

# CORPORATE GOVERNANCE REPORT

## **Group management**

KappAhl Holding AB (publ) is a public Swedish company listed on NASDAQ OMX Stockholm. Corporate governance of KappAhl is based on laws, listing agreements, guidelines and good business practices. This corporate governance report has been drawn up in accordance with the Swedish Code of Corporate Governance (“the Code”) and refers to the 2008/09 financial year. The report has not been audited by the company’s auditor. KappAhl’s Articles of Association and other information concerning corporate governance are available at [www.kappahl.com/ir](http://www.kappahl.com/ir).

## **Application of the Code**

KappAhl applies the Code, with the exception that the Audit Committee, in accordance with point 10.1 of the Code, shall comprise of at least three board members, while KappAhl’s Audit Committee comprises of two board members. The reason for this difference is that the Nominations Committee and the Board of Directors consider that the Audit Committee works effectively with two board members and fulfils its duties well in accordance with the instructions stipulated by the Board of Directors.

## **Shareholders etc.**

According to Euroclear’s share register KappAhl had just over 14 000 shareholders on 31 August 2009. The ten largest shareholders, as at 31 August 2009, are specified in the Administration Report on page 35. More information on major shareholders is available at [www.kappahl.com/ir](http://www.kappahl.com/ir).

## **Shares**

On 31 August 2009 the share capital of KappAhl Holding AB (publ) was SEK 10,720,000, divided between 75,040,000 shares. KappAhl’s market value as at 31 August 2009 was around SEK 3,122 million. All shares are of the same class, entitling shareholders to the same rights in terms of the company’s assets, profits and dividends.

## **Annual General Meeting**

KappAhl’s highest decision-making body is the Annual General Meeting. The Annual General Meeting is held within six months of the close of the financial year. Notice to attend the Meeting is to be issued no earlier than six weeks before and no later than four weeks before the Meeting. 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. A proxy may represent shareholders who are unable to attend.

The most recent Annual General Meeting held was the Annual General Meeting of 17 December 2008 in Mölndal. At that time it was resolved, among other things, to re-elect a Board of Directors consisting of Finn Johnsson (chairman), Amelia Adamo, Jan Samuelsson, Pernilla Ström and Paul Frankenius. The next Annual General Meeting will be held on 25 November 2009 at 10.00 at Idrottsvägen 14 in Mölndal. A shareholder wishing to have a matter brought before the Annual General Meeting can send a written request to: KappAhl Holding AB, Att: Chairman of the Board, Box 303, SE-431 24 Mölndal. The request must reach the Board of Directors at least seven weeks prior to the Meeting or in good time that the item, if necessary, can be included in the notice to attend the Meeting. See also [www.kappahl.com/ir](http://www.kappahl.com/ir).

## **Nominations committee**

### *Election of the Board of Directors*

The Annual General Meeting set out instructions and a formal work plan for the Nominations Committee, which will comprise three ordinary members who will represent the three largest shareholders in the company as at 30 April. The Chairman of the Board of Directors will then contact the three largest shareholders and be co-opted to the committee. On 25 May 2009 it was announced that the Nominations Committee for the Annual General Meeting on 25 November 2009 comprises Kristian Lundius (Dutot Ltd.), Kristina Leffler (Livy Ltd.), Philip Wendt (Länsförsäkringar) and Finn Johnsson, Chairman of the Board. The Nominations Committee held its inaugural meeting on 22 June 2009, at which time Kristian Lundius was elected as the committee’s 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 [www.kappahl.com/ir](http://www.kappahl.com/ir).

In the event of a change of ownership, the Chairman of the Board will contact those of the three major shareholders who do not have a shareholder representative and request that such a representative be designated. When such a representative has been designated, this person shall be a member of the Nominations Committee and replace the former member who no longer represents one of the three largest shareholders. Before the close of the financial year a change in ownership took place which, when the circumstances were noted, led to KG Lindvall (for

Swedbank Robur Funds as new third largest owner) replacing Philip Wendt.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of the Board of Directors should possess. The aim is to create a suitable composition of the Board of Directors and for its members' joint skills and experience to provide a broad base to suit the current phase and market situation of KappAhl. The committee will also keep itself up to date with general developments in issues of fees and remuneration in Swedish listed companies. In summer 2009 the Chairman of the Board, Finn Johnsson, commissioned an individual assessment of the work of the Board and its committees (a corresponding assessment was carried out in the previous year). The results of the latest assessment were reported to the Nominations Committee.

The Nominations Committee has made the assessment that the Board of Directors functions well in performing its duties, that it is well composed and balanced, and that its members have sound knowledge and experience of various areas and complement each other well. The Nominations Committee has made the assessment that no members of the Board other than Paul

Frankenius are dependent in relation to the company and its major shareholders.

Before the Annual General Meeting in November 2009 the Nominations Committee will make its proposals for the chairman of the Meeting, number of Board members, Chairman of the Board and other AGM elected members.

The Nominations Committee will also submit its proposals for fees and remuneration for Board work and work on Board committees. No separate remuneration has been paid by the company to the members of the Nominations Committee for its work.

#### Election of auditors

The 2008 Annual General Meeting appointed PricewaterhouseCoopers AB as auditors, with Authorised Public Accountant Bror Frid as the lead auditor for the period up to the Annual General Meeting held in the fourth year after the election of auditors. Bror Frid has reported his observations from the auditing assignment to the Audit Committee and the Board of Directors. Within the framework of the audit assignments mentioned, the annual accounts, the accounting records and the administration of the Chief Executive Officer were examined.

	Inaugural Board meeting No. 2008:/7 17 Dec 2008	Ordinary Board meeting No. 2009:1 31 March 2009	Ordinary Board meeting No 2009:2 16 April 2009	Ordinary Board meeting No 2009:3 23 June 2009	Ordinary Board meeting No 2009:4 19 Aug 2009	Ordinary Board meeting No 2009:5 27 Aug 2009
Finn Johnsson	Yes	Yes	Yes	Yes	Yes	Yes
Amelia Adamo	Yes	Yes	Yes		Yes	Yes
Paul Frankenius	Yes	Yes	Yes	Yes	Yes	Yes
Jan Samuelson	Yes	Yes	Yes	Yes	Yes	Yes
Pernilla Ström	Yes	Yes	Yes	Yes	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	Yes	Yes	Yes	Yes
Marie Mattihesen	Yes	Yes	Yes	Yes	Yes	Yes
Helena Blixt				Yes	Yes	Yes
Bodil Gummesson				Yes	Yes	Yes
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes	Yes
Håkan Westin	Yes	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes	Yes
Kjell-Albin Abrahamsson		Yes (under new item 15 (i))				
Hans Jepson		Yes (under item 15 (ii))				
Dariusz Zajakala				Yes (under item 10)		
Mari Svensson				Yes (under item 13)		

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 PricewaterhouseCoopers AB has sold services to the company for around SEK 3 million, of which most relates to tax consultations, consultations in connection with acquisitions and various accountancy issues.

**BOARD OF DIRECTORS**

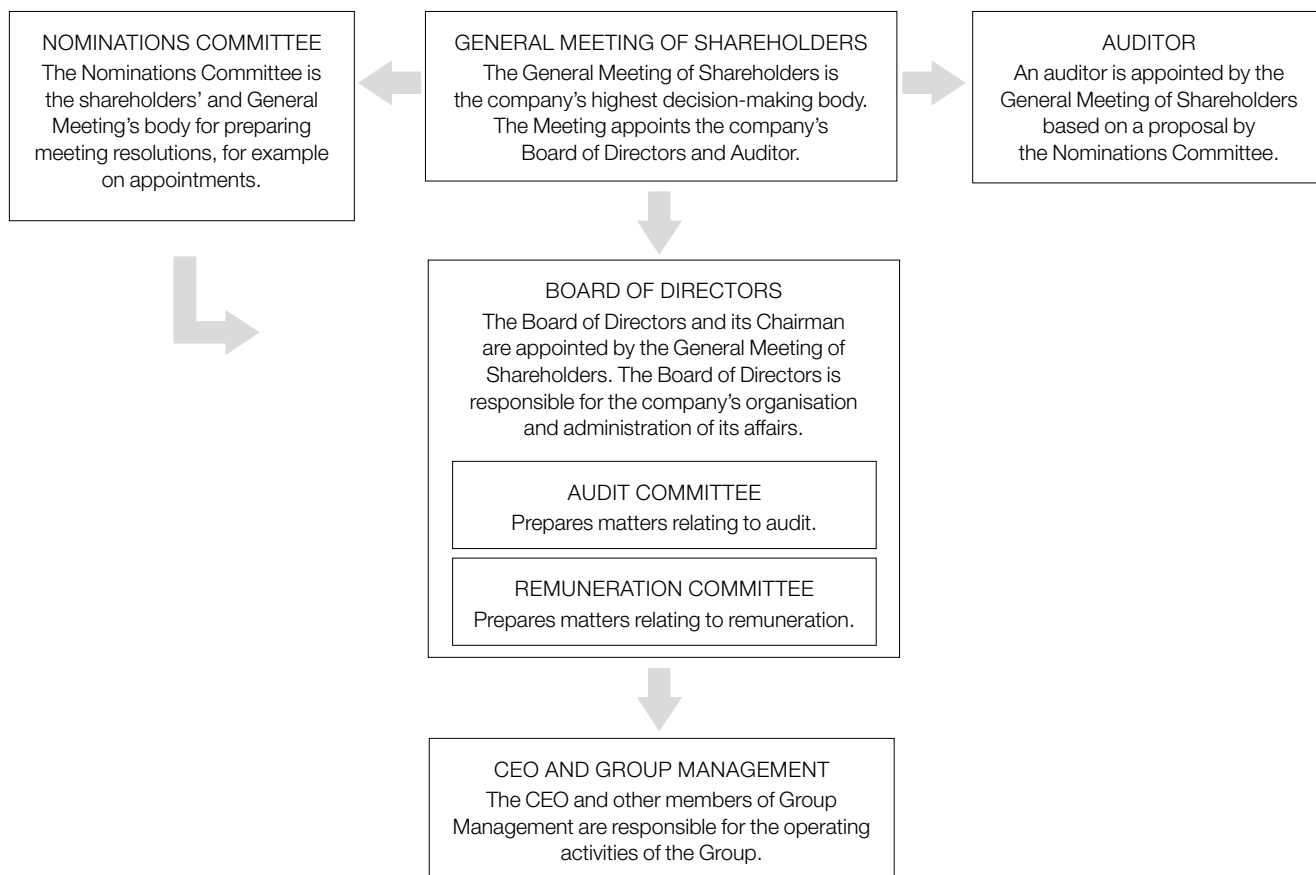
*General*

The Board of Directors is responsible for the company’s administration of its affairs and organisation. Five ordinary members were elected to the Board of Directors at the Annual General Meeting in December 2008. 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 the secretary to the Board of Directors. Since the Annual General Meeting on 17 December up to 31 August 2009, the Board of Directors held six meetings, all of which were minuted. One meeting was an inaugural Board meeting and two meetings were ordinary meetings. Members’ attendance at the respective meetings appears in the table below:

The CEO and CFO made presentations at Board meetings. Remuneration and other benefits to the Board of Directors of KappAhl are presented in Note 18 on page 61. Board members’ shareholdings in KappAhl are presented in Note 26, page 65. After 31 August 2009 the Board of Directors held two further meetings, one on 29 September and one on 23 October.

**Work of the Board of Directors**

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



The Board of Directors has not divided responsibilities among members other than that which is required by the committees' rules of procedure. These rules of procedure were established at the inaugural Board meeting on 17 December 2008 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, directors receive reports from the Audit Committee, Remuneration Committee and senior executives and make decisions on establishments and investments. Among the most important items dealt with by the Board during the year were discussions on future establishments and a position in a new geographical market. After significant events, or in connection with longer intervals between Board meetings, the CEO sends memoranda to members that describe business and market conditions. The purpose is to keep the Board of Directors informed about the development of the company's business so that the Board of Directors can make well-informed decisions. Once a year the Board of Directors evaluates the work of the Chief Executive Officer. No senior executives are present at this evaluation. The Board of Directors assures the quality of financial reporting through its own work, through the preparatory work of the Audit Committee and through contacts with the auditor. In connection with the presentation of the audit report, the Board of Directors met the auditor.

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

KappAhl's Board of Directors comprises seven members, including the Chairman, employee representatives and two deputies. The presentation of the Board members on pages 76–77 includes a list of other assignments and relevant shareholdings. More information is available at: [www.kappahl.com/ir](http://www.kappahl.com/ir).

#### **Remuneration Committee etc.**

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 25 November 2009 the committee will comprise of Finn Johnsson (chairman) and Amelia Adamo. The committee prepares questions about the remuneration and other employment terms for senior executives and about any bonus schemes within the Group. All members of the Remuneration Committee are independent of KappAhl's senior management team. The Chairman of the Board of Directors leads the committee, which has met during the year to examine the terms and conditions for new senior executives and bonus outcome. The committee works according to written rules of procedure stipulated by the Board of Directors. In addition to reporting at each Board meeting, the committee shall submit a written report at least once a year to 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 17 December 2008 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. There is no severance pay. 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 25 November 2009 the committee comprises Jan Samuelson (chairman) and Pernilla Ström. The Nominations Committee considers that both meet the criteria of being independent in relation to the company and senior executives and meet the necessary qualification requirements. The Audit Committee provides support to the Board of Directors on matters concerning internal and external audits, financial reporting and controls. The committee is a preparatory body and communicates with the company's auditors about issues that fall within the committee's remit. 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 2009 committee work included preparing issues concerning interim reports, acquisitions, foreign currency issues and internal financial control. Since the Annual General Meeting on 17 December 2008 up to 31 August 2009 the committee held two meetings, both of which were minuted. The committee has subsequently held at least another two meetings. All members of the committee attended all meetings. 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. Minutes of committee meetings are made available to the Board of Directors.

#### **Management Team**

KappAhl's Management Team and its shareholdings are presented on pages 74–75.

#### **REPORT ON INTERNAL CONTROLS**

The aim of the internal financial controls in KappAhl is to create an effective decision-making process in which demands, aims and frameworks are clearly defined. Ultimately the controls are intended to protect the company's assets and thereby the shareholders' investment. The Board of Directors is responsible for

the company's internal controls and as part of this duty has drawn up a report about internal control concerning the financial reporting for the financial year. The report is limited to a description of how the internal controls concerning financial reporting are organised. Neither the report nor the summary below has been examined by the company's auditors.

#### **Control environment**

The control environment is the foundation of internal control. KappAhl's control environment includes sound ethical values, integrity, competencies, management philosophies, organisational structure, responsibilities and authority. KappAhl's internal work procedures, instructions, policies, guidelines and manuals guide the employees.

KappAhl has assured a distinct division of roles and responsibility for the effective management of business risks, including through the Board of Directors' and committees' rules of procedure and through the terms of reference issued to the Chief Executive Officer. The latter, and the Audit Committee, regularly report to the Board of Directors. In day-to-day activities the system of internal controls required to create a control environment for material risks is the responsibility of the Chief Executive Officer.

KappAhl also has a set of guidelines and policies concerning financial management and follow-up, communication issues and business ethics. Credit and currency management, financial control and follow-up frameworks are set for example through adopted financial, accounting and investment policies. All companies in the Group in principle have the same structure and accounting systems with the same chart of accounts.

In summary, KappAhl's internal control structure is based on the division of duties between the company bodies, reporting to the Board, established policies and guidelines, and employee compliance with policies and guidelines.

#### **Risk assessment and control activities**

KappAhl constantly works with risk analyses to identify potential sources of error in financial reporting.

Traceability in the accounts has further increased during the financial year through better documentation. Identification of processes in which risks of material error in financial reporting may be assumed to be relatively higher than in other processes

has continued. The mapping and risk assessment have resulted in a number of countermeasures and control activities. Normal control activities include account reconciliation and support controls. The aim of all the countermeasures and control activities is to prevent, discover and correct possible errors or inaccuracies in the financial reporting. The intention is to continue to develop and follow up selected control activities during the coming financial year, including procedures for reporting back.

#### **Follow-up**

The Board of Directors continually evaluates the information provided by the company management and Audit Committee. The committee's work in following up the effectiveness of internal controls is of particular importance to the Board of Directors. The work includes ensuring that measures are taken concerning the proposed measures that may have emerged from the external audit.

#### **Information and communication**

The dissemination of accurate information for both internal and external consumption requires all parts of the business to communicate and share relevant key information about operations. To achieve this, KappAhl has established policies and guidelines for managing information in the financial process, which are communicated from the Management Team to the staff. For communication with external partners there is also a policy that stipulates guidelines for how such communication should be effected and when, for example, a logbook should be kept. The ultimate aim of these policies is to ensure compliance with disclosure requirements in law and listing regulations and that our investors receive the right information in time.

#### **Internal audit**

To date, KappAhl has not considered it necessary to establish a specific internal audit function. The reason is that the internal control work has raised awareness of internal control in the Group and that a number of control activities have been initiated. The issue of a specific internal audit function will be reviewed annually.