

# Corporate governance report

KappAhl 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

Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2009/2010 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 financial reporting) are consistent with the other parts of the annual report.

KappAhl’s Articles of Association and other information concerning KappAhl’s corporate governance is available on the website [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 considers that the Audit Committee works effectively with two board members and fulfils its duties well in accordance with the instructions stipulated by the Board of Directors.

## SHARES AND SHAREHOLDERS ETC.

On 31 August 2010 the share capital of KappAhl AB (publ) was SEK 10,720,000 divided between 75,040,000 shares. According to Euroclear’s share register KappAhl had about 15,800 shareholders on 31 August 2010. The ten largest shareholders, as at 31 August 2010, are specified in the Administration Report on page 35. More information on major shareholders is available on KappAhl’s website.

## ANNUAL GENERAL MEETING

KappAhl’s highest decision-making body is the Annual General Meeting, which is held within six months of the close of the financial year. The notice to attend the meeting will 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 25 November 2009 in Mölndal. The minutes of the Annual General Meeting can be found on KappAhl’s website.

At that time it was resolved, among other things, to re-elect a Board of Directors consisting of Finn Johnsson (Chairman), Amelia Adamo, Jan Samuelson, Pernilla Ström and Paul Frankenius. The next Annual General Meeting will be held on 23 November 2010 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 AB, Attention: 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.

## 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 21 May 2010 it was announced that the Nominations Committee ahead of the Annual General Meeting on 23 November 2010 consists of Kristian Lundius (Dutot Ltd.), Thomas Ehlin (Nordea fonder) and Henrik Didner (Didner & Gerge Fonder Aktiebolag), with Finn Johnsson, Chairman of the Board as co-opted member. At the close of the third quarter the Nominations Committee represented about 25 per cent of shareholders’ votes.

The Nominations Committee held its inaugural meeting on 5 July 2010, 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 our website.

In the event of a material 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.

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 2010 the Chairman of the Board, Finn Johnsson, commissioned an individual assessment of the work of the Board and its committees (a corresponding assessment was carried out in the previous year). The result has been presented to the Nominations Committee.

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

Ahead of the Annual General Meeting in 23 November 2010 the Nominations Committee will make its proposals for the chairman of the Meeting, number of Board members, Chairman of the Board, other AGM elected members and instructions for the next year's Nominations Committee. 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 auditor-in-charge 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. 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 1.4 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 November 2009. 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 25 November up to 31 August 2010 the Board of Directors held five meetings, all of which were minuted. One meeting was an inaugural Board meeting, three meetings were ordinary meetings and there was one extraordinary meeting. Members' attendance at the respective meetings appears in the table below:

The CEO, CFO 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 55. Board members' shareholdings in KappAhl are presented on page 76–77.

After 31 August 2010 the Board held further meetings on 27 September and 22 October 2010.

	Inaugural Board meeting No. 2009:7 25 Nov 2009	Ordinary Board meeting No 2009:8 17 Dec 2009	Ordinary Board meeting No.2010:1 22 March 2010	Extra Board meeting No. 2010:2 28 May 2010	Ordinary Board meeting No.2010:3 22 June 2010
Finn Johnsson	Yes	Yes	Yes	Yes	Yes
Amelia Adamo		Yes	Yes	Yes	Yes
Paul Frankenius	Yes	Yes			
Jan Samuelsson	Yes	Yes	Yes	Yes	Yes
Pernilla Ström	Yes	Yes	Yes	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	Yes		Yes
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes
Helena Blixt	Yes	Yes	Yes	Yes	Yes
Bodil Gummesson	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes
Håkan Westin	Yes	Yes	Yes		Yes

#### 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 as provided by the Board's and the Committees' rules of procedure. These rules of procedure were established at the inaugural Board meeting on 25 November 2009 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 also receive reports from the

Audit Committee and Remuneration Committee, a report from senior executives and decisions are made on establishments and investments. Among the most important items dealt with by the Board during the year were discussions on future new establishments and expansion 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 on the Board is available on KappAhl's website.

##### NOMINATIONS COMMITTEE

The Nominations Committee is the shareholders' and General Meeting's body for preparing meeting resolutions, for example on appointments.

##### GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the company's highest decision-making body. The Meeting appoints the company's Board of Directors and Auditor:

##### AUDITOR

An auditor is appointed by the General Meeting of Shareholders based on a proposal by the Nominations Committee.

##### BOARD OF DIRECTORS

The Board of Directors and its Chairman are appointed by the General Meeting of Shareholders. The Board of Directors is responsible for the company's organisation and administration of its affairs.

##### AUDIT COMMITTEE

Prepares matters relating to audit.

##### REMUNERATION COMMITTEE

Prepares matters relating to remuneration.

##### CEO AND GROUP MANAGEMENT

The CEO and other members of Group Management are responsible for the operating activities of the Group.

#### REMUNERATION COMMITTEE ETC.

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 23 November 2010 the Committee will comprise Finn Johnsson (chairman) and Amelia Adamo. The 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 opinion of the Board of Directors, which is shared by the Nominations Committee, all members of the Remuneration Committee are independent of KappAhl's senior management team. The Chairman of the Board of Directors leads the Committee, which has met during the year to examine, among other things, bonus outcome. The Committee works according to written rules of procedure stipulated by the Board of Directors. Apart from reporting to each Board meeting, the Committee must also submit a written report to the Board of Directors at least once a year. This was done on 15 September 2010. The Committee does not have the authority to make decisions, other than as part of the remuneration policy for senior executives adopted by the Annual General Meeting on 25 November 2009. 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 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 23 November 2010 the Committee comprises Jan Samuelson (chairman) and Pernilla Ström. In the opinion of the Board of Directors, which is shared by the Nominations Committee, both members of the Audit Committee are independent in relation to the company and its senior executives and 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 control with regard to financial reporting. The Committee has, in conjunction with the submission of the audit report, met with the auditors without the CEO or other senior executive being present. In 2010 Committee work included preparing issues concerning interim reports, financing, foreign currency issues and internal financial control. Since the Annual General Meeting on 25 November 2009 up to 31 August 2010 the Committee held three meetings, all of which were minuted. The Committee subsequently held one other meeting. 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.

#### MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on pages 74–75 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 with the principal task of ensuring compliance with principles established for financial reporting and internal control and maintaining appropriate relations with the company's auditor. The Board of Directors has also drawn up instructions for the Chief Executive Officer 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 ensuring 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 and communication on internal policy instruments for financial reporting are available to all employees concerned. Important tools for this are KappAhl's intranet and training.

#### ACTIVITIES 2009/2010

During the year focus has been on IT security and valuation of material assets.

#### INTERNAL AUDIT

To date, KappAhl has not considered it necessary to establish a specific internal audit function. The reason is that in the opinion of the Audit Committee the existing control environment is sufficient to achieve the equivalent objective.

Mölnadal 22 October 2010

Finn Johnsson  
Chairman

Amelia Adamo  
Member of the Board

Paul Frankenius  
Member of the Board

Marie Matthiessen  
Employee representative

Jan Samuelson  
Member of the Board

Pernilla Ström  
Member of the Board

Rose-Marie Zell-Lindström  
Employee representative

Christian W. Jansson  
CEO

## Audit opinion concerning the corporate governance report in accordance with Chapter 6, Section 9 of the Annual Accounts Act (1995:1554)

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

#### ASSIGNMENT AND DIVISION OF RESPONSIBILITY

We have reviewed the corporate governance report for KappAhl AB (publ) for the financial year 1 September 2009–31 August 2010. The company's corporate governance report is presented on pages 69–73 in the printed version of this document.

The Board of Directors and the Chief Executive Officer are responsible for the corporate governance report and for its preparation in accordance with the Annual Accounts Act.

Our responsibility is to review the corporate governance report so that we can make a written statement in accordance with Chapter 6, Section 9 of the Annual Accounts Act.

#### OPINION

We consider that the corporate governance report has been prepared in accordance with the Annual Accounts Act and that it is consistent with the rest of the annual report and consolidated accounts.

Gothenburg, 22 October 2010  
PricewaterhouseCoopers AB

Bror Frid  
Authorised Public Accountant