

# 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.bolagsstyrning.se](http://www.bolagsstyrning.se)) and Chapter 6, Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2016/2017 financial year. The auditor has stated that the 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 the financial statements) are consistent with the other parts of the annual report. KappAhl’s Articles of Association and other information concerning corporate governance is available at [www.kappahl.com/ir](http://www.kappahl.com/ir).

## APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

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

## SHARES AND SHAREHOLDERS ETC.

On 31 August 2017 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 15,294 shareholders on 31 August 2017. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2017 was Mellby Gård AB. The ten largest shareholders as at 31 August 2017 are listed in the Administration Report on page 8.

## 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 6 December 2016 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, Kicki Olivensjö, Pia Rudengren and Susanne Holmberg as members of the Board of Directors. Göran Bille and Cecilia Kocken 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 5 December 2017 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 5 December 2017 was published on the company’s website before 5 June 2017. Rune Andersson (appointed by Mellby Gård AB), Marianne Nilsson (appointed by Swedbank Robur Fonder AB), Elisabet Jamal Bergström (appointed by Handelsbanken Fonder AB) and Caroline Sjösten (appointed by Skandia Liv) sit on the Nominations Committee. Anders Bülow, Chairman of the Board, has been co-opted to the Nominations Committee. The Nominations Committee represented, on 30 September 2017, just over 36 per cent of the shareholders’ votes.

The Nominations Committee held its inaugural meeting on 15 August 2017, at which time Rune Andersson was elected as the Committee chairman. The Committee will present its proposals at the latest 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 a suitable composition of the Board of Directors and for its joint skills and experience to provide a broad base to that is well-suited in relation to the phase and market situation faced by KappAhl. The Committee also keeps itself up-to-date with general developments in issues of fees and remuneration in Swedish listed companies. In the 2016/2017 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 Anders Bülow, are dependent in relation to the company or its major shareholders. At the latest before the Annual General Meeting on 5 December 2017 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 board 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 2016 Annual General Meeting PwC (Öhrlings Pricewaterhouse Coopers AB) was elected as auditor, with authorised public accountant Eva Carlsvi as auditor in charge, for the period up to the next Annual General Meeting. PwC has reported its findings from the audit 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 PwC supplied services to the company for around SEK 0.5 million, of which most relates to additional accountancy issues and tax consultations.

## BOARD OF DIRECTORS

### General

The Board of Directors is responsible for the company's administration of its affairs and organisation. The Articles of Association stipulate that the Board of Directors shall consist of a minimum of four and a maximum of nine members. Six ordinary members were elected to the Board of Directors at the Annual General Meeting in December 2016. The Board of Directors also includes employee representatives; currently two members and one deputy. Up to 29 September 2017 Marie Matthiessen was one of two trade-union appointed deputies but subsequently resigned. 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. During the 2016/2017 financial year the Board of Directors held thirteen meetings, on of which was a strategy meeting. All meetings were minuted. 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 benefits to the Board of Directors of KappAhl are presented in Note 5 on page 25. Board members' shareholdings in KappAhl are presented on page 58. Information on the Board Members' other elected positions can be found on page 58. More information is available at: [www.kappahl.com/ir](http://www.kappahl.com/ir).

	Boardmeeting No. 2016:05 2 sep 2016	Boardmeeting No. 2016:06 27 sep 2016	Boardmeeting No. 2016:07 12 oct 2016	Boardmeeting No. 2016:08 31 oct 2016	Inaugural Boardmeeting No. 2016:09 6 dec 2016	Boardmeeting No. 2016:10 20 dec 2016	Boardmeeting No. 2017:01 12 jan 2017	Boardmeeting No. 2017:02 7 feb 2017	Boardmeeting No. 2017:03 5 apr 2017	Boardmeeting No. 2017:04 4-5 maj 2017	Boardmeeting No. 2017:05 28 jun 2017	Boardmeeting No. 2017:06 28 jul 2017	Boardmeeting No. 2017:07 31 aug 2017
Anders Bülow	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pia Rudengren	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Susanne Holmberg	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Kicki Olivensjö	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Göran Bille	*	*	*	*	Yes	Yes	Yes	Yes	Partial	Yes	Yes	Yes	Yes
Cecilia Kocken	*	*	*	*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Christian W. Jansson**	Yes	Yes	Yes	Yes	-	-	-	-	-	-	-	-	-
Melinda Hedström	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Michael Bjerregaard Jensen	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Marie-Louise Jansson Bring	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Danny Feltmann Espersen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Anders Düring	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

\* Göran Bille and Cecilia Kocken were elected to the Board at the Annual General Meeting held on 6 December 2016.

\*\* Christian W. Jansson was a member of the Board in the 2015/2016 financial year up to and including the Annual General Meeting of 6 December 2016.

### Work of the Board of Directors

Between each Annual General Meeting the Board of Directors shall hold in principle four to six ordinary meetings. These meetings should normally take place in person at the head office in Mölndal. Extra meetings may also be arranged in the form of telephone conferences. The Chairman leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The Chairman in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings for information, discussion or decision. Decisions are made after discussion and after all members present have had an opportunity to express their views. The broad experience of members in various areas often leads to an open and constructive discussion. 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 6 December 2016 and are revised annually. They stipulate the division of assignments between Chairman, Board members and committees. The rules of procedure stipulate for example which items of business are obligatory at each ordinary meeting. At each ordinary meeting, reports are presented from the Audit Committee, Remuneration Committee and Offer Committee, as well as from from senior management and decisions are made on establishments and investments. Among the more important business dealt with by the Board dur-

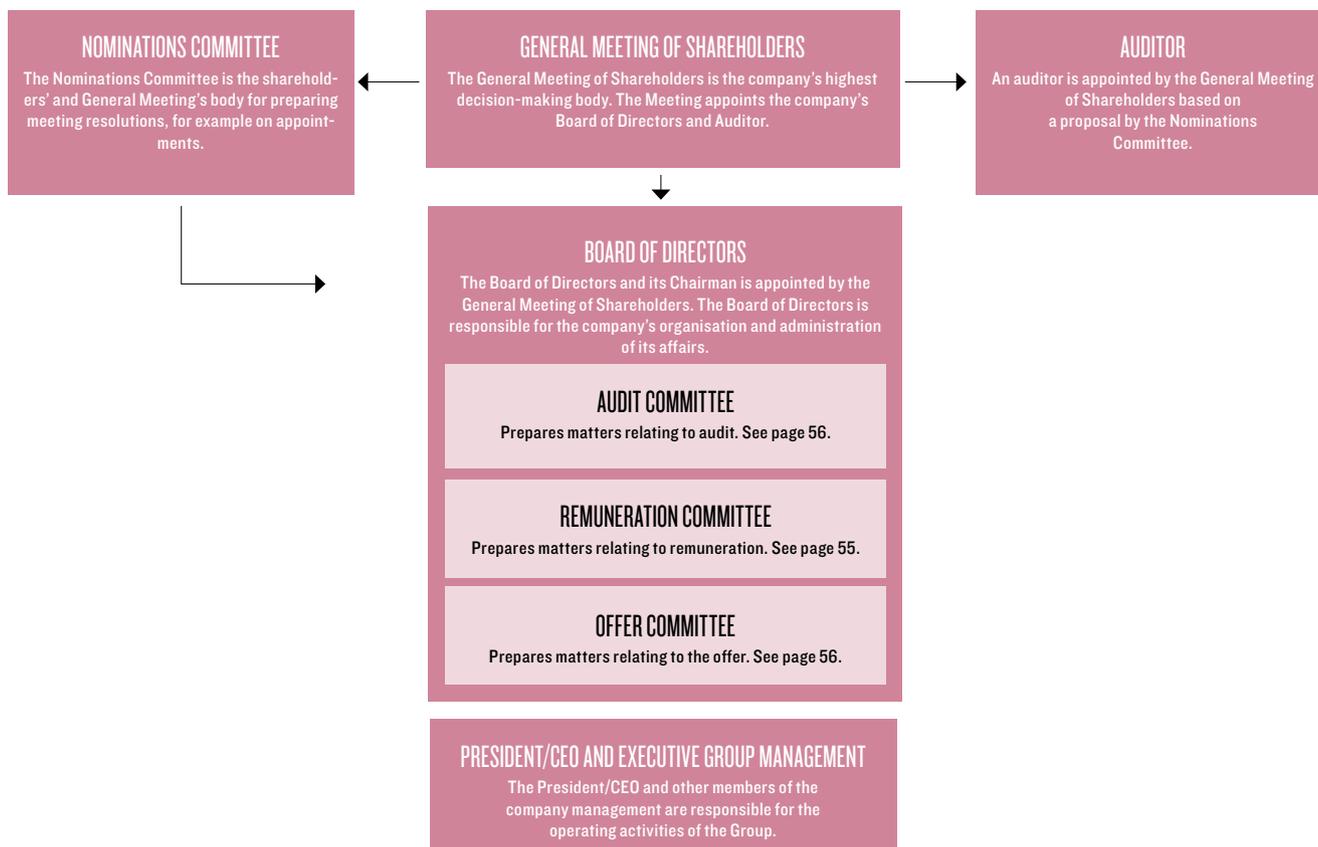
ing the year were discussions on offer, range and market conditions. In addition, the President issues a monthly report to the Board, describing operations and the market situation. The purpose is to keep the Board of Directors informed about the development of the company's business so that the Board of Directors can follow the development and make well-informed decisions. Once a year the Board of Directors evaluates the work of the President and other management. 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

KappAhl's Board of Directors comprises eight members, including the Chairman, employee representatives and one deputy. The presentation of the Board members on page 59 includes a list of their other assignments and relevant shareholdings. More information is available at: [www.kappahl.com/ir](http://www.kappahl.com/ir).

### Diversity work

KappAhl's nominations are based on the diversity requirements of the Code. Five of eight board members and one deputy are women. 93 per cent of the Group's employees are women.



## REMUNERATION COMMITTEE

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 5 December 2017 the Committee consists of Susanne Holmberg (chair), Anders Bülow and Göran Bille. 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 in the company. During the financial 2016/2017 financial year the Committee has held three meetings in which all members participated and all were minuted, for reviewing among other things bonus outcomes and terms and conditions of employment. 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 does not have the authority to make decisions, other than as part of the remuneration policy adopted by the Annual General Meeting on 6 December 2016 for senior executives. The adopted policy means, among other things, that senior executives must be offered a fixed salary that is market-related and based on responsibility and performance. Salaries shall be set per calendar year, and senior executives may, from time to time, be offered a bonus. For the President the bonus may be a maximum of 50 per cent of fixed salary and for other senior executives the bonus may be a maximum of 33 per cent 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 5 December 2017 the Committee consists of Pia Rudengren (chair), Anders Bülow and Göran Bille. In the opinion of the Board of Directors, which is shared by the Nominations Committee, Ria Rudengren, Göran Bille and Anders Bülow are independent in relation to the company and its senior executives, Pia Rudengren and Göran Bille 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 2016/2017 committee work included preparing issues concerning interim reports, inventory valuation, foreign currency issues and internal financial control. During the 2016/2017 financial year the Committee held five meetings in which all members participated and all were minuted. 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 and does not have the authority to make its own decisions. The Committee minutes are distributed to the Board of Directors and reporting is at each Board meeting.

## OFFER COMMITTEE

The main duty of the Offer Committee is to prepare questions concerning KappAhl's offer to the market. During the 2016/2017 financial year the Offer Committee consisted of the board members Susanne Holmberg (chair), Cecilia Kocken and Kikki Olivensjö. The President, Vice President, Marketing and Vice President, Range and Design were co-opted to the Committee. During the 2016/2017 financial year the Committee held four meetings, all of which were minuted. The Committee does not have the authority to make its own decisions. 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 36,000 for the 2016/2017 financial year.

## MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on page 60 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 and ensuring effective reporting to the Board of Directors. 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 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 is available to all employees concerned. Important tools for this are KappAhl's intranet and training.

#### **ACTIVITIES 2016/2017**

During the 2016/17 financial year the Board of Directors devoted a lot of time to discussing changes in the industry, establishments, range, offer and IT.

#### **INTERNAL AUDIT**

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

Möln dal, 2 November October 2017

Anders Bülow

Pia Rudengren

Susanne Holmberg

Kicki Olivensjö

Göran Bille

Cecilia Kocken

Melinda Hedström

Michael Bjerregaard Jensen

## **STATEMENT BY THE AUDITOR ON THE CORPORATE GOVERNANCE REPORT**

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

#### **ASSIGNMENT AND DIVISION OF RESPONSIBILITIES**

The Board of Directors is responsible for the corporate governance report for the financial year 1 September 2016 to 31 August 2017 on pages 53–57 and for its preparation in accordance with the Annual Accounts Act.

#### **FOCUS AND SCOPE OF THE REVIEW**

Our examination was conducted in accordance with FAR's statement RevU 16 The auditor's examination of the corporate governance report. This means that our 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.

We believe that the examination has provided us with sufficient basis for our opinions.

#### **OPINION**

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, second paragraph, points 2–6 of the Swedish Annual Accounts Act and Chapter 7, Section 31, second paragraph of the same Act are consistent with the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg, 2 November 2017

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Authorised public accountant