unutilised loss carry-forwards are shown in the table below.

Expiry periods, unutilised loss carry-forwards

SEK million	2016-08-31	2015-08-31
after 1 year	98.8	83.2
after 2 years	111.8	108.4
after 3 years	67.8	83.5
after 4 years	68.6	63.7
after 5 years	64.0	35.4
after 6 years or more	103.6	88.3
Total	**514.5**	**462.5**

NOTE 10 Intangible assets

Group

SEK million	Computer software	Trademarks and brands	Tenancy rights	Goodwill	Total
Cost of acquisition					
Opening balance, 1 September 2014	153.5	610.2	48.8	695.8	1,508.3
Purchases	18.0	–	–	–	18.0
Sales/retirements	0.0	–	–	–	0.0
Translation differences	–0.6	–	–	–	–0.6
Closing balance, 31 August 2015	**170.9**	**610.2**	**48.8**	**695.8**	**1,525.7**
Opening balance, 1 September 2015	170.9	610.2	48.8	695.8	1,525.7
Purchases	19.0	–	–	–	19.0
Sales/retirements	–2.9	–	–3.1	–	–6.0
Translation differences	0.2	–	–	–	0.2
Closing balance, 31 August 2016	**187.2**	**610.2**	**45.7**	**695.8**	**1,538.9**
Depreciation/amortisation and impairment					
Opening balance, 1 September 2014	–117.0	–0.2	–48.8	–	–166.0
Depreciation for the year	–11.0	–	–	–	–11.0
Sales/retirements	0.0	–	–	–	0.0
Translation differences	0.0	–	–	–	0.0
Closing balance, 31 August 2015	**–128.0**	**–0.2**	**–48.8**	**–**	**–177.0**
Opening balance, 1 September 2015	–128.0	–0.2	–48.8	–	–177.0
Depreciation for the year	–13.6	–	–	–	–13.6
Sales/retirements	0.0	–	3.1	–	3.1
Translation differences	–0.1	–	–	–	–0.1
Closing balance, 31 August 2016	**–141.7**	**–0.2**	**–45.7**	–	**–187.6**
Carrying amounts					
As at 31 August 2015	**42.9**	**610.0**	**–**	**695.8**	**1,348.7**
As at 31 August 2016	**45.5**	**610.0**	**–**	**695.8**	**1,351.3**

Depreciation/amortisation
Depreciation/amortisation is included in the following lines of the income statement

	Group		Parent company	
SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Administrative expenses	–11.7	–7.9	–	–
Selling expenses	–1.9	–3.1	–	–
Total	**–13.6**	**–11.0**	–	**–**

Impairment tests for goodwill and trademarks

An impairment test for goodwill is carried out every year as well as when there are indications of possible impairment. Impairment testing is carried out for the Group as a whole, as this is considered to be a cash generating unit. The recoverable amount for the cash generating unit is determined based on a value in use calculation. The calculations are based on estimated future cash flows for five years and then on discounted constant cash flows. For year one the calculation is based on the approved budget. For subsequent periods the cash flow has been assumed on the basis of strategic plans for the operations and a general growth rate of 2 (2) per cent. A discount rate before tax of 10.3 (9.5) per cent has been used for the calculation, which was calculated from a weighted average cost of capital (WACC). Using the assumptions reported above the value in use exceeds the carrying amount for the cash generating unit.

Trademarks with an indefinite useful life are not depreciated but tested annually for impairment together with the impairment test of goodwill.

Important variables	Method for estimating amounts
Market share and growth	A cautious increase in sales at comparable stores is expected for the forecast period. The company opening new stores is a natural part of its goodwill and brand value.
Gross margins	The gross margin is 61.8 (60.1) per cent, an increase compared with the previous year. However, we see the possibility of continued improvement. One of the drivers is a higher percentage of full-price sales.
Expenses	Expenses are expected in principle to be at the current level.
Discount rate	The discount rate corresponds to the Group's weighted average cost of capital (WACC) for required return on equity and the cost of external borrowing. The calculation of required return is based on risk-free interest of 0.1 (0.7) per cent and a risk premium of 8.5 (7.8) per cent.

Sensitivity analysis

A number of sensitivity analyses have been carried out to evaluate whether reasonable adverse changes could lead to impairment loss. The analysis has used variables that are important for the business. They are described above, as well as the methods chosen for estimating amounts. An increased discount rate, reduced long-term growth rate and reduced gross margin of one percentage point does not indicate any impairment loss. Neither does a deterioration in the above of two percentage points indicate any impairment loss.

NOTE 11 Property, plant and equipment

Group

SEK million	Land	Equipment, tools, fixtures and fittings	Total
Cost of acquisition			
Opening balance, 1 September 2014	15.0	2,116.7	2,131.7
Purchases	–	180.5	180.5
Sales/retirements	–	–56.9	–56.9
Translation differences	–	–37.0	–37.0
Closing balance, 31 August 2015	**15.0**	**2,203.3**	**2,218.3**
Opening balance, 1 September 2015	15.0	2,203.3	2,218.3
Purchases	–	100.2	100.2
Sales/retirements	–	–230.4	–230.4
Reclassification	–	0.2	0.2
Translation differences	–	–17.3	–17.3
Closing balance, 31 August 2016	**15.0**	**2,056.0**	**2,071.0**
Depreciation/amortisation and impairment			
Opening balance, 1 September 2014	–	–1,720.1	–1,720.1
Depreciation for the year	–	–124.3	–124.3
Reversal of depreciation/amortisation	–	11.4	11.4
Sales/retirements	–	42.4	42.4
Translation differences	–	31.7	31.7
Closing balance, 31 August 2015	**–**	**–1,758.9**	**–1,758.9**
Opening balance, 1 September 2015	–	–1758.9	–1758.9
Depreciation for the year	–	–118.7	–118.7
Reversal of depreciation/amortisation	–	1.8	1.8
Sales/retirements	–	218.3	218.3
Translation differences	–	15.3	15.3
Closing balance, 31 August 2016	**–**	**–1,642.2**	**–1,642.2**
Carrying amounts			
As at 31 August 2015	**15.0**	**444.4**	**459.4**
As at 31 August 2016	**15.0**	**413.8**	**428.8**

Carrying amounts	31/8/2016	31/8/2015
Land	15.0	15.0
Total	**15.0**	**15.0**

Depreciation/Impairment losses on property, plant and equipment

Depreciation/impairment losses are included in the following lines of the income statement.

	Group		Parent company	
SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Cost of goods sold	–7.1	–5.6	–	–
Administrative expenses	–	–1.9	–	–
Selling expenses	–109.8	–105.4	–	–
Total	**–116.9**	**–112.9**	–	**–**

NOTE 12 Inventories

Group

SEK million	31/8/2016	31/8/2015
Finished goods and trading goods	820.4	725.2
Total	**820.4**	**725.2**

Inventories are reported according to the principles in Note 1.

NOTE 13 Prepaid expenses and accrued income

	Group		Parent company	
SEK million	31/8/2016	31/8/2015	31/8/2016	31/8/2015
Prepaid rental costs	77.2	67.6	–	–
Other	34.3	34.2	0.8	0.9
Total	**111.5**	**101.8**	**0.8**	**0.9**

NOTE 14 Interest-bearing liabilities

Information concerning the company's contractual terms and conditions regarding interest-bearing liabilities and concerning the company's exposure to interest rate risk and exchange rate risk can be found in Note 18.

Group

SEK million	31/8/2016	31/8/2015
Non-current liabilities		
Bank loans	400.0	400.0
Provisions for pensions and similar obligations	48.1	48.0
Total	**448.1**	**448.0**
Current liabilities		
Bank loans	–	–
Interest rate derivatives	9.7	22.3
Total	**9.7**	**22.3**
Total	**457.8**	**470.3**

Parent company

SEK million	31/8/2016	31/8/2015
Non-current liabilities		
Provisions for pensions and similar obligations	0.8	–
Bank loans	400.0	400.0
Total	**400.8**	**400.0**
Current liabilities		
Bank loans	–	–
Group account	343.9	314.1
Interest rate derivatives	9.7	22.3
Total	**353.6**	**336.4**
Total	**754.4**	**736.4**

TERMS AND CONDITIONS AND REPAYMENT PERIODS
Regarding repayment periods, please refer to Note 18 and pledged assets/terms and conditions, Note 21.

NOTE 15 Post-employment employee benefits

The Group offers both defined contribution and defined benefit pension plans. In the case of the defined contribution plans, the Group's obligation is limited to fixed contributions that are paid to a separate legal entity. The Group's profits are charged as the benefits are earned. In the defined benefit plans, the Group's obligation is based on the employee's salary at the time he/she retires and the number of years of service. The Group stands the risk associated with payment of the pledged benefits.

DEFINED BENEFIT PENSION PLANS
Defined benefit plans mainly include old-age pension and widow's pension where the employer normally has a commitment to pay a lifelong pension equivalent to a certain guaranteed percentage share of salary or a certain amount. The amount earned is based on years of employment. The employee must be signed up for the plan for a certain number of years to earn the right to full old-age pension. For each year the employee earns an increased pension right, which is recorded as pension earned during the period and increase in pension commitment.

In the balance sheet the difference between the present value of the obligations and the fair value of any plan assets is recorded as either a provision or a long-term financial asset.

Defined benefit plans are calculated according to the Projected Unit Credit Method. This method distributes the cost of pensions as the employees carry out services for the company that increase their right to future benefits. This calculation is performed annually by independent actuaries. The present value of the defined benefit obligation is determined through discounting estimated future cash flows using a market interest rate based on Swedish mortgage bonds with maturities comparable to the pension obligation in question.

Pensions and other post-employment benefits
Defined benefit plans

Group SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Present value of pension obligations	220.7	210.7
Fair value of plan assets	–173.4	–162.7
Net obligation for defined benefit plans	**47.3**	**48.0**

The net amount is reported in the following items on the balance sheet:

Provisions for pensions	47.3	48.0

Expected return on plan assets is based on the same percentage rate as the discount rate on the pension obligation. The assumption also reflects the distribution of assets for each respective plan and the yield for each respective country.

Plan assets consist of the following:

	Sweden		Norway	
Sweden and Norway	2016	2015	2016	2015
Shares and funds (KappAhl AB (publ) are included at 0).	50.3	45.8	0.5	0.3
Debt securities	100.6	97.9	4.8	3.7
Property	16.8	14.2	0.7	0.7
Other	–	–	0.0	0.1
Total	**167.7**	**157.9**	**5.7**	**4.8**

Change in present value of the obligation

Group SEK million	31/8/2016	31/8/2015
Opening balance as at 1 September	210.7	219.1
Benefits earned during the period	0.5	0.4
Transfer of ITPK	–	–0.1
Pension payments	–7.6	–7.5
Interest	5.7	6.6
Actuarial gains (–)/losses (+)	11.3	–5.5
Translation differences	0.1	–2.3
Closing balance	**220.7**	**210.7**

Change in fair value of plan assets

Group SEK million	31/8/2016	31/8/2015
Opening balance as at 1 September	162.7	165.6
Yield on plan asset	4.5	4.7
Funds contributed	6.2	1.3
Reimbursement/pension payments	–3.8	–14.2
Actuarial gains (–)/losses (+)	3.8	5.8
Translation differences	0	–0.5
Closing balance	**173.4**	**162.7**

The actuarial net loss of SEK 7.5 million consists of:
– gain due to experience adjustments of SEK 5.6 million
– loss due to effects of changed assumptions of SEK 13.1 million, of which SEK 0 refers to change in demographic assumptions.

Cost reported in the income statement for defined benefit plans

Group SEK million	2015-09-01 2016-08-31	2014-09-01 2015-08-31
Costs relating to service in current period	0.4	0.4
Interest on obligation	5.7	6.6
Yield on plan assets	–4.5	–4.7
Total net cost in the income statement	**1.6**	**2.3**

The group is expected to pay SEK 1.9 million to the defined benefit plans in the next financial year.

The cost is reported on the following lines in the income statement:

Group SEK million	1/9/2015 31/8/2016	1/9/2014 31/8/2015
Cost of goods sold	–	0.0
Selling expenses	0.4	0.4
Financial income/expenses	1.2	1.9
Total recognised in the income statement	**1.6**	**2.3**
Amount recognised in other comprehensive income		
Actuarial gains (-)/losses (+)	7.5	–11.3
Return on plan assets excluding financial income/ expense reported	–1.1	–4.9
Total recognised in other comprehensive income	**6.4**	**–16.2**

Assumptions for defined benefit obligations
Through its defined benefit pension plans the Group is exposed to a number of risks. The most material risks are described below:

Change in bond yield – a decrease in the interest on mortgage bonds will entail an increase in plan liabilities.

Life expectancy assumptions – the pension obligations mean that employees covered by the plan will receive the benefits throughout their lives, which means that longer life expectancy assumptions will result in higher pension provisions.

The average remaining term for the pension obligation is 24 years.

The remaining life expectancy for a 65-year-old woman is estimated to be 24 years and for a man 20 years.

The actuarial calculation of pension obligations and pension costs is based on the following assumptions:

Sweden and Norway Per cent	Sweden 2016	Sweden 2015	Norway 2016	Norway 2015
Discount rate as at 31 August	2.5%	2.85%	0.7–2.1%	1.0–2.7%
Future salary increases	n/a	n/a	2.50 %	2.75%
Future pension increases	1.5%	1.5%	2.1 %	1.5–2.5%
Inflation	1.5%	1.5%	1.5–2.25 %	–
Expected yield	2.5%	2.85%	2.1 %	2.7%

Sensitivity analysis
The following table presents possible changes in actuarial assumptions per accounting year-end, all other assumptions unchanged, and how they would affect the defined benefit obligation. The calculation of the present value of the obligation at the close of the period only includes the Swedish commitment.

Present value of the obligation at the close of the period

SEK million	Increase to	Present value of obligation included in the Group's pension provision	Decrease to
Discount rate +/– 0.5%	205.8	187.3	171.1
Inflation +/– 0.5%	170.9	187.3	205.8
Life expectancy +/– 1 year	180.3	187.3	194.3

DEFINED CONTRIBUTION PENSION PLANS
The plans mainly cover old-age pension, disability pension and family pension. The premiums are paid continuously during the year by each group company to various insurance companies. The size of the premiums is based on salary. The pension costs for the period are included in the income statement and amount to SEK 36.2 (34.1) million.

For several of the Swedish group companies the commitments for old-age pension and disability pension for white-collar employees are safeguarded through insurance with Alecta. According to a statement by the Swedish Financial Reporting Board, UFR 10, this is a defined benefit plan covering several employers. The Group has not had access to information that makes it possible to report this plan as a defined benefit plan. Alecta does not have information on the earning breakdown between employers, for the majority of the earned pension benefits. In addition, there is no established regulatory framework for how any surplus or deficit that may arise should be handled. In the first instance, the losses are covered by Alecta's collective consolidation capital. Pension plans under ITP, which are safeguarded through insurance with Alecta, are therefore reported as defined contribution plans.

Alecta's surplus can be distributed to the policy holders and/or the insured. As at 30 June 2016 Alecta's surplus in the form of the collective consolidation level was 140 (154) per cent. The collective solvency level comprises the market value of Alecta's assets as a percentage of its insurance commitments calculated in accordance with Alecta's actuarial assumptions, which do not comply with IAS 19.

The year's contributions for pension insurance taken out with Alecta amount to SEK 12.2 (11.4) million. Expected charges in the next reporting period for insurance policies taken out with Alecta amount to SEK 12.5 million.

The Group's share of total savings premiums for the Alecta ITP 2 plan amounts to 0.034 (0.037) per cent. The Group's share of the total number of actively insured in the ITP 2 plan amounts to 0.063 (0.065) per cent.

The pension obligations whose value is dependent on the value of a capital insurance policy are recorded at the value of the capital insurance policy.

NOTE 16 Other liabilities

Group SEK million	31/8/2016	31/8/2015
Current liabilities		
Value added tax	65.8	53.4
Employee withholding taxes	32.1	33.5
Gift vouchers	33.4	30.7
Currency forwards	0	2.8
Other	3.5	3.2
Total	**134.8**	**123.6**

Liabilities falling due for payment more than five years after the balance sheet date
A certain portion of the gift vouchers' liability for the Swedish operating subsidiary is spread over more than five years because the gift vouchers are valid for ten years.

NOTE 17 Accrued expenses and deferred income

	Group		Parent company	
SEK million	31/8/2016	31/8/2015	31/8/2016	31/8/2015
Accrued wages/ salaries and social security contributions	174.6	164.7	12.1	14.5
Financial expenses	1.6	0.3	1.4	0.3
Customer bonus	54.0	64.2	–	–
Rent	8.0	17.3	–	–
Other	81.4	49.0	0.6	0.6
Total	**319.6**	**295.5**	**14.1**	**15.4**

NOTE 18 Financial risks and financial policy

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.

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.

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.

Capital structure
By achieving an appropriate balance between equity and loan financing, flexibility for the Group is ensured, allowing investments in the business and retaining controlled cost of capital.

The company normally has a positive cash flow, partly due to positive earnings and working capital in the operations that is relatively low. This means that the company's expansion only requires a limited increase in working capital. Moreover, the company's profile and emphasis also means that the company should be able to stay relatively stable. In view of this, the Company's financing to some extent consists of borrowed capital. The objective is that interest-bearing net debt is not to exceed, other than temporarily, three times the EBITDA. The Group's financial targets have not been changed compared with the previous year. During the financial year the Group reduced its interest-bearing debt by SEK 12 million, mainly through positive cash flow.

SEK million	2015/2016	2014/2015
Interest-bearing liabilities[1)]	457.8	470.3
Cash/bank	–313.6	–188.0
Net interest-bearing dept	**144.2**	**282.3**
EBITDA	479.8	333.4
Non-recurring items – severance payment, President	–	10.0
Adjusted EBITDA	**479.8**	**343.4**
Interest-bearing liabilities/Adjusted EBITDA	0.3	0.8

1) See Note 14

Parent company SEK million	2015/2016	2014/2015
Interest-bearing liabilities	754.4	736.4
Cash/bank	2.9	38.2
Net interest-bearing debt	**757.3**	**774.6**
EBITDA	–10.9	–14.7
Adjusted EBITDA	**–10.9**	**–14.7**
Interest-bearing liabilities/Adjusted EBITDA	–69.5	–52.7

Financing risk and liquidity risk
Liquidity risk is defined as the risk of not being able to meet payment obligations due to insufficient liquidity or difficulties in obtaining financing (financing risk). At present the Group has a credit agreement with two Swedish banks for operational financing.

A three-year credit agreement was signed in October 2014 with the company's banks, which runs until October 2017.
The terms and conditions of the loans are linked with a number of agreed covenants.

The terms and conditions of the loans are linked with a number of agreed covenants.

- Interest-bearing net liabilities/Adjusted EBITDA
- Adjusted EBITDA/net financial income

All covenants were met during the financial year. Shares in subsidiaries were also pledged as security for the loans.

Interest-bearing debt and maturity structure
KappAhl has assurances of credit totalling SEK 1,000 (1,000) million, of which SEK 410 (422) million had been utilised at the close of the financial year. The financial cost in the coming year is expected to be considerably lower. Interest rates are based on 3-month Stibor plus a fixed margin varying on the basis of the outcome of interest-bearing liabilities / Adjusted EBITDA. The margin is determined quarterly.

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 can change interest rate risk is the interest rate adjustment period. 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 50 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 2016, the company had interest swaps with a contractual value of SEK 400 (600) million. The net fair value of the swaps was SEK –10 (–22) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 10 (22) million, which are recorded in the item "Other current liabilities".

Existing interest swaps are not part of an effective hedging relationship.

Total financial expense, including interest swaps, amounted to about SEK 10 (21) million for the financial year, which corresponds to around 0.2 (0.5) 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 5 (5) million, all other variables being constant.

Credit risk

Credit risk associated with financial activities

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.

Credit risk associated with trade receivables

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

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. Since the Group makes its purchases primarily in USD, currency exposure is also greatest in that currency. A change of 5 per cent in USD against SEK means, before and after taking into account currency hedging, an impact on purchasing costs of SEK 81 (78) million and SEK 38 (24) million. The Group also has a substantial exposure through the surplus liquidity generated from the Norwegian company and transferred to the Swedish company, which before and after taking into account currency hedging would generate a foreign exchange effect of SEK 31 (27) million and SEK 26 (11) million if there was a 5 per cent change in the NOK/SEK exchange rate. To hedge this exchange effect the Group enters into currency forwards and options. These are in USD, NOK and PLN. All the Group's foreign exchange contracts are entered into by the subsidiary KappAhl Sverige AB. The parent company has no foreign exchange contracts.

Transaction exposure

The Group has income and expenses in a number of currencies. Thus KappAhl is exposed to exchange rate fluctuations. This exchange 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 nine months. The Group's inflows and outflows of different currencies meet in Sweden, which means that the Group's transaction exposure can most simply be illustrated through the currency flows in Sweden.

	1/9/2015–31/8/2016		1/9/2014–31/8/2015	
Currency	Outflow	Inflow	Outflow	Inflow
USD m	170	–	172	–
EUR m	25	27	25	27
NOK m	–	629	–	496
PLN m	–	37	–	58

Forward contracts

The table below shows a summary of outstanding forward exchange contracts by currency pair as at 31 August 2016. They all mature within one year.

Currency pair	Book and fair value		Nominal amount		Average remaining term in months.	
Sells/buys	2016	2015	2016	2015	2016	2015
SEK/USD	9	7	220	403	5	5
NOK/USD	–	–	–	–	–	–
NOK/SEK	–	8	–	114	–	2
PLN/SEK	–	–	–	17	–	1

All changes in the value of derivatives are recognised initially via 'Other comprehensive income' in equity as a hedging reserve. Fair value is reposted via other comprehensive income from the hedging reserve to the income statement when hedged transactions take place. As at the closing date forward contracts with a positive market value amount to SEK 9 (18) million, which is reported under 'Other receivables'. Forward contracts with a negative market value amount to SEK 0 (3) million, which is reported under 'Current interest-bearing liabilities'. Of the forward contracts completed during the year, proceeds of SEK 15 (16) million were reposted from other comprehensive income to the income statement, as hedged transactions had taken place for these contracts.

Translation exposure

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

The Group's net foreign assets are distributed among the following currencies:

Group	31/8/2016	31/8/2015
Currency	Amounts in SEK million	Amounts in SEK million
NOK	229	194
EUR	40	43
PLN	–60	40
HKD	10	8

FAIR VALUE

The carrying amount of financial assets and liabilities in the balance sheet is in line with fair value. The table below shows the items in the balance sheet in which the financial instrument accounting policies are applied.

Classification of financial assets and liabilities in the balance sheet is shown below.

Assets on the balance sheet, SEK million	31/8/2016	31/8/2015
Other long-term receivables	0.8	–
Trade receivables	18.5	1.5
Cash and cash equivalents	313.6	188.3
Currency derivatives	9.4	17.8
Total	**342.3**	**207.6**

Liabilities on the balance sheet, SEK million	31/8/2016	31/8/2015
Other financial liabilities recorded at amortised cost		
Long-term interest-bearing liabilities	448.1	448.0
Short-term interest-bearing liabilities	–	–
Trade payables	194.7	258.9
Other financial liabilities recorded at amortised cost	**642.8**	**706.9**
Financial liabilities at fair value through profit or loss		
Interest rate derivatives	9.7	22.3
Currency derivatives	0.1	2.8
Financial liabilities at fair value through profit or loss	**9.8**	**25.1**
Total	**652.6**	**732.0**

Parent company

Assets on the balance sheet	31/8/2016	31/8/2015
Other financial receivables	0.8	–
Receivables from group companies	285.9	279.4
Cash and cash equivalents	2.9	38.2
Currency derivatives	0	0
Total	**289.6**	**317.6**

Liabilities on the balance sheet, SEK million	31/8/2016	31/8/2015
Other financial liabilities recorded at amortised cost		
Long-term interest-bearing liabilities	400.8	400.0
Short-term interest-bearing liabilities	343.9	314.1
Trade payables	0.3	0.4
Liabilities to group companies	192.2	153.8
Other financial liabilities recorded at amortised cost	**937.2**	**868.3**
Financial liabilities at fair value through profit or loss		
Cash flow hedging		
Interest rate derivatives	9.7	22.3
Currency derivatives	0	0
Financial liabilities at fair value through profit or loss	**9.7**	**22.3**
Total	**946.9**	**890.6**

Fair value hierarchy:
The Group holds financial instruments in the form of interest rate derivatives and currency forwards that are recorded at fair value in the balance sheet. Fair value measurement of currency forwards is based on published forward rates on an active market. Measurement of interest swaps is based on forward rates derived from observed yield curves. The Group uses the following hierarchy to classify the instruments on the basis of the valuation technique:

1. Quoted prices (unadjusted) on active markets for identical assets or liabilities
2. Other inputs than the quoted prices included in Level 1, that are observable for the asset or liability either direct (i.e. as prices) or indirect (i.e. derived from prices)
3. Inputs for the asset or liability in question that are not based on observable market data (non-observable inputs)

2015/2016	Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value via profit or loss:				
Currency forwards	9		9	
Interest swaps	–		–	
Liabilities				
Financial liabilities at fair value via profit or loss:				
Currency forwards	–		–	
Interest swaps	10		10	

No transfers have been made between levels during the financial year.

2014/2015	Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value via profit or loss:				
Currency forwards	18		18	–
Interest swaps	–		–	–
Liabilities				
Financial liabilities at fair value via profit or loss:				
Currency forwards	3		3	–
Interest swaps	22		22	–

No transfers have been made between levels during the financial year.

Maturity analysis of financial liabilities
The maturity analysis below is based on undiscounted cash flows and includes interest and amortisation.
In the analysis, the interest rate level on the balance sheet date has also been assumed for future interest payments.

Maturities of the Group's financial liabilities

	0–3 months		4–12 months		1–2 years		2–3 years		3–4 years		More than 4 years		Total contracted cash flow	
SEK million	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015
Bank loans and bank overdraft facilities	–	–	–	–	144	–	–	282	–	–	–	–	144	282
Interest	1	6	3	13	2	14	–	1		–	–	–	6	34
Trade payables	195	259	–	–	–	–	–	–	–	–	–	–	195	259
Forward exchange contracts inflow	154	196	77	345	–	–	–	–	–	–	–	–	231	541
Forward exchange contracts outflow	146	184	74	342	–	–	–	–	–	–	–	–	220	526

NOTE 19 Operating leases

Group SEK million	Annual cost 2015/2016	 2014/2015	Future lease charges and rental costs Year 1	 Year 2–5	 Year 5–
Tenancy agreement	658.1	652.2	555.1	1,263.0	331.6
Vehicles and equipment	2.8	3.2	2.8	1.9	–
Total	**660.9**	**655.4**	**557.9**	**1,264.9**	**331.6**

The operating profit has been charged with SEK 658 (652) million referring to costs of rented store premises. Of this, the fixed rent is SEK 621 (620) million and the turnover based rent is SEK 38 (32) million.

The Parent Company has no lease agreements.

NOTE 20 Capital commitments

Group

There were no material capital commitments as at 31/8 2016.

NOTE 21 Pledged assets and contingent liabilities

SEK million	Group 31/8/2016	 31/8/2015	Parent company 31/8/2016	 31/8/2015
Pledged assets				
Floating charges	218.4	218.6	None	None
Shares in subsidiaries	2,477	2,214.1	3,143.3	3,106.2
Trademarks and brands	None	None	None	None
Total pledged assets	2,695.4	2,432 ,7	3,143.3	3,106.2
Contingent liabilities				
Guarantee commitments, FPG/PRI	0.5	0.5	None	None
Total contingent liabilities	**0.5**	**0.5**	**None**	**None**

NOTE 22 Related parties

The parent company has a related party relationship with the subsidiary KappAhl Sverige AB. The parent company performs services for KappAhl Sverige AB amounting to SEK 23 (25) million. There are also related party relationships with key personnel in senior positions. Information is given in Note 5 Employees and staff costs.

Apart from the information above there were no transactions with related parties.

NOTE 23 Participations in group companies

SEK million	31/8/2016	31/8/2015
Opening book value	3,106.2	3,049.3
Unconditional shareholders' contributions paid	37.1	56.9
Total	**3,143.3**	**3,106.2**

Specification of the parent company's and the Group's holdings in Group companies

Subsidiary / Corporate identity number / Country	Number of shares	Percentage share	31/8/2016 Carrying amount	31/8/2015 Carrying amount
KappAhl Sverige AB, 556060-4158, Sweden	60,000	100.0	1,388.7	1,351.6
KappAhl AS, 947659138, Norway	41,749	100.0	1,269.1	1,269.1
KappAhl OY, 07585064, Finland	200	100.0	485.5	485.5
Indirectly owned via KappAhl OY				
KappAhl Åland AB, 1737564-2, Mariehamn	100	100.0	–	–
Indirectly owned (via KappAhl Sverige AB)				
KappAhl Far East Ltd, 438724, Hong Kong	10,000	100.0	–	–
KappAhl i Mölndal AB, 556714-1444, Sweden	1,000	100.0	–	–
KappAhl Mode Holding AB, 556545-0037, Sweden	186,872,155	100.0	–	–
KappAhl Fashion Holding AB, 556541-5980, Sweden	10,000	100.0	–	–
KappAhl Polska Sp.zo.o, 526-22-60-963, Poland	50,845	100.0	–	–
KappAhl Gdansk Sp.zo.o, 525-26-34-936, Poland	100	100.0		
Dama 1 Sp. z o.o, 527-27-66-090, Poland	10	100.0		

Subsidiary / Corporate identity number / Country	Number of shares	Percentage share	31/8/2016 Carrying amount	31/8/2015 Carrying amount
Dama 2 Sp. z o.o, 527-27-66-109, Poland	10	100.0		
Dama 3 Sp. z o.o, 527-27-65-943, Poland	10	100.0		
Dama 4 Sp. z o.o, 527-27-65-966, Poland	10	100.0		
Dama 5 Sp. z o.o, 527-27-66-115, Poland	10	100.0		
Dama 6 Sp. z o.o, 527-27-65-972, Poland	10	100.0		
Dama 7 Sp. z o.o, 527-27-66-084, Poland	10	100.0		
Dama 8 Sp. z o.o, 527-27-66-078, Poland	10	100.0		
Dama 9 Sp. z o.o, 527-27-66-061, Poland	10	100.0		
Dama 10 Sp. z o.o, 527-27-66-055, Poland	10	100.0		
Dama 11 Sp. z o.o, 527-27-66-049, Poland	10	100.0		
Dama 12 Sp. z o.o, 527-27-65-989, Poland	10	100.0		
Dama 13 Sp. z o.o, 527-27-65-995, Poland	10	100.0		
Dama 14 Sp. z o.o, 527-27-66-003, Poland	10	100.0		
Dama 15 Sp. z o.o, 527-27-66-032, Poland	10	100.0		
Dama 16 Sp. z o.o, 526-22-60-963, Poland	10	100.0		
Total			**3,143.3**	**3,106.2**

No book value is stated for the companies not directly owned by the Parent Company.

NOTE 24 Cash Flow Statement

The cash flow statement was prepared using the indirect method.

Interest paid

SEK million	Group 1/9/2015 31/8/2016	Group 1/9/2014 31/8/2015	Parent company 1/9/2015 31/8/2016	Parent company 1/9/2014 31/8/2015
Interest received	1.3	0.7	12.4	13.4
Interest paid	–31.2	–22.1	–49.8	–43.4
Total	**–29.9**	**–21.4**	**–37.5**	**–30.0**

The parent company has paid a shareholder's contribution of SEK 37.1 million. These were still outstanding as at 31/8 2016.

Adjustments for non-cash items

SEK million	Group 1/9/2015 31/8/2016	Group 1/9/2014 31/8/2015	Parent company 1/9/2015 31/8/2016	Parent company 1/9/2014 31/8/2015
Depreciation/amortisation of non-current assets	132.3	135.3	–	–
Reversal of depreciation/amortisation of non-current assets	–1.8	–11.4	–	–
Capital gains/losses on sale/retirement of non-current assets	19.9	14.6	–	–
Provisions for pensions	–8.1	15.2	0.8	–
Derivatives fair value	–12.3	–	–	–
Change in accrued interest expense	–21.0	–	–21.1	–36.5
Dividend received	–	–	–12.8	–36.5
Group contribution received	–	–	–25.8	–42.9
Other adjustments	–	–0.6	–	–
Total	**108.9**	**153.1**	**–58.9**	**–79.4**

NOTE 25 Parent company details

KappAhl AB is a Swedish limited company with the corporate identity number 556661-2312 and its registered office in Mölndal.

The address of the head office is Box 303, SE 431 24 Mölndal.

The consolidated accounts for 2015/2016 consist of the parent company and its subsidiaries, collectively referred to as the Group.

The Board of Directors and President certify that the annual report has been prepared in accordance with generally accepted accounting principles, provides a true and fair view of the parent company's financial position and results of operations, and that the administration report provides a fair review of the development of the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company. The Board of Directors and the President also certify that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, give a true and fair view of the Group's financial position and results of operations, and that the Group administration report provides a fair review of the development of the Group's operations, financial position and results of operations and also describes material risks and uncertainties facing the Group. The financial statements were approved for publication by the parent company's Board of Directors on 31 October 2016. The income statements and balance sheets will be presented to the Annual General Meeting on 6 December 2016.

Mölndal, 31 October 2016

Anders Bülow
Chairman

Kicki Olivensjö
Board Member

Pia Rudengren
Board Member

Christian W. Jansson
Board Member

Susanne Holmberg
Board Member

Melinda Hedström
Employee representative

Michael Bjerregaard Jensen
Employee representative

Danny Feltmann
President/CEO

Our auditor's report was issued on 31 October 2016

Ernst & Young AB

Stefan Kylebäck
Authorised public accountant

AUDITOR'S REPORT

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

REPORT ON THE ANNUAL ACCOUNTS AND THE CONSOLIDATED ACCOUNTS

We have audited the annual accounts and the consolidated accounts of KappAhl AB (publ) for the financial year 1 September 2015–31 August 2016. The company's annual accounts and consolidated accounts are included on pages 8–37 of the printed version of this document.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as at 31 August 2016 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as at 31 August 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the Annual General Meeting adopt the income statement and balance sheet for the parent company and the Group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Presidents of KappAhl AB (publ) for the financial year ended 31 August 2016.

Responsibilities of the Board of Directors and Presidents

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Presidents are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine whether any member of the Board of Directors or the Presidents is liable to the company. We also examined whether any board member or the Presidents has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

We recommend to the Annual General Meeting that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Presidents be discharged from liability for the financial year.

Gothenburg, 31 October 2016

Ernst & Young AB

Stefan Kylebäck
Authorised public accountant

IN-DEPTH SUSTAINABILITY REPORT

CONTACT INFORMATION

Please contact us if you want to discuss or have questions about our sustainability work, financial information or anything else.

KappAhl AB, P O Box 303, SE 431 24 Mölndal
Tel.: +46 (0)31 - 771 55 00

Please email us via the contact form at
www.kappahl.com/contact
or email info_se@kappahl.com

STAKEHOLDER DIALOGUE AND MATERIALITY ANALYSIS

The sustainability report in this annual report covers Global Reporting Initiatives (GRI) guidelines for reporting in the G4 Core sustainability area. The selection is based on our sustainability strategy and materiality analysis. In this part we present additional information about our material sustainability issues.

STAKEHOLDER DIALOGUE

We have an ongoing dialogue with important stakeholders, such as customers, employees, suppliers, students and interest organisations. These stakeholders influence our activities while at the same time being influenced by them. The dialogue is conducted in many different ways and framed depending on the type of occasion and information needs (see table). For example, we conduct annual customer and employee surveys and have a questionnaire on the website that our stakeholders use regularly. We also have regular contacts with the media via our communication department.

In spring 2015 we conducted an in-depth dialogue with stakeholders that are well-informed concerning sustainability issues and our industry. Eight representatives from interest organisations, the research sphere, investors, brand experts and board members were invited through in-depth interviews to give their view of the sustainability issues that are most important for KappAhl and where in our value chain the impact is greatest on humans and the environment. We also discussed opportunities and challenges going forward, as well as stakeholders' confidence in us in relation to our environmental and social responsibility.

STAKEHOLDER DIALOGUE KAPPAHL 2015/2016

Since last year's materiality analysis, KappAhl has added a stakeholder analysis concerning:

- Customer survey autumn 2015
- Consumer survey Sustainable Brand Index 2016

The employee perspective has great development potential in our stakeholder dialogue. The current employee survey does not allow employees to share the issues they think are important to give priority to, or convey how involved they feel in KappAhl's sustainability work. Consequently we will review our employee survey in the 2016/2017 financial year.

The following table shows KappAhl's priority stakeholder groups, as well as how the dialogue is conducted with them.

Stakeholder group	Frequency	Channel	Results
Employees	Once per year	Survey	—
Employees	Once per year	Employee performance review	—
Customer	Twice per year	Survey	• Reduce use of chemicals • Follow up that manufacturing takes place under good ethical and environmental conditions • Supply products of good quality that are safe to use • Promote good working conditions in the company • Commit to reducing waste and increasing the proportion of re-use and recycling • Increase the use of environmentally friendlier material • Impose requirements for good ethical and social conditions for purchasing • Promote good working conditions at the suppliers • Commit to effective use of resources and material • Receive old clothes and textiles for re-use and recycling
Customer	Ongoing	Questions to customer services, conversations with store staff etc.	—
Consumers	Once per year	Survey	—
Consumers	Once per year	Survey	• Human rights, child labour • Good working conditions at suppliers • Good working conditions within our own company • Discrimination • Corruption • Reduced emissions of greenhouse gases (including transport) • Quality products, prevent use and discard behaviour • Waste management and recycling • Use of chemicals
Expert	Every third year	Interview	• Work to reduce environmental impact of suppliers • Reduce emissions of greenhouse gases • Promote and monitor that manufacture of the company's products takes place under good working conditions and labour practices • Responsible action by management and board • Act transparently

Stakeholder group	Frequency	Channel	Results
Owner	Every third year	Interview	See above
Investors	Continuous	General Meeting of Shareholders, regular meetings, questionnaires from analysts, etc.	—
Suppliers	Ongoing	Regular meetings, inspections and follow-up visits etc.	—

MATERIALITY ANALYSIS

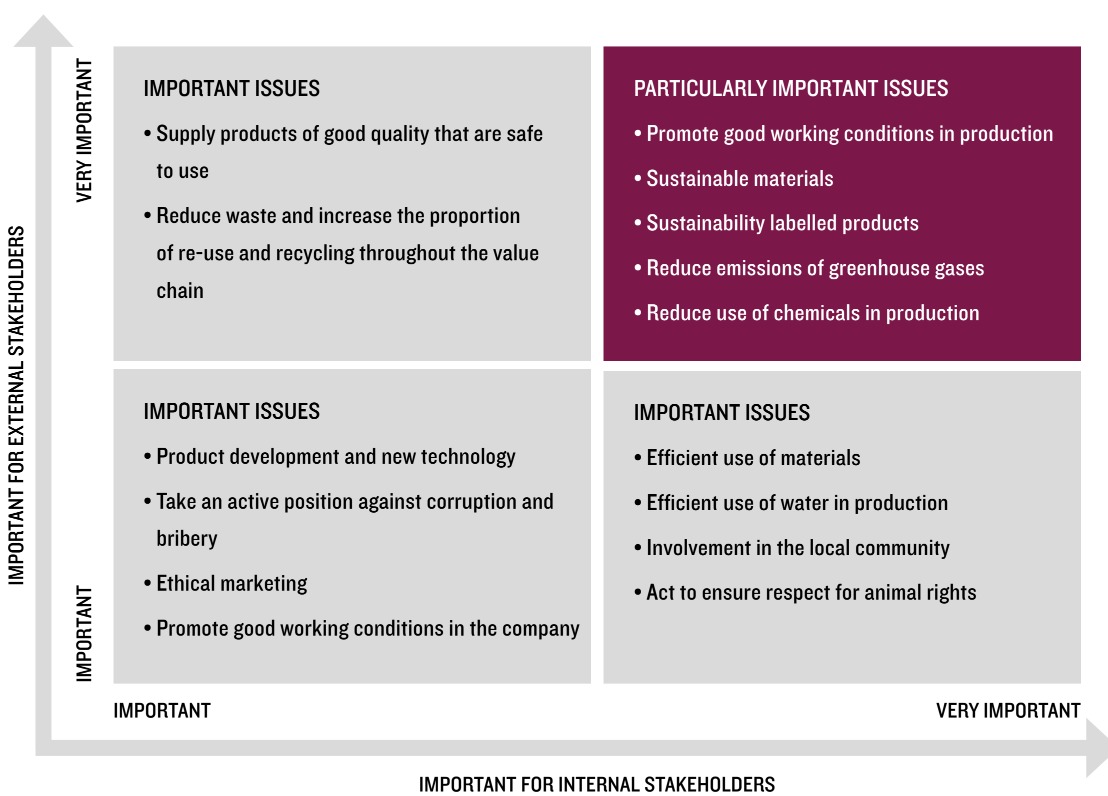
Ahead of the transition to the Global Reporting Initiative's (GRI) G4 Guidelines, in spring 2015 we carried out a materiality analysis to identify our most important sustainability issues.

By compiling conclusions from existing stakeholder dialogues, such as employee surveys, customer surveys and market surveys, and conducting in-depth interviews with people with expertise in sustainability issues and our industry, we obtained a good basis for analysis. There was relative consensus among the stakeholders on our most important issues in the area of sustainability.

In spring 2016 we put the final touches to the materiality analysis based on the year's customer survey, consumer survey and a benchmark against colleagues in the industry. Within the framework of the updated materiality analysis we identified five issues of particular importance for KappAhl's sustainability work. The issues are presented in our materiality matrix below.

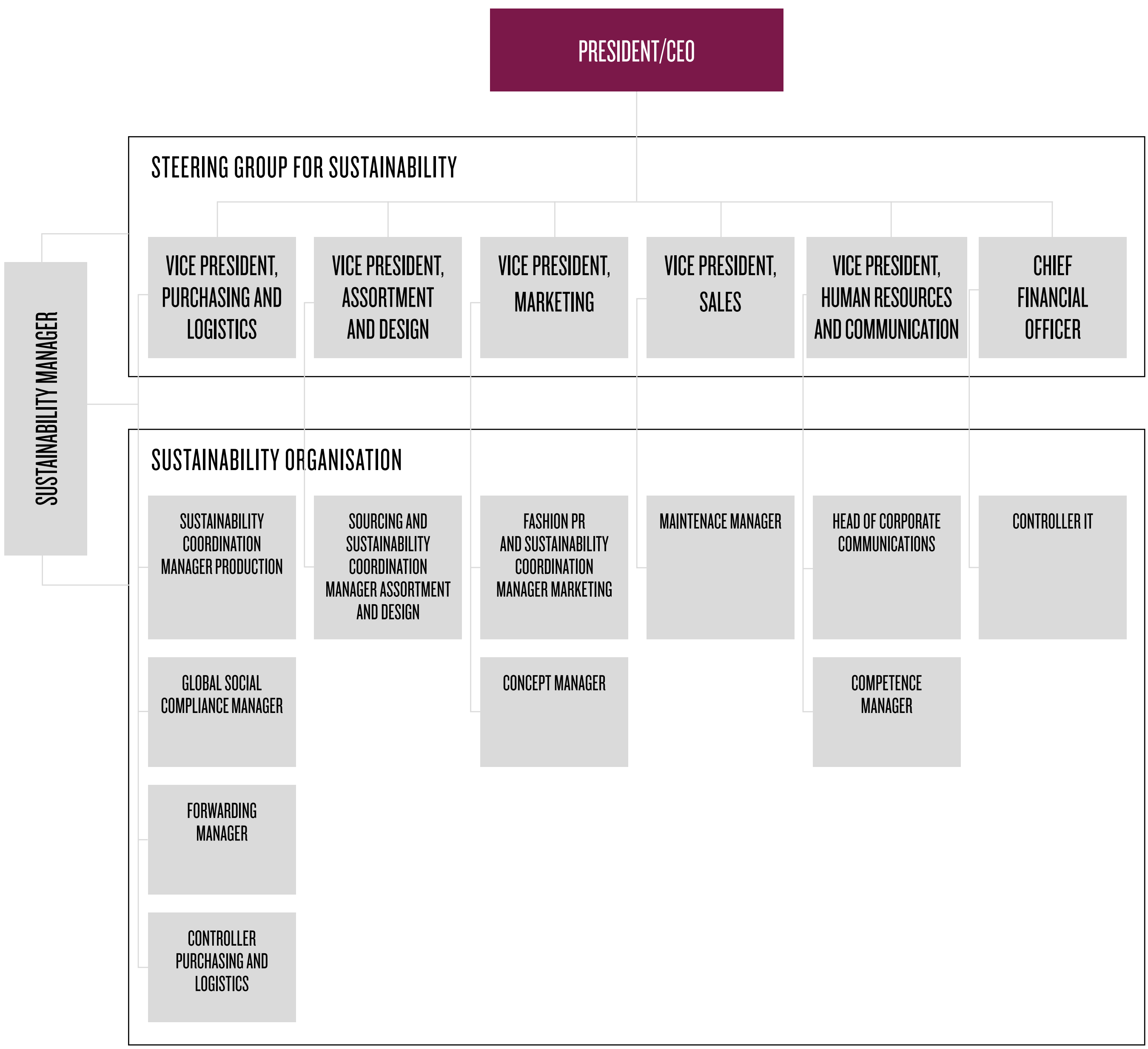
The results of the materiality analysis form the basis in developing our sustainability strategy as well as our sustainability communication. KappAhl's ambition and hope is that our annual report closely matches the expectations of our stakeholders.

MATERIALITY MATRIX



THE SUSTAINABILITY ORGANISATION

KappAhl's sustainability organisation consists of representatives of different functions in the operations, sustainability coordinators and other key roles with specific sustainability responsibility. Each representative is supported by the sustainability manager, who reports to KappAhl's VP Purchasing and Logistics. As regards strategic sustainability issues the sustainability manager is supported by the steering group for sustainability that consists of members of the KappAhl management team. The Board of Directors is informed on a regular basis about current sustainability issues.



GRI INDEX

KappAhl's sustainability report is published annually and the last report was published in November 2015.

Our GRI index that is presented below provides an overview of our general standard disclosures under the GRI guidelines and information on sustainability management and performance indicators for the aspects KappAhl has decided to disclose. The selection is based on our materiality analysis; read more on page 41. The page references specify where information about the respective indicator can be read.

Further information on the GRI and a full description of guidelines and indicators can be found at *www.globalreporting.org*

GENERAL STANDARD DISCLOSURES

	Description	Page reference Annual Report 2015/2016	Status
	STRATEGY AND ANALYSIS		
G4-1	Statement from the most senior decision-maker.	Part 1, pages 10 and 12.	Complete data and information for reporting in the 2015/2016 Annual Report is unavailable due to data collection limitations. This will be rectified for the 2016/2017 Annual Report.
	ORGANISATIONAL PROFILE		
G4-3	Name of the organisation.	Part 2, page 8	Reported fully
G4-4	Primary brands, products and services.	Part 1, inside flap and pages 20 and 40.	Reported fully
G4-5	Location of organisation's headquarters.	Part 1, page 45.	Reported fully
G4-6	Countries where the organisation operates.	Part 1, page 45.	Reported fully
G4-7	Nature of ownership and legal form.	Part 2, page 10.	Reported fully
G4-8	Markets served.	Part 1, page 45–46.	Reported fully
G4-9	Scale of the reporting organisation.	Part 1, page 45.	Reported fully
G4-10	Total number of employees by form of employment, employment contract, temporary positions, seasonal variations, gender and region.	Part 1, pages 15 and 45. Part 2, page 47.	Omission due to lack of reliable data. KappAhl has taken measures to obtain the data for next year's sustainability report.
G4-11	Percentage of total employees covered by collective bargaining agreements.	Part 1, page 15.	Reported fully
G4-12	The organisation's supply chain.	Part 1, page 19.	Reported fully
G4-13	Significant changes during the reporting period.	Part 1, page 40. Part 2, page 47.	Reported fully
G4-14	The organisation's application of the precautionary principle.	Part 1, pages 13 and 27.	Reported in part
G4-15	Externally developed economic, environmental and social principles, or other initiatives to which the organisation subscribes.	Part 1, page 13.	Reported in part
G4-16	The organisation's memberships.	Part 1, pages 28, 29, 30, 43.	Reported fully
	IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Entities included in the organisation's consolidated financial statements and whether any entity is not covered by the sustainability reporting.	—	Complete data and information for reporting in the 2015/2016 Annual Report is unavailable due to limitations in collection techniques. This will be rectified for the 2016/2017 Annual Report.
G4-18	Process for defining the report content and the Aspect Boundaries.	Part 2, page 42.	Reported fully
G4-19	Material Aspects identified in the process for defining report content.	Part 2, pages 42 and 47.	Reported fully
G4-20	Boundary within the organisation for each material Aspect.	Part 2, page 47.	Reported fully
G4-21	Boundary outside the organisation for each material Aspect.	Part 2, page 47.	Reported fully
G4-22	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement.	Part 2, page 47.	Reported fully
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Part 2, page 47.	Reported fully
	STAKEHOLDER ENGAGEMENT		
G4-24	List of stakeholder groups engaged by the organisation.	Part 2, page 41–42.	Reported fully
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Part 2, page 41–42.	Reported fully
G4-26	Approach to stakeholder engagement.	Part 2, page 41–42.	Reported fully
G4-27	Key topics and concerns that have been raised through stakeholder engagement.	Part 2, page 41–42.	Reported fully

	Description	Page reference Annual Report 2015/2016	Status
	REPORT PROFILE		
G4-28	Reporting period.	Part 1, inside flap.	Reported fully
G4-29	Date of most recent previous report.	Part 1, inside flap.	Reported fully
G4-30	Reporting cycle.	Part 1, inside flap.	Reported fully
G4-31	Contact point for questions regarding the report or its contents.	Part 1, page 53. Part 2, page 40.	Reported fully
G4-32	The 'in accordance' option the organisation has chosen.	Part 1, inside flap.	Reported fully
G4-33	Policy with regard to seeking external assurance for the report.	Part 1, inside flap.	Reported fully
	GOVERNANCE		
G4-34	Corporate Governance.	Part 2, page 43.	Reported in part
	ETHICS AND INTEGRITY		
G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct.	Part 1, page 14–15.	Complete data and information for reporting in the 2015/2016 Annual Report is unavailable due to limitations in collection techniques. This will be rectified for the 2016/2017 Annual Report.

SPECIFIC STANDARD DISCLOSURES

	Performance indicators	Page reference Annual Report 2015/2016	Status
	ECONOMIC		
	INDIRECT ECONOMIC IMPACTS		
G4-DMA	Disclosures on management approach: Indirect economic impacts	Part 1, page 48.	Reported fully
G4-EC8	Significant indirect economic impacts, including the extent of impacts.	Part 1, page 31. Part 2, page 48.	Non-conformance due to lack of reliable data. KappAhl has taken measures to obtain the data for next year's sustainability report.
	ENVIRONMENTAL		
	MATERIALS		
G4-DMA	Disclosures on management approach: Materials	Part 1, pages 20, 25, 26, 29 and 48.	
G4-EN1	Materials used by weight or volume	Part 1, pages 25, 38 and 41.	Non-conformance due to lack of access to reliable data. KappAhl has taken measures to obtain the data for the next sustainability report.
G4-EN2	Percentage of materials used that are recycled input materials	Part 1, pages 25, 38 and 41.	Reported fully
	EMISSIONS		
G4-DMA	Disclosures on management approach: Emissions to air and water and waste	Part 1, pages 26–30, 42–43 and 48.	Reported fully
G4-EN15	Direct greenhouse gas emissions (scope 1)	Part 2, page 48.	Reported in part
G4-EN16	Energy indirect greenhouse gas emissions (scope 2)	Part 2, page 48.	Reported in part
G4-EN17	Other indirect greenhouse gas emissions (scope 3)	Part 2, page 48.	Reported fully
G4-EN19	Reduction of emissions of greenhouse gases	Part 2, page 48.	Reported fully
	PRODUCTS AND SERVICES	**PART 2, PAGE 49.**	
G4-DMA	Disclosures on management approach: Products and services	Part 1, pages 20, 22–23, 25, 26, 29, and 48.	Reported fully
G4-EN27	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Part 1: Pages 25, 27, 30, 42–43.	Reported fully
	SUPPLIER ENVIRONMENTAL ASSESSMENT		
G4-DMA	Disclosures on management approach: Supplier environmental assessment	Part 1, pages 26–28 and 48.	Reported fully
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Part 1, page 28.	Reported in part
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Part 1, page 26–30.	Reported in part
	LABOR PRACTICES AND DECENT WORK		
	DIVERSITY AND EQUAL OPPORTUNITY		
DMA	Disclosures on management approach: Diversity and equal opportunity	Part 1, page 15.	Reported fully

	Performance indicators	Page reference Annual Report 2015/2016	Status
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Part 1, page 15. Part 2, pages 49 and 56–58.	Non-conformance due to lack of access to reliable data. KappAhl has taken measures to obtain the data for the next sustainability report. Minority groups are excepted since it is not appropriate to report this under Swedish law. KappAhl currently has no figures for diversity for 2016.
	SUPPLIER ASSESSMENT FOR LABOUR PRACTICES		
G4-DMA	Disclosures on management approach: Supplier assessment for labour practices	Part 1, pages 26, 28, 31, 33 and 48.	Reported fully
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	Part 1, page 28.	Reported in part
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	Part 1, pages 28 and 31. Part 2, page 49.	Reported in part
	HUMAN RIGHTS		
	INVESTMENT		
G4-DMA	Disclosures on management approach: Investment and procurement practices	Part 1, page 28.	Reported fully
G4-HR1	Percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Part 1, page 28.	Reported in part
	NON-DISCRIMINATION		
G4-DMA	Disclosures on management approach: Non-discrimination	Part 1, page 15.	Reported fully
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Part 1, page 15. Part 2, page 49.	Non-conformance due to lack of data. KappAhl has taken measures to obtain the data for the next sustainability report.
	CHILD LABOUR		
G4-DMA	Disclosures on management approach: Child labour	Part 1, pages 28 and 31.	Reported fully
G4-HR5	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	Part 1, pages 28 and 31.	Reported in part
	SUPPLIER HUMAN RIGHTS ASSESSMENT		
G4-DMA	Disclosures on management approach: Supplier human rights assessment	Part 1, pages 26, 28, 31, 33 and 48.	Reported fully
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	Part 1, page 28.	Reported in part
G4-HR11	Significant actual and potential negative impacts for human rights in the supply chain and actions taken	Part 1, pages 28 and 33.	Reported in part
	SOCIETY		
	ANTI-CORRUPTION		
G4-DMA	Disclosures on management approach: Corruption	Part 1, page 28.	Reported fully
G4-SO4	Communication and training on the organisation's anti-corruption policies and procedures.	Part 1, page 15. Part 2, page 49.	Reported in part
G4-SO5	Confirmed incidents of corruption and actions taken	Part 2, page 49.	Reported fully
	PRODUCT RESPONSIBILITY		
	CUSTOMER HEALTH AND SAFETY		
G4-DMA	Disclosures on management approach: Customer health and safety	Part 1, pages 27 and 48.	Reported fully
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Part 1, page 27.	Complete data and information for indicators for the 2015/2916 Annual Report is unavailable due to limitations in collection techniques. This will be rectified for the 2016/2017 Annual Report.
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle	Part 1, pages 27 and 42.	Reported fully
	MARKETING COMMUNICATION		
G4-DMA	Disclosures on management approach: Marketing communication	Part 1, page 39.	Reported fully
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship. The information is given broken down by the effect of the non-compliance	Part 1, page 39.	Reported fully

GENERAL STANDARD DISCLOSURES

Organisational profile

NOTE G4–10

KappAhl is not able today to obtain figures for employees in different categories, such as by employee, manager, seasonally employed, consultants etc. We are currently developing a new system support for HR and this will hopefully enable us to categorise, break down and follow up data in a way that conforms with the GRI requirements.

There are some seasonal variations during the year as regards needs for employees and hours in stores. This applies mainly during Christmas trading, when there is a greater need. We also employ extra staff to cover needs during the summer holiday period.

The tables below show the number of employees and are not restated to the number of full-time equivalents.

Number of employees by region and by gender 2015/2016	Women	Men
Number of employees, Sweden	1,801	234
Number of employees, Norway	1,002	20
Number of employees, Finland	455	5
Number of employees, Poland	361	20
Number of employees, production offices	86	63

Number of employees by type of contract and by gender 2015/2016	Women	Men
Number of employees on full-time contracts, Group	1,068	232
Number of employees on part-time contracts, Group	2,636	110

	2015/2016	2014/2015	2013/2014
Average age, Group, years	37.3	35.8	36.18
Staff turnover, Group, %	14.0	10.5	10.6
Employees on full-time contracts, Group, %	32.1	31.8	n/a
Employees on full-time contracts, Sweden, %	34	33.0	n/a
Number of employees on part-time contracts, Sweden, %	66	67.0	n/a
Employees on full-time contracts, Norway, %	17	18.0	n/a
Employees on part-time contracts, Norway, %	83	82.0	n/a
Employees on full-time contracts, Finland, %	21	20	n/a
Employees on part-time contracts, Finland, %	79	80	n/a
Employees on full-time contracts, Poland, %	77	77	n/a
Employees on part-time contracts, Poland, %	23	23	n/a

Identified material aspects and boundaries

NOTE G4–19, G4-20, G4-21

	Material impact arises at/in:		
KappAhl's material aspects in accordance with the materiality analysis	Suppliers of materials, production and logistics solutions and local communities in the production countries	KappAhl's operations at the head office and in the sales countries as well as production offices in Asia	Customers and local communities in KappAhl's sales countries
Indirect economic impacts	X		X
Materials used	X	X	
Emissions to air and water and waste	X	X	X
Products and services		X	X
Supplier training, environment	X		
Diversity and equal opportunity		X	X
Supplier assessment, labour practices	X		
Investment and procurement practices	X	X	
Non-discrimination	X	X	
Child labour	X		
Supplier assessment, human rights	X		
Corruption	X	X	
Customer health and safety	X	X	X
Marketing communication		X	X

NOT G4–22

In connection with this year's climate calculation we also recalculated climate impact for 2014/2015, since we gained access to further material in the form of figures from operations for 2014/2015 in some areas.

NOT G4–23

No change.

SUSTAINABILITY MANAGEMENT AND PERFORMANCE INDICATORS

Indirect economic impacts

Financial contributions to charity	2015/2016	2014/2015	2013/2014
Funds raised for BRIS (Children's Rights in Society) from sales in Swedish stores, SEK	955,850	1,524,700	872,865
Funds raised for Kors på Halsen (Cross your Heart) from sales in Norwegian stores, SEK	525,568	485,170	354,837
Funds raised for the Manneheim League for Child Welfare from sales in Finnish stores, SEK	167,067	220,481	160,793
Funds raised for Nobody's Children Foundation, FDN, from sales in Polish stores, SEK	88,267	130,874	84,140
Funds raised from Wear, Love and Give Back for training centre, EUR	2,564	777	n/a
Funds donated to other charities, SEK	716,948	286,700	358,600

Our operations contribute to indirect economic impacts in the production countries. Read more in Part 1 on page 31.

Emissions

G4-EN15, EN16, EN17: Direct greenhouse gas emissions (scope 1), Energy indirect greenhouse gas emissions (scope 2), Other indirect greenhouse gas emissions (scope 3)

KappAhl aims to be climate neutral in 2020. The purpose is to safeguard our climate and thereby contribute to long-term sustainable development for us and society as a whole. Our sustainability strategy, with concrete focus areas and activities, constitutes a central policy instrument to achieve this.

Part of the work is to survey the climate impact in our value chain and its various links. In the 2014/2015 financial year we carried out a climate analysis, which was updated in the 2015/2016 financial year.

To better understand how and where emissions of greenhouse gases arise the GHG protocol (greenhouse gas protocol) is a good standard to follow as it aims to include the total climate impact of the business for a full year. This can be compared with a lifecycle analysis, which concentrates on the climate impact over the life cycle of a garment.

A GHG analysis gives a good basis for creating an action plan that will effectively reduce emissions from our operations.

Our emissions are reported broken down into three scopes (1–3), where scope 1 is the direct emissions, scope 2 the indirect emissions for producing purchased energy and scope 3 is other indirect emissions. For operations like KappAhl's a relatively large part of the emissions are at the supplier stage, but also when using (washing) the clothes. Consequently it is crucial to include emissions in scope 3 to gain an understanding of KappAhl's total climate impact.

The distribution of emissions through the value chain from design to consumption is as follows for 2015/2016:

	Total emissions (tonnes CO_2e)	Percentage of total	Components
Design	1,360	0.5%	Business travel, IT material
Production	183,598	61.4%	Raw materials, manufacturing
Logistics	13,324	4.5%	Transport, electricity and waste from head office and distribution centre
Sales	30,517	10.2%	Heating, electricity and waste from stores. Refrigerants, commuter travel
Consumer	70,445	23.5%	Washing, drying, ironing, travel to and from stores, waste

Our base year for climate emissions is 2014/2015, since that was when we first calculated scope 1–3. Calculations and reports of emissions have been made in accordance with the Greenhouse Gas Protocol's "Corporate accounting and reporting standard" and "Corporate value chain (Scope 3) accounting and reporting Standard".

Scope 1	Scope 2	Scope 3
148 tonnes CO_2e	23,009 tonnes CO_2e	276,087 tonnes CO_2e

Direct Greenhouse Gas Emissions (Scope 1):
Company cars and private cars used for business: calculation based on mileage in service. Emissions include carbon dioxide, nitrous oxide and methane. Emission factor for Swedish cars 1–3 years old.

Energy Indirect Greenhouse Gas Emissions (Scope 2):
Electricity consumption: measured or estimated consumption in offices and stores. Emissions include carbon dioxide, nitrous oxide and methane.

District heating: measured for head office and distribution centre. Emissions include carbon dioxide, nitrous oxide and methane.

Other Indirect Greenhouse Gas Emissions (Scope 3):
Categories assessed as material for KappAhl:

Category 1 Purchased goods and services: cultivation or production of raw materials (apart from clothing material also hangers, packaging, bags, store fittings and IT) and manufacture. The distribution of total raw material consumption was calculated on the basis of data on distribution of garments sold and on raw materials used per garment. Emission factors are taken from the MSI/Higg index. Emissions for manufacture are estimated on the basis of a number of studies made. Emissions include carbon dioxide, nitrous oxide and methane.

Category 3 Fuel and energy related activities: emissions on extracting, refining and distribution of the fuels used in company cars and private cars used for business as well as electricity and district heating production plants from which KappAhl purchases its electricity and district heating. Emissions include carbon dioxide, nitrous oxide and methane.

Category 4 Purchased transportation and distribution (upstream): emissions include both emissions from the vehicle and on extraction, refining and distribution of used fuel for goods transportation purchased by KappAhl. RFI 2,7 is used for air transport. Emissions include carbon dioxide, nitrous oxide and methane.

Category 5 Waste generated in operations: emissions cover waste generated at the head office, the distribution centre and stores. Emissions include carbon dioxide, nitrous oxide and methane.

Category 6 Business travel (excluding reporting in scope 1): Sources of emissions included are air travel, taxi travel, hotel nights and train travel on business. Air travel and train travel are based on data from the travel agency, while taxi travel and hotel nights are estimated. Emissions include carbon dioxide, nitrous oxide and methane.

Category 7 Employee commuting: Covers both staff at head office and store staff. Estimated distribution of travel is taken from studies on commuting in small towns and urban areas. Emissions include carbon dioxide, nitrous oxide and methane.

Category 8 Leased assets (upstream, lessee): Refrigerant leakage from landlords' cooling system. The leakage is estimated on the basis of key figures for a number of large property companies and restated as carbon dioxide equivalents.

Category 9 Purchased transportation and distribution (downstream): Covers travel to and from the store for visitors to KappAhl's stores. Based on measured number of visitors and distribution of typical journeys for urban areas and small towns. Emissions include carbon dioxide, nitrous oxide and methane.

Category 11 Use of sold products: covers washing, drying and ironing. The temperature at which the garment should be washed is taken into account. Emissions for energy use for these activities take into account the country to which the garment is sold. Emissions include carbon dioxide, nitrous oxide and methane.

Category 12 End-of-life treatment of sold products: Covers handling of end-of-life products. Emissions include carbon dioxide, nitrous oxide and methane.

GRI note EN19: Reduction of emissions of greenhouse gases

Tonnes CO_2e	2015/2016	New calculation 2014/2015	Previously reported 2014/2015
Scope 1	148	159	160
Scope 2	23,009	26,138	26,842
Scope 3	276,087	293,570	412,683
Total	299,244	319,867	439,685

We try as far as possible to use actual measurements from our operations as reference data for the calculation. Where there is no data we use accepted standard values. In connection with this year's climate calculation we also recalculated climate impact for 2014/2015, since we gained access to further material in the form of figures from operations for 2014/2015 in some areas.

Our base year for climate emissions is 2014/2015, since that was when we first calculated scope 1–3. The reduction we see in emissions of greenhouse gases is largely due to reduced purchases of garments, but also due to a larger share of renewable energy and a larger proportion of sustainable material.

Diversity and equal opportunity

GRI note LA12: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

Percentage of female managers 2015/2016	Percentage
Stores, Sweden, %	89
Head office, Sweden, %	81
Distribution centre, Sweden, %	25
Total, Norway, %	96
Total, Finland, %	93
Total, Poland, %	80
Total, Production offices, %	38

Supplier assessment for labour practices

GRI note LA15: Significant actual and potential negative impacts for labour practices in the supply chain and actions taken

During the year partnership was discontinued with two factories in India, one in China, and one in Bangladesh, as a result of non-compliance with our Code of Conduct and failure to make necessary improvements. KappAhl still works with the suppliers.

Non-discrimination

GRI note EC3: Total number of incidents of discrimination and corrective actions taken

Every employee has the possibility of reporting events that are perceived as discriminating and derogatory in the annual employee survey, or directly to the immediate superior or to the HR department where necessary.

There has been a clear decrease in the number of reported cases of derogatory behaviour and discrimination compared to the previous year (see below). All cases of bullying or victimisation at KappAhl are followed up by the HR person responsible and must be treated promptly and confidentially. It is important for all organisation and work planning that a good atmosphere is created, with functioning standards, so that victimisation does not arise.

Managers and supervisory staff play key roles in terms of shaping the atmosphere and the standards that are to prevail at the company. The managers concerned are to be informed and parties involved have their say before any decision to act is taken. It is important to take into account and act in accordance with the wishes of the victim.

Reported cases according to the annual employee survey	2015/2016	2014/2015	2013/2014
Number of employees who state that they have been harassed at their workplace due to gender (sexual harassment)	5	5	8
Number of employees who state that they have been harassed at their workplace due to ethnicity, religion or other faith	6	10	15
Number of employees who state that they have been victimised (bullied), in word or deed, due to sexual orientation	2	0	3
Number of employees who state that at their workplace some form of victimisation (bullying) exists, in word or deed	59	89	102

Anti-corruption

GRI note SO4: Communication and training on the organisation's anti-corruption policies and procedures.

KappAhl is not able today to obtain figures for employees in different categories, such as by employee, manager etc. We are currently developing a new system support for HR and this will hopefully enable us to categorise, break down and follow up data in a way that conforms with the GRI requirements.

GRI note SO5: Confirmed incidents of corruption and actions taken

It is highly unusual for us to identify cases of fraud either in relation to our employees or suppliers. During the year nothing has been reported.

CORPORATE GOVERNANCE REPORT

KappAhl AB (publ) is a public Swedish limited company listed on NASDAQ Stockholm. Corporate governance of KappAhl is based on laws, listing agreements, guidelines and good business practices. This corporate governance report has been drawn up in accordance with the Swedish Code of Corporate Governance ("the Code", available via www.corporategovernanceboard.se) and Chapter 6, Sections 6–9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2015/2016 financial year. The auditor has stated that a corporate governance report has been prepared and that disclosures under Chapter 6, Section 6, second paragraph, points 2–6 of the Annual Accounts Act (for example the most important elements of the company's internal control and risk management systems in connection with financial reporting) are consistent with the other parts of the annual report. KappAhl's Articles of Association and other further information concerning corporate governance at KappAhl is available at www.kappahl.com/ir.

APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

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

SHARES AND SHAREHOLDERS ETC.

On 31 August 2016, the share capital of KappAhl was SEK 65,846,040 divided between 76,820,380 shares. All shares are of the same class, entitling shareholders to the same rights in terms of the company's assets, profits and dividends. According to Euroclear's share register KappAhl had 14,191 shareholders on 31 August 2016. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2016 was Mellby Gård AB. The ten largest shareholders as at 31 August 2016 are listed in the Administration Report on page 10.

GENERAL MEETING OF SHAREHOLDERS

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

The most recent Annual General Meeting held was the Annual General Meeting of 2 December 2015 in Mölndal. The minutes of the Annual General Meeting can be found on KappAhl's website. It was then resolved to re-elect Anders Bülow, Susanne Holmberg, Christian W. Jansson and Pia Rudengren as members of the Board of Directors. Kicki Olivensjö and Gustaf Öhrn were elected as new members of the Board of Directors and Anders Bülow was re-elected as the Chairman of the Board. The next Annual General Meeting will be held at 10.00 on 6 December 2016 at Idrottsvägen 14 in Mölndal. Shareholders wishing to have a matter brought before the Annual General Meeting should send a written request to KappAhl AB, Attn: Chairman of the Board of Directors, P.O. Box 303, SE 431 24 Mölndal. The request must reach the Board of Directors at least seven weeks prior to the Meeting or in good time that the item, if necessary, can be included in the notice to attend the Meeting.

NOMINATIONS COMMITTEE

Election of the Board of Directors

The Annual General Meeting set out instructions and a formal work plan for the Nominations Committee. Under the instructions four ordinary members are to be appointed by the four largest shareholders in the company. The Chairman of the Board of Directors will then contact the four largest shareholders and be co-opted to the committee. The composition of the Nominations Committee for the Annual General Meeting on 6 December 2016 was published on the company's website before 6 June 2016. Rune Andersson (appointed by Mellby Gård AB), Marianne Nilsson (appointed by Swedbank Robur Fonder AB), Elisabet Jamal Bergström (appointed by Handelsbanken Fonder AB) and Jannis Kitsakis (appointed by the Fourth National Pension Fund) sit on the Nominations Committee. Anders Bülow, Chairman of the Board, has been co-opted to the Nominations Committee. Göran Espelund (appointed by Lannebo Fonder AB) left the Nominations Committee on 25 August 2016 after Lannebo Fonder AB reduced its holding, at which time Jannis Kitsakis joined the Nominations Committee instead, in accordance with the instructions adopted by the Annual General Meeting. The Nominations Committee represented, on 30 September 2016, 33.3 per cent of the shareholders' votes.

The Nominations Committee held its inaugural meeting on 20 June 2016, at which time Rune Andersson was elected as the Committee chairman. The Committee will present its proposals in connection with the notice to attend the Annual General Meeting. Shareholders who wish to submit proposals to the Nominations Committee are referred to our website.

In the event of a material change in ownership among the largest shareholders taking place earlier than seven weeks prior to the Annual General Meeting, and one shareholder having become one of the four largest shareholders after this material change in ownership, the Nominations Committee shall contact the shareholder and offer this shareholder a place on the Nominations Committee, either by resolving that this shareholder shall replace the smallest shareholder after the change or by resolving to increase the Nominations Committee to include one more member. After resolution in accordance with the previous sentence the incoming member shall participate and the member appointed by the smallest shareholder shall not participate.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of the Board of Directors should possess. The aim is to create an appropriate composition of the Board of Directors and for its members' pooled skills and experience to provide a broad base that is appropriate from the point of view of KappAhl's current phase and market situation. The Committee will also keep itself up to date with general developments in fee and remuneration matters in Swedish listed companies. In the 2015/2016 financial year the Chairman of the Board, Anders Bülow, commissioned an individual assessment of the work of the Board and its committees. The result has been presented to the Nominations Committee.

The Nominations Committee has made the assessment that no members of the current Board, apart from Christian W. Jansson and Anders Bülow, are dependent in relation to the company or its major shareholders. Ahead of the Annual General Meeting on 6 December 2016 the Nominations Committee will make its proposals for the chairman of the Meeting, number of Board members, Chairman of the Board, auditor, other AGM elected members and instructions for next year's Nominations Committee. The Nominations Committee will also submit its proposals on fees and remuneration. No separate remuneration has been paid by the company to the members of the Nominations Committee for its work.

Election of auditor

At the 2015 Annual General Meeting (and the 2014 Annual General Meeting) Ernst & Young AB was elected as auditors, with authorised public accountant Stefan Kylebäck as auditor in charge, for the period up to the next Annual General Meeting. Ernst & Young AB have reported their findings from the auditing assignment to the Audit Committee and the Board of Directors. Within the framework of the audit assignments mentioned, the annual accounts, the accounting records and the administration of the Chief Executive Officer were examined. In addition to the auditing assignment, which is remunerated in accordance with normal standard charges and the principle of a fixed account, during the financial year Ernst & Young sold services to the company for around SEK 0.8 million, of which most relates to tax consultations and additional accountancy issues.

BOARD OF DIRECTORS

General

The Board of Directors is responsible for the company's administration of its affairs and organisation. At the Annual General Meeting in December 2015, six ordinary members were elected, one of whom resigned during the year (see below under "Members of the Board of Directors"). The Board of Directors also includes two trade union representative members, each with a personal deputy. Jonas Frii, member of the Swedish Bar Association, was secretary to the Board of Directors. There are no special provisions in the articles of association concerning the appointment or removal of members of the Board. Since the Annual General Meeting on 2 December 2015 up to 31 August 2016 the Board of Directors held five meetings, all of which were minuted. Four of these meetings were ordinary meetings. After 31 August 2016 the Board held three meetings, on 2 September 2016, 27 September 2016 and 12 October 2016. Members' attendance at the respective meetings appears in the table below:

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

Work of the Board of Directors

Between each Annual General Meeting the Board of Directors shall hold four to six ordinary meetings. These meetings normally take place in person at the head office in Mölndal. Extra

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

meetings may also be arranged in the form of telephone conferences. The Chairman leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The Chairman in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings for information, discussion or decision. Decisions are made after discussion and after all members present have had an opportunity to express their views. The broad experience of members in various areas often leads to an open and constructive discussion. Open questions are followed up continually. The Board of Directors has not divided responsibilities among members other than as provided by the Board's and the Committees' rules of procedure. These rules of procedure were established at the inaugural board meeting on 2 December 2015 and are revised annually. They stipulate the division of assignments between Chairman, Board members and committees. The rules of procedure stipulate for example which matters must be dealt with at each ordinary meeting. At each ordinary meeting, reports from the Audit Committee, Offer Committee and Remuneration Committee, and a report from senior executives are presented and decisions are made on establishments and investments. Among the more important matters dealt with by the Board during the year were discussions on an action programme, investments and financing. In addition, the President issues a regular memorandum describing operations and the market situation. The purpose is to keep the Board of Directors informed about the development of the company's business so that the Board of Directors can make well-informed decisions. Once a year the Board of Directors evaluates the work of the Chief Executive Officer. No senior executives are present at this evaluation. The Board of Directors assures the quality of financial reporting through its own work, through the preparatory work of the Audit Committee and through contacts with the auditor. On the instructions of the Board of Directors the Audit Committee also met with the auditor without the presence of management in connection with the reporting of the audit findings.

Members of the Board of Directors

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

REMUNERATION COMMITTEE

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 6 December 2016 the Committee consists of Christian W. Jansson (Chair), Susanne Holmberg and Anders Bülow. The Remuneration Committee prepares questions about the

remuneration and other terms and conditions of employment for senior executives and about bonus outcome for management and any share-based bonus programmes. The Committee has held four meetings during the year, which all members attended, to review bonus outcomes and terms of employment among other things. The Committee works according to written rules of procedure stipulated by the Board of Directors. The committee does not have the authority to make decisions, other than as part of the remuneration policy adopted by the Annual General Meeting on 2 December 2015 for senior executives. The adopted policy means, among other things, that senior executives shall be offered a fixed salary that is market-related and based on responsibility and conduct. Salaries shall be set for the calendar year, and a senior executive may, from time to time, be offered a bonus of a maximum of 50% of fixed salary. Any bonuses shall primarily be based on the operating profits of the KappAhl Group. Senior executives and the company must both observe a period of six months' notice of termination. The remuneration policy is reviewed annually and is presented to the Annual General Meeting for approval.

AUDIT COMMITTEE

At its inaugural meeting the Board of Directors shall also appoint the Audit Committee. Until the Annual General Meeting on 6 December 2016 the Committee consists of Pia Rudengren (Chair), Anders Bülow and Christian W. Jansson. In the opinion of the Board of Directors, which is shared by the Nominations Committee, Ria Rudengren and Anders Bülow are independent in relation to the company and its senior executives, Pia Rudengren and Christian W. Jansson are independent in relation to major shareholders, and the members meet the necessary qualification requirements in accounting and auditing. The Audit Committee must, without affecting the Board of Director's responsibilities and tasks in other respects, monitor the financial reporting by the company and the effectiveness of the company's internal controls with regard to financial reporting. The Committee has, in conjunction with the submission of the audit report, met with the auditors without the CEO or other senior executive being present. In 2015/2016 committee work included preparing issues concerning interim reports, foreign currency issues and internal financial control. Since the Annual General Meeting on 2 December 2015 up to 31 August 2016 the committee held three meetings, all of which were minuted. The committee has subsequently held one more meeting, on 12 October 2016. The Board's secretary is also the secretary of the Audit Committee. The Committee works according to written rules of procedure stipulated by the Board of Directors. The Committee minutes are distributed to the Board of Directors and reporting is at each Board meeting.

OFFER COMMITTEE

During the 2013/2014 financial year an Offer Committee was set up with the main duty of preparing questions concerning KappAhl's offer to the market. During the 2015/2016 financial year the Offer Committee consisted of the board members Susanne Holmberg (chair), Kicki Olivensjö and Gustaf Öhrn. After Gustav Öhrn's retirement from the board the Offer Committee consisted of Susanne Holmberg (chair) and Kicki Olivensjö. The President, Vice President of marketing and Vice President of assortment and design were co-opted to the Committee. The members of the Committee who are not employed by KappAhl receive a consultant fee of SEK 1,500 per hour excluding value added tax. The fee amounts to about SEK 49,500 for the 2015/2016 financial year.

MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on page 58 and on KappAhl's website.

REPORT ON INTERNAL CONTROLS

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

CONTROL ENVIRONMENT

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

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

INTERNAL CONTROL RELATING TO FINANCIAL REPORTING

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

RISK ASSESSMENT

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

INFORMATION AND COMMUNICATION

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

ACTIVITIES 2015/2016

In the initial part of the 2015/16 financial year the Board of Directors devoted a lot of time to recruitment of a new President/CEO. The subsequent focus was on following the work of drawing up the company's new business plan, "Clarity for the Customer", which entails a far-reaching change in many of KappAhl's working methods, not least clearer target group analysis, new methods for collection development and new ways of communicating with KappAhl's customers.

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

INTERNAL AUDIT

To date, KappAhl has not considered it necessary to establish a specific internal audit function but there is renewed discussion of the matter. The assessment has been so far that the existing control environment is sufficient to achieve the same purpose as a separate internal audit function.

Mölndal, 31 October 2016

Anders Bülow   Kicki Olivensjö   Pia Rudengren

Christian W. Jansson   Susanne Holmberg   Melinda Hedström

Michael Bjerregaard Jensen

STATEMENT BY THE AUDITOR ON THE CORPORATE GOVERNANCE REPORT

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

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

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

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

Gothenburg, 31 October 2016

Ernst & Young AB

Stefan Kylebäck

Authorised public accountant

1. Anders Bülow 2. Susanne Holmberg 3. Christian W Jansson
4. Pia Rudengren 5. Kicki Olivensjö 6. Michael Bjerregaard Jensen 7. Melinda Hedström
8. Marie-Louise Jansson Bring 9. Marie Matthiessen

BOARD OF DIRECTORS

ANDERS BÜLOW
Born 1953. Anders Bülow has been Chairman of the Board of KappAhl since 2012. Member of the board of MellbyGård AB as well as chairman of the board and member of the board of companies wholly or partly owned by MellbyGård. Member of the board of Academedia AB. Anders Bülow has a BSc in business administration from Stockholm University.
Shareholding: 35,000 shares through a company.

SUSANNE HOLMBERG
Born 1961. Susanne Holmberg has been a member of the board of KappAhl since 2014. Member of the board of Linum AB. Susanne is a consultant and formerly business area manager in Coop Sweden AB. She has also worked for Axstores AB, among other things as purchasing director and business area manager. Susanne Holmberg also has experience of directorships in Åhléns AB, Kicks Kosmetikkedjan AB, Lagerhaus AB and Designtorget AB. Susanne Holmberg holds a B.Sc. in Business Administration from the University of Uppsala.
Shareholding: 0 shares.

CHRISTIAN W. JANSSON
Born 1949. Member of the Board of KappAhl since 2011. Before that he was President/CEO of KappAhl in 2002–2011 and Chairman of the Board 2011–2012. He is chairman of the boards of Apoteket AB, MD International AB - Min Doktor and Lundabryggeriet AB. He is also a member of the boards of Europris ASA, Wynd It Inc., Excillum AB, Lilla Båstad AB and Collodial Resources AB. Christian W. Jansson holds an MSc in business and economics from the University of Lund and an honorary doctorate in economics from the same university.
Shareholding: 0 shares.

PIA RUDENGREN
Born 1965. Pia Rudengren has been a member of the board of KappAhl since 2013. She is also member of the board and chair of Social Initiative AB and member of the board of Duni AB, Swedbank AB and Tikkurila Oyj. Pia Rudengren has previously held senior positions in Investor AB and W Capital Management AB, among others. Pia Rudengren has a M.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 4,000 shares.

KICKI OLIVENSJÖ
Born 1958. Kicki Olivensjö has been a member of the board of KappAhl since 2015. She is head of range and purchasing for the Venue Retail Group. Kicki Olivensjö previously worked as business area manager and design and purchasing manager at Åhléns, design and purchasing manager at Lindex and design and production manager at Peak Performance. Kicki Olivensjö has also worked at H&M in various positions in Sweden and Hong Kong.
Shareholding: 0 shares.

MICHAEL BJERREGAARD JENSEN
Born 1954. Michael Bjerregaard Jensen has been a member and employee representative on the board of KappAhl since 2013. He works as a store manager at KappAhl. Michael Bjerregaard Jensen has participated in a training programme for board members held by Nasdaq Stockholm.
Shareholding: 0 shares.

MELINDA HEDSTRÖM
Born 1966. Melinda Hedström has been a member and employee representative on the board of KappAhl since 2011. She works as a sales representative at KappAhl. Melinda Hedström has participated in a training programme for board members held by Nasdaq Stockholm.
Shareholding: 0 shares.

MARIE-LOUISE JANSSON BRING
Born 1957. Marie-Louise Jansson Bring has been a deputy board member and employee representative on the board of KappAhl since 2014. She works as a store manager at KappAhl. Marie-Louise Jansson Bring has participated in a training programme for board members held by Nasdaq Stockholm.
Shareholding: 5,000 shares.

MARIE MATTHIESSEN
Born 1965. Marie Matthiessen has been a deputy board member and employee representative on the board of KappAhl since 2008. She works as a sales representative at KappAhl. Marie Matthiessen has participated in a training programme for board members held by Nasdaq Stockholm.
Shareholding: 500 shares.

MANAGEMENT

DANNY FELTMANN

Born 1968. President and Chief Executive Officer since December 2015. Danny holds a B.Sc. in Economics & Business Administration and an M.Sc. in Finance & Accounting from Århus University.
Shareholding: 10,400 shares

ANDERS DÜRING

Born 1965. Chief Financial Officer. Employed since 2013. Anders has a Master's degree from the School of Economics and Commercial Law at Gothenburg University.
Shareholding: 5,000 shares

KAJSA RÄFTEGÅRD

Born 1965. Vice President, Human Resources and Corporate Communications.
Employed since 1995. Kajsa has a B.Sc. in Social Work from the University of Gothenburg.
Shareholding: 115,018 shares

MARIA SEGERGREN

Born 1972. Vice President, Assortment and Design.
Employed since September 2016. Maria has a degree in textile economics from Borås University.
Shareholding: 0 shares

CAMILLA WERNLUND

Born 1971. Vice President, Sales. Employed since 2011. Camilla has a degree in economics and marketing.
Shareholding: 27,000 shares

MARI SVENSSON

Born 1963. Vice President, Purchasing and Logistics. Employed since 2000. Mari holds an M.Sc. in Business Administration from the School of Business, Economics and Law at the University of Gothenburg.
Shareholding: 71,646 shares

JOAKIM HOLMSTRAND

Born 1959. Vice President, Marketing. Employed since 2014. Graduate of the IHM Business School. Member of the board of the Swedish Trade Federation organisation Svensk Handel Stil.
Shareholding: 20,000 shares

1. Danny Feltmann 2. Anders Düring 3. Kajsa Räftegård
4. Maria Segergren 5. Camilla Wernlund 6. Mari Svensson 7. Joakim Holmstrand

NOTICE TO ATTEND THE ANNUAL GENERAL MEETING

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS IN KAPPAHL AB (PUBL) will be held on 6 December 2016 at 10.00 at KappAhl's head office in Mölndal, Idrottsvägen 14.

RIGHT TO PARTICIPATE

Shareholders wishing to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden AB no later than Wednesday, 30 November 2016, and have given notice of their attendance and that of any advisers by the same date, preferably before 12.00, via email to stamma@kappahl.com. Notification of participation can also be given by telephone on +46 31 771 55 00 or by post to KappAhl AB, Annual General Meeting, P O Box 303, SE 431 24 Mölndal, Sweden.

The notification must state the name, address, telephone number, corporate or personal identity number and registered shareholding.

Any powers of attorney must be in writing and be submitted no later than, but preferably before, the Annual General Meeting. A natural person representing a legal person shall also submit a certified copy of the certificate of registration. The period of validity of the power of attorney may be a maximum of five years from its date of issue. KappAhl will provide a form for a power of attorney on request and the form is also available from KappAhl's website www.kappahl.com/ir.

Shareholders whose shares are registered in the name of a nominee through a bank's trust department or a private securities dealer must temporarily register the shares in their own name to be entitled to participate in the Meeting. This temporary registration of ownership must have been completed by Wednesday 30 November 2016. This means that the shareholder must notify the nominee of this well in advance of that date.

A complete notice to attend the Annual General Meeting will be published separately and in accordance with the provisions of the Articles of Association.

We look forward to seeing you!

FINANCIAL CALENDAR

Annual General Meeting	6 December 2016
First quarter (Sep–Nov)	21 December 2016
Second quarter (Dec–Feb)	6 April 2017
Third quarter (March–May)	29 June 2017
Fourth quarter (June–August)	12 Oktober 2017

An updated financial calendar is published regularly at www.kappahl.com/ir

KappAhl's annual report part I in Swedish and English will be sent to shareholders and other stakeholders who so request. An order can be made via www.kappahl.com/ir. Part 2 of KappAhl's Annual Report is available for download from the same place on the website.

MORE ABOUT KAPPAHL

Do you want to read more about our operations in the financial year? See part I of the Annual Report. You can find it at www.kappahl.com/ir

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www.kappahl.com

Please contact us via the contact form at
www.kappahl.com/contact or
via info_se@kappahl.com

KappAhl