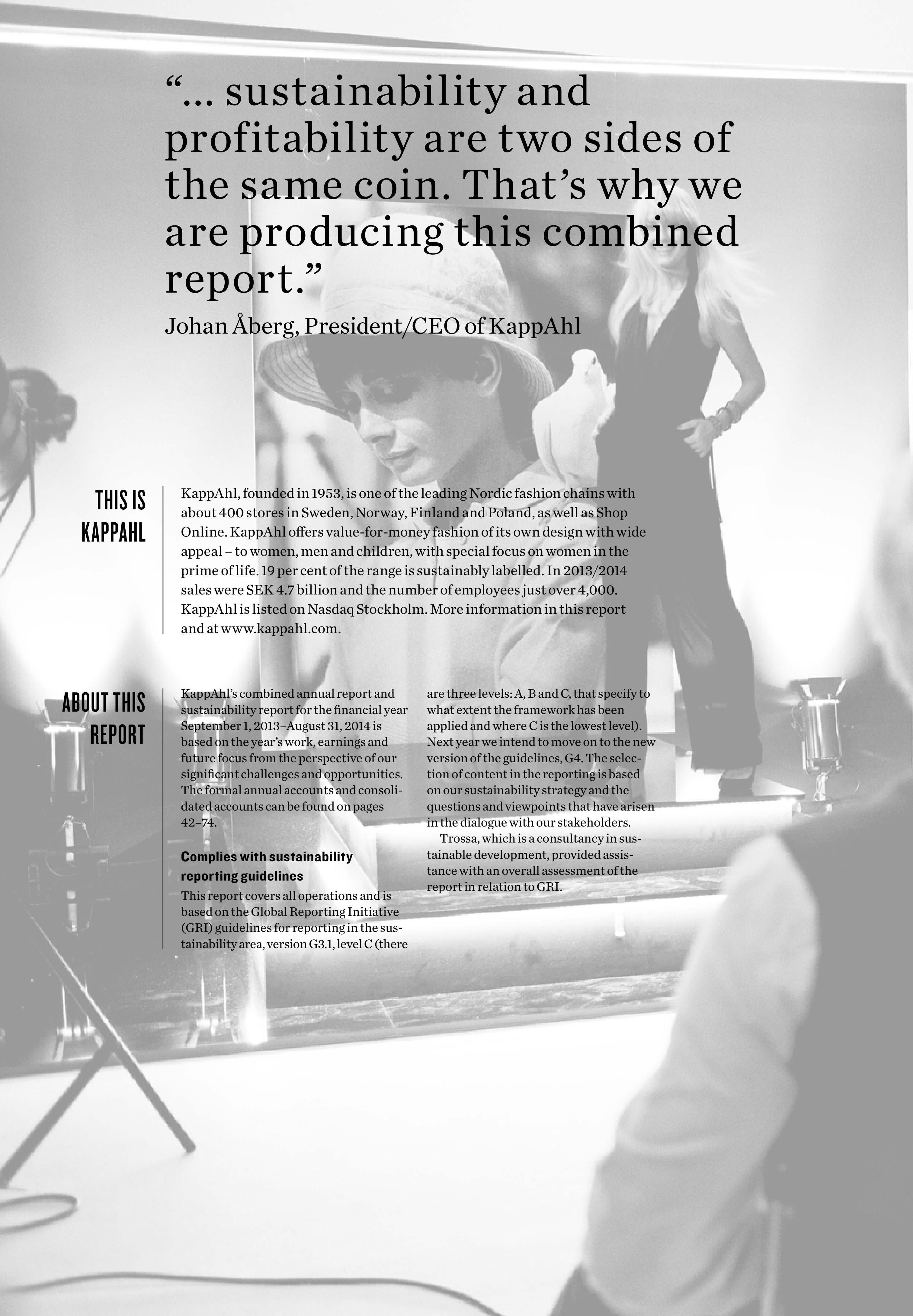
ANNUAL REPORT 2014

OPERATIONS – SUSTAINABILITY – EARNINGS

"We continue to make improvements every day. That's how we build a stronger KappAhl."

JOHAN ÅBERG, PRESIDENT/CEO, PAGES 2–3

KappAhl



"… sustainability and profitability are two sides of the same coin. That's why we are producing this combined report."

Johan Åberg, President/CEO of KappAhl

THIS IS KAPPAHL

KappAhl, founded in 1953, is one of the leading Nordic fashion chains with about 400 stores in Sweden, Norway, Finland and Poland, as well as Shop Online. KappAhl offers value-for-money fashion of its own design with wide appeal – to women, men and children, with special focus on women in the prime of life. 19 per cent of the range is sustainably labelled. In 2013/2014 sales were SEK 4.7 billion and the number of employees just over 4,000. KappAhl is listed on Nasdaq Stockholm. More information in this report and at www.kappahl.com.

ABOUT THIS REPORT

KappAhl's combined annual report and sustainability report for the financial year September 1, 2013–August 31, 2014 is based on the year's work, earnings and future focus from the perspective of our significant challenges and opportunities. The formal annual accounts and consolidated accounts can be found on pages 42–74.

Complies with sustainability reporting guidelines

This report covers all operations and is based on the Global Reporting Initiative (GRI) guidelines for reporting in the sustainability area, version G3.1, level C (there are three levels: A, B and C, that specify to what extent the framework has been applied and where C is the lowest level). Next year we intend to move on to the new version of the guidelines, G4. The selection of content in the reporting is based on our sustainability strategy and the questions and viewpoints that have arisen in the dialogue with our stakeholders.

Trossa, which is a consultancy in sustainable development, provided assistance with an overall assessment of the report in relation to GRI.

EVENTS BY QUARTER

Q1

- Sales and operating profit on a level with the previous year.
- Strong improvement in cash flow and reduced net debt.
- Improved inventories, both in composition and volume.
- Fifty Shades of Grey launched.
- First collection with BCI-cotton delivered to stores.
- Four stores opened and five stores were closed.

Q2

- Improved earnings and strengthened gross margin.
- KappAhl Man shows positive development after a new approach in the range and a clearer concept.
- Project for cleaner production in India has a good effect in the first year.
- Extensive training initiative in sales.
- No stores were opened, ten were closed. Operations in the Czech Republic were completely discontinued as of 31 December.

Q3

- Strong quarter with increased profit.
- Strong sales in warm early summer weather.
- First showing of the new store concept "For You".
- Success for Vintage Stories collection. Launch of Hampton Republic 27 for children.
- Launch of spring finery collection in recycled polyester at KappAhl Dam.
- One store was opened and one closed.

Q4

- Both summer products and the important school start campaign sold very well.
- Pilot project for textile collecting in Swedish stores.
- Strong key figures, partly driven by a lower percentage of price reductions than the previous year.
- Launch in Norway of the most modern customer loyalty club in the Nordic countries, in the form of a mobile app with all the information the customer needs.
- No stores were opened and two were closed.

KEY RATIOS	Q1 2013 2014	Q1 2012 2013	Q2 2013 2014	Q2 2012 2013	Q3 2013 2014	Q3 2012 2013	Q4 2013 2014	Q4 2012 2013
Net sales, SEK million	1,243	1,245	1,114	1,148	1,201	1,210	1,185	1,148
Operating profit/loss, SEK million	99	181	3	–36	101	64	69	43
Operating profit/loss excluding non-recurring items, SEK million	99	104	3	–36	101	76	92	57
Gross margin, %	63.3	63.3	57.7	55.1	62.7	61.2	59.3	57.0
Operating margin, %	8.0	14.5	0.3	–3.1	8.4	5.3	5.8	3.7
Operating margin excluding non-recurring items, %	8.0	8.4	0.3	–3.1	8.4	6.3	7.8	5.0
Profit after tax, SEK million	62	115	–7	–64	42	32	32	7
which corresponds to SEK per share*	0.83	2.35	–0.09	–0.85	0.56	0.43	0.42	0.09
Cash flow from operating activities, SEK million	125	75	–51	–51	274	191	0	15

* Earnings per share have been restated for comparison periods. The number of shares has been adjusted to take the rights issue in 2012/2013 into account.

KEY RATIOS	Sep 2013– Aug 2014	Sep 2012– Aug 2013	Sep 2011– Aug 2012	Sep 2010– Aug 2011	Sep 2009– Aug 2010
Net sales, SEK million	4,743	4,751	4,587	4,974	5,111
Operating profit/loss, SEK million	272	252	–64	222	551
Operating profit/loss excluding non-recurring items, SEK million	295	202	53	222	551
Profit after tax, SEK million	129	91	–224	68	402
Gross margin, %	60.8	59.2	56.7	58.8	61.8
Operating margin, %	5.7	5.3	–1.4	4.5	10.8
Operating margin excluding non-recurring items, %	6.2	4.3	1.2	4.5	10.8
Earnings per share, SEK*	1.71	1.32	–5.30	2.98	17.60
Number of stores	377	390	388	369	345

* Earnings per share have been restated for comparison periods. The number of shares has been adjusted to take the rights issue in 2012/2013 into account.

VISION

”KappAhl is to be a significant fashion chain in northern Europe.” This is the vision that drives KappAhl forward. All day-to-day activities are to lead ultimately towards the vision. Each initiative, each change, each decision.

MISSION

KappAhl’s mission is “Value-for-money fashion with wide appeal” – for women, men and children. The company specially targets women in the prime of life.

MARKET

KappAhl is in Sweden, Norway, Finland, Poland and Shop Online. The company’s single largest market is Sweden. The total value of KappAhl’s market is SEK 200 billion.

STRATEGY

KappAhl’s strategy for achieving increased sales and profitability is based on our creating:

- customer focus in all we do.
- a clear position in the market and in our main target group.
- an attractive experience in our stores.
- increased availability to customers, for example via the online store.
- more points of contact and a stronger relation to customers, via digital communication.
- integration of our sustainability work in everything we do.

FUTURE FRIENDLY FASHION

BY KappAhl

“We act in an economically, environmentally and socially sustainable way, producing fashion with care and consideration, to help protect our planet today and in the future.”

Future
Under the term Future we gather KappAhl’s environmental work. It is a matter of how we manage the earth’s resources in a more sustainable way, from cultivation to finished product. The following focus areas form the foundation for our goals: reduced emissions of substances that have a negative impact on the environment, effective use of finite resources and good waste management.

Friendly
Under the term Friendly we gather KappAhl’s work to build long-term, sound relations with all the people and communities that contribute to our operations. We based our sustainability goals on these focus areas: good relations with our key stakeholders, a good workplace and good training.

Fashion
Under the term Fashion we gather what KappAhl does to develop sustainable and attractive fashion. All this so that it will be simple to buy fashion produced with consideration. Our areas of focus in Fashion are sustainable design, no hazardous chemicals and sustainable material.

This year KappAhl has ...

... launched a new store concept "For You", with roll-out starting in autumn 2014. This is one of our greatest initiatives ever.

... continued to review profitability in stores, opened five and closed 19 stores.

... introduced Hampton Republic 27 for children too, with great success.

... had several successful launches, including the underwear concept Fifty Shades of Grey and Vintage Stories at KappAhl Woman.

... marked increase in sales of the baby and infant collection Newbie.

... had positive development of KappAhl Man thanks to increased clarity in the range.

... strengthened our leading position in the Swedish jeans market with a 9.5 (7.7) per cent market share according to Gfk Fashion Scope.

... launched the most modern customer loyalty club in the Nordic countries, "KappAhl Life&Style", in Norway.

... substantially increased Shop Online sales.

... carried out 229 inspections and 254 follow-up visits to our suppliers' factories.

... continued to reduce carbon dioxide emissions from transport, by 5 per cent.

... engaged more suppliers in our projects for cleaner production.

THE OPERATING MARGIN INCREASED FROM 4.3 TO **6.2%**

OPERATING PROFIT IMPROVED BY **46%**

SALES IN COMPARABLE STORES **+0.3%**

NET DEBT DECREASED BY **35.4%**

THE PERCENTAGE OF SUSTAINABLY LABELLED FASHION INCREASED FROM 18 TO **19%**

THE BOARD OF DIRECTORS PROPOSES A DIVIDEND OF **0.75** SEK PER SHARE

After the close of the year KappAhl has ...

... started to roll out the new store concept "For You" at a fast pace.

... launched Shop Online in Norway and Finland.

... launched the collection "Wear it like a Star" together with the celebrity photographer Terry O'Neill and supermodel Izabella Scorupco.

... been the main sponsor of the television programme "She's got the look", broadcast on Channel Seven in Sweden. The winner gets a modelling contract with KappAhl.

CONTENT

Johan Åberg, President and CEO, answers questions about the past year

"WE ARE ON THE RIGHT TRACK"

What was most important during the year?

That we stick to our plan and continue to make many improvements every day. That's how we build a strong KappAhl. This is what we have done during the year, which is why our sales are better than the market as a whole and we have achieved increased profitability, stronger cash flows and reduced net debt – despite a continuing tough market.

All this is thanks to better everyday decisions throughout the organisation, not a few individual major events. This means that all of us who work at KappAhl have part in the progress made. In addition, the improvements come from a deep conviction that our sustainability work makes us strong and contributes to our increased profitability. This is something I am particularly proud of.

What else are you proud of?

Our extensive work to strengthen the KappAhl brand – so that we are spot on with our customers and adapt to the trends and customer behaviours we see going forward.

The clearest examples are the way we got a grip on the range and the new store concept, which is our greatest initiative ever with roll-out starting in autumn 2014. It will go under the name "For You", which summarises all we stand for in relation to our customers.

What expectations do you have of the new store concept?

We want to create more positive associations to KappAhl. It is about knowing what attracts the customer and exceeding expectations. KappAhl's customer wants to be inspired and it must be simple to shop. The fact is that we have already seen what the concept can contribute on this point. The launch in our new flagship store in Oslo was received very positively and sales increased.

What more have you done to strengthen the brand?

Created continuity and clarity. We have continued to develop the advertising concept "Hey, I like your style", which is a tribute to our core customer – a woman in the prime of life. This is a large target group that is missed by many others in the fashion industry. Not by us.

During the year we became the first Nordic fashion chain to

” … that's why we are selling better than the market as a whole and achieving increased profitability.

bring its customer loyalty club to the mobile phone. In addition, we have further developed Shop Online to meet new consumption patterns in all our markets. We have also put great effort into increased service and additional sales in the stores.

How has the range been developed?

The customers come to us for inspiration and help to find an outfit that feels right. They must know that everything they need can always be found at KappAhl. We have streamlined the range and packaged the fashion we believe in into clear concepts, such as Hampton Republic 27, Newbie and XLNT. The concepts mean that it is simple to match several garments and has contributed to additional sales. This is one of many reasons why we are reporting better sales than the market as a whole for the year.

We have also dared to believe more in individual garments with sales potential. These include the lightweight down jacket that was one of the year's successes, thanks to us commit fully to it. We will hone this ability even more.

Unexpected initiatives, such as the underwear collection Fifty Shades of Grey, were received positively and we will offer more of these in future.

How do you regard the market?

From a longer perspective we see major changes in the market, in everything from new consumption patterns to the need for a sustainable value chain all the way from design to customer. This is what we are working on.

In a shorter perspective we can note that it has been a tough market this year too and will probably continue so. This means that the work to increase internal effectiveness will be more important – doing the right things and doing them smarter, as we have done in purchasing and logistics this year, for example. In addition we have worked hard on cost control. For example we have analysed the profitability of each individual store. As a result of this, profitability in Poland increased and operations in the Czech Republic were discontinued. Evaluations of store profitability will continue.

When will you expand on new markets?

We are working continually on expansion in existing markets and Shop Online. Establishing KappAhl on new markets will be on the agenda when we have achieved the target of a 10 per cent operating margin. We are right on track with that.

That is why it is so important to continue to do everything we have committed to, in a long-term sustainable way.

How do you regard the sustainability work?

Profitability and sustainability are two sides of the same coin for us. That's why we are producing this combined report.

We are doing a lot in the area of sustainability. At the same time I am well aware that there is much left to do, which is something I note when travelling to our countries of production. We have therefore set new, high-level targets. Two examples are that KappAhl's cotton must be sustainably produced and all energy must come from renewable sources in 2020.

Another important goal, which is somewhat closer in time, is that we will launch textile collecting in all our Swedish stores starting in Sweden in January 2015.

What are your priorities in 2014/2015?

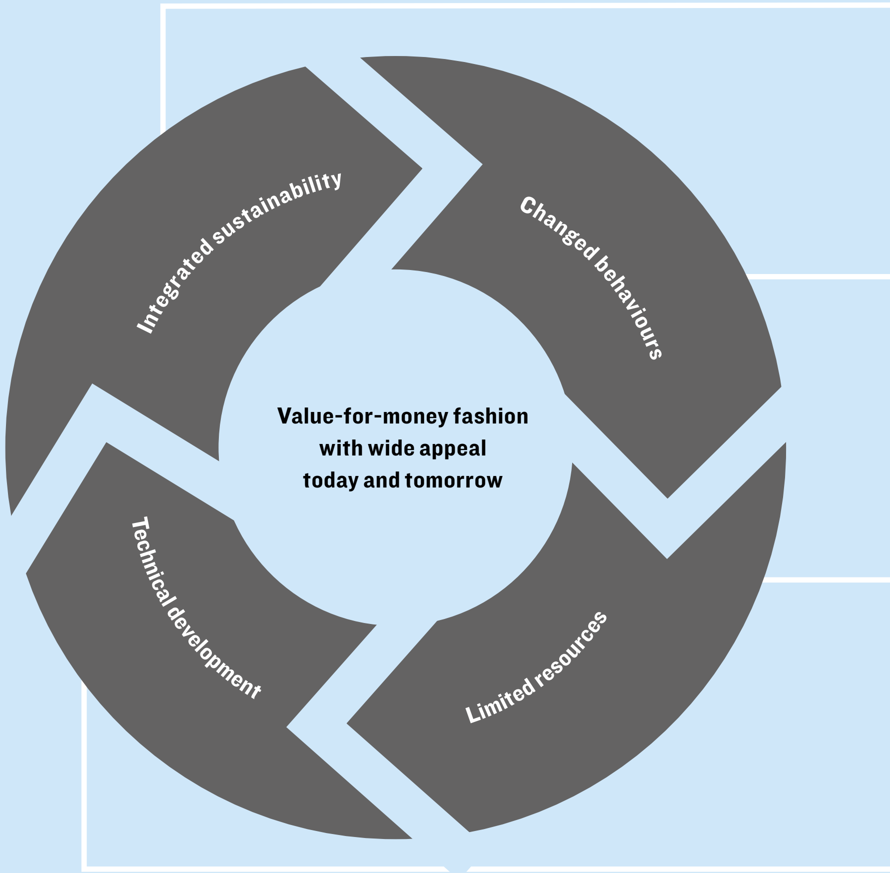
We have high ambitions, just as we have had this year. The rollout of the new store concept has high priority, as does the work of making our supply chain more effective throughout the value chain, so that the right product reaches the right store at the right time. This means that we can sell at full price to a greater extent.

We will continue to hone the range, strengthen sales in comparable stores and develop the organisation. At the same time we will keep down costs, a challenge we take very seriously.

In other words, we have much left to do and we are doing it from a position that is stronger than it has been for some time. This means that I am looking forward to the coming year.

OUR CHALLENGES AND OPPORTUNITIES

We want to grow so that more people gain access to KappAhl's value-for-money fashion. And this will be done with long-term sustainability. To succeed in this we must make wise decisions linked to the rest of the world, which is of essential importance to us and our stakeholders. We have summarised them in the following model.



For us it is natural to cooperate with our stakeholders. Here you can see examples of important issues for stakeholder groups that contribute to and are impacted by our operations.

Customers

- Value-for-money fashion, good design
- Inspiring and simple to shop
- Security and sustainability

Employees

- Open environment to develop within
- Remuneration and employment conditions
- A workplace to be proud of

Investors

- Future sales and profitability
- Overall objectives and strategies
- Strengths, weaknesses, opportunities and threats

Suppliers

- Remuneration levels and other contractual content
- Long-term relations
- Competence exchange

The fashion industry has great significance for the world economy. It employs many people and means substantial export income for developing countries that are at the start of their industrial transformation. At the same time, both environment and people are impacted all the way from design to recycling, which creates a need for integrated sustainability in each link of the value chain.

A gradually improved world economy, more choices, new technology, an older population in the western world, the attitude to fashion, increased competition and the view of sustainability responsibility and brands are some examples of factors that are expected to lead to changed behaviours going forward that impact KappAhl.

We live in a world of limited resources that can affect KappAhl's long-term economic and sustainable development. This applies for example to the supply of cotton, clean water and energy. In addition, the access to competent suppliers and employees may change in future.

Technical development can contribute to solutions linked to many of the challenges and opportunities waiting round the corner. This includes new technology for shopping online, more effective communication with customers and new technical solutions for sustainable production of raw materials and manufacture of both textiles and ready-made garments.

Interest organisations

- Sustainability issues
- Impact on society
- Joint challenges and opportunities

Networks and colleagues in the industry

- Collaboration projects, such as on size standards and cleaner production
- Common guidelines, for example for chemicals

Politicians and government agencies

- Contributions to society, such as jobs in production countries
- Sustainability and compliance with laws and regulations

Schools and universities

- Internship
- Contribute competence in research and education

OUR BUSINESS CONCEPT

On the following three spreads you see how our business concept hangs together, all the way from vision and business idea to business objectives and implementation. All to create value-for-money fashion for as many people as possible.

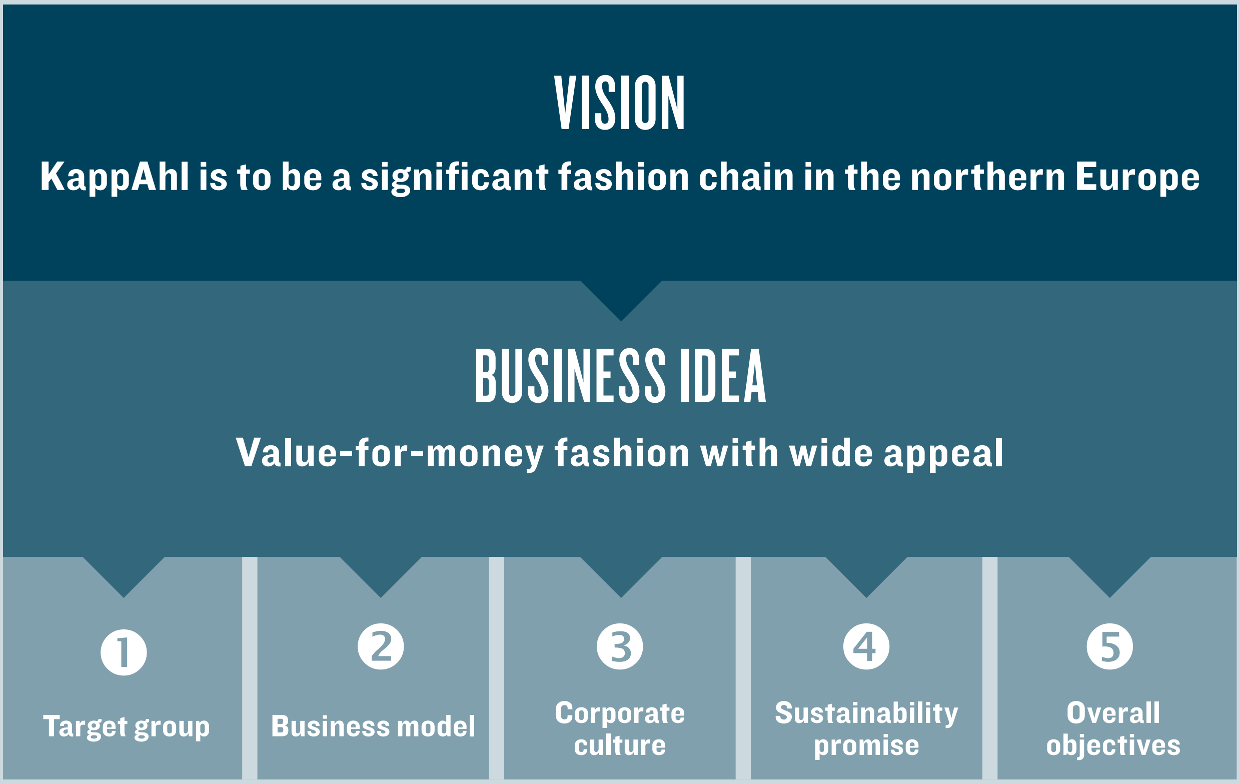
MAIN POINTS OF STRATEGY

KappAhl's strategy for increased sales and profitability is based on our creating:

- customer focus in all we do
- a clear position in the market and in our main target group
- an attractive experience in our stores
- increased accessibility for customers, including via eCommerce
- more points of contact and a stronger relation to customers, including via digital communication
- integration of sustainability in everything we do

A STRATEGIC APPROACH THAT GIVES MORE

An example of how we execute the strategy effectively is that we like collaborating with other organisations and industry colleagues when possible. Our commitments to Textile Importers, Clean Shipping, the Swedish Chemicals Agency, the Better Cotton Initiative and Partnership for Cleaner Textiles are just some examples of this.



KappAhl's business concept stretches from vision and business idea all the way to a sustainability promise and overall business objectives. All parts of the concept are integrated with each other. In the following spreads you can read about what is included in each part, at a general level. >>

❶ TARGET GROUP

KappAhl's strategic market position is based on offering value-for-money fashion to women, men and children. Our main target group is women in the prime of life. This is a large target group that has greater purchasing power and a higher degree of loyalty than younger customer categories.

❷ BUSINESS MODEL

We are a fully integrated fashion chain that offers our customers a range that is good value, of our own design and often renewed.

Our products are manufactured at the best price in large volumes throughout the world. The supply chain, from production to customer, is through a highly effective logistics chain.

Using effective customer communication we build brand awareness and loyalty as well as drive traffic to our stores.

We meet our customers in well-localised and inspiring self-help stores and Shop Online.

Chain operation is central to the entire business and to achieve economies of scale. Our drivers are a business-like approach, cost effectiveness and sustainability.

All in all this means that we can create an attractive offer with wide appeal.

❸ CORPORATE CULTURE

TEAM SPIRIT

We cooperate and interact in a professional way.

CREATIVITY

We are open to new ideas and working methods.

CLARITY

We focus on what is most important and strive for simplicity.

ENERGY

We are committed, energetic and persistent.

COURAGE

We dare to try out new things and take responsibility.

4 SUSTAINABILITY PROMISE

"We act in an economically, environmentally and socially sustainable way, producing fashion with care and consideration, to help protect our planet today and in the future."

KappAhl's brand is associated with fashion, design and quality. It also stands for responsibility, consideration and security. Sustainability is integrated into our daily work with the concept Future Friendly Fashion.

We ensure continual and sustainable improvements by regularly evaluating and critically examining our processes.

Sustainability strategy 2020

Our sustainability strategy is designed to function for our sustainability audit and is based on nine overall objectives that must be met by 2020 and that are supported by several measures and interim objectives.

The table below shows our overall objectives and some examples of short and long term measures and interim objectives.

The sustainability strategy will be presented in its entirety on KappAhl's website.

Overall sustainability objectives	Examples of measures and interim objectives
FUTURE 1. Strive for climate neutral operations	**100%** renewable energy in our own operations by **2020**.
FUTURE 2. Enable sustainable resource use in production	Educate **1,100** cotton farmers in sustainable farming methods by **2015**.
FUTURE 3. Strive towards zero waste to landfill and increased reuse and recycling	Introduce textile collecting in **100%** of our stores by the end of **2016**.
FRIENDLY 4. Promote sustainable development at our suppliers	**100%** of our suppliers in Bangladesh to join the Bangladesh Accord on Fire and Building Safety.
FRIENDLY 5. Act openly and transparently to inspire our customers and employees	Provide care instructions in accordance with "Clever Care", to customers on 100% of garments by **2015**.
FRIENDLY 6. Strengthen the lives of women and children in the communities where we operate	**100%** of the women at our training centre in Dhaka to be given employment after completing training in sewing, women's rights etc.
FASHION 7. Design for sustainability, from idea to finished product	Develop a method to measure sustainability in our product design by **2016**. **100%** of our design must comply with these criteria by **2020**.
FASHION 8. Contribute to an environment free of hazardous substances	A review and update of chemicals requirements must be made at least twice a year. Develop a water-based alternative to PU-based leather imitation by the end of **2020**.
FASHION 9. Use only sustainable fibres in our collections	**100%** sustainable cotton by **2020**.

❺ OVERALL OBJECTIVES

In the table on the right you can see some of our 13 overall business objectives that are to lead to more satisfied customers and increased profitability. There you can also gain an insight into what we have done to achieve the objectives, how it has gone and what we will focus on going forward.

Business objectives	What have we done this year? Some examples.
Strengthen the position as the natural choice for our target group	• Further developed our advertising style. • Launched the Nordic region's most modern customer loyalty club in Norway, with an app containing all important information. • Increased communication in social media considerably. • Continued to listen to customers in regular market surveys to develop our offer.
Offer an attractive and often renewed range that is in tune with the times	• Focused on the lightweight down jacket that became a best-seller. • Developed our trouser range in terms of quality, fit and selection. • Launched exciting and selling concepts, such as Fifty Shades of Grey and Hampton Republic 27 for the whole family. • Clearer range at KappAhl Man.
Develop modern, clear and integrated store concepts	• Launched an entirely new store concept "For You" in the flagship store in Oslo. • Ensured that the customer's meeting with KappAhl is consistent, regardless of where it takes place. • Extensive training initiatives in sales and service.
Be an attractive workplace	• Focus on more effective processes. • Extended training initiatives during the year, for example in sales and sustainability. • Continued focus on leadership and the relation and dialogue between employee and manager.
Drive an effective supply chain	• Increased filling ratio in deliveries to stores thanks to increased grouped shipments and increased filling ratio in transport crates. • New, more effective distribution system.
Drive proactive sustainability work	• Extended offer of sustainably labelled fashions. • Banned the use of PFC impregnation in our water repellent products. • Extended partnership projects for cleaner production. • Extended our support to Bris (Children's rights in society) and comparable organisations in our sales markets.

Financial targets

The Board of Directors has set the following financial targets for KappAhl.

Target as of 2013/2014	Outcome 2013/2014
Operative targets	
KappAhl's growth is to be an average of 4 per cent over a business cycle.	Growth –0.2 per cent
The operating margin must be at least 10 per cent	Operating margin of 6.2 per cent
Financial targets	
Interest-bearing net debt is not to exceed 3 times EBITDA other than temporarily	Interest-bearing net debt is 1.0 times EBITDA
Utdelningspolicy	
Dividend is to be 40–60 per cent of the profit after tax on condition that the Group meets the financial targets above	The Board of Directors proposes a dividend of SEK 0.75 per share to the Annual General Meeting. This corresponds to 43.6 per cent of the profit after tax.

What progress do we see?	Next step, some examples.
Sweden's most effective fashion advertising according to the market research company Indikat.	• Continued work to make the KappAhl brand clearer. • International expansion of Shop Online. • The digital customer loyalty club is expanding to more countries. • New, exciting approaches, such as being main sponsor of the television programme "She's got the look".
Better sales than the market on average. For example we sold almost 8 million trousers, an increase compared with the previous year of **5.7%**	• More fashion that attracts our customer. • Exciting concepts such as "Wear it like a Star". • Increased percentage of sustainable collections.
12% more customers were satisfied with the service in the stores in September 2014 compared with September 2013. The difference compared with 2012 is as much as 16 per cent.	• Roll-out of the new store concept in the organisation starting in autumn 2014. • Continued focus on sales and service in the stores.
KappAhl's workplace and operations received an average rating of **5.9** out of a possible **7** in this year's employee survey, which is clearly better than the industry as a whole.*	• Follow up the year's employee survey and create an action plan for continued improvements. • Continued skills development in leadership. • Launch a one-year development programme for managers and key staff with potential.
20% increased filling ratio in transport crates to our stores.	• Further develop delivery effectiveness from factory via distribution centre to store shelves. So that the right product is in the right store at the right time.
The percentage of sustainably labelled fashion increased from 18 to **19%**	• Increase percentage of sustainable materials. • Involve more suppliers in projects for cleaner production. • Implement the project "I'm fine as I am" to benefit organisations that support children and young people in all KappAhl's sales markets.

*Can be compared to Mercuri International's benchmark for the retail trade as a whole, which is 5.1.

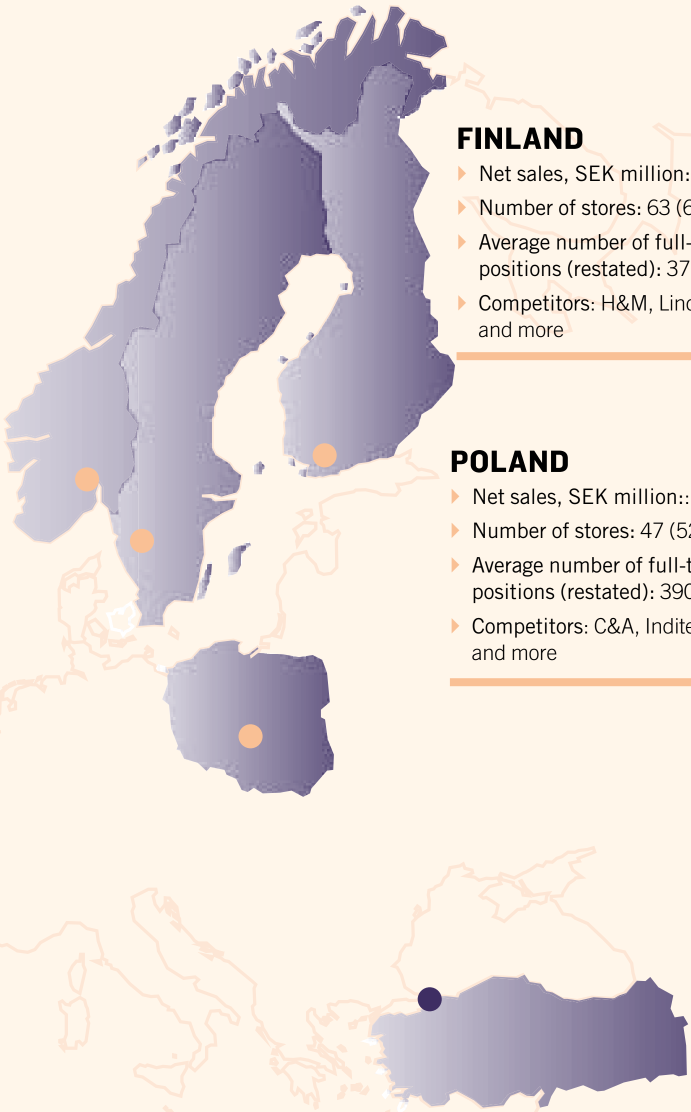
Target 2011/2012–2012/2013 *	Outcome 2012/2013	Outcome 2011/2012
Operative targets		
The number of stores is to increase by 20–25 per year	13 were established 11 were closed	19 were established 2 were closed
The operating margin must be at least 10 per cent	4.3%**	1.2%**
Financial targets		
Interest-bearing net debt is not to exceed 3 times EBITDA other than temporarily	1.9 times	10.7 times
Utdelningspolicy		
Dividend is to be 40–60 per cent of the profit after tax on condition that the Group meets the financial targets above	No dividend distribution***	No dividend distribution

* The business is no longer steering towards these targets as new targets were established by the Board of Directors for the 2013/2014 financial year. However, we decided to show them here to give a fairer picture of targets and outcome for the period 2011/2012–2012/2013, on the basis of current targets.
** Excluding non-recurring items. *** A temporary deviation from the policy.

KAPPAHL IN THE WORLD 2013/2014

Stores

Production offices



NORWAY

- Net sales, SEK million: 1,226 (1,263)
- Number of stores: 101 (103)
- Average number of full-time positions (restated): 623 (628)
- Competitors: H&M, Lindex, Dressmann, Cubus and more

FINLAND

- Net sales, SEK million: 603 (604)
- Number of stores: 63 (65)
- Average number of full-time positions (restated): 377 (360)
- Competitors: H&M, Lindex, Dressmann, Seppälä and more

SWEDEN

- Net sales, SEK million: 2,552 (2,506)
- Number of stores: 166 (165)
- Average number of full-time positions (restated): 1,418* (1,432*)
- Competitors: H&M, Lindex, Dressmann, Cubus and more

* Apart from store staff also includes all employees at KappAhl's head office and distribution centre in Mölndal.

POLAND

- Net sales, SEK million:: 350 (350)
- Number of stores: 47 (52)
- Average number of full-time positions (restated): 390 (422)
- Competitors: C&A, Inditex, Vistula, H&M, LPP and more

These are our markets

KappAhl has stores in Sweden, Norway, Finland and Poland as well as Shop Online in Sweden. On-line stores will be launched in Norway and Finland in autumn 2014 and in Poland in spring 2015. Sweden is KappAhl's single largest market. The value of KappAhl's total market is about SEK 200 billion.

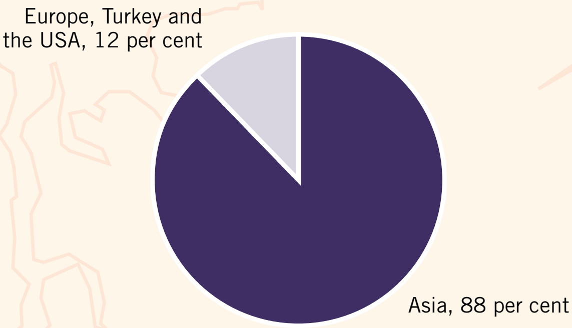
In fashion retailing KappAhl competes with international and local chains, independent stores, fashion departments in department stores, supermarkets and sporting goods stores. Fashion also competes with other goods and services that make us feel good. These include travel, sport and beauty products.

Today's world of fashion is increasingly global and fashion more similar overall. Development has favoured large fashion chains with control over the entire process from design and purchasing to sales. This makes the chains quicker to meet new trends, purchasing patterns and customer requirements.

Clear concepts create stability in a trend-sensitive fashion world. There are more trends now than ever before and they shift faster. Consumers also more often mix different styles of clothing, levels of fashion, quality and price.

Sustainability linked to fashion has become an increasingly important issue for consumers and other stakeholders in recent years. This trend is expected to continue and impact perceptions of individual brands.

Share of KappAhl's production



Here we produce

We do not own any factories of our own but are one of many customers of independent manufacturers. We regularly test new producers and production countries. In 2013/2014 regular production was started in Indonesia and test orders were submitted to factories in Egypt.

The choice of manufacturing country and suppliers put particularly high demands on us, for example with regards to working conditions in our suppliers' factories. Consequently, we work systematically and long-term on sustainability throughout the production process step by step to ensure the highest quality, productivity and sound working conditions as possible in our suppliers' factories. Our knowledge transfer is of great significance here. We recruit employees locally to our production offices, thus creating jobs, which is another way for us to contribute to social development while giving us a good foothold in the country concerned.

TURKEY

- Full-time positions: 10
- Share of production: 6 per cent

INDIA

- Full-time positions: 20
- Share of production: 7 per cent

BANGLADESH

- Full-time positions: 41
- Share of production: 26 per cent

CHINA

- Full-time positions: 75
- Share of production: 54 per cent

VALUE CHAIN

KappAhl is part of society and contributes to everything from value-for-money fashion to jobs, social development and economic values, all the way from design to sales and textile collecting. You can read more on the following pages about each part of our value chain.

DESIGN & PURCHASING

We design almost 10,000 articles every year. Customer in focus from idea to finished collections.

This is what we contribute to society

Sustainable solutions for use of natural resources, energy, water and chemicals and child safety for the garments.

Read more on page 16

PRODUCTION

We have 230 suppliers in Asia, Europe and Africa. Production offices in China, Bangladesh, India and Turkey.

This is what we contribute to society

Sound and safe working conditions as well as environmentally effective processes at suppliers through clear requirements and spread of knowledge. Education for vulnerable women through our Training Centre in Dhaka. Participates in several environmental projects.

Read more on page 22

REINVESTING IN THE BUSINESS

CLOSING THE LOOP

Some examples

- Textile collecting
- Collections in recycled materials
- "Wash right" folder
- Clever Care labels

LOGISTICS

Almost 50 million goods are distributed every year, with our distribution centre as the hub. Focus on effectiveness and timing to maximise sales and reduce the need for price reductions.

This is what we contribute to society

More than 98 per cent of shipments from the country of manufacture are by sea, for environmental and cost reasons. We impose sustainability requirements on our carriers and distributors.

Read more on page 30

MARKETING & SALES

Hundreds of thousands of people visit our 377 stores and Shop Online every day. We also use advertising, PR, the customer loyalty club Life & Style by KappAhl and digital channels.

This is what we contribute to society

We create sustainable stores, stand for sound ideals in our industry, convey knowledge to our customers and other stakeholders.

Read more on page 32

TAX AND DIVIDEND TO SHAREHOLDERS

DESIGN AND PURCHASING

KappAhl's design is based on close co-operation with all parts of the business. That is how we create fashion that is in tune with the times, fits like a glove and where sustainability is viewed in every seam.

Designs value-for-money fashion with wide appeal

Almost 10,000 articles are designed every year at KappAhl. We have about 30 designers and some ten pattern constructors who design all the garments. The working method builds on transforming trends to fashion that suits our target groups, in terms of appearance, fit and quality. This means that the collections are "at the heart of fashion", where the major sales volumes are found. The design and purchasing department consists of just over 100 employees who collaborate closely with our production offices.

The buyers determine what should be manufactured, in what volumes and when. They are also responsible for negotiations with suppliers and setting prices.

Important events during the year

• Success for lightweight down jackets for the whole family. • Launched the underwear collection Fifty Shades of Grey. • Launch of collection in recycled polyester at KappAhl Woman. • Strengthened position as market leader in trousers in Sweden. • Percentage of sustainably labelled fashion increased from 18 to 19 per cent. • KappAhl Man shows positive development. • Sales of Newbie showed a marked increase. • Launch of Hampton Republic 27 for children.

Challenges

- Design and range that hits the "heart of fashion" for the target group.
- Dealing with the sustainability perspective, for example as regards our choice of materials.
- Design and range that make KappAhl stand out in increasingly similar competition.

Opportunities

- Growing target group that is often overlooked by other fashion companies.
- Increased demand for clear fashion concepts and outfits for women in the prime of life, who are always short of time.
- More customers want sustainable fashion – we love it!

Well-designed sustainability

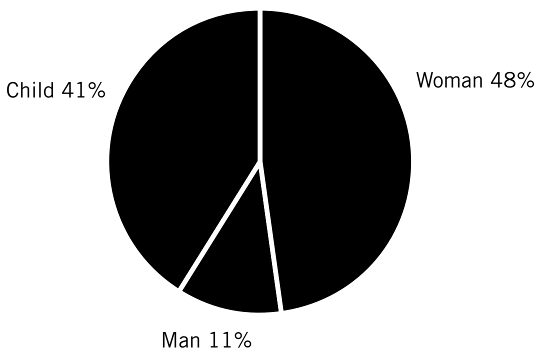
We take into account use of resources such as water, use of chemicals and child safety as well as overall quality of design and the purchasing process. In that way we contribute to increased sustainability in other parts of the value chain and the lifecycle of the garment. This year we sold 10 million garments with sustainability labels and we are increasing our use of sustainable materials within our entire range, e.g sustainably cultivated cotton. Both we and our customers think this is great!

Our beloved customers in brief

Women and men in the midst of life and children aged 0–14, with special focus on women. That's our main target group. To them we offer a broad and varied range for all occasions – from party and well-dressed weekday to casual leisure and everything in-between. The collections include complete wardrobes, everything from underwear to outdoor clothing and accessories.

For the kids we offer fashion for all ages and needs – a range that means that customers can put together functional and good-looking outfits, simply and economically, just like KappAhl Woman and KappAhl Man.

SHARE OF KAPPAHL'S NET SALES 2013/2014

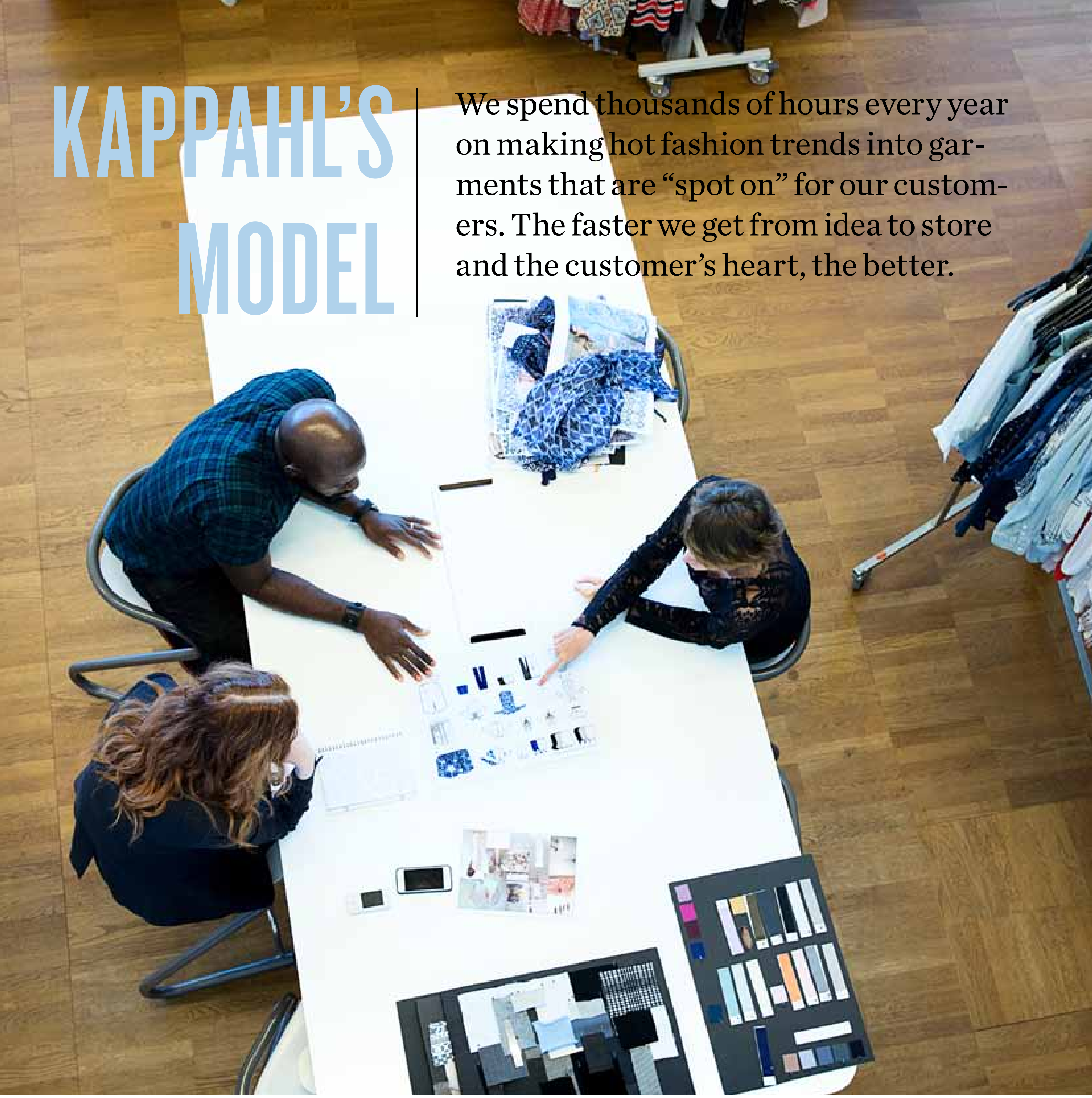


You know, that feeling when the jeans give a lift in the right places. Or when the matching blouse elicits an infectious chain of compliments. That's what we want to create in all we do. The journey follows a route lined with trends, creations and lots and lots of decisions. Come with us into KappAhl's fashion lab.

Read more on the next page >>

KAPPAHL'S MODEL

We spend thousands of hours every year on making hot fashion trends into garments that are "spot on" for our customers. The faster we get from idea to store and the customer's heart, the better.



You can't miss it. You hear it time after time from designers, purchasers, assistants and pattern constructors at KappAhl's design and purchasing department: that good design is selling design and that sure-fire fashion should not only be attractive. It must fit well and perhaps most important, it should be possible to match into a complete outfit – from bra and jeans to the top, scarf and sunglasses that confidently put the finishing touch.

Working with three seasons at a time

KappAhl's design and purchasing department consists of more than 100 people who create what you will want in a few weeks or in a year. The department works with three seasons at a time. At the moment these are autumn/winter 2014, spring/summer 2015 and autumn/winter 2015.

The work is done with a backdrop hum of creativity that is muted against white walls filled with inspirational pictures. The premises are open plan and as big as a soccer field, with twelve

metres to the ceiling and gigantic windows all along the side, which means that an idea is never born in darkness.

Each design and purchasing team sit together in creative corners with mood boards, cut-outs and samples of various designs as inspiration and guidance into the respective season.

The customer is present throughout the journey

KappAhl's designers and purchasers see the customer before them in all phases, e.g when spotting trends on the streets of Tokyo, London or Los Angeles. And when they decide together on the season's colours and the fashion concept to be designed, how much to produce, the prices and qualities that apply and how everything must be matched in the store. The customer's perspective is also included when selecting sustainable materials such as sustainably cultivated cotton or recycled wool, and when designing safe fashion without harmful chemicals, buttons or other loose details that may be dangerous for children.

> Cooperation is the be-all and end-all at KappAhl's design and purchasing department. Everyone shares in the sales successes.

Matching concept

In other words, the time when each garment was designed in isolation is long past. This has meant that KappAhl now has a much clearer offer, with fewer and more carefully chosen articles that hang together in well-matched concepts. Vintage Stories, Hampton Republic 27, XLNT and Newbie are good examples of this.

Completely logical needs

The customers' need for clear concepts and outfits is completely logical. Our customers are interested in fashion, but are usually short of time. So they want help with entire concepts and outfits – simple, inspiring and fast.

Simpler for customers in the store

At the start of autumn 2014 the Always Black campaign was launched, which is another example of how KappAhl's design and purchasing department makes it simpler for the customer. Instead of designing four black trouser models and delivering them to the stores "just like that", they packaged them based on the idea "four black trouser models that will keep the colour always – a model for every need". It was a roaring success. Many customers bought several models.

Working together with the rest of the organisation

For Always Black, Vintage Stories and the other concepts to be successful, more is needed than a well-trimmed design and purchasing department. Close cooperation with other parts of the organisation is also necessary. These include the marketing department, to get a good campaign, and the store organisation, to create expectations among the salespeople and prepare the right exposure for customers.

In that way everyone is part of the success. That is KappAhl's model.

Work in five stages

1. Spotting trends: Deriving inspiration from travel, the internet, trade fairs, trend reports, newspapers and culture.

2. KappAhl's interpretation: Create consensus on fashion trend, concept and collections, colours and materials, with our customer in focus.

3. Design and fit: Design garments and accessories for each collection. Pattern construction, making up samples and trying them on living models at least twice a week.

4. Price and volume: Determine prices and volumes, purchase material, select suppliers for production.

5. Follow-up: Follow up sales and make supplementary purchases or price reductions if necessary.

NEWBIE IS SUPER POPULAR

The successes continue for Newbie, a collection for the very smallest where the cotton is 100 per cent organic. The success has spread to social media. Children in Newbie clothes are uploaded daily on Instagram and there are groups on Facebook for second hand sales. This year the range of sizes was increased to 44–110 cl, so that children can wear Newbie garments throughout their pre-school period.

NO HAZARDOUS CHEMICALS

We have very high safety requirements for our garments so that customers can feel secure.

As regards to chemicals our requirements are higher than current legislation in all our sales markets. This includes for example the EU Regulation on chemicals, REACH. We also monitor compliance with requirements in our control programme No Risk. In total 2,035 (1,500) spot checks were made at accredited laboratories in 2013/2014. In addition we carried out a large number of tests ourselves. In all 98 (98) per cent of the goods were approved in the tests in 2013/2014.

In line with REACH 's requirements to ensure that customers always have correct and updated information, stores are encouraged to provide inquiring customers with information on chemcial content by contacting the quality department at head office.

The work on improving safety in our fashion impacts everything from choice of buttons and zips in the design and purchasing phase to the requirements for our suppliers. Here we focus in particular on products for children.

During the year we did not need to recall any goods from stores as a result of elevated levels from unwanted chemicals or unsafe children's clothes.

SUSTAINABLE FASHION IS GROWING

KappAhl's sales of fashion with sustainability labels continues to grow; from 18 per cent of the range in 2012/2013 to 19 per cent in 2013/2014. This means a total of 10 million garments with sustainable labelling. Definitions of sustainably labelled fashion can be found on KappAhl's website.

ACTIVE WEAR IN TOP FORM

In 2013 KappAhl launched the Active Wear collection, attractive and functional sports wear for the entire family. The collection for winter and early spring 2014 were among the winners in our entire range.

GUIDE FOR PRODUCTION

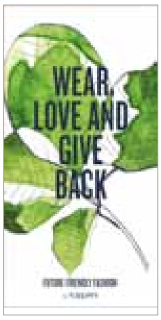
We have a production manual that our suppliers undertake to follow: the Test and Manufacturing Guide (TMG). The TMG includes a list of forbidden or regulated chemicals in our garments, physical requirements for the garments and safety of children's clothes. The requirements in the manual are continuously being raised. In 2013/2014 they have mainly been updated in the area of chemicals.

CONTINUED STRONG IN TROUSERS

KappAhl is strong in trousers. This is evident not least in statistics from the market survey company Gfk Fashion Scope from autumn 2013 that show that our market share for jeans in Sweden is 9.5 (7.7) per cent, making us the largest in the country. In total we sold almost 8 million pairs of trousers during the year, an increase of 5.7 per cent. The last years' strategic focus on developing the trouser range contributed to the positive development.

CLOSING THE LOOP

On average Swedes consume 12.5 kg textiles per person and year, according to SMED 2014. Of this, 8 kg is thrown in the rubbish and incinerated. Surveys show that the situation is similar or worse in other countries. We want to help put a stop to this waste of resources. In spring 2014 a project was started to test the



collecting of textiles for recycling and reuse in a number of selected stores. The aim is to have textile collecting in all stores in future.

The fact is that KappAhl has already taken the first steps in the recycling of textile fibres. For example, in spring 2014 a sensual and feminine women's collection in recycled polyester was launched.

In addition KappAhl participates in several partnerships and networks to promote reuse and recycling of textile fibres. The Textiles for Recycle Initiative, T4RI, is an example of this.

WE BAN PFC

Since spring 2014 KappAhl entirely bannes the use of perfluorinated substances (PFCs). Instead our water and dirt repellent functional outerwear is impregnated with a substance based on dendrimers, supported by the Nordic Chemicals Group at the Swedish research organisation Swerea IVF.

KAPPAHL MAN IS LOOKING UP

One of the year's great causes for celebration is that KappAhl Man has reversed the trend and reports increased sales and improved profitability. A well-matched range with complete outfits and clearer store display are some of the reasons behind the positive development.

PREPPY LOOK FOR EVERYONE!

The success of Hampton Republic 27 continues. In spring 2014 this preppy inspired brand was launched in the children's department, in sizes 86–170 cl. Success was immediate. Hampton Republic 27 already existed in KappAhl Woman and KappAhl Man.

RIGHT SIZE COOPERATION

KappAhl participates in several partnerships to raise quality and set clear standards in the fashion industry. The working group for a standard sizing system for clothing in Europe is one of them, where KappAhl's representative has been assigned an expert role.

FIFTY SHADES OF KAPPAHL

In November 2013 Fifty Shades of Grey was launched; an elegant underwear collection for women of all shapes and sizes. The collection, which was received with open arms by the customers, was the fruit of a unique collaboration with E L James – the woman behind the Fifty Shades of Grey trilogy.

3D IS OUR MODEL

KappAhl uses 3D technology to reduce the time needed to produce samples from the selected design. By creating an animated picture on the computer of how the garment will look, the time from pattern construction to approved sample garment can be considerably shortened. There are examples of our having gone from six weeks to six days. This makes a difference in a fashion world where time pressure is appreciable. In addition we reduce material consumption with this technology.

LIGHTWEIGHT A SUCCESS AGAIN THIS YEAR

Last year's success for lightweight down jackets continued into 2013/2014, with a 112 per cent sales increase. Among other successful concepts we find XLNT, for women with beautiful curves, and the autumn's roaring success, the trouser package Always Black.

PRODUCTION

Our production is with 230 carefully selected suppliers in Asia and Europe. We want to create long-term partnerships where we make demands and contribute knowledge that is good for all concerned.

Flexible and effective production process

Almost 90 per cent of purchases are made in Asia and 37 producers account for 60 per cent of the total volume.

Not owning the production side is a conscious choice. This leads to a reduction in tied-up capital and creates flexibility, enabling KappAhl to change to another production technology or supplier if necessary.

To create an effective and quality assured production process we have production offices in important purchase markets Bangladesh, India, China and Turkey. We carry out frequent spot checks at all stages in the production process, which contributes to high quality and the small number of complaints from customers: 0.2 per cent.

Important events during the year

• Carried out 229 inspections and 254 follow-up visits to our suppliers' factories. • Continuing work with Bangladesh Accord on Fire and Building Safety • Contributed to increased production of sustainably cultivated cotton through training of a total of 3,500 farmers since 2011. • Continued collaboration in Bangladesh and India for cleaner water and reduced use of chemicals and energy. • Test production was started in Africa.

Challenges

- Access to production capacity of high quality, cost effectiveness and sound working conditions.
- The need for environmentally effective processes linked to water consumption.
- Access to raw materials, such as sustainably cultivated cotton.

Opportunities

- Shorter fashion cycles require increased flexibility in manufacturing, which favours companies that are not bound to their own production.
- Effective cooperation and knowledge transfer to suppliers, for high quality and productivity.
- Contribute to sound working conditions in countries of production.

CHILD LABOUR NOT ACCEPTABLE

KappAhl does not accept child labour. Our code of conduct defines child labour in accordance with ILO Convention No. 138. We encourage our suppliers to draw up and apply policies and procedures to ensure that children are not employed in their own operations or by sub-contractors and state how important it is to check the age of job applicants. We have a clear plan for how we are to act if child labour is encountered in any of the suppliers' factories. If it happens we act to achieve the best possible solution for the child, with support through the remaining school period.

Binding Code of Conduct

By signing a framework agreement with KappAhl the supplier undertakes to follow our code of conduct and work to meet the requirements within its operations and its part of the value chain. We make regular evaluations and contribute knowledge to our suppliers. Both on issues linked to our code of conduct and the environment.

THE YEAR'S RANKINGS OF SUPPLIERS' FACTORIES

Country	Approved	Temporarily approved	Not approved	Not inspected
Bangladesh	24	7	0	0
China	150	76	3	19
India	15	19	1	2
Turkey	13	15	2	1
Other	4	9	0	29
Total	206	126	6	51
Percentage	53%	32%	2%	13%

Factory inspections are all very well. But it is nevertheless what we do with the results of the inspections that is important for creating long-term sustainable improvements.

Read more on the next page >>

BETTER CONDITIONS

KappAhl wants to contribute to long-term sustainable development in the countries and factories we buy goods from. Here our Code of Conduct and collaboration with suppliers are of crucial importance.

The chain of argument is simple, logical and positive: Workplaces with good working conditions and fair remuneration are good for the factory workers and their families, the factory owner and the surrounding community.

"This leads in turn to increased stability, productivity and quality, which is good for us and our customers," says Magnus Mattsson, Social Compliance Manager at KappAhl.

To support this process KappAhl has a code of conduct that the suppliers undertake to follow. In addition there are a number of improvement projects in the form of education for vulnerable women and cooperation projects and agreements to create a better environment and better as well as safer working conditions.

The Code of Conduct covers important areas such as forced labour, child labour, freedom of association and organisation, pay and working hours and safety at the workplace. There is an increased risk of violation mainly as regards remuneration levels and working hours.

"In addition the suppliers under-

take to comply with our requirements concerning business ethics and corruption," says Eva Kindgren, Sustainability Manager, Production, at KappAhl.

Daily work with the Code of Conduct

The work on the Code of Conduct is done on the basis of a process consisting of five parts: identifying non-conformance with the Code of Conduct, initiating improvements, monitoring and supporting the work of improvement, ensuring that production is in approved production units and coordi-

nating within the purchasing organisation. The factories are ranked in four levels, from Not approved to Fully approved. The suppliers' and factories' compliance with the Code of Conduct is to be developed in pace with the progress of the business relationship. If there is non-conformance with the code, the supplier must prepare an action plan with information on what the non-conformance consists of, how it is to be dealt with in the long term, when the measures are to be completed and who is responsible.

Doing more than just inspecting

"We go a step further than just inspecting, since that is not in itself the objective. It is what we do with the results of the inspections that is important for achieving lasting improvements," says Magnus Mattsson.

Consequently follow-up visits with dialogue and inspection of improvements made are of great importance. This is done by our own staff in the countries where KappAhl has production offices. In that way we can make well-founded assessments at an early stage of the supplier's self-awareness, willingness and ability to make improvements.

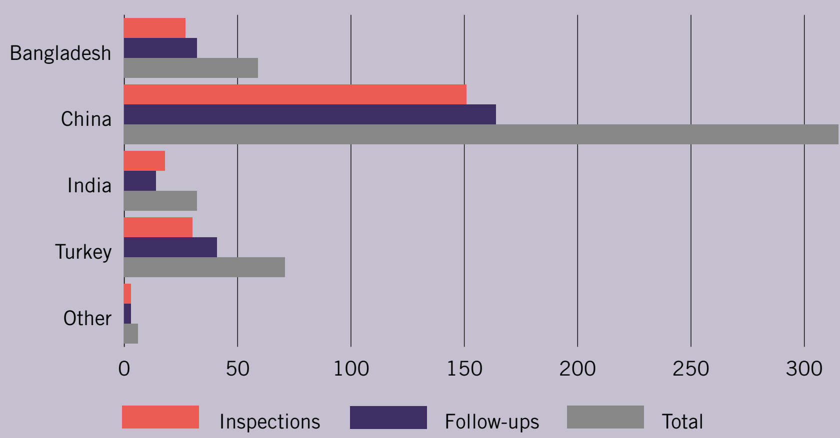
"My experience is that more and more suppliers are starting to see the value of our method of working, since it leads to increased productivity," says Eva Kindgren.

The production offices, which are responsible for the business relation with suppliers, receive regular information on the work on the Code of Conduct. Placing of orders is limited or stopped if a supplier does not cooperate, a factory does not live up to the basic requirements or does not carry out promised improvements.

254 follow up visits in 2013/2014

In 2013/2014 there were 254 (396) follow-up visits and 229 (288) inspections of suppliers' factories. About 50 (70) per cent of the visits took place in China, where the factories are spread over large geographical areas. In the first place we give priority to suppliers that produce a lot for us, and where we have great influence. In 2013/2014 the 10 largest suppliers accounted for about 28 (30) per cent of our purchases.

Number of inspections and follow-ups per country 2013/2014



IN FOCUS: BANGLADESH

Historically Bangladesh has been synonymous with widespread poverty. In recent years another picture is starting to show, about a country that is slowly but surely getting onto its feet, thanks to textile exports. KappAhl is there and is contributing to this development. Here you can read about some of our initiatives.

THE TEXTILE INDUSTRY MEANS A LOT

The textile industry is of great importance to Bangladesh and accounts for:

- 80% of export income.
- Sales of USD 18 billion.
- 30% of the country's GDP.
- Employment of 3.6 million people, of whom 85% are women.

SAFER FACTORIES

In the summer of 2013 KappAhl joined other colleagues in the industry, trade unions and labour organisations in the "Accord on Fire and Building Safety in Bangladesh" to ensure a secure and safe working environment for those working in the textile industry. This was a direct effect of the disaster in the Rana Plaza factory outside Dhaka, with 1,138 dead and 2,515 injured, in April 2013.

To date 180 international companies and brands have joined.

Already inspected 1,100 factories

According to the annual report for the first financial year of the "Accord on Fire and Building Safety in Bangladesh" just over 1,500 factories, with more than 2 million workers, are covered by the Accord.

In total 1,100 factories had been inspected in September 2014, according to the organisation's annual report. In June 2014, 16 of the factories inspected were closed to deal with deficiencies. The factory owner is liable to pay the employees' wages for up to six months, while the improvements are made.

Seven of the closed factories have been opened again as a result of measures taken to create a safe working environment.

HUGE WATER SAVINGS

Every year the textile industry in Bangladesh consumes 1,500 billion litres of water. In addition the textile industry accounts for a large proportion of water pollution in the country.

To change this, since spring 2013 we have participated in the Bangladesh Water Partnership for Cleaner Textiles, PaCT. This is an international knowledge and cooperation project to achieve cleaner production in Bangladesh, which will continue at least until the end of 2016.

3,000 tonnes of greenhouse gases

The results so far are good. Water consumption has decreased by 1.6 million cubic metres and emissions of greenhouse gases by more than 3,000 tonnes, thanks to more effective production processes.

Support to suppliers

Besides PaCT we make regular contributions for cleaner water and production as well as reduced consumption of resources, on the basis of our environmental code. The work includes giving suppliers support linked to steering environmental work, hazardous waste, chemicals and water treatment.

STRENGTHENING WOMEN

Many women in Bangladesh have few rights and suffer from a weak position in society. Education and earning their own living is a way to a better life for women and their children. That is why KappAhl started a training centre for vulnerable women, in the outskirts of Dhaka, in 2010. It is run together with suppliers and a local NGO.

The school is for women aged 18 and above. All of them come from a poor background and have no formal education.

400 women have been trained

Since the start in 2010 a total of 400 women have completed the three-month training. Women's rights, health and safety are subjects that are taught alongside sewing and dressmaking.

Every participant receives a grant for the study period. They are also offered medical care and medication if they need it.

Everyone who is trained gets a job

All the women are offered work after the training and there are examples of previous students having achieved positions of responsibility. This has made the training very popular.

WATER PROJECT IN INDIA

KappAhl is one of the initiators to Sustainable Water Resources, SWAR, started in May 2013. The project, based on knowledge transfer, is to run for two years and cover some 40 suppliers in India. The goal is to contribute to cleaner water and reduced use of chemicals and energy, leading to fewer dirty emissions and a safer work environment.

The results so far are positive. Altogether the measures have led to savings of 200 million litres of water, 200 tonnes of chemicals and a substantial reduction in annual energy consumption.

Apart from KappAhl two other Swedish textile purchasers and Stockholm International Water Institute, SIWI, are behind SWAR. SIDA is also contributing support.

CONTROLLED QUALITY

To discover any production faults as early as possible we make careful production checks. The checks are carried out both by our own quality inspectors and by external independent laboratories, in several stages.

As a rule two checks per order are carried out. This means that we have quality assurance managers in place most of the time at our large suppliers.

The quality controls give good results. The proportion of complaints from customers is only 0.2 per cent.

LIST OUR SUPPLIERS

Since the autumn of 2013 KappAhl publishes a list of suppliers' factories. It can be found on our website, www.kappahl.com.

NEWBIE BLANKET FROM LEFTOVERS

We want to utilise fabric left over from production as far as possible, to enhance effectiveness and sustainability.

During the year we designed a soft Newbie blanket in approved organic cotton for the very smallest. It is made of fabric left over in the production of Newbie garments. The left-over fabric was enough for 2,000 blankets.

BETTER COTTON ON ITS WAY

KappAhl buys 7,400 tonnes of cotton annually. It is our most important raw material. In 2007 KappAhl joined the Better Cotton Initiative (BCI), which works to increase the supply of sustainably cultivated cotton.

750,000 farmers in 15 countries

Via the BCI farmers learn to use less water, fewer chemicals and pesticides even in conventional cotton cultivation.

The first harvests of Better Cotton were in 2010/2011. Since then development has been rapid. In the first year the area cultivated was 65,000 hectares. In 2013 it was 1.3 million hectares.

From 2012 up to and including 2013 the number of licensed farmers quadrupled to 750,000 in 15 countries, with the overwhelming majority running small-scale holdings.

The target is 30 per cent

The BCI estimates that BCI cotton accounts for 7 (4) per cent of global cotton production in 2014. The target is to reach 30 per cent in 2020.

More effective cultivation methods

According to the BCI's studies, which compare ordinary cultivation with Better Cotton agriculture, there are several advantages to sustainable cultivation. The harvests produce considerably more cotton as well as increasing the economic returns. A study from 2012 showed that the farmers in India who had changed to BCI achieved profitability that was 32 per cent higher than in the control group.

33,500 tonnes via own fast track

In 2011 KappAhl together with other actors formed a "fast track" to speed up development in sustainable cotton cultivation, in accordance with BCI guidelines. To date 3,500 (2,400) farmers have undergone training. In total they cultivate more than 33,500 (8,250) tonnes of cotton per year.

Our most important raw materials

Cotton accounts for 58 (58) per cent of our raw materials consumption, followed by polyester, 11 (12) per cent, nylon, 11 (11) per cent and viscose, which accounts for 7 (6) per cent. Almost two thirds of our raw materials are thus renewable.

LOGISTICS

Effective logistics may not sound so tantalising. And that's as it should be. Because who wouldn't want to be boringly safe with the right product reaching the right customer at the right time and at the right price?

Timing and efficiency are the be-all and end-all

Storage space in our stores is small, since areas must preferably be used for selling.

That is why the timing of distribution is important. The goods must reach the store at exactly the right moment, to increase sales and reduce the need to reduce prices. Working to increase efficiency in logistics is also in line with our sustainability work, as it leads to reduced emissions per kilo shipped.

KappAhl coordinates logistics and has a common distribution centre for the entire group. Each year almost 50 million items pass through the facility. Stores receive deliveries three to five times per week.

Important events during the year

• Overall improvement programmes where all employees in logistics took part and that led to considerable cost savings, increased efficiency and about a 20 per cent higher filling ratio in crates that go from the distribution centre to the stores. • Waste volume 5.4 per cent lower in our distribution centre. • Emissions of carbon dioxide from our shipments decreased by 5 per cent.

Challenges

- Increased competition and demand for innovation in fashion require rapid deliveries.
- The need for low capital tie-up in inventories means high requirements for effective distribution.
- Climate problems lead to increased need for environmentally efficient transport.

Opportunities

- Increased utilisation of synergies gains resulting from KappAhl's size.
- Further develop KappAhl's existing environmentally and cost effective distribution solutions.

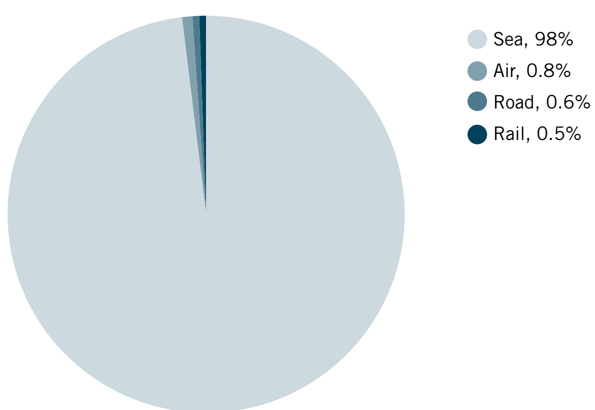
Focus on environmental issues in maritime transport

KappAhl was one of the first members of the Clean Shipping Index. This is a network for transport buyers aimed at increasing focus on environmental issues in shipping. The Clean Shipping Index requirements are part of our procurement of incoming freight. The basic requirement for approval is that at least two of the shipping company's ships are verified in accordance with the Clean Shipping Index criteria.

98 per cent is shipped by sea

98 per cent of shipments from the country of manufacture are by sea, for environmental and cost reasons. We make demands of our carriers, regardless of mode of transport and want them to work actively on issues concerning safety, the environment, quality and health. By choosing the correct mode of transport and group shipment to a greater extent we can reduce the environmental impact and improve efficiency of logistics, leading to lower costs per shipped item.

SHIPMENTS FROM COUNTRY OF MANUFACTURE TO OUR DISTRIBUTION CENTRE



EMISSIONS DECREASED BY 5 PER CENT

The goods we buy are shipped to our distribution centre in Mölndal, Sweden, and from there out to the stores. It is important that the process is dealt with effectively, both for the environment and the economy. Consequently we have for a long time been conducting discussions with carriers on new fuels, engines and effective route planning.

In 2013/2014 we reviewed the possibility of increasing the filling ratio when distributing to stores. This was done both by increasing grouped shipments and raising the filling ratio in our crates. In total the filling ratio in crates increased by about 20 per cent.

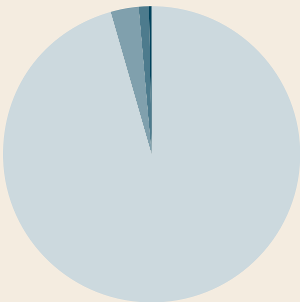
Carbon dioxide emissions per garment decreased by 3 (0.7) per cent and the total volume of emissions by 5 (2) per cent. The calculations are based on the NTM model that can be found at www.ntmcalc.org.

WASTE VOLUME FALLING

KappAhl's work to reduce waste is achieving good results. In our distribution centre – where a large part of the waste arises when goods are unpacked for further distribution to the stores – the volume of waste fell by 5.4 per cent to 1,240 (1,311) tonnes in 2013. In addition we recycle the plastic and cardboard used for packaging the goods.

The stores are also good at separating their waste at source. KappAhl's ambition going forward is to map the handling at stores to make further improvements.

WASTE BREAKDOWN



* Made up of electronics, aerosols, fluorescent lamps and cleaning agents etc and handled in accordance with applicable legislation.

450,000 BROKEN HANGERS GAIN A NEW LEASE OF LIFE IN LIDKÖPING

KappAhl wants to reuse and recycle as much as possible of the products used in operations.

As an example, Nordic Hangers in Lidköping have been given the task of recycling and repairing broken hangers. Nordic Hangers collaborates with Vård & Omsorg in the municipality of Lidköping, which offers people with disabilities and people with special needs meaningful employment that is entirely adapted to the individual's needs, abilities and interests. This gives the individual a feeling of inclusion and being part of a community and is a very important meeting place in everyday life.

Since the start about 450,000 hangers have been repaired, 14 tonnes of plastic and 3.2 tonnes of metal saved, while these people have been given a meaningful occupation.

HIGH DEMANDS OF CARRIERS

We make high demands of our carriers already in the procurement process. They must work actively on issues concerning safety, sustainability, quality and health.

SALES AND MARKETING

We meet hundreds of thousands of people every day – hundreds of thousands of opportunities to clothe their dreams. We do it with a smile, in a new store concept.

Inspiring and helping customers

Our physical stores and Shop Online are our most important channels for inspiring and helping our customers to find the right fashion. As support we use a broad mix of PR in traditional and new media as well as advertising to reach our customer, on the basis of the concept "Hey, I like your style". The concept is a tribute to our core customer – a woman in the prime of life. Surveys show that advertising functions very well in the target group.

We also have customer loyalty clubs in our sales markets. Working with these has been successful, as shown by increased sales to members during the year.

Important events during the year

• In spring 2014 a new store concept was launched: "For You" – which will be one of our largest investments ever. • In autumn 2014 the most modern customer loyalty club in the Nordics was introduced in Norway, with an app for all customer information and inspiration. The customer does not need to have a card or codes to use their bonus. • Investments in social media communication. • Training in sales and customer service in stores. • Review of profitability in stores. • We closed all stores in the Czech Republic during the year. • Pilot project for textile collecting in stores.

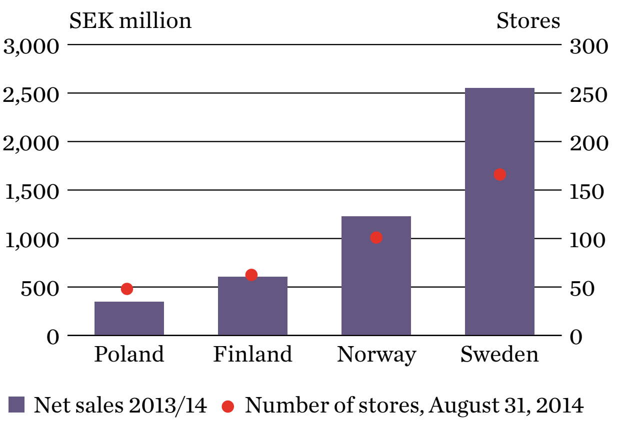
Challenges

- Increased competition for customers' interest.
- Create increased service level with a limited number of employees.
- Reduce consumption of resources such as electricity and consumables.
- Increased need for textile collecting, for increased reuse and recycling.

Opportunities

- Launch of new store concept throughout the chain, starting autumn 2014.
- KappAhl is a sought-after tenant in store properties.
- Strengthen and simplify the customer experience further via store sales in combination with on-line solutions.
- Introduction of Shop Online in all markets.

Net sales by country and number of stores per country



377 stores in four countries

At the close of 2013/2014 we had 377 (390) stores. In total 5 stores opened and 18 closed. On 31 August 2014 there were contracts for a further seven stores. Sales in our Shop Online in Sweden increased substantially during the year. Shop Online will be introduced in other markets in coming years.

7 of 10 Swedes visit KappAhl

We carry out monthly measurements of customer opinion of our offer. Indikat's survey in winter 2013/2014 shows that KappAhl tops the list of ad recall among chains in the Swedish market and the year's survey from Orvesto Konsument shows that 7 of 10 Swedes visit KappAhl when they are shopping.

High sustainability requirements for our stores

Creating sustainable stores, providing sound information to customers and offering textile collecting are three important areas for us in stores. We work to reduce energy consumption, for example by means of energy-efficient lighting and motion sensors. We also have high environmental requirements for store fittings. For example there must be no allergenic substances and the mirrors may not contain lead. There must be a high percentage of recycled material in store fittings and wood materials must be from sustainable forestry, e.g according to the FSC. Our customer bags consist mainly of recycled material.

We have worked long and hard on our new store concept. Using many words we can describe it in terms of inspiring, simple to find your way round, warm, embracing and much more. But really it's just a matter of two words: "For You".

Read more on the next page >>

WINNING CONCEPT

In spring 2014 we launched our new store concept, “For You”. Roll-out will start in the autumn.

Here you can learn of our thoughts on one of KappAhl’s largest initiatives ever.

On 22 May 2014 the doors opened to KappAhl’s new flagship store in Oslo, Norway. In the store, which has the best commercial location in the Oslo City shopping centre, KappAhl presents an entirely new store concept where store environment, graphic design and product display have undergone a total change.

The new store concept is created to make it simple for the KappAhl customer – a woman in the prime of life. The result is an entirely new shopping experience, in which fashion, inspiration and help to find the right outfits is in focus.

One of the greatest initiatives

The concept is one of KappAhl’s greatest initiatives to date and was developed by the fashion chain’s internal team in collaboration with a London-based concept agency.

Influenced by customers

Talking to customers formed a crucial part of developing the concept. They were asked what they thought was important when shopping.

”Highest on the customers’ wish list was easy shopping. So we focused on helping her to find her way round our stores more easily and guiding her to find the silhouette that fits her specifically,” says KappAhl’s Concept Manager Camilla Wernlund.

I'M FINE AS I AM – FOR BRIS

In spring 2014 KappAhl geared up its commitment to Bris (Children's rights in society) with a design competition in which children described in words and pictures what "I'm fine as I am" means for them. In autumn 2014 the winning entries were on t-shirts sold to benefit Bris in KappAhl's Swedish stores.

"We had a very good response from children of all ages and it was very inspiring to see their lovely drawings and read their crystal clear reasons for why everyone is fine as they are. We could not choose one single winner among all the wonderful entries, so we took two," says KappAhl's Head of Public Relations Charlotte Högberg.

"This means a great deal to Bris; that such an established and trusted brand as KappAhl supports our activities. KappAhl comes into daily contact with an amazing number of people, adults and children, who need to know that Bris exists and what it does. Through innovative campaigns such as "I'm fine as I am" KappAhl makes our activities visible – and supports us financially so we can continue to maintain work of high quality", says Kattis Ahlström, Secretary-General of Bris.

Thumbs up for that is what we think!

> Our fashion makes you look good. But it is your personality that makes you beautiful. We recognise this in our new store concept.

LIFE & STYLE BY KAPPAHL FOR OUR LOYAL CUSTOMERS

KappAhl has large and important customer loyalty clubs in all markets. For example we have Life&Style by KappAhl in Sweden. In autumn 2014 the club was also launched in Norway, with a unique app that collects bonus and offers in the customer's smartphone.

TOWARDS CLIMATE NEUTRAL ENERGY USE

KappAhl's energy purchases for electricity and heating amounted to 39.2 GWh in 2013, which gave rise to 12,361 tonnes of carbon dioxide emissions. Sweden accounted for 45 per cent of energy purchases, followed by Norway and Poland with 19 per cent each and Finland with 17 per cent. 100 per cent of electricity purchases in the Swedish store network come from hydropower with a guarantee of origin. In other markets 10–15 per cent of electricity comes from renewable sources. The target is to purchase 100 per cent renewable energy by 2020 at the latest.

We are working to reduce energy use in our premises, for example with the help of mapping stores with potential for improvement as well as installing electricity meters and motion detectors. In 2013 energy purchases decreased by 3.7 per cent in Sweden and by 2.7 per cent in Norway. There are no reliable comparative figures for other countries.

Warm and embracing

Our sustainability concept Future Friendly Fashion forms an important part of the new concept, which welcomes the customer to a KappAhl where environmentally friendly store fittings are supplemented by a light and warm colour scale that creates the feeling of space. A warm and embracing appeal characterises everything from signs to guides and fashion hints.

"Our message is "For You". What we do, we do for our customer so that it suits her best," says Camilla Wernlund.

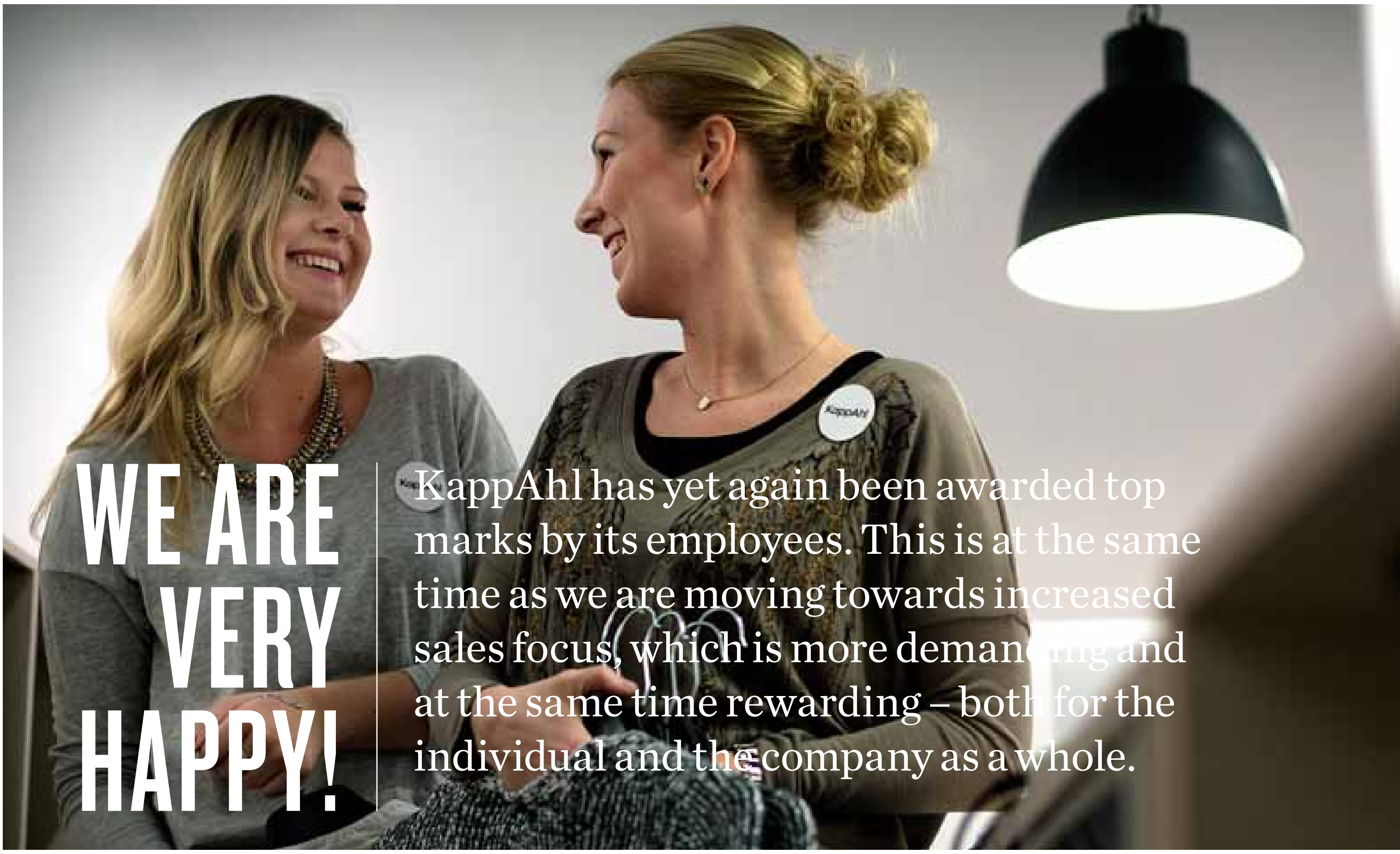
Will be rolled out starting in autumn 2014

In autumn 2014 the new concept will start to be rolled out in KappAhl's stores.

Made for curves

We want to stand for sound ideals. For example, we do not sell or market garments that can be perceived as offensive and we use models and mannequins with healthy bodies, to avoid contributing to an excessively thin and misleading ideal of the female body.

Our approach has contributed to few complaints against our marketing in recent years, which is otherwise relatively common in the fashion industry. In 2013/2014 one of our campaigns was reported to the Swedish Advertising Ombudsman. It was about the Fifty Shades of Grey campaign, as it was seen as being sexist. The campaign was cleared.



WE ARE VERY HAPPY!

KappAhl has yet again been awarded top marks by its employees. This is at the same time as we are moving towards increased sales focus, which is more demanding and at the same time rewarding – both for the individual and the company as a whole.

At KappAhl a number of different occupations are spread among more than 4,000 employees who work on everything from design to store sales.

Our culture is based on a will to develop and find creative solutions, in an environment where the direction and objectives are clearly staked out. The managers have an important task to make our corporate culture visible. As support we have a leadership philosophy for the daily work. It also functions as an aid when recruiting managers, training and evaluating leadership behaviour.

Want to broaden skills

We want to learn in our daily work and endeavour to give our employees the chance to accept new challenges in other parts of the organisation. In that way we utilise and spread knowledge in the organisation while meeting the wishes of individual employees to develop. The ambition is that seven out of ten positions are to be filled from internal recruitment.

We also implement directed, long-term and recurring training initiatives to broaden skills. This is done via the KappAhl Academy. During the year we have conducted the management development programme Capacity, feedback training for managers and a trainee course for prospective managers. This year we have also carried out extensive training in sales and sustainability for our store employees. Some of the skills and employee development takes place locally. The managers have a key role to play here, with support from the head office.

Altogether 41,979 (29,966) hours were devoted to skills development in the Group during the financial year.

During the year a survey was carried out among young academics. It gives us a good insight in preparation for continued investments in skills development. For example, in autumn 2014 a “High Potential Programme” will be started with participants from the various parts of the Group.

Sustainability work plays a central role

KappAhl’s sustainability concept, Future Friendly Fashion, is to permeate the workplace. Sustainability issues have an important function in the performance reviews that all employees must go through every year.

KappAhl has ethical guidelines that deal with the risk of corruption in association with purchasing and that cover all employees who sign them when they are employed. Training concerning the ethical guidelines is conducted regularly.

Seek diversity and spread knowledge

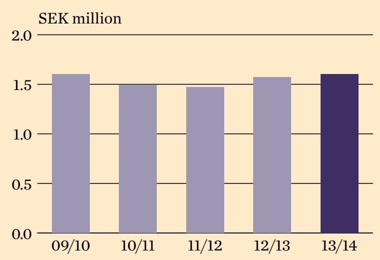
We value diversity of ages, gender, language, geographical and religious backgrounds. The latest survey at KappAhl in Sweden shows for example that one or both parents to every third employee were born outside Sweden. This means our operations largely reflect the community and the customers.

We are glad to share our experiences with the academic world. This applies for example to the Swedish School of Textiles in Borås and the School of Business, Economics and Law at the University of Gothenburg. Every year we offer internships to a large number of students in stores and at the head office.

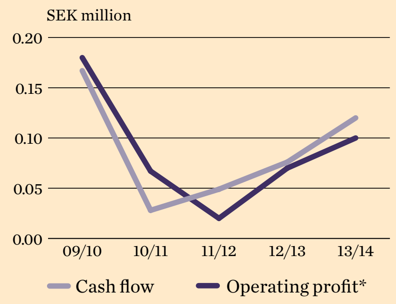
Reward an active life

The work environment is a strategic issue for us. This is evident in the company’s work environment policy. We reward independent health initiatives and an active life that leads to good health. Employees are offered an exer-

NET SALES PER FULL TIME POSITION

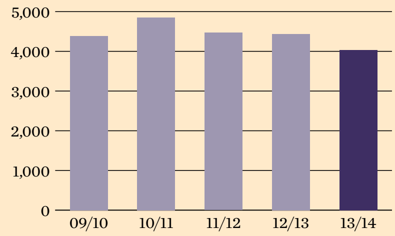


CASHFLOW AND OPERATING PROFIT PER FULL TIME POSITION



* Excluding non-recurring item

TOTAL NUMBER OF EMPLOYEES



Training with sales potential

In 2013/2014 all store employees were offered training in sales and service. The objective is for us to be even more focused on helping our customers and meeting their needs. Apart from the fact that the training is stimulating on an individual level, it contributes to increased understanding that even small improvements have great significance for our common performance. For example, if we succeed in helping one visitor more in each store to become a customer, every day for a year, the sales increase would be equivalent to two stores' annual turnover.

cise subsidy. Sickness absence in the Group as a whole was 5.9 (5.7) per cent in 2013/2014.

Continued high marks from employees

According to the annual KappAhl Attitude Survey, KAS, in autumn 2014 KappAhl continued to score high marks for the business and the workplace as a whole: 5.9 (6.0) out of 7. This is better than the average for the retail industry in total, which is 5.1 (5.8) according to statistics from Mercuri International.

Eight employees stated that they had personal experience of harassment on grounds of gender and 15 on grounds of ethnicity or religion. One case of discrimination was reported and dealt with in accordance with applicable policies.

In the section on My work situation, which has questions about development opportunities, influence and health, the score of 5.5 (5.8) was given. KappAhl is also given good marks for the sustainability work; 6 (6) out of 7.

KEY RATIOS, EMPLOYEES

	2013/2014
Total number of employees	4,035
Average number of full-time positions (restated)	2,960
Percentage of women	93.5
Average age	36.2
Staff turnover (%)	10.6
Training hours per person	10.4

DIVIDEND OF SEK 0.75 PER SHARE

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

The number of shares in KappAhl is 75,040,000. 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

The market value for the KappAhl share has been unchanged from the opening of the financial year 1 September 2013 to 31 August 2014.

This can be compared with the Nasdaq Stockholm All-Share index that increased in value by 17.0 per cent and Nasdaq Stockholm General Retailers that increased by 22.5 per cent in the same period. The highest price paid was SEK 43.40 on 8 April 2014 and the lowest price paid was SEK 34.90 on 21 November 2013. At the close of the financial year KappAhl's market value was SEK 2,874 million and the P/E ratio estimated on profit for the year was 22.3.

In the period 1 September 2013 to 30 August 2014 a total of 63,286,229 KappAhl shares were traded to the value of SEK 2,458 million, based on the average price (SEK 38.85). This means that each share was traded 0.84 times over the year, corresponding to an average of 255,186 shares traded per day.

Ownership structure

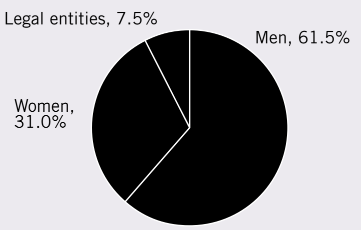
On 31 August 2014 KappAhl had 16,769 shareholders. The largest shareholder was Mellby Gård AB (Rune Anderson) with a holding of 20.3 per cent and Handelsbanken Fonder with 7.1 per cent, followed by Swedbank Robur Fonder with 5.2 per cent.

Of the shareholders, 5.2 per cent own more than 5,000 shares. Shareholdings registered with companies and institutions amounted to 57.8 per cent and shareholdings registered at non-Swedish addresses were 20.8 per cent.

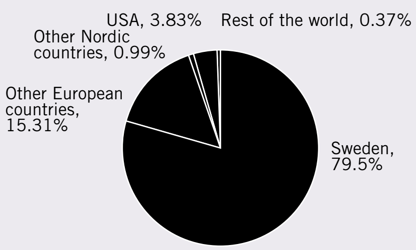
Dividend

The Board of Directors proposes a dividend of SEK 0.75 per share for the 2013/2014 financial year.

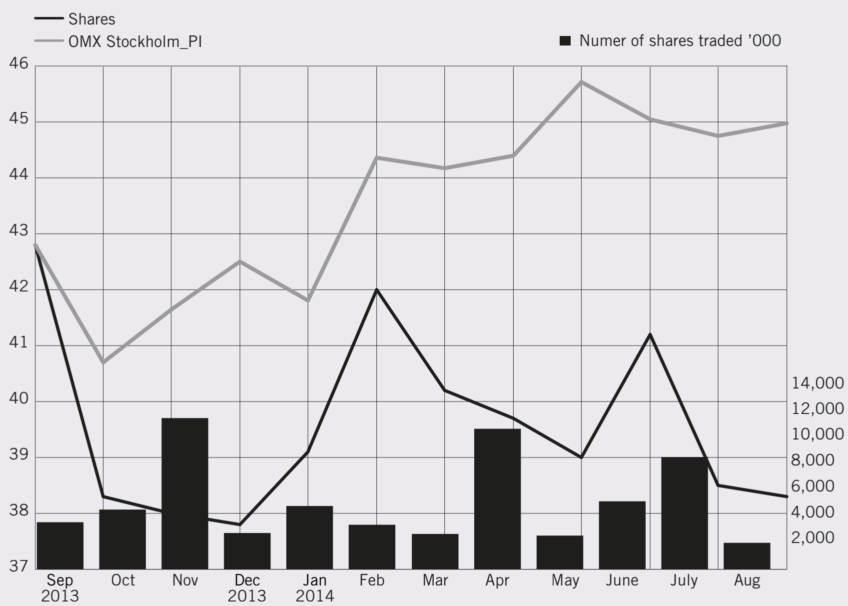
DISTRIBUTION OF OWNERSHIP, SHAREHOLDINGS



GEOGRAPHICAL DISTRIBUTION, SHAREHOLDING



KAPPAHL SHARE PERFORMANCE 2013/2014



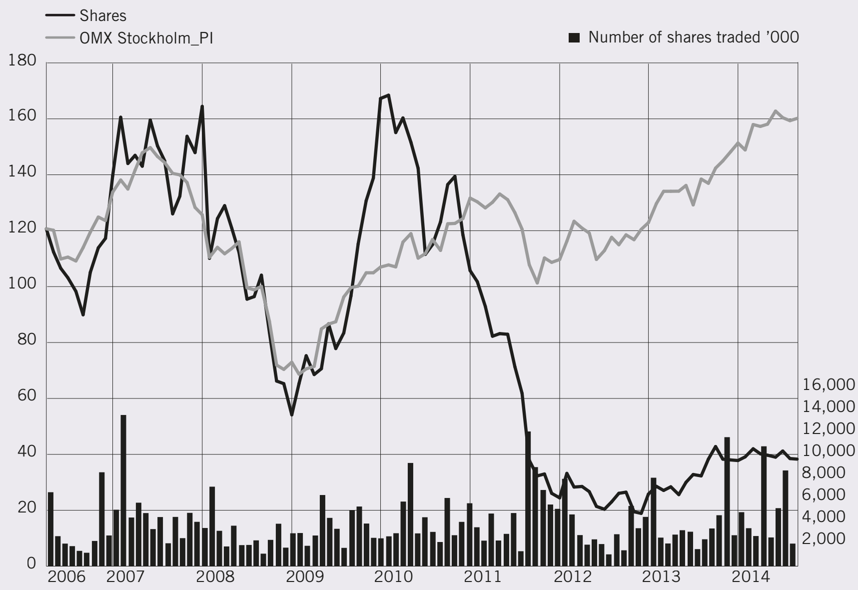
Stock market information

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.

Shareholding August 31, 2014 (SEK thousand)	Number of shareholders	Number of shares	Shareholding (SEK thousand)	Votes (%)
1–500	10,897	1,832,150	2.44	2.44
501–1,000	2,266	1,930,973	2.57	2.57
1,001–5,000	2,736	6,649,781	8.86	8.86
5,001–10,000	457	3,554,016	4.74	4.74
10,001–15,000	118	1,511,228	2.01	2.01
15,001–20,000	81	1,476,136	1.97	1.97
20,001–	214	58,085,716	77.41	77.41
Total	**16,769**	**75,040,000**	**100.0**	**100.0**

KAPPAHL SHARE PERFORMANCE, 1 MARCH 2006–31 AUGUST 2014



MULTI-YEAR AND QUARTERLY REVIEW

KEY RATIOS

	Sept–Aug 2013/2014	Sept–Aug 2012/2013	Sept–Aug 2011/2012	Sept–Aug 2010/2011	Sept–Aug 2009/2010
Sales growth, %	–0.2	3.6	–7.8	–2.7	5.0
Operating profit/loss (EBIT), SEK million	272	252	–64	222	551
Operating profit excluding non-recurring items, SEK million	295	202	53	222	551
Total depreciation/amortisation, SEK million	128	141	220	219	234
Gross margin, %	60.8	59.2	56.7	58.8	61.8
Operating margin, %	5.7	5.3	–1.4	4.5	10.8
Operating margin excluding non-recurring items, %	6.2	4.3	1.2	4.5	10.8
Interest coverage ratio (multiple)	4.0	2.9	0.39	3.1	6.2
Net interest-bearing liabilities, SEK million	427	661	1,673	2,266	1,866
Net interest-bearing liabilities/EBITDA (multiple)[1]	1.0	1.7	10.7	5.14	2.38
Equity-assets ratio, %	56.1	49.4	26.2	14.9	22.1
Equity per share, SEK	20.12	18.42	3.85	6.93	9.90
Equity per share after dilution, SEK	19.99	18.42	3.85	6.93	9.90
Cash flow from operating activities per share, SEK	4.60	3.06	0.68	1.27	6.77
Market price, SEK	38.30	38.34	6.40	16.30	53.00
Market value, SEK million	2,874	2,877	1,441	1,223	3,977
P/E ratio (multiple)	22.3	31.6	neg	17.9	9.9
Dividend yield, %	0.0	0.0	0.0	0.0	6.1
Price/equity per share, %	188	208	166	235	535
Earnings per share, SEK[2]	1.71	1.32	–5.30	2.98	17.60
Dividend per share, SEK (proposed 2013/2014)	0.75	0.00	0.00	0.00	3.25
Dividend payout ratio of earnings after tax paid, %	0.0	0.0	0.0	0.0	76.0
Weighted average number of shares[3]	75,040,000	68,474,000	42,272,533	22,844,480	22,844,480
Number of shares at close of period	75,040,000	75,040,000	225,120,000	75,040,000	75,040,000
Number of shares after dilution	75,523,423	75,040,000	225,120,000	75,040,000	75,040,000

1) Not adjusted for non-recurring items, see Note 17.
2) Earnings per share are calculated as earnings after tax/weighted average number of shares. Earnings per share have been restated for comparison periods.
3) The number of shares has been adjusted retroactively for all comparison periods to take the effect rights issue and reverse split in 2012/2013 into account.

CONDENSED CONSOLIDATED INCOME STATEMENT (SEK MILLION)

	Sept–Aug 2013/2014	Sept–Aug 2012/2013	Sept–Aug 2011/2012	Sept–Aug 2010/2011	Sept–Aug 2009/2010
Net sales	4,743	4,751	4,587	4,974	5,111
Cost of goods sold	–1,857	–1,937	–1,988	–2,048	–1,954
Gross profit	**2,886**	**2,814**	**2,599**	**2,926**	**3,157**
Selling expenses	–2,469	–2,488	–2,527	–2,560	–2,467
Administrative expenses	–145	–150	–136	–144	–139
Other operating income	–	76	–	–	–
Operating profit/loss	**272**	**252**	**–64**	**222**	**551**
Operating profit excluding non-recurring items	**295**	**202**	**53**	**222**	**551**
Financial income	0	1	0	1	1
Financial expenses	–68	–88	–166	–72	–89
Profit after financial items	**204**	**165**	**–230**	**151**	**463**
Taxes	–75	–74	6	–83	–61
Profit after tax	**129**	**91**	**–224**	**68**	**402**

QUARTERLY INCOME STATEMENTS (SEK MILLION)

	Q4 13/14	Q3 13/14	Q2 13/14	Q1 13/14	Q4 12/13	Q3 12/13	Q2 12/13	Q1 12/13	Q4 11/12	Q3 11/12	Q2 11/12	Q1 11/12
Net sales	1,185	1,201	1,114	1,243	1,148	1,210	1,148	1,245	1,129	1,146	1,119	1,193
Cost of goods sold	–482	–448	–471	–456	–494	–470	–516	–457	–485	–469	–538	–496
Gross profit	**703**	**753**	**643**	**787**	**654**	**740**	**632**	**788**	**644**	**677**	**581**	**697**
Selling expenses	–598	–617	–603	–651	–575	–627	–636	–650	–579	–615	–685	–648
Administrative expenses	–36	–35	–37	–37	–36	–49	–31	–34	–36	–33	–34	–33
Other operating income	–	–	–	–	–	–	–1	77	–	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–
Operating profit/loss	**69**	**101**	**3**	**99**	**43**	**64**	**–36**	**181**	**29**	**29**	**–138**	**16**
Operating profit/loss excluding non-recurring items	**92**	**101**	**3**	**99**	**57**	**76**	**–36**	**105**	**46**	**46**	**–55**	**16**
Financial income	0	0	0	0	0	0	0	0	0	0	0	0
Financial expenses	–10	–38	–8	–12	–7	–21	–17	–43	–59	–34	–47	–26
Profit/loss after financial items	**59**	**63**	**–5**	**87**	**36**	**43**	**–53**	**138**	**–30**	**–5**	**–185**	**–10**
Taxes	–27	–21	–2	–25	–29	–11	–11	–23	–10	–5	22	–1
Profit after tax	**32**	**42**	**–7**	**62**	**7**	**32**	**–64**	**115**	**–40**	**–10**	**–163**	**–11**

	Q4 10/11	Q3 10/11	Q2 10/11	Q1 10/11	Q4 09/10	Q3 09/10	Q2 09/10	Q1 09/10
Net sales	1,208	1,237	1,188	1,341	1,290	1,221	1,256	1,344
Cost of goods sold	–556	–493	–508	–491	–521	–432	–531	–470
Gross profit	**652**	**744**	**680**	**850**	**769**	**789**	**725**	**874**
Selling expenses	–616	–651	–624	–669	–583	–639	–615	–630
Administrative expenses	–33	–36	–40	–35	–30	–38	–34	–37
Other operating income	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–
Operating profit/loss	**3**	**57**	**16**	**146**	**156**	**112**	**76**	**207**
Operating profit/loss excluding non-recurring items	**3**	**57**	**16**	**146**	**156**	**112**	**76**	**207**
Financial income	1	0	0	0	0	0	1	0
Financial expenses	–18	–22	–15	–17	–24	–24	–23	–18
Profit/loss after financial items	**–14**	**35**	**1**	**129**	**132**	**88**	**54**	**189**
Taxes	–40	–9	0	–34	–7	–23	–20	–11
Profit after tax	**–54**	**26**	**1**	**95**	**125**	**65**	**34**	**178**

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 2013 to 31 August 2014.

Group

The Group operates in retail sales of clothes for women, men and children. 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. As of 1 January 2014 no business is in operation in the Czech Republic. The Group also has production offices in China, Turkey, Bangladesh and India.

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 22.

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.

Information concerning the company's shares

Rights issue and reverse split of shares

In December 2012 the Board of Directors, with the authorisation of the Annual General Meeting of 28 November 2012, carried out a rights issue of shares with pre-emption right for existing shareholders to strengthen the company's financial position and reduce its debt through loan repayment. The rights issue was fully subscribed (98.75 per cent of the shares were subscribed for by exercising subscription rights and 1.25 per cent of the shares were allocated to people who applied to subscribe without subscription rights). The rights issue provided KappAhl with about SEK 383 million excluding issue costs. The share capital was increased to SEK 64,320,000 and the number of shares was increased by 225,120,000 to 450,240,000. In February 2013 KappAhl carried out a reverse split of shares, meaning that six existing shares were amalgamated into one. After the reverse split the number of shares in KappAhl is 75,040,000.

Warrants

Owing to the reverse split of shares KappAhl recalculated the 6,744,000 warrants (series 2012/2015) issued by KappAhl to senior management and key personnel in accordance with a decision by the Annual General Meeting on 23 November 2011. The warrants run up to and including 6 February 2015, but can only be exercised in the last 10 banking days of that period. After recalculation each warrant entitles the holder to subscribe for 0.27 new shares at a subscription price of SEK 28.80 per share. Thus the warrants may increase the number of shares in KappAhl by a maximum of 1,820,880 and the share capital by a maximum of SEK 1,565,956.80.

Total number of shares, votes, dividend and new shares

As at 31 August 2014 the total number of outstanding shares was 75,040,000. 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.

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 August 2014 the ten largest shareholders of KappAhl AB (publ) were as follows:

	Number of shares	Percentage of shares and votes
Mellby Gård AB	15,209,245	20.27
Handelsbanken Fonder AB RE JPMEL	5,351,277	7.13
Swedbank Robur fonder	3,872,041	5.16
Svenskt Näringsliv	2,400,000	3.20
Försäkringsaktiebolaget, Avanza Pension	2,120,699	2.83
Svolder Aktiebolag	1,759,772	2.35
JPM Chase NA	1,606,156	2.14
Fjärde AP-fonden	1,556,269	2.07
Catella Fondförvaltning	1,163,337	1.55
Andra AP-fonden	1,120,383	1.49
Other shareholders	38,880,821	51.81
Total	**75,040,000**	**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 45 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 they resign or are made redundant without valid reason or if their employment or engagement ceases because of a public takeover bid.

Performance and significant events of the financial year

Group performance

Net sales and gross profit

KappAhl's net sales for the financial year were SEK 4,743 (4,751) million, a change of –0.2 per cent compared with the previous financial year. The change consists of: new and closed stores, –0.1 per cent; development of comparable stores, 0.3 per cent; and currency translation differences, –0.4 per cent. During the year the number of stores decreased by 13.

Gross profit was SEK 2,886 (2,814) million, which corresponds to a gross margin of 60.8 (59.2) per cent. The increase in the gross margin is mainly due to an increased percentage of full price sales.

Operating result

Selling and administrative expenses amounted to SEK 2,614 (2,637) million, meaning that the costs are slightly lower than in the previous year. The year's selling and administrative expenses include non-recurring costs of SEK 23 (26) million referring to costs associated with closing down stores. The Group's operating profit for the financial year is SEK 272 (252) million and excluding non-recurring items SEK 295 (202) million. The operating margin is 5.7 (5.3) per cent or 6.2 (4.3) per cent excluding non-recurring costs.

Financial expenses

Financial expenses amounted to SEK –68 (–87) million. Interest expense decreased considerably during the year due to amortisation of fixed rate loans and reduced use of overdraft facilities. In the third quarter of the year net financial income was reduced by a non-recurring cost of negative market values of SEK 33 million for all interest swaps. For more information please see Note 17.

Taxes

Effective tax reported for the financial year is 36.7 (44.9) per cent. The high effective tax rate is due to unmeasured loss carry-forwards in Poland, the Czech Republic and Finland. See Note 8.

Store network and expansion

Five new stores were opened during the financial year; two in Sweden, one in Poland and two in Norway. In the same period one store in Sweden, six in Poland, four in Norway, five in the Czech Republic and two stores in Finland were closed, a total of 18 stores closed. The total number of stores was 377 (390) at the end of the financial year. Of these there are 166 in Sweden, 101 in Norway, 63 in Finland and 47 in Poland.

The work of finding new store sites is proceeding according to plan. Apart from the 377 (390) stores in operation on 31 August 2014 there are currently contracts for seven new stores, five of which will be opened in 2014/2015.

Number of stores per country

	31/8/ 2014	31/8/ 2013	31/8/ 2012	31/8/ 2011	31/8/ 2010	31/8/ 2009	31/8/ 2008	31/8/ 2007	31/8/ 2006
Sweden	166	165	165	159	153	144	138	131	130
Norway	101	103	103	99	95	92	87	84	81
Finland	63	65	62	59	56	53	46	42	36
Poland	47	52	53	47	40	30	20	15	13
Czech Republic	–	5	5	5	1	–	–	–	–
Total	**377**	**390**	**388**	**369**	**345**	**319**	**291**	**272**	**260**

Financial instruments and risk management

the aim of the Group's currency policy is to reduce the risk of negative effects on earnings and to increase the predictability of future earnings. This is achieved by hedging the subsidiaries' revenues. The Group's goods purchases are also hedged, including future goods flows, which are hedged 1–12 months forward using futures. A substantial portion of the Group's goods purchases are in USD, which makes the business sensitive to changes in the dollar exchange rate. Further information is available in Note 17.

FINANCING

At the end of the period net interest-bearing liabilities amounted to SEK 427 million, compared with SEK 661 million as at 31 August 2013. At the close of the period net interest-bearing liabilities/EBITDA amounted to 1.0, compared with 1.9 as at 31 August 2013. The equity/assets ratio increased to 56.1 (49.4) per cent. Cash and cash equivalents amounted to SEK 43 (58) million as at 31 August 2014. At the close of the period there was about SEK 650 (400) million in unutilised credit.

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

SIGNIFICANT EVENTS

Investments

Net investments in the Group amount to SEK 98 (95) million and mainly consist of investments in existing and newly opened stores, process and system development for a more digital customer interface and eCommerce solutions for all countries. The investment level in the Group for the coming year is expected to increase considerably in connection with the new store concept. No investments were made in the parent company KappAhl AB (publ) during the year.

FUTURE EXPECTATIONS

In the past year fashion retail has continued to be weak. The economic slowdown has had a negative impact on consumers' willingness to spend. The company's assessment is that in the short term the weak market will continue where KappAhl operates.

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. 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 17. The management of risks is also described in the corporate governance report, page 82, 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, mail order companies and internet shopping, for the sale of clothes to women, men and children and of accessories. There is also competition for the best store locations and best rental terms.

Both Nordic and international competitors may have greater financial resources, which may give better premises for adapting to customer demand. By setting aside more resources for marketing, design of products and stores greater brand awareness can be achieved. The intensive competition can lead to price pressure and falling market share. KappAhl focuses on clear concepts and market positioning through a well-defined target group, combined with a clear message. This is considered to be a significant competitive advantage.

Fashion

KappAhl's success is due to its ability to identify and adapt to constantly shifting fashion trends and customer requirements and its timely introduction of new and attractive products. The products must also 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 certain 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 88 per cent of KappAhl's products are bought in Asia and the rest are from Europe. 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 is continuing to develop the store network in its geographical markets.

At the same time, stores are continually being upgraded and developed, which requires considerable investment and management resources. There is never any guarantee that investments will generate sufficient return. 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. As at 31 August 2014 there were contracts for seven new stores.

Trademarks

It is KappAhl's policy to register and protect its brand and name. There are, however, no guarantees that these measures are sufficient to protect the brand and property. Moreover, unauthorised use of the brand 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 general economy, which has an effect on 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 durables to other goods and services.

Parent company

Sales amounted to SEK 19 (23) million and refer for the most part to inter-company invoicing of services. There were no external sales. Net financial income was SEK 105 (123) million.

In the third quarter of the year net financial income was reduced by a non-recurring cost of negative market values of SEK 33 million for all interest swaps. For more information please see Note 17. Profit after financial items was SEK 102 (110) million. As regards the number of employees, salaries, remuneration and terms of employment, please refer to Note 4.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

The following events occurred after the close of the financial year:

– A new credit agreement for the company's financing has been signed. The agreement gives a total credit facility of SEK 1, 000 million.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The company's guidelines for remuneration to senior executives were adopted by the Annual General Meeting on 4 December 2013. The Board of Directors proposes that the 2014 Annual General Meeting adopts guidelines that are by and large unchanged in comparison with 2013 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. The senior executive must be offered a fixed salary that is market related and based on the person's responsibility and conduct. 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.

The Board of Directors and Remuneration Committee will annually evaluate whether any form of equity-related incentive programme should be proposed to the Annual General Meeting.

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 President retains full salary for six months and receives severance pay equivalent to 18 months' salary, less any salary from other employment.

CORPORATE GOVERNANCE

Information is provided in a separate Corporate Governance report. For further reading, please see page 79.

SUSTAINABLE DEVELOPMENT

KappAhl takes responsibility for people and the environment and makes an active contribution to development in the countries where the company operates. More information can be found on the company's website.

EMPLOYEES

At KappAhl almost 4,000 employees work at about 400 workplaces in eight countries. More information is available on page 12 and page 36.

Dividend

Provided that the 2014 Annual General Meeting adopts the Board of Directors' proposed distribution of profits, SEK 2,161 million will be carried forward. There is full coverage for the parent company's restricted equity after the proposed distribution of profits. The Group's equity amounts to SEK 1,510 million. As grounds for its proposed distribution of profits the Board of Directors, under Chapter 18, Section 4 of the Companies Act (2005:551), has assessed that the proposal is justifiable in relation to the extent of the company's and the Group's need to strengthen their balance sheets, liquidity and financial position in general.

Proposed appropriation of the company's profits

The Board of Directors and President propose that the profits at the disposal of the Annual General Meeting, SEK 2,217,701,768 be appropriated as follows:

Retained earnings	SEK 2,217,701,768
Dividend to shareholders of SEK 0.75 per share	SEK –56,280,000
To be brought forward	SEK 2,161,421,768

For information about KappAhl's earnings and financial position in other respects, please refer to the income statements, balance sheets and accompanying notes set out below.

CONSOLIDATED INCOME STATEMENTS

Amounts in SEK million	Note	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Net sales	2, 3	4,742.9	4,750.9
Cost of goods sold		–1,856.5	–1,937.1
Gross profit	**6**	**2,886.4**	**2,813.8**
Selling expenses	6	–2,468.9	–2,486.8
Administrative expenses	6	–145.4	–150.2
Other operating income		–	75.5
Operating profit/loss	4, 5, 6	**272.1**	**252.3**
Financial income	7, 23	0.4	0.1
Financial expenses	7, 23	–68.1	–87.3
Total net financial expense	7	**–67.7**	**–87.2**
Profit/loss before tax		**204.4**	**165.1**
Taxes	8	–75.1	–74.0
Net profit for the year		**129.3**	**91.1**
Earnings per share			
before dilution (SEK)		1.72	1.32
after dilution (SEK)		1.71	1.32
average number of outstanding shares in issue		75,040,000	68,474,000

STATEMENTS OF COMPREHENSIVE INCOME

Amount, SEK million	Note	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Net profit for the year		**129.3**	**91.1**
Items not to be recognised in income			
Actuarial gains/losses		–21.4	8.7
Tax effect	8	4.7	–2.3
Total items not to be recognised in income		**–16.7**	**6.4**
Items to be recognised in income			
Year's translation differences		3.0	–0.6
Cash flow hedges – value change	17	3.0	54.8
Cash flow hedges recognised in income	17	13.6	6.4
Tax effect	8	–3.7	–16.1
Total items to be recognised in income		**15.9**	**44.5**
Total comprehensive income attributable to parent company's shareholders		**128.5**	**142.0**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

Net sales
Net sales amounted to SEK 4,743 (4,751) million, a decrease of 0.2 per cent.

The decrease consists of new and closed stores, –0.1 per cent, development in stores that are comparable between years, 0.3 per cent and translation differences in foreign currency, –0.4 per cent.

Gross profit
Gross profit is SEK 2,886 (2,814) million, an increase of SEK 72 million. The gross margin is 60.8 per cent, compared with 59.2 per cent in the previous year. The higher margin is mainly due to a higher percentage of full price sales.

Operating result
The operating profit is SEK 272 (252) million, an increase of SEK 20 million. The operating margin is 5.7 per cent. Selling and administrative expenses have decreased by SEK 23 million. The selling and administrative expenses for the year include non-recurring costs of SEK 23 million, compared with SEK 26 million in the previous year. The cost refers to closing down stores. Other operating income amounts to SEK – (76) million. The previous year's other operating income refers to sale of real property.

Profit/loss before tax
Profit before tax is SEK 204 (165) million, which is an improvement compared with the previous year of SEK 39 million. Net financial items amount to SEK –68 (–87) million, which is an improvement compared with the previous year of SEK 19 million. Financial expenses for the year include costs of SEK 33 million referring to interest swaps that are no longer part of an effective hedging relationship; see Note 17.

Taxes
The effective tax rate for the financial year is 36.7 (44.9) per cent. The reason for the high tax cost is that the company is not reporting any deferred tax for losses in Poland, the Czech Republic and Finland of SEK –20 (–40) million; see Note 8.

Earnings per share
Earnings per share are restated for comparison periods. The number of shares has been adjusted to allow for the previous year's rights issue and reverse split. The company has issued warrants that can have a dilution effect on the earnings per share. During the year these potential shares were included in the calculations since they gave rise to a dilution effect during the period.

CONSOLIDATED BALANCE SHEETS

Amounts in SEK million	Note	31/8/2014	31/8/2013
ASSETS			
Non-current assets			
Intangible assets	9	1,342.3	1,337.6
Property, plant and equipment	10	411.6	430.6
Deferred tax assets	8	22.4	89.9
Total non-current assets		**1,776.3**	**1,858.1**
Current assets			
Inventories	11	733.1	721.7
Trade receivables	17	4.9	2.8
Current tax assets	8	9.1	28.7
Prepaid expenses and accrued income	12	95.7	99.7
Other receivables	17	32.1	27.7
Cash and cash equivalents	17	43.4	57.9
Total current assets		**918.3**	**938.5**
Total assets		**2,694.6**	**2,796.6**
EQUITY AND LIABILITIES			
Equity			
Share capital		64.3	64.3
Other contributed capital		1,111.2	1,111.2
Reserves		–5.2	–21.1
Retained earnings including profit for the year		339.9	227.3
Total equity		**1,510.2**	**1,381.7**
Liabilities			
Non-current liabilities			
Other interest-bearing liabilities	13, 17	–	603.5
Derivative financial instruments	17	–	19.7
Provisions for pensions and similar obligations	14	53.5	40.3
Deferred tax liabilities	8	29.3	27.3
Total non-current liabilities		**82.8**	**690.8**
Current liabilities			
Interest-bearing liabilities	13, 17	416.5	75.0
Trade payables		233.5	228.0
Current tax liabilities		6.3	0.2
Other liabilities	15, 17	154.3	118.6
Accrued expenses and deferred income	16	291.0	302.3
Total current liabilities		**1,101.6**	**724.1**
Total liabilities		**1,184.4**	**1,414.9**
Total equity and liabilities		**2,694.6**	**2,796.6**
Pledged assets	20	2,897.3	2,735.7
Contingent liabilities	20	0.5	0.5

COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

Non-current assets
Intangible assets consist mainly of goodwill, SEK 696 million, and trademarks, SEK 610 million. Impairment tests are carried out annually or more often if warranted. No impairment loss was recorded on property, plant and equipment during the year. Impairment loss of SEK 6 million was recorded in the previous year.

Current assets
Inventories
Inventories are recorded at the lower of cost or net realisable value. Inventories increased by SEK 11 (–29) million between the years. In total the size and composition of the inventories are assessed to be satisfactory in relation to expected sales.

Equity
The change in equity is SEK 129 (516) million and consists of the year's total comprehensive income.

Non-current liabilities
Long-term liabilities were reclassified as current liabilities when a new banking agreement was signed in autumn 2014. A reclassification was also made of long-term interest rate derivatives to be included in other current liabilities. The reduction of debts consists partly of amortisation as well as reduced utilisation of overdraft facilities, SEK 262 (380) million.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Amount, SEK million	Share capital	Other contributed funds	Hedging reserve[1]	Currency translation reserve[2]	Retained earnings including profit for the year	Total equity
	Equity attributable to the parent company's shareholders					
Opening equity, 1/9/2012	**32.2**	**769.6**	**–45.7**	**–19.9**	**129.8**	**866.0**
Net profit for the year	–	–	–	–	91.1	91.1
Other comprehensive income						
Cash flow hedges – value change	–	–	54.8	–	–	54.8
Year's translation differences	–	–	6.4	–	–	6.4
Actuarial gains/losses	–	–	–	–0.6	–	–0.6
Tax effect attributable to items in other comprehensive income	–	–	–	–	8.7	8.7
Total comprehensive income	–	–	–16.1	–	–2.3	–18.4
Transactions with shareholders	**–**	**–**	**45.1**	**–0.6**	**97.5**	**142.0**
Options plan						
New issue	32.1	350.3	–	–	–	382.4
Transaction costs for rights issue	–	–11.8	–	–	–	–11.8
Tax attributable to transactions for rights issue	–	3.1	–	–	–	3.1
Total transactions with shareholders	**32.1**	**341.6**	**–**	**–**	**–**	**373.7**
Closing equity, 31/8/2013	**64.3**	**1,111.2**	**–0.6**	**–20.5**	**227.3**	**1,381.7**

Amount, SEK million	Share capital	Other contributed funds	Hedging reserve[1]	Currency translation reserve[2]	Retained earnings including profit for the year	Total equity
	Equity attributable to the parent company's shareholders					
Opening equity, 1/9/2013	**64.3**	**1,111.2**	**–0.6**	**–20.5**	**227.3**	**1,381.7**
Net profit for the year	–	–	–	–	129.3	129.3
Other comprehensive income						
Cash flow hedges – value change	–	–	3.0	–	–	49.1
Cash flow hedges recognised in income	–	–	13.6	–	–	–32.5
Year's translation differences	–	–	–	3.0	–	3.0
Actuarial gains/losses	–	–	–	–	–21.4	–21.4
Tax effect attributable to items in other comprehensive income	–	–	–3.7	–	4.7	1.0
Total comprehensive income	**–**	**–**	**12.9**	**3.0**	**112.6**	**128.5**
Transactions with shareholders	**–**	**–**	**–**	**–**	**–**	**–**
Closing equity, 31/8/2014	**64.3**	**1,111.2**	**12.3**	**–17.5**	**339.9**	**1,510.2**

[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 STATEMENTS OF CASH FLOW

Amount, SEK million	Note	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Operating activities			
Profit/loss before tax		204.4	165.1
Adjustment for non-cash items	23	107.1	76.6
Income tax paid	8	21.2	–44.0
Cash flow from operating activities before changes in working capital		**332.7**	**197.7**
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in inventories		–11.4	29.5
Decrease (+)/Increase (–) in operating receivables		–1.0	–6.9
Decrease (–)/Increase (+) in operating liabilities		25.4	9.2
Cash flow from operating activities		**345.7**	**229.5**
Investing activities			
Purchases of property, plant and equipment		–79.5	–93.2
Sale of real property		–	487.0
Acquisitions of intangible fixed assets		–18.9	–2.2
Cash flow from investing activities		**–98.4**	**391.6**
Financing activities			
Rights issue		–	373.7
Amortisation of debt		–75.0	–869.3
Decrease (–)/Increase (+) in bank overdraft facilities		–186.8	–113.9
Cash flow from financing activities		**–261.8**	**–609.5**
Cash flow for the year		**–15.5**	**11.2**
Cash and cash equivalents at beginning of the year		57.9	46.3
Exchange rate differences in cash and cash equivalents		1.0	0.4
Cash and cash equivalents at end of the year		**43.4**	**57.9**

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENTS

Cash flow from operating activities before changes in working capital
On the line 'Adjustment for non-cash items' the largest item refers to depreciation, SEK 128 (141) million.

Cash flow from changes in working capital
The cash flow from the changes in working capital gives a net impact on cash flow of SEK 13 (32) million. The change is mainly attributable to operating liabilities.

Cash flow from investing activities
Cash flow from investing activities has resulted in payments totalling SEK 98 (95) million. Investments for the year refer mainly to new stores and existing store conversions.

Cash flow from financing activities
Cash flow from financing activities is SEK –262 (–610) million. The year's change refers to amortisation and reduced use of overdraft facilities.

Translation differences in cash and cash equivalents are SEK 1 (–) million in the cash flow statement above.

PARENT COMPANY INCOME STATEMENTS

Amount, SEK million	Note	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Net sales		19.2	22.6
Cost of goods sold		–	–
Gross profit		**19.2**	**22.6**
Other operating expenses		–29.7	–35.9
Operating profit/loss	4, 5	**–10.5**	**–13.3**
Profit from financial items			
Profit from participations in subsidiaries	7	103.5	90.8
Group contribution received	7	71.4	111.5
Other interest income and similar profit/loss items	7, 23	22.3	22.1
Interest expense and similar profit/loss items	7, 23	–92.3	–101.4
Profit after financial items		**104.9**	**123.0**
Appropriations		8.0	–
Profit/loss before tax		**102.4**	**109.7**
Taxes	8	–2.6	–2.6
Net profit for the year		**99.8**	**107.1**

STATEMENTS OF COMPREHENSIVE INCOME

Amount, SEK million	Note	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Net profit for the year		**99.8**	**107.1**
Items to be recognised in income			
Cash flow hedges – value change	17	–12.8	18.0
Cash flow hedges recognised in income	17	32.5	6.4
Tax effect	8	–4.0	–6.4
Total items to be recognised in income		**15.7**	**18.0**
Total other comprehensive income		**115.5**	**125.1**

PARENT COMPANY BALANCE SHEET STATEMENTS

Amount, SEK million	Note	31/8/2014	31/8/2013
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	22	3,049.3	2,913.2
Deferred tax assets	8	–	6.9
Total financial assets		**3,049.3**	**2,920.1**
Total non-current assets		**3,049.3**	**2,920.1**
Current assets			
Current receivables			
Receivables from group companies		313.5	682.1
Tax asset		1.6	1.0
Prepaid expenses and accrued income	12	0.7	0.9
Other receivables		–	0.2
Cash and cash equivalents		76.6	–
Total current receivables		**392.4**	**684.2**
Total current assets		**392.4**	**684.2**
Total assets		**3,441.7**	**3,604.3**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (75,040,000 shares at SEK 0.86)		64.3	64.3
Statutory reserve		205.1	205.1
Total restricted equity		**269.4**	**269.4**
Non-restricted equity			
Share premium reserve		906.1	906.1
Fair value reserve		–	–15.7
Retained earnings including profit for the year		1,311.8	1,212.0
Total non-restricted equity		**2,217.9**	**2,102.4**
Total equity		**2,487.3**	**2,371.8**
Untaxed reserves		**–**	**8.0**
Non-current liabilities			
Other interest-bearing liabilities	13	–	1,000.0
Derivative financial instruments	17	–	19.7
Total non-current liabilities		**–**	**1,019.7**
Current liabilities			
Other interest-bearing liabilities	13	813.9	75.0
Trade payables		0.3	1.2
Liabilities to group companies		92.2	89.6
Other liabilities		34.5	3.6
Accrued expenses and deferred income	16	13.5	35.4
Total current liabilities		**954.4**	**204.8**
Total equity and liabilities		**3,441.7**	**3,604.3**
Pledged assets	20	3,049.3	2,913.2
Contingent liabilities	20	None	None

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

SEK million	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings including profit for the year	Total equity
Opening equity, 1/9/2012	**32.2**	**205.1**	**564.5**	**–33.7**	**1,104.9**	**1,873.0**
Net profit for the year	–	–	–	–	107.1	107.1
Other comprehensive income						
Cash flow hedges – value change	–	–	–	18.0	–	18.0
Tax attributable to cash flow hedges	–	–	–	6.4	–	6.4
Total comprehensive income	–	–	–	–6.4	–	–6.4
Transactions with shareholders	**–**	**–**	**–**	**18.0**	**107.1**	**125.1**
New issue	**–**	**–**	**–**	**–**	**–**	**–**
Transaction costs for rights issue	32.1	–	350.3	–	–	382.4
Tax attributable to transactions for rights issue	–	–	–11.8	–	–	–11.8
Options plan	–	–	3.1	–	–	3.1
Total transactions with shareholders	**32.1**	**–**	**341.6**	**–**	**–**	**373.7**
Closing equity, 31/8/2013	**64.3**	**205.1**	**906.1**	**–15.7**	**1,212.0**	**2,371.8**

SEK million	Share capital	Statutory reserve	Share premium reserve	Fair value reserve	Retained earnings including profit for the year	Total equity
Opening equity, 1/9/2013	**64.3**	**205.1**	**906.1**	**–15.7**	**1,212.0**	**2,371.8**
Net profit for the year	–	–	–	–	99.8	99.8
Other comprehensive income						
Cash flow hedges – value change	–	–	–	–12.8	–	52.2
Cash flow hedges recognised in income				32.5	–	–32.5
Tax attributable to cash flow hedges	–	–	–	–4.0	–	–4.0
Total comprehensive income	**–**	**–**	**–**	**15.7**	**99.8**	**115.5**
Transactions with shareholders	**–**	**–**	**–**	**–**	**–**	**–**
Closing equity, 31/8/2014	**64.3**	**205.1**	**906.1**	**–**	**1,311.8**	**2,487.3**

[1] The share premium reserve consists of the part of the price at the time of the new issue that exceeds the nominal value.
[2] The fair value reserve includes the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to the flows that have not yet occurred.

HISTORY OF NUMBER OF SHARES AND SHARE CAPITAL

	Number of shares	Carrying amount
1/1/2005	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, January 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	–
Closing amounts, 31 August 2014	**75,040,000**	**64,320,000**

PARENT COMPANY CASH FLOW STATEMENTS

Amount, SEK million	Note	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Operating activities			
Profit/loss before tax		102.5	109.7
Adjustment for non-cash items	23	–182.9	–202.2
Income tax paid		–0.6	–2.6
Cash flow from operating activities before changes in working capital		**–81.0**	**–95.1**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) of operating receivables		463.5	–234.6
Increase (+)/Decrease (–) in operating liabilities		–44.7	–115.5
Cash flow from operating activities		**337.8**	**–445.2**
Investing activities			
Sale of subsidiaries		–	487.0
Capital injection to subsidiaries		–	–36.8
Cash flow from investing activities		**–**	**450.2**
Financing activities			
Rights issue		–	373.7
Amortisation of debt	17	–72.9	–869.3
Decrease (–)/Increase (+) in bank overdraft facilities	17	–188.3	490.6
Cash flow from financing activities		**–261.2**	**–5.0**
Cash flow for the year		**76.6**	**0.0**
Cash and cash equivalents at beginning of the year		0.0	0.0
Cash and cash equivalents at end of the year		**76.6**	**0.0**

NOTES TO THE FINANCIAL STATEMENTS

Contents

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 judgement, which are complex or of such a nature that assumptions and estimates are critical to the consolidated accounts are specified in note 24.

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

NEW AND AMENDED ACCOUNTING POLICIES

The standards that the Group is applying for the first time for the financial year starting on 1 September 2013 and that have a material impact on the Group's financial statements are presented below:

In IAS 1, ”Presentation of financial statements”, an amendment concerning other comprehensive income has been added. The most material change in the amended IAS 1 is the requirement that items recorded in ”other comprehensive income” should be presented in two groups. The grouping is to be based on whether or not they are potentially reclassifiable to profit or loss.

IAS 19 ”Employee benefits” contains several amendments and the most material refers to recognition of defined benefit pension plans and plan assets. The amendments require that actuarial gains and losses are recognised directly via other comprehensive income. The Group already recognises actuarial gains and losses via comprehensive income and consequently has not been significantly impacted by the amendments to IAS 19. The amendments also entail using the interest rate for calculation of pension provision also for calculating yield on pension assets.

IFRS 7 ”Financial instruments” implies extended disclosure requirements for financial instruments covered by legally binding framework agreements on netting or similar agreements. The application of the new standard has not had any impact on the Group's results or financial position. Nor has the standard affected the disclosures in the financial statements.

IFRS 13 ”Fair Value Measurement” establishes a framework for measuring fair value when such a measurement must or may be used under other standards. IFRS 13 also clarifies what the term fair value refers to and states that disclosure must be made concerning the valuation models applied and the data used in them. IFRS 13 has only impacted the presentation and disclosures in the financial statements.

None of the other IFRS or IFRIC interpretations that are compulsory for the first time for the financial year starting in September 2013 have had any material impact on the Group during the financial year.

NEW AND AMENDED STANDARDS EFFECTIVE FROM 2014 ONWARDS

A number of new standards and amendments of interpretations and existing standards come into force for the financial year starting after 1 September 2014 and have not been applied when preparing the Group's financial statements. None of these are expected to have any material effect on the Group's financial statements with the exception of:

IFRS 10 "Consolidated Financial Statements" replaces the section in IAS 27 that deals with preparation of consolidated accounts. The rules on how consolidated accounts must be prepared have not changed. The change rather refers to further guidance on how a company is to go about determining the existence of a controlling influence and thus whether a company should be consolidated. IFRS 10 will have an impact on the financial statements prepared in terms of which companies should be consolidated and on what grounds. IFRS 10 is to be applied to the financial year starting after 1 September 2014.

IFRS 12 "Disclosure of interests in other entities" covers disclosure requirements for subsidiaries, joint arrangements, associated companies and unconsolidated structured entities. The Group intends to apply IFRS 12 in the financial year starting on 1 September 2014. The standard will entail additional disclosure requirements.

IFRIC 21, "Levies", clarifies recognition of a liability to pay a levy or charge that is not income tax. The interpretation identifies the obligating event that triggers the liability to pay a levy or charge and thus when a liability is to be recognized. The Group is currently not exposed to any material levies or charges that are not income tax and thus this interpretation has no material impact on the Group.

In coming periods the Group must assess the effects that IFRS 15 Revenue from Customer contracts and IFRS 9 Financial Instruments may give rise to. These standards are to be applied as of 1 January 2017 and 1 January 2018.

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

Subsidiaries

Subsidiaries are entities over which KappAhl AB (publ) has a controlling influence. Controlling influence means having the direct or indirect right to formulate a company's financial and operative strategies for the purpose of making financial gains. The purchase method is used to account for subsidiaries. The purchase method means that the acquisition of a subsidiary is regarded as a transaction by which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and contingent liabilities. The consolidated cost of acquisition is established through an acquisition analysis in connection with the business combination. This analysis establishes both the cost of acquisition of the shares or business, and the fair value of the identifiable acquired assets and assumed liabilities and contingent liabilities. The difference between the cost of acquisition of the subsidiary's shares and the fair value of the acquired assets, assumed liabilities and contingent liabilities is recorded as goodwill.

The consolidated cost of acquisition (transferred consideration) is not included in transaction costs, which are recognised directly in the income statement.

The subsidiaries' financial statements are included in the consolidated accounts from the date of their acquisition to the date on which the controlling influence ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Gains and losses resulting from inter-company transactions reported under assets are also eliminated.

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 the translation reserve via other comprehensive income. 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 recognised at the fair value of the consideration received or receivable, less any discounts given.

All sales are made on a 30-day sale-or-return basis. Recognition in revenue is at the time of sale taking into account sale-or-return by recording a provision for returned goods and complaints. The provision is based on sales statistics and an assessment of future complaints and returns, and is made in the same period as the sale.

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

The Group classifies its financial instruments in the following categories: financial assets/liabilities at fair value through profit or loss, loans and receivables and other financial liabilities. The management determines the classification of financial instrument when it is first reported.

(a) Financial assets/liabilities at fair value through profit or loss

Financial assets/liabilities at fair value through profit or loss are financial assets/liabilities held for trading. A financial asset/liability is classified in this category if acquired principally for the purpose of selling/settling in the short term. Derivatives are classified as held for trading if they are not identified as hedges in an effective hedging relationship. Assets in this category are classified as current assets if they are expected to be settled within twelve months; otherwise they are classified as non-current assets.

(b) Loans and trade receivables,

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the close of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise Trade and other receivables and Cash and cash equivalents in the balance sheet.

(c) Other financial liabilities

Other financial liabilities refer to financial liabilities that are not found in the categories above and in the Group this category consists of trade payables and interest-bearing liabilities.

The classification depends on the intention of the acquirer of the financial instrument. KappAhl has the following categories:

Trade receivables
Trade receivables are classified in a separate category. Trade receivables are reported in the amount expected to be paid in after deduction for individually assessed doubtful receivables. The expected life of trade receivables is short; consequently they are recorded at nominal amounts without discount. Impairment losses in trade receivables are recorded in operating expenses.

Interest-bearing liabilities
Financial liabilities that are not held for trading are recorded at amortised cost. Amortised cost is determined on the basis of the effective interest calculated when the liability was recognised.

Long-term and other receivables and other short-term liabilities
Derivatives used for hedge accounting are reported in the balance sheet under the appropriate headings. All derivatives are stated at fair value in the balance sheet. For cash flow hedging, value changes are recorded in other comprehensive income. Value changes are recorded in special components of equity until the hedged item is recognised in the income statement. Hedge accounting is described in more detail below.

Trade payables
Trade payables are classified as other financial liabilities. The expected life of trade payables is short; consequently they are recorded at nominal amounts without discount.

DERIVATIVES AND HEDGE ACCOUNTING
Derivatives are currency forwards, currency options, 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 17.

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 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 instrument's 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.

Borrowing costs
Borrowing costs for acquisition of qualifying non-current assets are capitalised.

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 the 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
Trademarks acquired by KappAhl are recorded at cost of acquisition minus accumulated impairment. The KappAhl brand has existed for 50 years and has been gradually strengthened over the years, first through distribution in Sweden and then in other countries. The company has for many years been seeing a trend whereby the type of chain concept represented by KappAhl has been increasing its market share. Based on KappAhl's own growth and the general trends on the market, the brand is expected to endure for many years to come and is therefore believed to have an indefinite useful life. The value of the brand is not amortised but is tested annual 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 estimated cost of completion and for achieving a sale.

The cost of acquisition of inventories is calculated using the first-in, first-out method and includes costs incurred in connection with the acquisition of the inventory items and transportation to their current location.

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, as well as short-term investments with original maturity of less than three months and which are only exposed to a marginal risk of fluctuations in value.

IMPAIRMENT OF ASSETS
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 14. 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.

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. Where the company has made an offer to encourage voluntary redundancy, calculation of the termination benefit is based on the number of employees estimated to accept the offer. Benefits falling due more than 12 months after the close of the reporting period are discounted to present value.

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 recognised 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.

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 and given to subsidiaries are reported as financial income or expense.

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 | 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 3 | Net sales

Net sales by geographical market

Group SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Sweden	2,552.3	2,506.1
Norway	1,225.6	1,262.8
Finland	603.4	604.0
Poland	350.5	349.7
Czech Republic	11.1	28.3
Total	**4,742.9**	**4,750.9**

Non-current assets by geographical market

Group SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Sweden	225.9	261.9
Norway	108.8	94.7
Finland	46.8	43.5
Poland	66.6	61.9
Czech Republic	–	0.1
Total	**448.1**	**462.1**

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

NOTE 4 | Employees and staff costs

Average number of employees

	1/9/2013 31/8/2014	Of which men	1/9/2012 31/8/2013	Of which men
Parent company				
Sweden	7	57.1%	9	55.6%
Total parent company	**7**	**57.1%**	**9**	**55.6%**
Subsidiaries				
Sweden	1,418	11.0%	1,432	8.3%
Norway	623	2.0%	628	2.0%
Finland	377	1.0%	360	1.0%
Poland	390	4.0%	422	5.0%
Czech Republic	0	0.0%	26	12.2%
Asia	145	37.0%	145	37.1%
Total, subsidiaries	**2,953**	**6.5%**	**3,013**	**6.7%**
Group, total	**2,960**	**6.4%**	**3,022**	**6.7%**

Gender breakdown of company management

	31/8/2014 Percentage of women	31/8/2013 Percentage of women
Parent company		
Board of Directors	40.0%	57.0%
Other senior executives	50.0%	50.0%
Group, total		
Board of Directors	55.5%	57.0%
Other senior executives	53.3%	50.0%

Note 4 cont.

Salaries, other remuneration and social security expenses

	1/9/2013–31/8/2014		1/9/2012–31/8/2013	
SEK million	Salaries and remuneration	Social security costs	Salaries and remuneration	Social security costs
Parent company	**16.2**	**10.1**	**19.8**	**11.5**
(of which pension costs)		4.0		4.0
Subsidiaries	**913.5**	**252.8**	**906.6**	**255.8**
(of which pension costs)		41.9		42.4
Group, total	**929.7**	**262.9**	**926.4**	**267.3**
(of which pension costs)*		45.9		46.4

* The Group's pension costs include SEK 1.1 (1.2) million for the Board of Directors and the President. For a complete summary of remuneration and other benefits to the Board of Directors, President and Management Team, please see below.

Note 4 cont.

Salaries and other remuneration by country and between board members etc. and other employees

SEK million	1/9/2013–31/8/2014 Board and President	1/9/2013–31/8/2014 Other employees	1/9/2012–31/8/2013 Board and President	1/9/2012–31/8/2013 Other employees
Parent company				
Sweden	7.0	9.2	6.1	13.7
(of which bonus etc.)	0.8	1.9	0.9	1.3
Total parent company	**7.0**	**9.2**	**6.1**	**13.7**
(of which bonus etc.)	0.8	1.9	0.9	1.3
Subsidiaries in Sweden	–	501.0	–	502.6
(of which bonus etc.)	–	–	–	–
Foreign subsidiaries				
Norway	2.3	245.4	2.3	241.5
(of which bonus etc.)	–	–	–	–
Finland	1.8	93.8	1.6	88.1
(of which bonus etc.)	–	–	–	–
Poland	0.8	36.0	0.8	37.9
(of which bonus etc.)	–	–	–	–
Czech Republic	0.0	1.5	0.0	2.9
(of which bonus etc.)	–	–	–	–
Asia	1.9	29.0	1.8	27.1
(of which bonus etc.)	–	–	–	–
Total, subsidiaries	**6.8**	**906.7**	**6.5**	**900.1**
(of which bonus etc.)	–	–	–	–
Group, total	**13.8**	**915.9**	**12.6**	**913.8**
(of which bonus etc.)	0.8	1.9	0.9	1.3

Of the salaries and remuneration paid to other employees in the Group, SEK 7 (12) 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 receives severance pay equivalent to 18 months' salary, 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 14. For information on warrants to senior executives, please see page 42 and page 81.

Benefits for senior executives

Remuneration and other benefits during the year

SEK MILLION	1/9/2013–31/8/2014 Basic salary/ Board fee	Variable remuneration	Pension cost	Total	1/9/2012–31/8/2013 Basic salary/ Board fee	Variable remuneration	Pension cost	Total
Chairman of the Board Anders Bülow	0.4	–	–	0.4	0.3	–	–	0.3
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)	0.2	–	–	0.2	–	–	–	–
Board member Amelia Adamo	0.2	–	–	0.2	0.2	–	–	0.2
Board member Paul Frankenius (to 30 June 2014)	0.1	–	–	0.1	0.2	–	–	0.2
Board member Sonat Burman-Olsson (to 30 November 2013)	0.1	–	–	0.1	0.3	–	–	0.3
Other (4 board members)	0.1	–	–	0.1	0.1	–	–	0.1
President	4.7	0.8	1.1	6.6	3.7	0.9	1.2	5.8
Management Team (6 people)	7.3	1.9	2.9	12.1	12.4	1.3	2.8	16.5
Total	**13.5**	**2.7**	**4.0**	**20.2**	**17.6**	**2.2**	**4.0**	**23.8**

NOTE 5 | Fees and remuneration to auditors

	Group		Parent company	
SEK million	1/9/13 31/8/14	1/9/12 31/8/13	1/9/13 31/8/14	1/9/12 31/8/13
Ernst & Young AB				
Audit assignments	1.0	1.3	0.1	0.2
Other review assignments	0.2	0.2	0.1	0.2
Tax consultancy	0.2	0.1	0.2	–
Other services	0.3	0.4	–	–
Total	**1.7**	**2.0**	**0.4**	**0.4**
Other auditors				
Audit assignments	0.1	0.1	–	–
Other review assignments	0.0	0.0	–	–
Tax consultancy	0.1	0.1	0.1	0.1
Other services	0.2	0.1	0.1	0.1
Total	**0.4**	**0.3**	**0.2**	**0.2**

'Audit assignments' refers to audit of the annual report and accounts as well as the Board of Directors and CEO's administration of the company, other tasks that are the responsibility of the company's auditors, as well as advice or other assistance relating to observations made during the audit assignments or while performing tasks of a similar nature. Other review assignments refer to examination of the mid-year financial statements and certificates for turnover rents. By tax consultancy is meant advisory services related to taxes, VAT and employee withholding taxes. Everything else is classed as 'Other assignments'.

NOTE 6 | Operating expenses

Group SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Raw materials and supplies	1,747.0	1,828.5
Personnel costs	1,147.2	1,094.4
Depreciation and impairment	128.5	144.5
Impairment of assets	–	6.4
Reversal of impairment losses	–8.5	–10.3
Other operating expenses	1,456.6	1,510.6
Total	**4,470.8**	**4,574.1**

NOTE 7 | Financial income and expense

Group

SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Loans and loan receivables		
Interest income	0.4	0.1
Loans and loan receivables	**0.4**	**0.1**
Financial liabilities recorded at amortised cost		
Interest expense	–30.7	–73.1
Other financial expenses	–4.9	–7.8
Financial liabilities recorded at amortised cost	**–35.6**	**–80.9**
Financial liabilities at fair value through profit or loss		
Interest rate derivatives – ineffective hedging relationship	–32.5	–6.4
Financial liabilities at fair value through profit or loss	**–32.5**	**–6.4**
Total net financial expense	**–67.7**	**–87.2**

Parent company

SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Profit from participations in subsidiaries		
Dividends from subsidiaries	103.5	–
Sale of subsidiaries	–	90.8
Group contribution received	71.4	111.5
Profit from participations in subsidiaries	**174.9**	**202.3**
Loans and loan receivables		
Interest income	22.3	22.1
Loans and loan receivables	**22.3**	**22.1**
Financial liabilities recorded at amortised cost		
Interest expense	–54.6	–87.2
Other financial expenses	–5.2	–7.8
Financial liabilities recorded at amortised cost	**–59.8**	**–95.0**
Financial liabilities at fair value through profit or loss		
Interest rate derivatives not part of an effective hedging relationship	–32.5	–6.4
Financial liabilities at fair value through profit or loss	**–32.5**	**–6.4**
Total net financial expense	**104.9**	**123.0**

NOTE 8 | Taxes

Reported in the income statement

Group **SEK million**	**1/9/2013** **31/8/2014**	**1/9/2012** **31/8/2013**
Current tax expense (–)		
Current tax on profit for the year	–6.4	–1.6
Adjustment of tax relating to previous years	–0.5	–
Deferred tax expense (–) /tax credit (+)		
Effect of changed tax rate	–	–4.1
Deferred tax relating to temporary differences	–1.0	83.8
Deferred tax in change in loss carry-forwards	–64.6	–152.2
Other changes in deferred tax assets	–2.6	–
Total reported tax in the Group	**–75.1**	**–74.1**
Tax reported in other comprehensive income		
Cash flow hedges – value change	–3.7	–13.5
Translation differences	–	–
Actuarial gains/losses	4.7	–1.9
Effect of changed tax rate	–	–3.0
Total tax reported in other comprehensive income	**1.0**	**–18.4**

Parent company **SEK million**	**1/9/2013** **31/8/2014**	**1/9/2012** **31/8/2013**
Current tax credit (+)		
Tax credit for the period	–	–
Deferred tax expense (–) /tax credit (+)		
Deferred tax due to capitalised tax value in loss carry-forwards during the year	–	–2.6
Other changes in deferred tax assets	–2.6	–
Total reported tax in the parent company	**–2.6**	**–2.6**
Tax reported in other comprehensive income		
Cash flow hedges – value change	–4.0	–5.6
Effect of changed tax rate	–	–0.8
Total tax reported in other comprehensive income	**–4.0**	**–6.4**

Reconciliation of effective tax

Group **SEK million**	**1/9/2013** **31/8/2014** **(%)**	**1/9/2013** **31/8/2014**	**1/9/2012** **31/8/2013** **(%)**	**1/9/2012** **31/8/2013**
Profit/loss before tax		204.4		165.1
Tax at effective tax rate for parent company	–22.0	–45.0	–26.3	–43.4
Effect of other tax rates for foreign subsidiaries	–2.6	–5.3	–5.8	–9.6
Expenses not deductible for tax purposes	–0.6	–1.3	–0.9	–1.4
Non-taxable revenue	–	–	13.4	22.1
Tax deductible expenses recognised directly in equity	–	–	1.9	3.1
Notional interest referring to tax allocation reserve	–0.1	–0.1	–0.6	–0.9
Losses for which no loss carry-forwards have been reported	–9.9	–20.3	–24.2	–40.0
Adjustment of current tax for previous periods	–1.5	–	–	–
Effect of changed tax rate	–	–3.1	–2.5	–4.1
Other	–	–	0.1	0.2
Effective tax	**–36.7**	**–75.1**	**–44.9**	**–74.0**

Parent company **SEK million**	**1/9/2013** **31/8/2014** **(%)**	**1/9/2013** **31/8/2014**	**1/9/2012** **31/8/2013** **(%)**	**1/9/2012** **31/8/2013**
Profit/loss before tax		102.5		109.7
Tax at effective tax rate for parent company	–22.0	–22.6	–26.3	–28.9
Non-taxable revenue	22.2	22.8	21.8	23.9
Expenses not deductible for tax purposes	–0.1	–0.1	–0.7	–0.7
Notional interest referring to tax allocation reserve	–0.1	–0.1	–	–
Tax deductible expenses recognised directly in equity	–	–	2.8	3.1
Adjustment of current tax for previous periods	–2.5	–2.6	–	–
Effective tax	**–2.5**	**–2.6**	**–2.4**	**–2.6**

Note 8 cont.

Reported in the balance sheet
Deferred tax assets and liabilities

Group SEK million	Net 31/8/2014	 31/8/2013
Market value of derivatives	–	4.4
Carry-forward of unused tax losses	119.1	187.7
Other tax-deductible temporary differences	71.4	72.0
Deferred tax assets	**190.5**	**264.1**
Netting against deferred tax liability	–168.1	–174.3
Total deferred tax assets	**22.4**	**89.8**
Market value of derivatives	–3.5	–4.3
Accelerated depreciation on property, plant and equipment	–20.1	–19.5
Untaxed reserves	–	–1.8
Trademarks	–134.2	–134.2
provisions	–	–1.6
Other taxable temporary differences	–39.6	–40.3
Deferred tax liabilities	**–197.4**	**–201.7**
Netting against deferred tax asset	168.1	174.3
Total deferred tax liability	**–29.3**	**–27.4**

Deferred tax assets referring to tax loss carry-forwards totalling SEK 119 million arose in previous years in connection with the acquisition of three companies with tax loss carry-forwards. Swedish taxes are netted against deferred tax assets of SEK 168 million. The tax loss carry-forwards are expected to be applied in their entirety against estimated future tax surpluses generated, which justifies the valuation of the loss carry-forwards on the balance sheet. Accumulated unmeasured loss carry-forwards amount to SEK 521 million (tax effect of SEK 100 million) and refer mainly to operations in Poland, the Czech Republic and Finland.

Parent company	Deferred tax assets		Deferred tax liabilities		Net	
SEK million	**31/8/2014**	**31/8/2013**	**31/8/2014**	**31/8/2013**	**31/8/2014**	**31/8/2013**
Derivatives for hedge accounting	–	4.3	–	–	–	4.3
Carry-forward of unused tax losses	–	–	–	–	–	–
Other tax-deductible temporary differences	–	2.6	–	–	–	2.6
Deferred tax asset/deferred tax liability	**–**	**6.9**	**–**	**–**	**–**	**6.9**
Tax assets/liabilities, net	**–**	**6.9**	**–**	**–**	**–**	**6.9**

The parent company's changes between the years have been reported as deferred tax expense/credit.

NOTE 9 | Intangible assets

Group

SEK million	Computer software	Trademarks	Tenancy rights	Goodwill	Total
Opening balance, 1 September 2012					
Purchases	132.7	610.2	48.8	695.8	1,487.5
Sales/retirements	2.6	–	–	–	2.6
Translation differences	–0.6	–	–	–	–0.6
Closing balance, 31 August 2013	1.1	–	–	–	1.1
Opening balance, 1 September 2013	**135.8**	**610.2**	**48.8**	**695.8**	**1,490.6**
Purchases	135.8	610.2	48.8	695.8	1,490.6
Sales/retirements	18.6	–	–	–	18.6
Translation differences	–0.1	–	–	–	–0.1
Closing balance, 31 August 2014	–0.8	–	–	–	–0.8
Depreciation/amortization and impairment	**153.5**	**610.2**	**48.8**	**695.8**	**1,508.3**
Opening balance, 1 September 2012					
Depreciation for the year	–93.9	–0.2	–46.1	–	–140.2
Sales/retirements	–9.9	–	–2.5	–	–12.4
Translation differences	0.6	–	–	–	0.6
Closing balance, 31 August 2013	–1.0	–	–	–	–1.0
Opening balance, 1 September 2013	**–104.2**	**–0.2**	**–48.6**	**–**	**–153.0**
Depreciation for the year	–104.2	–0.2	–48.6	–	–153.0
Sales/retirements	–9.8	–	–0.2	–	–10.0
Translation differences	0.1	–	–	–	0.1
Closing balance, 31 August 2014	–3.1	–	–	–	–3.1
Carrying amounts	**–117.0**	**–0.2**	**–48.8**	**–**	**–166.0**
As at 31 August 2012	**36.5**	**610.0**	**–**	**–**	**1,342.3**
As at 31 August 2013	**31.6**	**610.0**	**0.2**	**695.8**	**1,337.6**
Per 31/8/2013	**36.5**	**610.0**	**–**	**695.8**	**1,342.3**

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

	Group		Parent company	
SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013	1/9/2013 31/8/2014	2011-09-01 2012-08-31
Administrative expenses	–10.0	–12.4	–	–
Total	**–10.0**	**–12.4**	**–**	**–**

Impairment tests for goodwill and trademark
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 9.6 (10.1) per cent has been used for the calculation. This 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.

Note 9 cont.

Important variables	Method for estimating amounts
Market share and market 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 was strengthened in the past two years and 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 1.6 (2.5) per cent and a risk premium of 8.0 (7.6) per cent. The discount rate is positively affected by the reduction in the company's net debt during the year.

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 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 10 | Property, plant and equipment

Group

SEK million	Land and buildings	Equipment, tools, fixtures and fittings	Total
Cost of acquisition			
Opening balance, 1 September 2012	462.0	2,240.5	2,702.5
Purchases	–	104.9	104.9
Sales/retirements	–447.0	–17.5	–464.5
Translation differences	–	–156.8	–156.8
Closing balance, 31 August 2013	**15.0**	**2,171.1**	**2,186.1**
Opening balance, 1 September 2013	15.0	2,171.1	2,186.1
Purchases	–	79.5	79.5
Sales/retirements	–	–198.9	–198.9
Translation differences	–	65.0	65.0
Closing balance, 31 August 2014	**15.0**	**2,116.7**	**2,131.7**
Depreciation/amortization and impairment			
Opening balance, 1 September 2012	–29.4	–1,790.0	–1,819.4
Depreciation for the year	–1.3	–130.8	–132.1
Impairment losses for the year	–	–6.4	–6.4
Reversal of depreciation/amortisation	–	10.3	10.3
Sales/retirements	30.7	14.6	45.3
Translation differences	–	146.7	146.7
Closing balance, 31 August 2013	**–**	**–1,755.6**	**–1,755.6**
Opening balance, 1 September 2013	–	–1,755.6	–1,755.6
Depreciation for the year	–	–118.5	–118.5
Impairment losses for the year	–	–	–
Reversal of depreciation/amortisation	–	8.5	8.5
Sales/retirements	–	195.0	195.0
Translation differences	–	–49.5	–49.5
Closing balance, 31 August 2014	**–**	**–1,720.1**	**–1,720.1**
Carrying amounts			
As at 31 August 2013	**15.0**	**415.5**	**430.5**
As at 31 August 2014	**15.0**	**396.6**	**411.6**

Carrying amounts	31/8/2014	31/8/2013
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	1/9/2013 31/8/2014	1/9/2012 31/8/2013	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Cost of goods sold	–4.9	–3.8	–	–
Administrative expenses	–2.5	–	–	–
Selling expenses	–102.6	–124.4	–	–
Total	**–110.0**	**–128.2**	**–**	**–**

NOTE 11 | Inventories

Group

SEK million	31/8/2014	31/8/2013
Finished goods and trading goods	733.1	721.7
Total	**733.1**	**721.7**

Inventories are reported according to the principles in Note 1.

NOTE 12 | Prepaid expenses and accrued income

	Group		Parent company	
SEK million	31/8/2014	31/8/2013	31/8/2014	31/8/2013
Prepaid rental costs	74.3	70.1	–	–
Prepaid banking costs	–	6.5	–	–
Other	21.4	23.1	0.7	0.9
Total	**95.7**	**99.7**	**0.7**	**0.9**

NOTE 13 | 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 17.

Group

SEK million	31/8/2014	31/8/2013
Non-current liabilities		
Provisions for pensions and similar obligations	53.5	40.3
Bank loans	–	292.9
Bank overdraft facilities	–	310.6
Total	**53.5**	**643.8**
Current liabilities		
Bank loans	295.0	75.0
Bank overdraft facilities	121.5	–
Total	**416.5**	**75.0**
TOTAL	**470.0**	**718.8**

Parent company

SEK MILLION	31/8/2014	31/8/2013
Non-current liabilities		
Bank loans	–	292.9
Bank overdraft facilities	–	707.1
Total	**–**	**1,000.0**
Current liabilities		
Bank loans	295.0	75.0
Bank overdraft facilities	518.9	–
Total	**813.9**	**75.0**
TOTAL	**813.9**	**1,075.0**

The Group has a bank limit for outstanding letters of credit worth SEK 100 (100) million.

Long-term liabilities were reclassified as current liabilities when a new banking agreement was signed in autumn 2014.

TERMS AND CONDITIONS AND REPAYMENT PERIODS
Regarding repayment periods, please refer to Note 17 and pledged assets/terms and conditions, Note 20.

NOTE 14 | 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 an interest rate based on mortgage bonds with maturities comparable to the pension obligation in question.

Pensions and other post-employment benefits

Defined benefit plans

Group SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Present value of pension obligations	219.1	198.7
Fair value of plan assets	–165.6	–158.4
Net obligation for defined benefit plans	**53.5**	**40.3**

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

Provisions for pensions	53.5	40.3

Expected yield on plan assets is based on government bond yields with a supplementary risk premium referring to equity instruments. 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		Norge	
Sweden and Norway	**2014**	**2013**	**2014**	**2013**
Shares and funds (KappAhl AB (publ.) included at 0)	31.0%	31.0%	3.6%	5.2%
Debt securities	60.0%	60.0%	81.0%	76.0%
Real property	9.0%	9.0%	13.9%	14.8%
Other	–	–	1.5%	0.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Change in present value of the obligation

Group SEK million	31/8/2014	31/8/2013
Opening balance as at 1 September	198.7	216.4
Benefits earned during the period	0.6	0.9
Transfer of ITPK	–0.1	–
Pension payments	–8.6	–8.3
Interest	7.1	6.4
Actuarial gains (–)/losses (+)	20.3	–14.7
Translation differences	1.1	–2.0
Closing balance as at 31 August	**219.1**	**198.7**

Note 14 cont.

Change in fair value of plan assets

Group SEK million	31/8/2014	31/8/2013
Opening balance as at 1 September	158.4	159.2
Yield on plan asset	5.8	5.2
Funds contributed	1.4	3.3
Reimbursement/pension payments	–3.2	–3.2
Actuarial gains/losses	3.0	–5.9
Translation differences	0.2	–0.2
Closing balance as at 31 August	**165.6**	**158.4**

The actuarial net loss of SEK 17.3 million consists of:
– gain due to experience adjustments of SEK 6.3 million
– loss due to effects of changed assumptions of SEK 23.6 million, of which SEK 0 refers to change in demographic assumptions.

Cost reported in the income statement for defined benefit plans

Group SEK million	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Costs relating to service in current period	0.6	1.0
Interest on obligation	7.1	6.4
Yield on plan assets	–5.8	–5.2
Total net cost in the income statement	**1.9**	**2.2**

The group is expected to pay SEK 2.1 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	1/9/2013 31/8/2014	1/9/2012 31/8/2013
Cost of goods sold	0.0	0.0
Selling expenses	0.6	1.0
Financial income/expenses	1.3	1.2
	1.9	**2.2**
Amount reported in other comprehensive income		
Actuarial gains/losses	–17.3	8.8
Return on plan assets excluding financial income/expense reported	0.6	–2.4
Amount reported in other comprehensive income	**–16.7**	**6.4**

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 20 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 2014	 2013	Norge 2014	 2013
Discount rate as at 31 August	3.1%	3.8%	2.0–3.5%	2.0–2.7%
Future salary increases	n/a	n/a	3.5%	4.0%
Future pension increases	1.9%	1.9%	1.5–3.25%	1.5–3.25%
Inflation	1.9%	1.9%	–	–
Expected yield	3.1%	3.8%	3.5%	4.1%

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%	213.5	193.7	176.4
Inflation +/– 0.5%	176.2	193.7	213.6
Life expectancy +/– 1 year	186.5	193.7	200.8

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 45.9 (46.4) 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 3, 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 2014 Alecta's surplus in the form of the collective consolidation level was 147 (145) 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.

Expected charges in the next reporting period for insurance policies taken out with Alecta amount to SEK 12.9 million.

NOTE 15 Other liabilities

Group

SEK million	31/8/2014	31/8/2013
Current liabilities		
Value added tax	50.0	47.9
Liabilities to staff	33.5	34.7
Gift vouchers	28.4	29.0
Currency derivatives	5.2	0.5
Interest rate derivatives	32.5	–
Other	4.7	6.5
Total	**154.3**	**118.6**

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 16 Accrued expenses and deferred income

	Group		Parent company	
SEK million	**31/8/2014**	**31/8/2013**	**31/8/2014**	**31/8/2013**
Liabilities to staff	157.6	174.6	7.2	12.7
Financial expenses	5.6	12.6	5.4	17.6
Customer bonus	47.9	49.5	–	–
Rent	3.2	4.2	–	4.4
Other	76.7	61.4	0.9	0.7
Total	**291.0**	**302.3**	**13.5**	**35.4**

NOTE 17 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 249 million, mainly through positive cash flow.

SEK million	2013/2014	2012/2013
Interest-bearing debt	470	719
Cash/bank	–43	–58
Net interest-bearing debt	**427**	**661**
EBITDA	400	396
Non-recurring items	23	–50
Adjusted EBITDA	**423**	**346**
Interest bearing debt/EBITDA	1.0	1.9

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 November 2011 with the company's banks, which runs until November 2014. In August 2012 the company signed a supplementary agreement with the banks defining the current terms and conditions.

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

- Interest bearing debt/EBITDA
- EBITDA/Net financial items
- Cash flow/Amortisation and Net financial income
- Investment ceiling

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

Negotiations for a new credit agreement were started in the summer and concluded in October 2014. The new agreement covers loans and credit at the same level as current credit. The terms and conditions of loans under the new agreement, as well as the current agreement, are linked to the same covenants as existing agreements.

Interest-bearing debt and maturity structure
KappAhl has assurances of credit totalling SEK 1,068 (1,143) million, of which SEK 416 (661) million had been used at the close of the financial year and the financial cost in the coming year is estimated to be substantially lower. Interest rates are based on 3-month Stibor plus a fixed margin varying on the basis of the outcome of interest-bearing debt/EBITDA. The margin is determined quarterly.

Loan maturity structure

Year	SEK million
2014/2015	1,068
2015/2016	–
2016 and later	–
Total	**1,068**

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 75 per cent of the company's loans maturing more than one year in the future are subject to interest rate hedging. Derivatives, such as interest swaps, are used to manage interest rate risk. The company uses hedge accounting when there is an effective connection between secured loans and interest swaps, (see also Note 1 Accounting Policies).

Note 17 cont.

As at 31 August 2014, the company had interest swaps with a contractual value of SEK 800 (1,000) million. Existing interest swaps are no longer part of an effective hedging relationship. This has meant a reposting of SEK 32.5 (6.4) million between other comprehensive income and the income statement and was charged to financial expenses.

The net fair value of the interest swaps on 31 August 2014 was SEK –32 (–26) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 32 (26) million, which are recorded in the item 'Other current liabilities'.

Total financial expense, including interest swaps, amounted to about SEK 68 (87) million for the financial year, which corresponds to around 1.5 (1.9) 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 (7) 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, exposure is 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 67 (59) million and SEK 10 (33) 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 23 (29) million and SEK 3 (16) 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. Currency forwards in USD, NOK and PLN are used.

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 twelve months. The foreign companies essentially generate income and expenses in their local currencies. This means that the Group's transaction exposure can most easily be illustrated by looking at the currency flows in Sweden:

	1/9/2013–31/8/2014		1/9/2012–31/8/2013	
Currency	**Outflow**	**Inflow**	**Outflow**	**Inflow**
MUSD	185	–	181	–
MEUR	28	31	26	26
MNOK	–	426	–	519
MPLN	–	63	–	64

Forward contracts

The table below shows a summary of outstanding forward exchange contracts by currency pair as at 31 August 2014. They all mature within one year.

Currency pair	Book and fair value		Nominal amount		Average remaining term in months	
Sells/buys	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
SEK/USD	14	4	651	261	6	5
NOK/USD	2	15	417	244	5	4
PLN/SEK	–1	–1	112	58	5	4

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 21 (19) million, which is reported under 'Other current receivables'. Forward contracts with a negative market value amount to SEK 5 (1) million, which is reported under 'Other current liabilities'. Of the forward contracts completed during the year, proceeds of SEK 19 million were reposted from other comprehensive income to the income statement, as hedged transactions had taken place for these contracts. Residual value of SEK 12 million is included in the hedging reserve in equity.

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	31/8/2014	31/8/2013
Currency	**Amounts in SEK million**	**Amounts in SEK million**
NOK	238	216
EUR	38	25
PLN	59	34
CZK	–	7
HKD	6	4

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	31/8/2014	31/8/2013
Loans and receivables		
Trade receivables	4.9	2.8
Cash and cash equivalents	43.4	57.8
Loans and receivables	**48.3**	**60.6**
Currency derivatives	20.9	19.5
Total	**69.2**	**80.1**

Liabilities on the balance sheet, SEK million	31/8/2014	31/8/2013
Other financial liabilities recorded at amortised cost		
Long-term interest-bearing liabilities	53.5	644.0
Short-term interest-bearing liabilities	416.5	75.0
Trade payables	233.5	228.0
Other financial liabilities recorded at amortised cost	**703.5**	**947.0**
Financial liabilities at fair value through profit or loss		
Interest rate derivatives	32.5	26.1
Currency derivatives	5.2	0.5
Financial liabilities at fair value through profit or loss	**37.7**	**20.2**
Total	**741.2**	**973.6**

Note 17 cont.

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)

2013/2014	Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value via profit or loss:				
Currency forwards	21		21	
Interest swaps	–		–	
Liabilities				
Financial liabilities at fair value via profit or loss:				
Currency forwards	5		5	
Interest swaps	32		32	

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

2012/2013	Value	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value via profit or loss:				
Currency forwards	20		20	
Interest swaps	–		–	
Liabilities				
Financial liabilities at fair value via profit or loss:				
Currency forwards	1		1	
Interest swaps	26		26	

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

Maturity analysis of financial liabilities
The maturity analysis below is based on discounted 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	2013/2014	2012/2013	2013/2014	2012/2013	2013/2014	2012/2013	2013/2014	2012/2013	2013/2014	2012/2013	2013/2014	2012/2013	2013/2014	2012/2013
Bank loans and bank overdraft facilities	427	50	–	25	–	586	–	–	–	–	–	–	427	661
Interest	4	4	–	14	–	6	–	–	–	–	–	–	4	24
Trade payables	233	228	–	–	–	–	–	–	–	–	–	–	233	228
Interest swaps	330	260	873	318	–	–	–	–	–	–	–	–	1,203	578
Forward exchange contracts	322	251	860	312	–	–	–	–	–	–	–	–	1,182	563

NOTE 18 | Operational leasing

Group	Annual cost		Future lease charges and rental costs		
SEK million	**2013/2014**	**2012/2013**	**Year 1**	**Year 2–5**	**Year 5–**
Tenancy agreement	654.4	662.3	635.3	1,438.1	234.2
Vehicles and equipment	2.8	2.1	2.2	1.9	–
Total	**657.2**	**664.4**	**637.5**	**1,440.0**	**234.2**

The Parent Company has no lease agreements.

The operating profit has been charged with SEK 657 (664) million referring to costs of rented store premises. Of this, the fixed rent is SEK 627 (645) million and the turnover based rent is SEK 30 (19) million.

The previously owned property for the head office and distribution centre is rented as of 23 November 2012. The rental cost from 23 November 2012 to 31 August 2013 was SEK 30 million.

NOTE 19 Capital commitments

Group
There were no material capital commitments as at 31/8 2014..

NOTE 20 Pledged assets and contingent liabilities

	Group		Parent company	
SEK million	**31/8/2014**	**31/8/2013**	**31/8/2014**	**31/8/2013**
Pledged assets				
Floating charges	214.8	209.7	None	None
Shares in subsidiaries	2,072.5	1,916.0	3,049.3	2,913.2
Trademarks	610.0	610.0	None	None
Total pledged assets	2,897.3	2,735.7	3,049.3	2,913.2
Contingent liabilities				
Guarantee commitments, FPG/PRI	0.5	0.5	None	None
Total contingent liabilities	**0.5**	**0.5**	**None**	**None**

See Note 24 for a description and assessment of a dispute concerning customs duty in Norway.

NOTE 21 Related parties

The parent company has a related party relationship with the subsidiary KappAhl Sverige AB. The parent company performs services for KappAhl Sweden AB amounting to SEK 19 (23) million. There are also related party relationships with key personnel in senior positions. Information is given in Note 4 Employees and staff costs.

In 2012/2013 there were guarantees issued from Dutot Ltd, Jan Samuelsson and Håkan Westin. These guarantees were issued in connection with a new issue of shares and are no longer in existence.

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

NOTE 22 Participations in group companies

SEK million	**31/8/2014**	**31/8/2013**
Opening book value	2,913.2	3,180.0
Sale of subsidiaries	–	–303.6
Shareholders' contributions paid	136.1	36.8
Total	**3,049.3**	**2,913.2**

Specification of the Parent Company's and the Group's holdings in Group companies

			31/8/2014	**31/8/2013**
Subsidiary / Corporate identity number / Country	**Number of shares**	**Shares as %**	**Carrying amount**	**Carrying amount**
KappAhl Sverige AB, 556060-4158, Sweden	60,000	100.0	1,351.6	1,271.1
KappAhl AS, 947659138, Norway	41,749	100.0	1,269.1	1,269.1
KappAhl OY, 07585064, Finland	200	100.0	428.6	373.0
KappAhl Fastigheter AB, 556750-5481, Sweden	1,000	100.0	–	–
Indirectly owned via KappAhl OY				
KappAhl Åland AB, 1737564-2, Mariehamn	100	100.0	–	–
Indirectly owned (via KappAhl Sverige AB)				
KappAhl Polska Sp.zo.o, 526-22-60-963, Poland	51,003	100.0	–	–
KappAhl Czech Republic s.r.o, 26447142, Czech Republic	10,000	100.0	–	–
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	–	–
Total			**3,049.3**	**2,913.2**

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

NOTE 23 | Cash Flow Statement

The cash flow statement was prepared using the indirect method.

Interest paid

	Group		Parent company	
SEK million	**1/9/2013 31/8/2014**	**1/9/2012 31/8/2013**	**1/9/2013 31/8/2014**	**1/9/2012 31/8/2013**
Interest received	0.4	0.1	22.3	22.1
Interest paid	–31.5	–61.8	–60.3	–75.1
Total	**–31.1**	**–61.7**	**136.9**	**–53.0**

The parent company has paid a shareholder's contribution of SEK 136 million. These were still outstanding as at 31/8 2014.

Adjustments for non-cash items

	Group		Parent company	
SEK million	**1/9/2013 31/8/2014**	**1/9/2012 31/8/2013**	**1/9/2013 31/8/2014**	**1/9/2012 31/8/2013**
Depreciation/ amortization and impairment	128.5	140.0	–	–
Reversal of impairment losses	–8.5	–	–	–
Provisions for pensions	–8.2	6.4		–
Dividend received	–	–	–103.5	–
Group contribution received	–	–	–71.4	–111.5
Other adjustments	–4.7	–69.8	–8.0	–90.7
Total	**107.1**	**76.6**	**–182.9**	**–202.2**

NOTE 24 | 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 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. Where it is not possible to determine the carrying amount of assets and liabilities through information from other sources, such estimates and assumptions form the basis of the valuation. If other assumptions are made or other conditions exist, the actual outcome may differ from these assumptions. The assumptions and estimates assessed to have the greatest impact on KappAhl's financial position and performance are discussed below.

Impairment tests for goodwill and trademarks

Every year the Group carries out impairment tests for goodwill and trademarks that have an indefinite useful life in accordance with the accounting policy described in Note 1 above. The testing requires an estimate of parameters that impact future cash flow and determination of discounting factor. Recoverable amounts for cash generating units have subsequently been determined by means of calculation of values in use. Note 9 contains a description of material assumptions made in impairment testing of goodwill and other assets with indefinite useful lives, as well as a description of the effect of reasonable possible changes in the assumptions on which the calculation is based. As at 31 August 2014 the carrying amount for goodwill and trademarks with an indefinite useful life was SEK 1 306 million.

Measurement of deferred tax assets

Deferred tax assets referring to temporary differences of SEK 71 million have been recorded in the Group based on the assessment that it will probably be possible to use them to give lower tax payments in future.

In addition deferred tax assets for loss carry-forwards of SEK 119 million were reported as at 31 August 2013. The carrying amount of these tax assets was tested on the balance sheet date and it was deemed probable that the deductions can be applied against surplus in future taxation. The largest tax assets refer to countries where loss carry forwards can be used for an unlimited period. The Group's operations in these countries are either profitable or expected to generate surplus in the future. KappAhl therefore considers that there are convincing factors indicating that the loss carry-forwards to which the tax assets refer will be possible to apply against future taxable surpluses.

Moreover, as at 31 August 2014, the Group had unutilised loss carry forwards and other tax deductible temporary differences amounting to just over SEK 521 million, for which no deferred tax assets have been recorded.

Changes in the assumptions and estimates above may result in considerable differences in valuation of deferred tax assets.

Customs dispute in Norway

In the 2005/06 financial year a dispute with the customs authorities in Norway was settled in KappAhl's favour and the judgment became final and non-appealable in the 2006/2007 financial year. However, there have been continued demands from the customs authorities, in contravention of the ruling handed down. Consequently, there is still uncertainty in the case, but the company and its advisers consider that the initial court ruling is correct. The company entertains good hopes of also receiving the remaining part. The remaining part amounts to SEK 3 million.

Post-employment benefits

Accounting for provisions for defined benefit pension plans and other pension benefits is based on actuarial calculations using assumptions about discount rate, expected return on plan assets, future salary increases, staff turnover and demographics.

The estimates made concerning these assumptions affect the value of the total pension obligations and major changes in the estimates could have a significant effect on the Group's results and financial position. The same applies to a changed estimate concerning whether pension insurance in Alecta is to be reported as a defined contribution plan or not. On 31 August 2014 the Group's provisions for pensions amounted to SEK 54 million.

Customer bonus

Provision for customer bonus is made on the basis of members' bonus points earned and the future possibility of using points earned in the form of bonus cheques as a means of payment. For accounting purposes the bonus earned is recognised by reducing net sales at the time the bonus reward is earned with a corresponding item in the balance sheet. Assumptions for calculating the bonus liability are based on the last quarter gross debt history, percentage of redeemed bonus cheques, net debt etc. As at 31 August 2014 the Group's provision for customer bonus was SEK 47.9 (49.5) million.

NOTE 25 | Parent company details

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

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

The consolidated accounts for 2013/2014 consist of the parent company and its subsidiaries, collectively referred to as the Group.

The consolidated accounts for 2013/2014 consist of the parent company and its subsidiaries, 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 27 October 2014. The income statements and balance sheets will be presented to the Annual General Meeting on 3 December 2014.

Mölndal, October 27, 2014

Anders Bülow *Chairman*	Amelia Adamo *Board Member*	Pia Rudengren *Board Member*
Christian W. Jansson *Board Member*	Melinda Hedström *Employee representative*	Michael Bjerregaard Jensen *Employee representative*

Johan Åberg
President

Our audit report was issued on October 27, 2014

Ernst & Young AB

Stefan Kylebäck
Authorised public accountant

AUDITOR'S REPORT

To the annual meeting of the shareholders of KappAhl AB (publ), corporate identity number 556661–2312

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of KappAhl AB (publ) for the year the financial year 2013-09-01–2014-08-31. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 42–74.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director 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 Managing Director 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 judgement, 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 Managing Director, 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 opinions.

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 of 31 August 2014 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 of 31 August 2014 and of their financial performance and 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 meeting of shareholders 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 also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of KappAhl AB (publ) for the year the financial year 2013-09-01–2014-08-31.

Responsibilities of the Board of Directors and the Managing Director

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 Managing Director 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 determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director 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 opinions.

Opinions

We recommend to the annual meeting of shareholders 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 Managing Director be discharged from liability for the financial year.

Gothenburg, October 27, 2014

Ernst & Young AB

Stefan Kylebäck
Authorized Public Accountant

GRI INDEX

KappAhl's sustainability reporting is based on the Global Reporting Initiative, GRI, G3.1 Guidelines and in our own assessment meet the requirements for reporting level C. An outline is presented below of the compulsory GRI indicators and the aspects and performance indicators relevant to the business that KappAhl has decided to report, with page references to where the information can be found. More information on the GRI and a full description of guidelines and indicators can be found at www.globalreporting.org. KappAhl's sustainability report is published annually and the last report was published in November 2013.

	GRI INDICATOR	Status	Reference
1.0	STRATEGY AND ANALYSIS		
1.1	Statement from the most senior decision-maker of the organization.	●	2–3
2.0	ORGANISATIONAL PROFILE		
2.1	Name of the organization.	●	Front page
2.2	Primary brands, products, and/or services.	●	Intro, 16–21
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	●	72
2.4	Location of organization's headquarters.	●	74, 88
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	●	Intro, 12–13
2.6	Nature of ownership and legal form.	●	Intro, 74
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	●	Intro, 12
2.8	Scale of the reporting organization.	●	Intro, 12–13
2.9	Significant changes during the reporting period regarding size, structure, or ownership. *No significant changes.*	●	76
2.10	Awards received in the reporting period. *No awards.*	●	76
3.0	REPORT PARAMETERS		
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	●	Intro
3.2	Date of most recent previous report (if any).	●	76
3.3	Reporting cycle (annual, biennial, etc.)	●	76
3.4	Contact point for questions regarding the report or its contents.	●	76
3.5	Process for defining report content.	●	Intro
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	●	Intro
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	●	35
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	●	Intro
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/periods, nature of business, measurement methods). *No changes.*	●	76
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. *No changes.*	●	76
3.12	Table identifying the location of the Standard Disclosures in the report.	●	76–78

● Reported fully

◗ Reported partially

	GRI INDICATOR	Status	Reference
4.0	GOVERNANCE, COMMITMENTS AND ENGAGEMENT		
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	●	84–87
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	●	84, 86
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	●	Not relevant
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	●	86–88
4.14	List of stakeholder groups engaged by the organization.	●	4–5
4.15	Basis for identification and selection of stakeholders with whom to engage.	●	4
	PERFORMANCE INDICATORS		
	Market presence		
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	●	13
	Indirect economic impacts		
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	◗	26–29
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	●	4–5, 12–13, 24–29
	ENVIRONMENTAL IMPACT		
	Materials used		
EN1	Materials used by weight or volume.	●	29
EN2	Percentage of materials used that are recycled input materials.	◗	21, 28, 31–32
	Energy		
EN4	Indirect energy consumption by primary source.	●	35
EN5	Energy saved due to conservation and efficiency improvements.	●	32, 35
	Emissions to air and water and waste		
EN16	Total direct and indirect greenhouse gas emissions by weight.	◗	30–31, 35
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	●	30–31
EN22	Total weight of waste by type and disposal method.	●	30–31
	Products and services		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	●	14–16, 20–22, 27–32, 35
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	◗	9, 21
	Transport of products and members of the workforce		
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. *Under KappAhl's business travel policy we must travel by rail rather than air as far as possible. In the 2013/2014 financial year carbon dioxide emissions due to business travel of employees at the head office amounted to 481.6 (462.1) tonnes.*	◗	30–31, 77
	TERMS OF EMPLOYMENT AND WORKING CONDITIONS		
	Employment		
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region.	◗	37
	Occupational health and safety		
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender.	◗	36

● Reported fully

◗ Reported partially

	GRI INDICATOR	Status	Reference
	Education		
LA10	Average hours of training per year per employee by gender, and by employee category.	●	36–37
	Diversity and equal opportunity		
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	●	36–37, 84–87
	HUMAN RIGHTS		
	Investment and procurement practices		
HR2	Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening, and actions taken.	●	22–25
	Non-discrimination		
HR4	Total number of incidents of discrimination and actions taken.	◗	37
	Freedom of association and collective bargaining		
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	◗	24
	Child labour		
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	●	22, 24
	Forced and compulsory labour		
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	◗	24
	ROLE OF THE ORGANISATION IN SOCIETY		
	Corruption		
SO3	Percentage of employees trained in organization’s anti-corruption policies and procedures.	◗	36
	PRODUCT RESPONSIBILITY		
	Customer health and safety		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	●	19–21
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, by type of outcomes.	●	20
	Product and service labelling		
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	◗	20
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	◗	11, 22, 28, 32
	Marketing communications		
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	◗	35
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	●	35
	Compliance		
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. *No fines.*	●	78

● Reported fully

◗ Reported partially

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) and Chapter 6, Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2013/2014 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.

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 2014 the share capital of KappAhl was SEK 64,320,000 divided between 75,040,000 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 about 16,769 shareholders on 31 August 2014. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2014 was Mellby Gård AB. The ten largest shareholders as at 31 August 2014 are listed in the Administration Report on page 42.

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 4 December 2013 in Mölndal. The minutes of the Annual General Meeting can be found on KappAhl's website. It was then resolved to re-elect Amelia Adamo, Anders Bülow, Paul Frankenius and Christian W. Jansson as members of the Board of Directors. Pia Rudengren was elected as a new board member and Anders Bülow was re-elected as the Chairman of the Board. The next Annual General Meeting will be held at 10.00 on 3 December 2014 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.

Nomination 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 3 December 2014 was published on the company's website before 3 June 2014. Christian W. Jansson (appointed by Dutot Ltd.), Rune Andersson (appointed by Mellby Gård AB) Marianne Nilsson (appointed by Swedbank Robur Fonder AB) and Frank Larsson (appointed by Handelsbanken Fonder AB) were initial members of the Nominations Committee. After a change in ownership Christian W. Jansson resigned from the Nominations Committee and was replaced by Ulf Hedlundh (appointed by Svolder AB). Anders Bülow, Chairman of the Board, has been co-opted to the Nominations Committee. The Nominations Committee represented, on 30 September 2014, about 35 per cent of the shareholders' votes.

The Nominations Committee held its inaugural meeting on 18 June 2014, 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. As stated above, such a change in ownership has taken place, resulting in Ulf Hedlundh becoming a member of the Nominations Committee instead of Christian W. Jansson. Two larger shareholders than Svolder AB have waived their right to appoint a representative to the Nominations Committee.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of the Board of Directors should possess. The aim is to create a suitable composition of the Board of Directors and for its members' pooled skills and experience to provide a broad base that is appropriate from the point of view of KappAhl's current phase and market situation. The Committee will also keep itself up to date with general developments in fee and remuneration matters in Swedish listed companies. In the 2013/2014 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 3 December 2014 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 2013 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 0.5 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. Five ordinary members were elected to the Board of Directors at the Annual General Meeting in December 2013. During the financial year member of the Board Paul Frankenius left his seat on 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 4 December 2013 up to 31 August 2014 the Board of Directors held seven meetings, all of which were minuted.

Five of these meetings were ordinary meetings. After 31 August 2014 the Board of Directors held one meeting, on 8 October 2014. 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 4 on page 61. Board members' shareholdings in KappAhl are presented on pages 86–87. Information on the Board members' other elected positions and independence can be found on pages 86–87. More

	Inaugural Board meeting 2013:07 4 Dec 2013	Ordinary Board meeting No. 2013:08 13 Dec 2013	Ordinary Board meeting No. 2014:01 13 Jan 2014	Ordinary Board meeting No. 2014:02 7 April 2014	Ordinary Board meeting No. 2014:03 8–9 May 2014	Ordinary Board meeting No. 2014:04 25 June 2014	Ordinary Board meeting No. 2014:05 26 Aug 2014	Ordinary Board meeting No. 2014:06 8 Oct 2014
Anders Bülow	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Amelia Adamo	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Paul Frankenius	Yes	Yes	Yes	Yes	Absent	Yes	–	–
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bodil Gummesson	Yes	Yes	Yes	Absent	–	–	–	–
Jonas Frii	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Melinda Hedström	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Johan Åberg	Yes	Yes	Yes	Yes	Yes	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
Marie-Louise Jansson Bring	–	–	–	–	Yes	Yes	Yes	Yes

information on the Board is also available on KappAhl's website, 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 meetings may also be arranged in the form of telephone conferences.

A two-day meeting per year is held near to operations outside the head office, which in 2014 was in Poland.

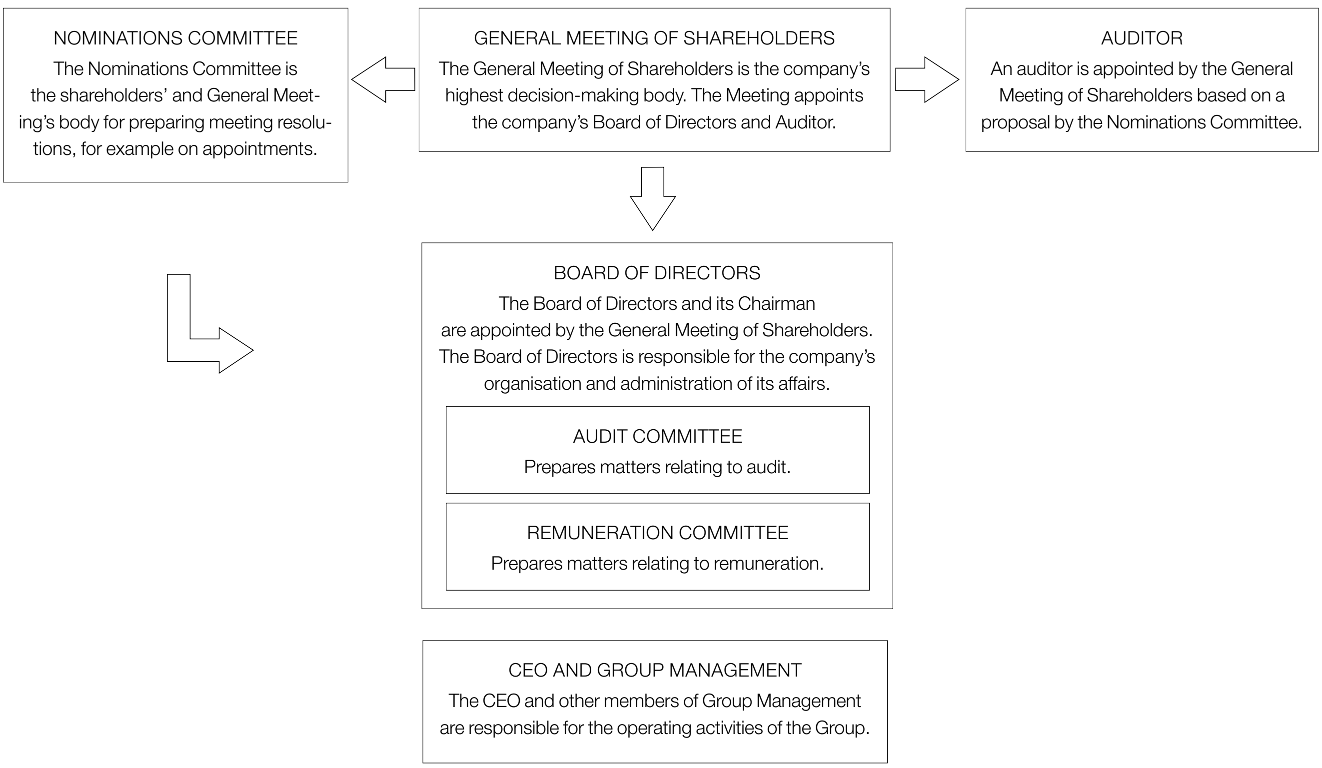
The Chairman leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The Chairman in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings for information, discussion or decision. Decisions 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 4 December 2013 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 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 financing, investments and an action programme. 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

KappAhl's Board of Directors comprises six members (after Paul Frankenius retirement as described above), including the Chairman, employee representatives and two deputies. The presentation of the Board members on pages 86–87 includes a list of other assignments and relevant shareholdings. More information on the Board is available on KappAhl's website.

Remuneration Committee

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 3 December 2014 the Committee consists of



Christian W. Jansson (chair), Pia Rudengren 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 4 December 2013 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 3 December 2014 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 (after Dutot Ltd.'s sale of its holding in KappAhl shares) 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 2013/2014 committee work included preparing issues concerning interim reports, foreign currency issues and internal financial control. Since the Annual General Meeting on 4 December 2013 up to 31 August 2014 the Committee held four 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.

Offer Committee

During the 2013/2014 financial year an Offer Committee was set up separately with the main duty of preparing questions concerning KappAhl's offer to the market. The Offer Committee has initially consisted of members of the board Amelia Adamo and Paul Frankenius (until his retirement from the Board). The President and head of purchasing were co-opted to the Committee. Remuneration in the form of a consulting fee of SEK 1,500 per hour excluding VAT has been paid to Amelia Adamo. The fee amounts to about SEK 30,000 for the 2013/2014 financial year.

MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on pages 84–85 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 2013/2014

During the year focus has been on the action programme and offer 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 den 27 oktober 2014

Anders Bülow
Chairman

Amelia Adamo
Board Member

Pia Rudengren
Board Member

Christian W. Jansson
Board Member

Melinda Hedström
Employee representative

Michael Bjerregaard Jensen
Employee representative

Johan Åberg
President

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the annual meeting of the shareholders of KappAhl AB (publ), corporate identity number 556661-2312

It is the board of directors who is responsible for the corporate governance statement for the financial year 2013-09-01–2014-08-31 on pages 79–83 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the corporate governance statement 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 statement 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, the corporate governance statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, October 27, 2014
Ernst & Young AB

Stefan Kylebäck
Authorized Public Accountant

MANAGEMENT

Johan Åberg

President and CEO
Johan Åberg (born 1961) has been President and Chief Executive Officer of KappAhl since December 2011. Chairman of the board of IHM Business School and member of the board of NetOnNet. Johan Åberg is a graduate of IHM Business School.

Shareholding: 13,742 shares including related parties.
Warrants: 750,000 warrants.

Kajsa Räftegård

Vice President Human Resources and Public Relations
Kajsa Räftegård (born 1965) has been Vice President Human Resources and Public Relations at KappAhl sedan 2002 and with the company since 1995. Kajsa Räftegård has a B.Sc. in Social Work from the University of Gothenburg.

Shareholding: 108,666 shares.
Warrants: 300,000 warrants.

Mari Svensson

Vice President Purchasing and Logistics
Mari Svensson (born 1963) has been Vice President Purchasing and Logistics at KappAhl since 2012 and with the company since 2000. Mari Svensson has an MSc in Business Administration from the School of Business, Economics and Law at the University of Gothenburg.

Shareholding: 180,646 shares.
Warrants: 300,000 warrants.

Stefan Högkvist

Vice President Sales
Stefan Högkvist (born 1974) has been Vice President Sales of KappAhl since April 2013.

Shareholding: 0 shares.
Warrants: 0 warrants.

Carina Ladow

Vice President Assortment and Design
Carina Ladow (born 1957) has been Vice President Assortment and Design at KappAhl since 2012 and with the company since 1993. Member of the board of Scorett.

Shareholding: 84,000 shares.
Warrants: 300,000 warrants.

Joakim Holmstrand

Vice President Marketing
Joakim Holmstrand (born 1959) has been Vice President Marketing at KappAhl since 2014. Member of the board of the Swedish Trade Federation's organisation Svensk Handel Stil. Graduate of IHM Business School.

Shareholding: 10,000 shares
Warrants: 0 warrants

Anders Düring

Chief Financial Officer
Anders Düring (born 1965) has been Chief Financial Officer at KappAhl and since November 2013. Anders has a Master's degree from the School of Business, Economics and Law at the University of Gothenburg.

Shareholding: 0 shares.
Warrants: 0 warrants.

BOARD OF DIRECTORS

Amelia Adamo

(born 1947) Amelia Adamo has been a member of the board of KappAhl since 2004. Amelia is senior publisher of Bonnier Tidskrifter and founded the magazines Amelia, Tara and M-magasin, where she is also editor In chief. Amelia Adamo, who has won the Swedish ”Great Journalist Award” twice, was formerly the editor in chief of the magazines Amelia and Vecko-Revyn and acting chief editor of the evening daily Aftonbladet. She is also a member of the board of Bonnier Tidskrifter AB and SSRS Holding AB. Amelia Adamo has a B.A. in social sciences from the University of Stockholm.

Shareholding: 0 shares.

Anders Bülow

(born 1953) Anders Bülow has been Chairman of the Board of KappAhl since 2012. He is also Chairman of the Board of Duni AB since 2009 and 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. Anders Bülow has a BSc in business administration from Stockholm University.

Shareholding: 0 shares.

Melinda Hedström

(born 1966) Melinda Hedström is a board member and has been 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.

Michael Bjerregaard Jensen

(born 1954) Michael Bjerregaard Jensen has been a member of the Board of KappAhl and employee representative since 2013. He is a store manager at KappAhl. Michael Bjerregaard Jensen has participated in a training programme for board members held by Nasdaq Stockholm.

Shareholding: 0 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: 0 shares.

Christian W. Jansson

(born 1949) Christian W. Jansson has been a member of the board of KappAhl since 2011 and is chairman of the board's Remuneration Committee and member of the Audit Committee. Before that Christian was President and Chief Executive Officer of KappAhl 2002–2011 and Chairman of the Board 2011–2012. He is also chairman of the board of Apoteket AB, Enzymatica AB, Vivoline Medical AB and managing director and member of the board of Europris AS. Christian W. Jansson holds an MSc in business and economics from the University of Lund and an honorary doctorate in economics.

Shareholding: 0 shares.

Marie-Louise Jansson Bring

(born 1957) Marie-Louise Jansson Bring has been deputy member of the Board of KappAhl and employee representative 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: 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 B.Sc. in Business Administration from the Stockholm School of Economics.

Shareholding: 0 shares.

FINANCIAL CALENDAR

Annual general meeting	3 December 2014
First quarter (Sep–Nov)	14 January 2015
Second quarter (Dec–Feb)	16 April 2015
Third quarter (March–May)	23 June 2015
Fourth quarter (June–Aug)	8 October 2015

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

KappAhl's Annual Report in Swedish and English will be sent to shareholders and other stakeholders who so request. The report can also be ordered via www.kappahl.com/ir under the menu "Contact" and submenu "Order Annual Report."

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders in KappAhl AB (publ) will be held on Wednesday, 3 December 2014 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 Thursday, 27 November 2014, and have given notice of their attendance and that of any advisers by the same date, preferably before 12.00 noon, via email to stamma@kappahl.com. Notification of participation can also be given by telephone on +46 31 771 55 00, by fax on +46 31 771 58 15, 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. The company will provide a form for a power of attorney on request and the form is also available from the company'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 Thursday 27 November 2014. This means that the shareholder must notify the nominee of this in good time.

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!

DEFINITIONS

AVERAGE NUMBER OF EMPLOYEES Average number of employees restated as full-time equivalents.

CERTIFICATION AUDIT BY A THIRD PARTY A certificate is a document showing that the criteria for certification have been met.

CLIMATE NEUTRAL Working in a way that does not produce a net surplus of greenhouse gases.

CLOSING THE LOOP Production system based on using residual products to create a new product.

COLLECTION A series of garments designed and produced for a particular season.

DIVIDEND PAYOUT RATIO Dividend divided by profit after tax.

DIVIDEND YIELD Dividend divided by the share price.

ECONOMIES OF SCALE Means that the average unit cost is reduced as volumes increase.

EARNINGS PER SHARE Profits after tax divided by average number of shares.

EARNINGS PER SHARE AFTER DILUTION Profits after tax divided by average number of shares after full dilution.

EBIT Operating profit, i.e. earnings before interest and taxes.

EBITDA Operating profit before depreciation/amortisation, i.e. earnings before interest, taxes, depreciation and amortisation.

EQUITY/ASSETS RATIO Equity divided by balance sheet total.

EQUITY PER SHARE Equity divided by the average number of shares.

GROSS MARGIN Gross profit divided by net sales.

INTEREST BEARING NET LIABILITIES Interest bearing debt less cash and cash equivalents.

INTEREST COVERAGE RATIO (MULTIPLE) EBITDA divided by net interest income excluding non-recurring items, for the immediately preceding twelve-month period.

LIKE FOR LIKE Sales trend in comparable stores.

NET ASSETS Assets excluding cash and cash equivalents and interest-bearing financial receivables less operating liabilities, non-interest-bearing provisions and tax liabilities.

NET INTEREST BEARING LIABILITIES/EBITDA (MULTIPLE) Net interest bearing debt divided by EBITDA for the immediately preceding twelve-month period.

OPERATING MARGIN Operating profit divided by net sales.

P/E RATIO Share price divided by earnings per share.

PRICE/EQUITY Market value divided by equity.

SUSTAINABLE DEVELOPMENT Meeting today's needs without jeopardising the possibility of future generations of meeting their needs.

VALUE CHAIN A division of an organisation's processes into different value-creating activities.

This English Annual Report document is a translation from the original Swedish Annual Report 2013/2014 document.

"In other words, we have much left to do and we are doing it from a position that is stronger than it has been for some time. This means that I am looking forward to the coming year."

FROM THE CEO STATEMENT, PAGES 2–3

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"KappAhl has been approved for investment in Swedbank Robur's sustainability for more than ten years, since the company is among the foremost in its industry regarding sustainability work. KappAhl reports its work openly and transparently and there is a clear link between strategy, targets and activities. The work covers environmental and social aspects in both the supplier chain and in its own operations and products."

Anna Nilsson
Head of sustainability analysis
Swedbank Robur

KappAhl

www.kappahl.com