

KAPPAHL 2017

*Fashion is a feeling.
We help our customers find it.*

KappAhl

KappAhl was established in 1953 in Gothenburg and is now one of the leading Nordic fashion chains. We have almost 360 KappAhl and Newbie stores in Sweden, Norway, Finland and Poland and our Shop Online is available in all our sales markets.

Our mission is to offer value-for-money fashion of our own design with wide appeal. Our range is always inspiring and the share of sustainability-labelled fashion is increasing steadily. It should feel right for our customer and the rest of the world.

In 2016/2017 net sales were SEK 4.9 billion and the number of employees was about 4,000 in nine countries. KappAhl has been listed on Nasdaq Stockholm since 2006.

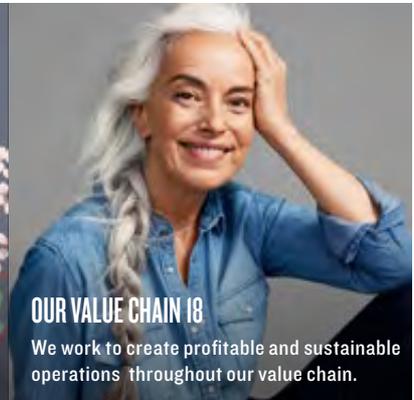
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We help our customer find it.



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We work to create profitable and sustainable operations throughout our value chain.



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Danny Feltmann, President and Chief Executive Officer



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KappAhl is a fulfilling workplace.

ABOUT THE ANNUAL REPORT

THIS IS KAPPAHL'S ANNUAL REPORT for the period September 2016 to August 2017, Part I. The last report was published on 8 November 2016. This part of the annual report presents the company, our customers and the year's work, earnings and future focus on the basis of material challenges and opportunities. Part 2 of the annual report can be found at kappahl.com/ir. It contains the formal annual accounts, the corporate governance report, a multi-year review, extended share information and a supplementary sustainability report with the GRI content index.

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

The annual report was prepared in accordance with the Global Reporting Initiative Standards Core option. The contents are based on our sustainability strategy and materiality analysis. Information on sustainability presented in the annual report has not been externally assured. Ethos International, a consultancy specialising in sustainability, has assisted KappAhl in ensuring that the content of the report follows the GRI Standards Core option.



*At KappAhl **our purpose** is to create a better everyday life for the woman in the prime of life, and her family, through offering a wide range of well-designed and feel good fashion, always in a sustainable way.*

YEAR IN SUMMARY

Sales SEK 4,916 (4,724) million
Gross margin 62.2 (61.8) %
Operating margin 9.1 (7.4) %
Earnings per share SEK 4.73 (3.19)

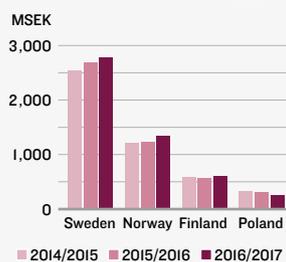
IMPORTANT EVENTS

- Successful price and campaign strategies and good cost control have had a positive impact on earnings.
- Launched our new range strategy for Woman, Scandinavian Feminine.
- Increased share of sustainability labelled fashion to 53 (38) per cent.
- Opened four new KappAhl stores, closed 23 stores and converted 36 stores.
- Opened seven new Newbie Stores in Sweden, Norway and Finland.
- Decision in autumn 2017 to open Newbie Stores in Poland and the United Kingdom.
- Completed restructuring programme in Poland.
- Launched pilot project for Click&Collect and Shop Online in Store.
- Launched a tool with digital customer feedback linked directly to purchases.
- Launched a new sustainability strategy, "Responsible Fashion".
- Inspired our customers to make more sustainable choices with the film series "Make it Feel Right"
- Launched One Bag Habit together with industry colleagues.
- Continued work for cleaner production in India and Bangladesh.

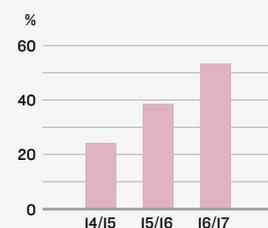
SALES AND GROSS MARGIN



SALES IN OUR MARKETS



PERCENTAGE OF SUSTAINABILITY LABELLED FASHION



WOMAN

SHARE OF NET SALES

51%

WELL DRESSED IN A COAT

In spring 1953 KappAhl's founder Per-Olof Ahl opened his own coat shop in Gothenburg. His business idea; giving all women the chance to be well-dressed at a reasonable price, is still close to our heart. And the coats, yes they are still our heroes!



KIDS

SHARE OF NET SALES

39%

SMART CHILDRENSWEAR

Woxo 720° is our concept of sports-influenced functional clothing for older children. With inspiration from street culture, the garments are just as cool in town as on a snowboard.



ACT
FORM 20 SE-17

STUDIO
LITTON

MAN

SHARE OF NET SALES

10%

STYLISH SHIRTS

With a broad range of stylish shirts we make it easy for our customers to find a shirt for every occasion. All our men's shirts are made of more sustainable cotton. By shopping at KappAhl you are supporting the work of the Better Cotton Initiative for more sustainably grown cotton. Read more on page 29.



A portrait of a middle-aged man with short, light-colored hair and a beard, smiling. He is wearing a dark blue suit jacket over a light blue button-down shirt. The background is a blurred office interior with large windows.

There is a strong “we” at KappAhl that gives me the assurance that together we will achieve our objectives with our change programme and thus also achieve the target of a ten percent operating margin.

GREAT PROGRESS

With a clear focus on our customer and the successful implementation of our business plan, during the year KappAhl has got closer to its ten per cent operating margin target. We met President & CEO Danny Feltmann to talk about the past year.

HOW WAS THE YEAR?

Exciting! During the year KappAhl made great progress in the areas we decided to improve. Implementation of our business plan is on track and we are steadily moving towards a ten per cent operating margin, thanks to our successful price and campaign strategies, good cost control and the now completed restructuring in Poland.

HOW DID MARKET DEVELOPMENTS AFFECT YOU?

Our sales markets in Sweden, Norway and Poland saw positive macroeconomic development, but were also characterised by high competitiveness. Several major actors in the industry have had inventory challenges, which made price competition tougher than usual. This is a sign of customers' changed purchasing behaviour and the transformation of the industry. As eCommerce increases its share of total sales it is even more important to have the right product at the right price in the right place at the right time! It is also becoming more important to reach out with a sustainable offer and be transparent throughout the entire business.

HOW ARE YOU ADDRESSING THIS DEVELOPMENT?

It means that we must increase sales per square metre, which we are addressing through our omnichannel initiative, but also with the continual review of stores – locations, concept and space. During the year we launched a pilot project for Click&Collect and Shop Online in Store, which turned out well and we therefore decided to roll out the services on a broad front in autumn 2017. For KappAhl, with many different store formats, it is also important to follow our programme for conversion, closing and moving stores to ensure that our entire store network achieves our profitability requirements. To position ourselves for the future, during the year we increased our rate of investment in store conversions, processes and IT-related projects. With commitments such as changing to sustainable materials and processes as well as creating solutions for sustainable consumption for our customer, we are showing where we are headed as regards sustainability.

THE RESTRUCTURING PROGRAMME IN POLAND WAS ALSO COMPLETED DURING THE YEAR, CAN YOU TELL US MORE?

After closing a large number of stores we now have a sound store network from which we will grow. The Polish market is attractive and a first step will be taken in autumn 2017, when we open a new KappAhl store and a first, stand-alone Newbie Store. Our employees have made a fantastic effort and we can now look forward in Poland as well!

AS DIGITALISATION INCREASES, THE CUSTOMER MEETING IN STORE INCREASES IN IMPORTANCE, HOW ARE YOU IMPROVING IT?

During the year we introduced Customer Service Follow Up, which means that we send out digital customer surveys to our club members just after a purchase. We ask for feedback on how they experienced customer service, range and offer. This is an important tool that allows us to follow up and strengthen the customer meeting. »



“One of the guiding principles in the continued work is the right fashion for our customer, when and how the customer chooses. KappAhl is to be the first choice of our customer.”

DOES THE CHANGE IN CUSTOMER BEHAVIOUR CONTRIBUTE TO CHANGES IN YOUR ORGANISATION?

Yes, we want to give the customer an integrated impression of our total offer – from inspiration to guidance and personal service – regardless of channel. Consequently we have restructured parts of central operations and created the Customer Experience function. Here we collect the parts of our organisation that work with the customer experience, from online and market communication to goods distribution, customer service and loyalty programme.

As part of our change programme we have also continued work on a more modern IT platform to ensure a more flexible and dynamic omnichannel solution going forward. That journey will continue in the next few years.

HOW DO YOU CREATE COMMITMENT AMONG EMPLOYEES?

We have started a cultural journey we call The Movement. The purpose is to facilitate action among our 4,000 employees with the help of clear processes and responsibilities. We motivate and strengthen employee responsibility for the Group's performance by working on our values, behaviours and attitudes.

HOW HAVE YOU DEVELOPED THE RANGE DURING THE YEAR?

We never stop working on the range! We carry on a continual dialogue with our customers on further improvements to both fit and selection, to be able to offer garments that always work. The more important initiatives include the launch of Scandinavian Feminine in womenswear – a range strategy that creates a clearer style for the customer and helps to make KappAhl her first choice. In addition we can look back with pride on a year where we increased the percentage of sustainable fashion from 38 to 53 per cent. I would also like to mention the denim campaign in more sustainable cotton that uses less water and chemicals in the production process, which has led to almost half of all

denim at KappAhl now bearing sustainability labelling.

DEVELOPING THE RANGE IS AN IMPORTANT PART OF THE NEW SUSTAINABILITY STRATEGY RESPONSIBLE FASHION, CAN YOU TELL US MORE ABOUT THAT?

The strategy takes its cue from our stakeholder dialogues, from the UN global sustainable development goals and the Stockholm Resilience Centre's research, and it includes everything from range, production and stores to inspiring our customers to make more sustainable fashion choices. In that way we contribute to the transition to a more sustainable and circular fashion industry, but also to our journey towards being an even more sustainable company. Sustainability is about acting responsibly, which has been an important part of KappAhl's DNA throughout the years.

WHAT WERE YOU MOST PROUD OF IN THE PAST YEAR?

I am very proud of the commitment and energy characterising the many changes we are making, both to our offer and our organisation. There is a strong “we” at KappAhl that gives me the assurance that together we will achieve our objectives with our change programme and thus also achieve the target of a ten percent operating margin. However, it is quite clear that this is an ambitious target that will make heavy demands on us and we will certainly meet challenges on the way.

WHERE IS KAPPAHL HEADED NOW?

We have confirmation that our efforts are having an effect and our work to develop the organisation is now continuing at a sustained pace. The pace of investment will probably continue to be high as we adapt the store network and develop our omni-channel services. In addition, the exciting expansion of Newbie Stores continues, both in existing markets and the United Kingdom. One of the guiding principles in the continued work is the right fashion for our customer, when and how the customer chooses. KappAhl is to be the first choice of our customer. ■

THE CUSTOMER IN FOCUS

With insights into our customers' style, behaviour and motivation, we create business plans and strategies that ensure that we are always ready to meet them, when and how they choose. Fashion is a feeling. We help our customers find it.



IT IS TIME THAT FASHION MAKES YOU FEEL.

Just think if we always realised how beautiful we are. Just think if we always felt confident in our clothes. And just think if garments always brought out our best features. That's exactly why we do not design for models on a catwalk, but for you. It's time for fashion to empower you. And we intend to fight for that.



OUR CUSTOMERS

Our customers are women, men and children of all kinds. We know them well. They think clothes are fun. But styling and matching are not always that simple. Our skilled employees, with their feeling for style and knowledge of our range, can inspire and guide customers towards the right choice. Both as regards fit, matching alternatives and suggestions for suitable accessories. Our customers want a warm reception and sustainable, value-for-money clothes of high quality. They decide for themselves when, where and how they want to shop. It must be easy to find what they are looking for, both in the store and online.

Our main customer is a woman in the prime of life. She values garments of high quality that are sustainably produced. At KappAhl she shops for herself as well as her family in the men's and children's departments. Our customer likes clothes and wants to feel attractive and feminine. But also comfortable. So we work on fit and offer clothes in many sizes. We honour diversity of shapes and work very hard to create a flattering cut for different body types. We want to strengthen women's self-image and help them feel confident in themselves. And we are driven by the conviction that when you feel good, you look good.

DEVELOPMENT OF THE FASHION INDUSTRY

The fashion industry's development is driven by digitalisation and increasingly short-lived fashion trends, but also by counter-trends in the form of more personal customer meetings and increased focus on sustainable production and consumption.

NEW PURCHASING BEHAVIOUR

Technical development is accelerating and today our customers are constantly online. The seamless experience of a KappAhl, regardless of channel, is increasing in importance.

PERSONAL MEETING

As our customers obtain more inspiration and shop more online the expectations of the in-store customer meeting increase. Our customers expect a personal reception, inspiration and a helping hand when they come to us.

FAST FASHION

Our customers want the right garment at the right time, regardless of whether it is the latest fashion trend or the right colour outdoor trousers for children starting school. They expect us to identify the right trends and that our logistics chain and distribution strategy meet their needs at the right time.

SLOW FASHION

More knowledge about sustainability means that our customers are increasingly looking for clothes of high quality with a long life. Of course the garments must also be responsibly produced from sustainable material. We must be able to give them transparent and clear information about how and where the product was made.

ABOUT KAPPAHL

With insights into our customers and the markets we operate in, we create business models, plans and strategies. Our business plan Clarity for the Customer and our sustainability strategy Responsible Fashion lay the foundation for profitable business.

OUR BUSINESS MODEL

At KappAhl our purpose is to make everyday life better for women in the prime of life, and their families, by offering a broad range of well-designed and sustainable fashion that feels good.

We are a fashion chain for many people. Our products are designed in Sweden and manufactured in large volumes in our production countries. We locate our production with the supplier that can best meet our requirements regarding price, quality, sustainability and reliability of delivery. A highly effective logistics chain brings the goods from the production countries to our sales markets.

We meet our customers on their terms - in inspired stores in good locations and in our Shop Online. We use effective marketing and a popular customer club to build our brand recognition and loyalty. We are businesslike and cost-effective and endeavour to provide a sustainable and clear range with the right fashionability. In combination, this means that we can create a long-term attractive offer for our selected target groups.

We meet our customers on their terms - in inspiring stores in good locations, in our Shop Online and in social channels.

OUR BUSINESS

We achieve success by creating sustainable growth and profitability. This in turn allows us to invest and develop, but also to be an attractive workplace and an attractive share. We achieve our goals by:

- being a clear destination for our customers
- offering an attractive and well-co-ordinated range
- creating a high-performance sales and service organisation
- guiding our customers to modern and inspiring shopping experiences
- constantly developing our stores and Shop Online
- developing new concepts and offers
- integrating sustainability in every part of our operations

OUR SUSTAINABILITY WORK

Sustainability is integrated into our daily work and our business plan through our sustainability strategy Responsible Fashion. The sustainability strategy is based on the UN global sustainable development goals and research by the Stockholm Resilience Centres on the planetary boundaries. Our areas of focus are:

- design fashion for a sustainable wardrobe
- work towards a sustainable supply chain
- develop a sustainable organisation and stores
- inspire our customers to make sustainable choices

KappAhl follows global guidelines and principles, for example from the UN (including the ILO) and the OECD, applies the precautionary principle, works proactively and cooperates on industry initiatives to achieve long-term sustainable development.

Read more on our presence, business plan and sustainability strategy on pages 44–49.



A FULFILLING WORKPLACE

We are one of the leading Nordic fashion chains with about 4,000 employees in nine countries. Inspiring and guiding our customer to the right fashion for her is central for every KappAhl employee.

We at KappAhl have different backgrounds, ages, knowledge and clothing styles. But we are all driven by the same thing: providing many people with the opportunity to be well-dressed. We do this through a burning interest in fashion, a strong focus on our customers and the results we want to achieve.

KappAhl is a popular workplace, which is evident from the interest in working for KappAhl, Universum's ranking of Sweden's best employer, and our annual employee survey. We are continually recruiting to various positions to ensure that we have the right person in the right place at the right time. Interested candidates can gain an insight through #lifeatkappahl on social media, where our employees post pictures of their working day.

We want our employees to have the best start possible at KappAhl and so we offer digital introductory training that takes place directly after starting in the job. The training gives our newly

employed colleagues a clear picture of KappAhl, our customer, values and sustainability work. All to be able to contribute from the first day in the new job.

THE MOVEMENT

We are operating at a time when the fashion industry and customer behaviour are changing faster than ever. To meet these demands and stand strong, during the year we launched The Movement, an energy-creating cultural journey that supports us in developing innovative working methods, clarifying processes and a stronger culture. Through workshops and training we have provided our leaders with tools to guide, inspire and support employees on this journey, the mandate to change and the opportunity to develop their department and their own leadership. Employees in turn receive inspiration and tools to create the best conditions in their daily work and in the meeting with our customers.

NEW OPPORTUNITIES

We see that there is great value in developing ambitious employees who want to grow with the company. The KappAhl Academy offers employee training and programmes at all levels so they feel ready to take the next step. During the year seven out of ten managerial and specialist positions have been recruited internally, which is in line with our objective

With our customer and our business plan as the starting point, we tailor training that develops both employees and KappAhl, in everything from sustainable product development to stronger customer meetings. All employees have participated in skills development during the year; on average 11.5 (11.6) training hours per employee.

For our employees in stores who aim to be store managers we offer training at the KappAhl Academy – Store Manager Trainees. The programme equips the

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EMPLOYEES

Our creativity creates moments of happiness.

OUR KEYWORDS

TEAM SPIRIT We work together and treat each other professionally.

CREATIVITY We are open to new ideas and ways of working.

CLARITY We focus on essentials and strive for simplicity.

ENERGY We are committed, energetic and persistent.

COURAGE We dare to try new things and take responsibility.

KEY RATIOS, EMPLOYEES¹

	16/17	15/16	14/15
Total number of employees	4,001	4,047	4,104
Full time positions ²	2,708	2,812	2,885
Staff turnover (%)	14.3	14	10.5
Percentage of women	93	91.5	92.6
Percentage of men	7	9.5	7.4
Average age	37.9	37.3	35.8
Training hours per person	11.5	11.6	9.5
Sickness absence (%)	5.7	5.7	5.9

1 For more employee data, see Part 2, page 50.
 2 Total number of services restated as full-time positions.

participants for the challenges they will face as store managers, through both practical and theoretical training.

Those already working as managers in the Group can apply for our High Potential programme, a qualified programme in business sense and leadership in collaboration with the IHM Business School. The programme develops the leadership qualities of the participants and gives them tools to take more responsibility, extend their networks and create a framework for influencing their role and KappAhl's entire operations.

TRAINING WITH THE CUSTOMER IN FOCUS

Since the start of the year we ask our customer club members to complete an evaluation of their purchase, which we call the Customer Service Follow Up. It has given us the opportunity to make a weekly follow-up of customers' views and responses and to develop areas where customers think we could sharpen up even more. To meet customers' explicit needs, this year we have also offered all store employees a three-part digital training course that covers contextual selling, styling and fit. The store employees also received training during the year in how to give the best service using our digital tools Click & Collect and Shop Online in Store.

A DECENT WORKPLACE

Taking responsibility for good working conditions at KappAhl is a given. We work actively with questions such as gender

equality, diversity, the work environment and non-discrimination. The work is based on our gender equality policy, work environment policy and the overall business strategies, among other things. Everyone, when they start work at KappAhl, is informed of our ethical guidelines and what they entail so as to form an approach to important issues such as corruption and conflicts of interest.

We are each other's work environment and we build on this. Our leaders work continually to promote a good working climate that creates commitment, enjoyment and initiative. Sickness absence was 5.7 (5.7) per cent during the year and is regularly followed up. It is gratifying that we have very few occupational injuries.

Every employee has the possibility of reporting events that are perceived as discriminating and derogatory in the annual employee survey, or directly to the immediate superior or to the HR department when a situation arises. This year 24 (22) cases were reported. All cases of bullying or victimisation at KappAhl are followed up by the HR person responsible and must be treated promptly and confidentially. See Part 2, page 50 for more information.

In Sweden, Finland and Norway all employees are covered by collective agreements, representing 90 (87) per cent of KappAhl's employees. National legislation applies in other countries. In these countries in some cases we decide to set the terms of employment beyond legislation. ■

FROM SALES REPRESENTATIVE TO REGIONAL MANAGER

At KappAhl employees are given many opportunities to develop and we prefer internal recruitment. Pernilla Thorsell started as a sales representative at KappAhl 27 years ago, has worked as store manager since 2003 and now she is looking forward to leading and inspiring other store managers in the role of regional manager.

"In my 27 years at KappAhl I have always felt seen and as if I have a say – regardless of my position," says Pernilla.

She started in 1990 as a sales representative in the KappAhl store at Sergels torg. A few years later she went to the store at Globen and there had the opportunity to train as a visual merchandiser. In 2003 Pernilla Thorsell received KappAhl's store manager training after which she became manager of her first store. The store in Sollentuna increased its sales by several hundred per cent under her leadership.

After a couple of years she moved on to the store at Hötorget, thereafter it was Farsta, which she ran at times in parallel with the store in Huddinge, and in-between all this she fitted in a bit of mentorship for new store managers. In 2014 our flagship store on Drottninggatan in Stockholm awaited. And now it's time for the next step on her KappAhl journey.

"It feels incredible, I'm so psyched up!" says Pernilla Thorsell and talks enthusiastically about her 23 stores in eastern Sweden that she is to support and lead as well as she can in her role of regional manager.



PERNILLA THORSELL

WORKED AT KAPPAHL:

Since 1990

FAVOURITE KEYWORD:

Courage. "The most important is to dare to believe in yourself."

MOST IMPORTANT DUTY:

"Spreading job satisfaction to people around me."



SATISFIED EMPLOYEES

We care about our employees and think it is important that they enjoy their work. Every year they have the opportunity to rate KappAhl as a workplace in our employee survey KappAhl Attitude Survey.

THIS YEAR'S STUDY also confirms our belief that our employees appreciate their workplace. When employees rated whether KappAhl is an attractive employer we received as many as 5.8 (5.8) points on a scale of seven. At the same time, our Employee Net Promotor Score, a measure of how probable it is that employees will recommend the workplace to friends and acquaintances, rose to 23 (22). This performance compares very well with other companies.

Leadership is a recurring area of questioning in this year's study, which has increased from already high levels in many areas. Our employees consider that their immediate superior sets a good example, treats them with respect and that they communicate well. Good leaders are an important part of our success.

More employees than before state that they want to continue to develop further in their professional role, for example to be able to meet customers' needs. This is a result of recent years' focus on giving our customers the very best service, and we will continue to involve our employees, for example through more training in this area.

Employees were also asked to state how they have been able to contribute to KappAhl's sustainability work, a new question in this year's survey. We scored highly there; as much as 6.1 out of a possible 7. We are very proud of that and it shows that our sustainability work runs throughout the entire organisation.

*KappAhl is a fun workplace!
I develop in the job every day and
never stop learning something new*

–Employee in the KappAhl Attitude Survey.

DO YOU WANT TO WORK FOR US?

Our vacancies are listed at www.kappahl.com/positions.





OUR VALUE CHAIN

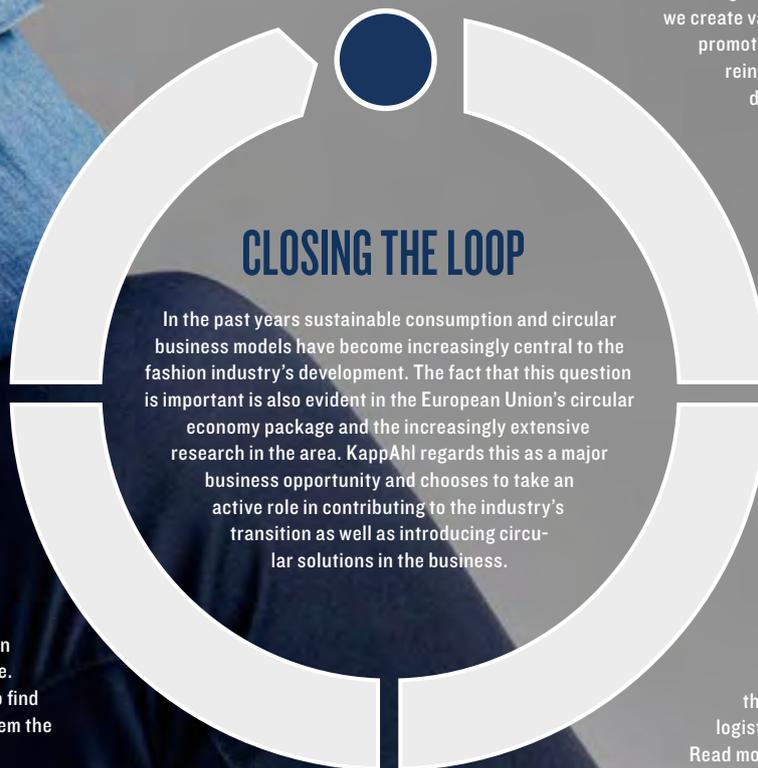
KappAhl's value chain is complex and contains many challenges, but also many opportunities. The work of making the organisation effective and integrating sustainability into all parts of the value chain – from design, to production and logistics, selling, marketing and consumption – is taking great steps forward every year. On the following pages you can read more about how we work to create profitable and sustainable operations.

4. CONSUMPTION

KappAhl endeavours to inspire and guide our customers and create conditions for more sustainable consumption. Read more on page 40.

3. SALES

Every day we meet hundreds of thousands of customers, in stores and in our Shop Online. We inspire and guide them to find their own style, all to give them the best service. Read more on page 34.



1. DESIGN & PURCHASING

In our design and purchasing departments we create value-for-money fashion that promotes our customer's style and reinforces her personality. We produce about 4,700 articles every year – always according to our customers' needs and focusing on quality and sustainability. Read more on page 20.

2. PRODUCTION & LOGISTICS

Our production during the year was with 176 (203) suppliers, mainly in Asia but also in Europe. The 44 million products we order are transported from the factories, via our distribution centre, to our stores and home to the customers in a highly effective logistics chain. Read more on page 26.



DESIGN AND PURCHASING

In our design and purchasing department we create fashion that promotes our customer's style and reinforces her personality. We produce about 4,700 articles every year – always according to our customers' needs and wishes, focusing on quality and sustainability.

We believe that fashion should be enjoyable, good value and inspiring. Our garments must have the right fashionability, be of high quality and have the best fit, because at KappAhl we want to help our customer to find and enhance her unique style. The style will augment her personality and always create a good feeling. We offer the right garment at the right time and in a well-coordinated range for our customer's wardrobe.

“As focus on sustainable consumption increases, garments are subject to higher demands regarding right quality and fashionability, but also regarding being able to combine them with other wardrobe items. Our motivation is to create garments and collections that embellish our customer's day, both workdays and party days!” comments Maria Segergren, Vice President, Range and Design at KappAhl.

STRAIGHT OFF THE DRAWING BOARD

It all starts in our studio at head office. We are constantly working there to

develop our range and design all clothing sold in KappAhl's stores. The employees include designers, design assistants, controllers, buyers, buyer assistants, pattern constructors, design and purchasing and collection managers, as well as a sustainability coordinator who ensures that our range is constantly becoming more sustainable. Together they contribute very varied experience and knowledge to design an inspiring range.

Normally work is in progress on up to three seasons at a time and garments and collections are sketched and developed that arrive in the stores about 9–12 months later. The major trends are picked up by KappAhl's designers far in advance, but in parallel we also need to work at a faster pace and with shorter decision lines when new trends turn up and must be quickly added to the assortment. In that case suppliers in Turkey, for example, are engaged with shorter delivery times.

Knowledge of our customer is central for our design and purchasing depart-

ment - to get it right requires knowing the customer well. Apart from weekly analysis of sales figures we obtain a lot of information from our customer surveys, our customer follow-up tools and assortment council with store representatives.

To be on the right track and snap up trends early we always have a finger to the wind and regularly monitor everything from international magazines to social media. A lot of inspiration is also gained from the inspiration trips the designers and buyers make every year. By travelling to major cities of the world like Paris, London, New York and Seoul designers and buyers can identify new trends in anything from silhouettes to details and material choices.

DEVELOPING THE RANGE

Our range is constantly being developed, but we always offer a mix of garments with high fashionability, well-tailored trousers and basic garments that mean that our customer can always find what

»

DESIGN AND PURCHASING

10%
OF KAPPAHL'S TOTAL
CLIMATE IMPACT

CHALLENGES

- » Creating an inspiring, attractive and clear range for our customer.
- » Hit the mark as regards trends, sizes, season and demand.
- » Limited access to sustainable solutions and materials.
- » Ensuring high quality at the right price.

OPPORTUNITIES

- » Our target group is growing, which is often overlooked by other fashion companies.
- » Increased demand for clear fashion concepts for the woman in the prime of life.
- » More customer demand for sustainable fashion.
- » Increased digitalisation, more people shopping online.
- » Sustainable decisions on design and purchasing bring improvements throughout the value chain.

In this financial year 53 (38) per cent of our range had sustainable fashion labelling.

she wants. Work on the range is steered partly by range strategies and sustainability as well as by KappAhl's product policy. During the year we launched "Scandinavian Feminine" – our new and refined range strategy for womenswear that builds on our idea of a clearly coordinated concept for our customer. In that way our expression is more integrated in the collections and in stores.

"Scandinavian Feminine sets the feeling for the entire womenswear range with key words being feminine, simple, modern, easy to wear with wide appeal and a Scandinavian feeling," says Sophie Lilja Angin, design and purchasing manager for Woman at KappAhl.

AN INCREASINGLY SUSTAINABLE RANGE

Sustainability is important both for our customer and for us. Studies show that more than 80 percent¹ of a product's impact on the environment is at the production stage and is already determined at the design stage. The materials we use, how we construct our patterns and how we intend the garments to be used determine the garments' total environmental impact. Our sustainability work in design and purchasing often helps to reduce costs, but always to create greater value to the customer and more effective production.

KappAhl is now testing a scorecard for sustainability in our product development system, to better control and measure the effect of our sustainability strategies and choices at product level. In spring 2017 this was successfully tested and we will implement the scorecard's five criteria in the autumn: "Sustainable Material", "Circular Design", "Design that Lasts", "Efficient Raw Material Use" and "Sustainable Technology".

In this financial year 53 (38) per cent of our range had sustainable fashion labelling. These garments are manufactured from more sustainable material such as organic cotton, lyocell or recycled polyester, and may also be certified by Öko-Tex.

Everyone who develops the range at KappAhl completes the Sustainable

Fashion Academy's training in sustainable design. Parallel with the training we arrange internal workshops to provide supplementary knowledge of KappAhl's sustainability guidelines and strategies.

SUSTAINABLE MATERIALS

Our target is for 100 per cent of our range to consist of more sustainable material by 2025 and that 100 per cent of our cotton will be more sustainable already by 2020. More sustainable cotton includes Better Cotton, organic cotton and recycled cotton. This year 81 (52) per cent of the cotton in our garments was more sustainable cotton. Globally there is a deficit of more sustainable and organically grown cotton. To create incentives for more farmers to move from conventionally farmed to more sustainably farmed cotton we are active members of the Better Cotton Initiative (BCI) and the Organic Cotton Accelerator (OCA) that support farmers who convert their production.

About eight per cent of our garments contain cellulose-based fibres such as viscose, lyocell and modal. KappAhl is a member of Canopy, an organisation that works to ensure that the textile industry's cellulose-based fibres are from more sustainable forestry. According to the organisation, studies show that one third of the world's viscose comes from ancient and endangered forests. Our objective is that all cellulose fibres purchased must come from Canopy-approved suppliers.

We have also started our transition to using more recycled fibres. In total we have used about 9,400 (15,300) tonnes of raw material for our range this year, of which recycled fibres made up 0.7 (<0.5) per cent of the total material use. This corresponds to 290,000 garments.

During the year we achieved our target of all product packaging and labelling being more sustainable, all paper FSC labelled or recycled and all polyester for washing instruction labels being recycled. ■

¹ European Ecodesign Directive



KAPPAHL SUSTAINABLE DESIGN CONTEST

WE WANT TO ENCOURAGE tomorrow's fashion creators to design sustainable fashion. So in 2016 we launched the KappAhl Sustainable Design Contest for fashion students who want to be part of developing future sustainable design solutions. The entries must include creative and sustainable ideas and be workable in large-scale production.

The 2017 winner, Kim Linghoff, submitted an entry that showed how it is possible to playfully and tastefully combine newly produced material with material left-over from previous manufacturing in new exciting knitted products. Garments based on Kim's idea will be launched in autumn 2018.

Last year Lovisa Sandrine Malmberg Gomis was proclaimed winner. Her multifunctional dresses can be worn in several different ways, thus giving them a longer life. The dresses were launched as part of our "Celebrate" collection in spring 2017 and were highly rated by our customers.

THE KAPPAHL SUSTAINABLE DESIGN CONTEST PANEL OF JUDGES

Emilia de Poret, fashion journalist • Kate Goldsworthy, Senior Research Fellow at the University of the Arts in London • Maria Segergren, Vice President, Design and Range, KappAhl • Karin Verdoes, designer, KappAhl • Eva Kindgren de Boer, sustainability coordinator, production, KappAhl • Lina Nyqvist, sustainability coordinator, range, KappAhl

SHARING WARDROBE IN ALMEDALEN

SUPPOSE you could share your wardrobe so that more people could enjoy wearing your clothes! Visitors to the well-attended Almedal week in Visby, Gotland, could do just that. Along with industry colleagues, KappAhl contributed garments to the popular Almedagsgarderoben, arranged by Svensk Handel (Swedish Trade Federation) and the Swedish Fashion Council, aimed at highlighting new business models and contributing to a more sustainable fashion industry. To ensure that the garments have as long a life as possible, the people who wore them during the week were offered the opportunity to buy them by contributing an optional amount to a charity. The other garments were auctioned online for the benefit of the Swedish Society for Nature Conservation.

Our target is that 100 per cent of our cotton shall be more sustainable by 2020.



THE KAPPAHL GUIDE >> PART 2

HOW TO SHOP SUSTAINABLY

- » Look at the garment's labels for more sustainable materials, such as the Better Cotton Initiative (BCI), organic cotton or recycled material.
- » Buy garments you know you will wear for a long time that are of good quality, they will have a longer life
- » Read about sustainable fashion production so you can ask questions and make the right choices.

In Part Two of our film series Make It Feel Right you can learn more about what we are doing at KappAhl to create a more sustainable range. www.kappahl.com/makeitfeelright

THE YEAR AT KAPPAHL



MORE SUSTAINABLE DENIM

PRODUCING a pair of jeans can consume 11,000 litres of water¹. It depends partly on how the cotton is farmed, but also on the processes the jeans go through to give them the right appearance. Production is often in the world's driest regions, where clean water is in short supply, using processes that require far too much water, energy and chemicals. This is exactly what we at KappAhl want to change and so we have launched more sustainable denim in all departments of KappAhl. The garments are made of more sustainable cotton². In addition, during the year we and our suppliers started using a tool to improve efficiency and to measure the resources used in denim manufacture. This creates smarter, more sustainable processes that save about 48 per cent water, 30 per cent energy and uses considerably less chemicals in production. Our goal is to only be using more sustainable production processes in 2030. Today half of our jeans are manufactured from more sustainable cotton.

¹ World Wide Fund for Nature

² Organic cotton or from more sustainable farms

SUSTAINABLE SWIMWEAR

A SWIMSUIT made of old plastic bottles? Actually, yes! In spring 2017 we launched KappAhl's first sustainability labelled swimwear. The garments are made partly from recycled material – polyamide and polyester created from products at the end of their life-cycle. They may be pet bottles, fishnet or other plastic products, or even waste material from industry. Recycled fibres mean reduced use of resources and environmental impact compared with new material.

Our goal is to only be using more sustainable production processes in 2030.

ASIAN VIBES

IN RECENT YEARS our gaze has more often been directed towards the East for new inspiration. In spring 2017 we launched the Asian Vibes collection that is based on Asian flower patterns and voluminous silhouettes.





A GOOD BASE

COMFORTABLE BASIC GARMENTS in cotton are the most important wardrobe staples for big and small alike. Fashion's everyday heroes, quite simply. As well as being this season's trend.

"A crisp white top could definitely be an eye-catcher – super hero – in an attractive look," according to Sophie Lilja Angin, Design and Purchasing Manager, Woman.

From this year KappAhl's basic garments will be brought under the same umbrella: Basic. The Basic series is made of soft, more sustainable cotton and is available in womenswear, menswear and childrenswear in the form of t-shirts, tops and vests.

The Basic range for small children has a broader product offer and also includes jogging trousers, leggings and sweat-shirt cardigan.

A TWENTY-YEAR OLD XLNT

Fashion and trends for everyone – whatever their size. This is our successful plus size concept Xlnt that is celebrating 20 years this year.

Xlnt follows the same trends and focuses on the same key garments, colour scheme, fit, quality and cut as our women's collection.

DOES ANYTHING DISTINGUISH XLNT FROM THE WOMEN'S COLLECTION?

"Not in terms of fashion, but in general we always put a bit more into the Xlnt garments. Cut and fit must be fine tuned to be really attractive in larger sized garments," explains Xlnt designer Malin Berlin. Xlnt's pattern constructor Lotta Matkaselkä explains:

"Catwalk models are size 36 – we then transform them into size 44–54 or L–3XL. It is a creative and very enjoyable challenge, since it is not possible to just increase the size proportionally. For the garments to hang and fit well we must look at the cut and the details – it may be a matter of how we cut the garment over the back or the arm, or how we place a flounce.

The time is past when plus bodies were hidden in big tent-like sheets of fabric – particularly for the younger Xlnt customer.

"The younger girls wear their curves with pride; "People pay to get a backside like this" they say. It's wonderful!



PRODUCTION AND LOGISTICS

Our production during the year was with 176 (203) suppliers, mainly in Asia but also in Europe. The almost 44 million products we order are transported from the factories, via our distribution centre, to our stores and home to the customers in a highly effective logistics chain.

KappAhl does not own factories; all purchases are made through suppliers. 92 per cent of our purchases are made from our suppliers in Asia and we have production offices in Bangladesh, India, China, Turkey and Myanmar that deal with day-to-day contacts with our suppliers.

We established a production office in Myanmar in the 2015/2016 financial year and in the past financial year we also placed orders in Sri Lanka. The work is managed from our production office in Tiripur in India.

The production markets are constantly transforming and we regularly evaluate our suppliers and the markets in which they operate on the basis of several different parameters, such as sustainability, delivery, quality and price. We locate our production with the supplier that can best meet our requirements. In 2016/2017 the 10 largest suppliers were responsible for 31 (30) per cent of our purchases. Co-ordinated production means improved quality, better control and greater oppor-

tunities for influence. We are aware of risks in all production countries in Asia regarding human rights, corruption, working conditions, wages, child and forced labour, freedom of association, safety, health and the environment. The risks can arise with our suppliers, but mainly earlier in the value chain. To be able to manage the risks we build our sustainability strategy on a combination of own initiatives and industry initiatives that can also reach actors that KappAhl does not work directly with.

Bangladesh is one of our most important production countries, but in recent years has been affected by political instability. However, we have retained our production volumes in the country and have good contact with our suppliers in the market.

CHALLENGES AT THE PRODUCTION STAGE

KappAhl and our industry have the potential for great positive influence at

the production stage, for example by developing the local economy, creating jobs and better prospects for children, women and men in the production countries. The industry also helps to spread better technology for production. But there are also great challenges at the production stage. These include human rights, sustainable materials, creating cleaner production and achieving reduced use of water, energy and chemicals. The challenges, and lack of transparency, are greatest early in the supply chain.

KappAhl wants to contribute to long-term sustainable development in the countries and factories we buy goods from. We see great opportunities to contribute in various ways and reach out to the approximately 156,000 employees at our suppliers and also more who work earlier in the supply chain.

CONTROLLING PRODUCTION

Our strategies and guidelines for production and binding Code of Conduct for

»



PRODUCTION AND LOGISTICS

64%
OF KAPPAHL'S TOTAL CLIMATE IMPACT

CHALLENGES

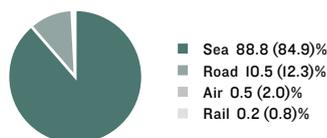
- » Protect human rights, for example through good working conditions
- » Cleaner production, in terms of water, energy and chemicals.
- » Access to sustainably cultivated raw materials, such as more sustainable cotton.
- » Exchange rate effects on purchase prices.
- » Timing and efficiency, so that the right product is at the right store at the right time and at the right price.

OPPORTUNITIES

- » Enhanced partnerships with suppliers to ensure the best product and contribute to sustainable development.
- » Transform our transport to more sustainable solutions.
- » Further integration of eCommerce and store logistics.

DISTRIBUTION OF MODES OF TRANSPORT

from production country to store, based on the number of tonne-kilometres



suppliers are important management instruments in the work, as are our ethical guidelines and our sustainability strategy Responsible Fashion.

The Code of Conduct, which our suppliers undertake to follow, covers important areas such as forced labour, child labour, anti-corruption, freedom of association and organisation, wages and working hours, safety at the workplace, as well as environmental aspects such as correct waste water treatment. The Code of Conduct is regularly checked against developments in the rest of the world and is updated as necessary to reflect changes in the world around us and harmonise with the industry initiatives we participate in.

We have zero tolerance for all types of corruption. It is highly unusual for us to identify cases of irregular conduct either in relation to our employees or suppliers, since we have a high degree of internal control. No cases of corruption were reported during the year. Our ethical guidelines are signed when someone is employed and when contracts are signed with new suppliers. After that we go through the guidelines with the employees and suppliers every year. The greatest risk of corruption is at the supplier stage. Employees in the purchasing organisation receive regular training in anti-corruption. The question is also part of the annual activity plan at all our production offices.

CLEANER PRODUCTION

Textile production requires large amounts of water, energy and chemicals, which in turn create emissions to both air and water, waste and impact on biodiversity. The Asian countries, which account for the greatest part of the world's textile industry, are the fourth largest industrial water user and the World Bank estimates that 20 per cent of global industrial freshwater pollution is caused by the textile industry. We take these issues seriously and are therefore

involved in the Sweden Textile Water Initiative (STWI) and the Partnership for Cleaner Textile (PaCT) in Bangladesh to contribute to solutions and spread knowledge about these matters in our production countries. KappAhl's goal is that all our key suppliers are to be approved for cleaner production by 2025.

74 per cent of the value of our purchased goods in Bangladesh and India is covered by PaCT or STWI. Projects are always run together with our suppliers and are based on mutual trust and the aim to create less water-intensive production and reduced use of chemicals and energy, while retaining quality and profitability.

KappAhl is one of the founders of the Sweden Textile Water Initiative (STWI) together with the Stockholm International Water Institute (SIWI), Sida and two industry colleagues. Today more than 20 Nordic fashion and leather companies are members of STWI and cover 227 factories in India, China, Ethiopia, Bangladesh and Turkey. In the context of STWI we have worked with 19 of our suppliers' factories to improve the processes and increase knowledge of the water issue.

Globally, STWI together with the participating factories, suppliers and sub-contractors has saved more than 3.35 million cubic metres of water, reduced the use of chemicals by 5.2 million kilos and at the same time reduced energy consumption by 27.7 GWh in 2016. The reduced consumption of resources has resulted in suppliers achieving a 240 per cent return on their investment over three years.

During the year, together with PaCT and our suppliers, we conducted a mapping of their factories' impact regarding water. This has led to better knowledge and understanding of both inflows and outflows of water and how it is used. This knowledge gives us the opportunity to join with our suppliers to further change processes and procedures to reduce



THE KAPPAHL GUIDE >> PART 4 AND 5



COME AND VISIT A FACTORY!

In Parts four and five of our film series *Make It Feel Right* you can see the presenter Annika Leone meeting Parvati Balasaheb Chopde who, thanks to our project together with Cotton Connect, has started to farm more sustainable cotton, and Susmita Kamath, who trains our suppliers in more sustainable production

www.kappahl.com/makeitfeelright

water use. At our production office in Dhaka we also arranged training for all employees and our suppliers of jersey and denim about chemicals and more sustainable production processes.

The PaCT initiative also lead to major environmental savings; water consumption among the participating factories has decreased by 18.4 billion litres and emissions of greenhouse gases have decreased by 275,000 tonnes on an annual basis.

TRAINING FOR FEMALE COTTON FARMERS

As active members of the Better Cotton Initiative we are increasing our access to more sustainably farmed cotton and we can contribute to training of cotton farmers in more sustainable farming methods. Together with Cotton Connect and four industry colleagues we are currently operating a project to strengthen and train female cotton farmers in India in sustainable cotton farming. The 1,546 women participating in the project are given access to training that gives them knowledge of crop rotation, how to protect their harvest, reduce their water consumption and the advantages of bio-fertiliser that adds long-acting and

easily accessible plant nutrients to the soil. The money saved by the farmer by using less water, chemicals and fertilizers goes for example to higher wages for employees and schooling for the children. The increased knowledge as well as reduced use of water and chemicals is also positive for the environment and workers' health and improves the conditions for both the farmers and their families.

A HIGHLY EFFECTIVE LOGISTICS CHAIN

KappAhl is constantly working to optimise the supply chain from production to store. In the past five years we have worked to optimise the filling ratio and we have thus reduced transport volumes to stores by 25 per cent. At the same time we have reduced the logistics costs per product by a fifth. This is good both for KappAhl and the environment!

At our distribution centre projects are in progress to develop a common warehouse for all goods, whether they are bought in stores or in Shop Online. This is in line with our omni-channel initiative.

“We will amalgamate all the systems and to some extent automate handling of orders from Shop Online. We now have a grading plant that we also want to utilise

when we handle orders from Shop Online,” explains Johan Engen, head of logistics at KappAhl.

Working to increase efficiency in logistics is also in line with KappAhl's sustainability work, as it leads to reduced emissions per garment. We coordinate logistics and have a common distribution centre in Sweden for the entire group. Most shipments are by boat from Asia to our distribution centre. We only use air freight in exceptional cases. Deliveries from the distribution centre to stores are usually by road or rail. During the year we initiated a pilot project where we ship goods by rail the entire way from Asia to the distribution centre. We put environmental requirements on all carriers, regardless of mode of transport and since 2008 we belong to the Clean Shipping Network, an organisation that promotes more sustainable maritime transport. During the financial year 86 (80) per cent of the shipping companies we used were verified according to the Clean Shipping Index, a database of shipping companies that are working to improve conditions and reduce the environmental impact of their maritime shipping. KappAhl was one of the initiators of this database.

Read more in Part 2, page 51. ■

INITIATIVES FOR BETTER WORKING CONDITIONS

We have an ongoing dialogue with our suppliers concerning KappAhl's Code of Conduct. In recent years there has been a move from control to cooperation. Our objective is that the inspections and follow-up visits by our employees every year will improve the relation and the dialogue with suppliers and lead in the long term to the suppliers taking on greater responsibility themselves to deal with the problems we highlight.

FOLLOW UP ON THE CODE OF CONDUCT

Our employees at the local production offices monitor the Code of Conduct in three steps: identify non-conformances for the Code of Conduct, initiate improvement measures, and support the work of improvement through transparent cooperation. Another important task is cooperation and coordination with colleagues in the purchasing organisation to ensure that production is at factories that live up to our requirements.

We rank factories according to how well they meet our requirements: Not

NON-CONFORMANCES WITH THE CODE

	2016/2017	2015/2016
Number of factories	296	349
Number of inspections	206	176
Number of follow-up visits	186	122
Approved, %	56	47
Temporarily approved, %	32	37
Not approved, %	2	1
Not inspected ¹ , %	10	15

¹ Constitutes factories in the category of agents & importers that have not achieved a given order value or are not in a country assessed to be a risk country.

approved, Temporarily Approved and Approved. Not approved means that the factory does not meet the basic requirements and can therefore not be used for production for KappAhl. The first time we inspect a factory it is always ranked as Temporarily Approved if it meets our basic requirements, as more than one visit is necessary to verify how well a factory lives up to our requirements. After twelve months the factory is inspected again and must then meet the requirements for Approved. While we are in partnership with a supplier and factory we continue to visit the factory regularly and work for further improvements.

In 2016/2017 we made 392 (298) inspections and follow-up visits at the suppliers' factories. The increase is partly due to the establishment in Myanmar and Sri Lanka, as well as a strengthened sustainability organisation in China. As a result of deviations with the Code of Conduct and failure to carry out necessary improvements, during the year we discontinued cooperation with six factories; three in Bangladesh and three in China. In Myanmar collaboration with eight factories was not started due to deviations at the first inspection.

INSPECTIONS AT NEW FACTORIES

During the year 58 new factories, corresponding to 100 (100) per cent of new factories associated with a production office were inspected. The factories inspected in the category of agents and importers are in risk countries or have reached a certain order value. Five new factories in the category of agents and

importers were inspected. Of the total order value at our new factories during the year, 95 per cent were inspected.

WANT TO PROMOTE CHANGE

When we identify non-conformances with our requirements our objective is to promote change instead of ending the partnership. Suppliers and factories must draw up a plan of action that describes how the non-conformances are to be corrected systematically and sustainably, when the measures are to be completed and who is responsible for ensuring this is done. 120 suppliers have drawn up action plans during the year.

The most common non-conformances are in the area of wages and working hours. We also see the need for changes in fire safety and conditions of employment, for example. If a supplier does not cooperate, a factory does not live up to the basic requirements or does not carry out promised improvements, we limit or stop the placing of orders.

Our Code of Conduct is available to read at www.kappahl.com/sustainability ■

On KappAhl's website you will find a list of the factories that our suppliers use to produce our clothes.

www.kappahl.com/sustainability



CATERING FOR WOMEN AND CHILDREN

Empowering women is an important part of KappAhl's operations, both in our production countries and in our sales markets.

Many of the women who make our garments are mothers and childcare is an important issue for all parents of small children. Under Bangladeshi labour law factories must provide childcare, but many only have a room with toys and beds but no staff. We want to change that! During the year we started a project to help factories where we have production to get efficient day nurseries.

"To date we have helped two factories and now we are working with a third. Two thirds of the factories KappAhl works with already offer childcare. Our goal is that all factories that KappAhl works with in Bangladesh will have it and now we are helping the ones that have no day care," relates Masuma Roushan, Social Compliance Officer at KappAhl in Bangladesh.

Normally children in Bangladesh are looked after by grandparents or neighbours when their parents are working, or else the mothers stop working when they have children. With a day nursery at the workplace the mothers have the opportunity to take their children with them to the workplace.

"Each day nursery has about ten children. In addition relatives take babies to the day nursery every day so that they can be breast fed by their mothers during the working day," relates Rafia Sultana, Social Compliance Team Leader at KappAhl in Bangladesh. The response from both mothers and factories has been very good.

"The mothers have welcomed this initiative and more mothers are now leaving their children at the day nurseries," says Masuma.

"We can also see that management and supervisors at many factories are beginning to see the benefit in the factory's productivity and in that they can retain their good employees even when they have children," adds Rafia.

Why does KappAhl involve itself in such a matter? The reply is immediate;

"It is a human right to take care of your family and your children!" states Rafia.

"In addition we want to empower the mothers and give them the chance to continue working even if they have small children. Hopefully this will lead to more women becoming supervisors, which is not so common in Bangladesh today," explains Masuma.

A NEW OPPORTUNITY FOR SHEULI

"Before I started at the training centre my life was hopeless. I lived with my husband and his family and we had financial problems. My husband was an alcoholic and it was impossible to live with him. I moved from Dhaka to Gajipur and my new neighbour told me about the training centre in Cheragali. She said I could get a job afterwards if I participated in the training there. I went and met those in charge and was accepted for a place at the training centre. After a while I got a job at Fashion Step!

"Now I can live my life as I want. For example, if I want something special to eat I can do that now. I can help my family and send my child to school. I can buy clothes, food and medicine for my mother. I can get all we need now!" says Sheuli Begum, textile worker and single mother.

Sheuli's story is one of many success stories from our training centre in the outskirts of Dhaka in Bangladesh. We opened the centre in 2010 and here we receive women between the ages of 18 and 35, who come from poor circumstances and lack formal education. During the three-month training they learn not only to use a sewing machine but also practice reading and writing, learning about health and safety and about women's rights. All the women are offered work after the training and there are examples of previous participants now having achieved positions of responsibility in sewing factories. This year 93 women received training and since the start in 2010, 580 women have completed the training.

In Part six of our film series Make It Feel Right you can hear Sheuli tell her own story. www.kappahl.com/makeitfeelright



THE YEAR AT KAPPAHL

SAFER FACTORIES IN BANGLADESH

Safety issues have long been a neglected area in Bangladesh and a fire could have disastrous consequences.

AS A DIRECT EFFECT of the disaster in the Rana Plaza factory outside Dhaka in April 2013, with more than 1,100 dead and 2,500 injured, the “Accord on Fire and Building Safety in Bangladesh”, was started, a project to promote a more secure and safe working environment for millions of textile workers in the country. Since the start of the Accord, KappAhl has cooperated with more than 200 international industry colleagues, international labour organisations and local trade unions. Since the Accord was established, more than 1,600 factories have been inspected, extensive improvements have been implemented and now follow-up visits are being conducted to check them. All factories with established cooperation with KappAhl have been inspected as part of the Accord. We see clear improvements regarding fire and building safety in the factories we work with. The Accord runs until spring 2018 and thereafter a new Accord will take over, KappAhl has signed this too and is continuing the work for safer factories in Bangladesh.

More information can be found at www.bangladeshaccord.org

INSPECTIONS OF THE FUTURE

EVERY FASHION CHAIN that wants to ensure good working conditions now has an extensive Code of Conduct and conducts regular inspections in the factories. Imagine how more effective it could be, both for suppliers and for the fashion chains, if the industry could agree on one standard and the suppliers themselves promoted the issue! KappAhl is following developments in this exciting area and is part of the Social & Labor Convergence Project (SLCP), an industry initiative that is developing a common tool for evaluation of suppliers and data collection at the production stage. It is hoped that this will increase industry efficiency and reduce inspection costs. The SLCP also cooperates with the Sustainable Apparel Coalition that is currently developing the Higg Index, a self-monitoring and evaluation tool for suppliers and factories in the area of sustainability.



INCREASED KNOWLEDGE ON THE FACTORY FLOOR

STRENGTHENING factory workers' skills and opportunities to influence their workplace is a strategically important question for KappAhl. Together with four suppliers, the QuizRR company and several industry colleagues we have during the year in Bangladesh participated in a pilot project where factory workers, both employees and managers, undergo digital training on tablets on their rights and responsibilities.

“The factory workers appreciate the new training format,” says Rafia Sultana, Social Compliance Leader from our production office in Bangladesh.

ETHICAL TRADING INITIATIVE

FAIR WAGES and overtime are important issues for KappAhl and at the same time are among the most complex issues in our production countries in Asia. We consider that KappAhl best contributes to sustainable development in these matters through cooperating with other companies and organisations. This is made possible for example through our membership of the Ethical Trading Initiative, an alliance that brings together companies, trade unions and interest organisations that all want to improve working conditions for factory workers globally.

More information can be found at www.ethicaltrade.org

“We consider that KappAhl best contributes to sustainable development through cooperating with other companies and organisations.”





SAFE PRODUCTS

"KappAhl has high demands when it comes to quality, child safety and use of chemicals. We aim for continual improvements and always apply the precautionary principle. This year we launched a new standard for monitoring this area – the KappAhl Product Quality Standard. Our work is based on the REACH Chemicals Regulation, EU requirements, legislation in the countries where we operate, industry standards and current research.

BY MAKING DEMANDS on suppliers and conducting a close dialogue with our production offices and external, authorised laboratories, we ensure that our products meet our requirements. We also carry out regular quality and safety tests throughout the production process. In 2016/2017 we carried out 942 chemicals tests and 99 per cent of the garments were approved. The garments that are not approved do not reach the market; depending on the reason they are burned, recycled or reused. We also monitor complaints statistics to minimise recurrent quality problems.

Child safety is a priority issue for us, our childrenswear must always be safe to wear. Every child's product undergoes a risk assessment in which we determine that there are no potential risks such as cords and drawstrings, loose or sharp details. For example, our children's outerwear has detachable hoods to minimise the risk of the child being injured if the hood catches on something. KappAhl participates actively in standardisation for safety in children's clothes through its membership of the Swedish Standard Institute (SIS).

During the year we have recalled two products from customers; read more on page 43.

We aim for continual improvement and always apply the precautionary principle.



Child safety is a priority issue for us, our childrenswear must always be safe to wear.

TAKING ANIMAL WELFARE INTO ACCOUNT

WE AND OUR CUSTOMERS think it important that goods production takes animal welfare into account and we never use fur from animals reared or hunted for their fur. We comply with and support the Swedish Trade Federations' Animal Welfare Policy. We are also a member of the Fur Free Retailer Programme, an international partnership within the Fur Free Alliance. Our product policy describes our guidelines for using animal materials. Read more at www.kappahl.com/sustainability



SALES

Every day we meet hundreds of thousands of customers: in stores, in our Shop Online and in the social channels. Our motivation is to inspire and guide them to find their own style, regardless of channel.

A customer meeting at KappAhl is personal and inspiring. We create our collections for our customer and help her to find the right fashion. It is also in the meeting with the customer that we gain valuable information for creating attractive collections and offers going forward.

STRONGER DIGITAL PRESENCE

How do new trends and tendencies reach you today? It is highly probable that you pick up much of what is new via social media! So we have adapted our digital presence to meet our customer's need for inspiration and guidance, but also to gather together pictures and material created by our followers and in that way conduct a close dialogue with our customer. She appreciates images that are genuine, natural and have a personal touch. Material presented by users is a hot trend in social channels and gives a better response than traditional campaign pictures.

WHERE THE CUSTOMERS ARE

We follow closely how customers' consumption patterns develop so as to provide

shopping that is customised, guiding and inspiring. We want to create stores that are inviting and welcoming, whether it is a store on the town's main shopping street, in a shopping mall or online.

At the end of the financial year we had a total of 356 KappAhl and Newbie stores in Sweden, Norway, Finland and Poland: of which four KappAhl stores and seven Newbie Stores are new stores opened during the year. To optimise our presence we also closed 22 stores. The restructuring programme in Poland, where we closed stores to strengthen profitability, was concluded in winter 2016/2017. We also upgraded 36 stores during the year.

In physical stores customers can touch and feel the goods and try them on immediately. On the other hand, our Shop Online available round the clock, all year round, wherever the customer is, which is highly valued. Shop Online and our presence in the social channels also offers the customer who prefers to shop in a store the opportunity for inspiration and research before she visits our stores.

»

SALES

110%
OF KAPPAHL'S TOTAL
CLIMATE IMPACT

CHALLENGES

- » Optimise sales per square metre.
- » Increase sales in comparable stores and the number of goods per customer.
- » More effective replenishment procedures that give more time for serving customers.
- » Inspire and help customers to easily find the right look, regardless of the channel they choose.
- » Create store concepts and supply chains that minimise energy and waste.

OPPORTUNITIES

- » KappAhl is a sought-after tenant in store properties.
- » Enhance the seamless customer experience where stores and Shop Online are fully integrated.
- » New concepts such as Newbie Store broaden KappAhl's customer base.
- » Clearer presentation of goods and more focus on in-store service, for increased sales.

“The customer chooses and we deliver. Shop Online and physical stores are not different channels but two parts of the same KappAhl,” says Charlotte Katz, Head of Digital at KappAhl.

A SEAMLESS EXPERIENCE

We see that customers appreciate Shop Online and our offer is constantly being refined. In summer 2017 we launched the Click&Collect and Shop Online in Store functions in some selected stores. Click&Collect means that our customer can order online and collect in a store and Shop Online in Store means that she can order goods online in a store and have them sent to her home. Thus the customer has access to our entire offer online from all our stores as well. The pilot project has been successful and Click&Collect and Shop Online in Store will be fully launched in all KappAhl stores in Sweden, Norway and Finland in autumn 2017.

To ensure that our customers receive the best service when they use digital services in store, in summer 2017 all our sales assistants underwent training in KappAhl's digital offer.

Shop Online is being constantly improved to best meet customers' expectations and always be able to inspire. For example, this year we developed the “Coming Soon” function. The “Coming soon” heading is in the menus for womenswear, childrenswear and menswear and shows products that will be coming in within the next three weeks. If a customer decides to set an alert for a garment she receives an email reminder when the product arrives. The customer can also be alerted about goods in the rest of the range that are temporarily out of stock in certain sizes and here too receive an email message when stocks are

replenished. With the help of “Coming soon” we can also create interest and a buzz ahead of future collections.

SUCCESSFUL STRATEGIES

Our price and campaign strategy, focusing on full-price sales, has continued to be very successful, which is reflected in our financial performance for the year.

We have also refined our goods display in store. Our customer is now met with mannequins dressed in inspiring outfits on a podium right at the entrance and we have altered the checkout line to encourage additional sales.

We work purposefully to optimise sales per square metre in our stores and increase sales speed by ensuring that the right item is in the right place at the right time. The inventory space in our stores is small, since the space should preferably be used for selling and we are constantly refining our allocation strategy, since goods should be out on the store floor or available in our eCommerce warehouses at the right time. In that way we can increase sales and reduce the need for price reductions. During the year we adapted our logistics chain to be able to send Click&Collect orders.

APP THAT PROMOTES LOYALTY

Another important part of our work of creating a close relation with our customer is our loyalty club Life & Style by KappAhl. With good knowledge of our customer, with a modern approach and a long-term strategy it has been a success from the start; several million customers are now members.

In our unique customer club app we gather inspiration, offers and customer bonus to make it easier for our members. The app was launched in Poland in February 2017 and is now available in all our

markets. The app has now been downloaded 750,000 times! We continue to further develop the digital customer club, here too with the aim of creating entirely seamless shopping experiences for our customer.

CUSTOMERS CAN SAY WHAT THEY THINK OF THE SERVICE

What is really good about our customer service? What can be better? Club members now have the chance to evaluate their purchasing experience. During the year we implemented Customer Service Follow Up. This means that all member customers who have made a purchase from us receive an email with a link to a questionnaire. The questions are about the customer meeting as a whole, including how appreciated the customer felt, how competitive she thinks the store is, whether she would recommend KappAhl to a friend and if she was offered help. The responses are compiled in a tool that provides invaluable, continual input to our stores so as to give our customer an even better purchasing experience. KappAhl should always be accessible and offer good service, regardless of whether the customer meets us in one of our stores or in Shop Online.

SUSTAINABLE STORES

Even if our store operations represent a relatively small part of our total environmental impact, our ambitions are high for a more sustainable business. We are constantly developing our store concept in terms of sustainability, for example by imposing requirements as to materials, re-use and responsible production.

An energy survey carried out at our distribution centre and in our stores during the year has led to increased knowledge of our internal energy



consumption and the potential for improvement that exists. In total we purchased 24.9 GWh of energy during the year, which is a decrease of seven per cent compared with the previous year. 89.6 per cent of the energy we purchase is renewable. Our aim is that 100 per cent will be renewable by 2020.

We are also endeavouring to reduce and recycle our waste in stores and at the distribution centre. During the year a total of 915 tonnes of waste was generated at our distribution centre and our head office, of which 92 per cent was sent for recycling, 8 per cent for energy recycling and <0.1 per cent to landfill. In addition 1.8 tonnes of hazardous waste was generated, in the form of electronics and fluorescent tubes. The waste is sorted in accordance with instructions from our waste company. Read more about KappAhl's energy consumption and waste management in Part 2, page 51. ■

Sales increased by 4.1 per cent compared with the previous year, partly thanks to active work on price and campaign strategies and a clearer range.

THE YEAR AT KAPPAHL



FASHION IS RIGHT WHEN IT FEELS RIGHT

Ever since KappAhl was established more than 60 years ago we have embraced the fundamental value that all people are fine just as they are.

We stand for inclusive, sound ideals, which actively permeate both our range and our communication. Through our wide range of garments in different sizes and fits we show that fashion is not limited by size. In our campaigns and tonality we endeavour to up-level our customers' self-esteem and well-being. Our customer is to have a good feeling in meeting with KappAhl. That is why for example we think diversity when choosing models and we have mannequins with healthy shapes and we do not sell garments that may be perceived as offensive. We also consider our marketing carefully before launch. During the year we signed the Swedish Ethical Fashion Charter – guidelines for the fashion industry's ideal body image and diversity as well as work environment issues for models.

Our approach has meant historically that we have had few complaints against our marketing. There were no complaints to the Swedish Advertising Ombudsman in the 2016/2017 financial year.

A WARDROBE YOU FEEL GOOD IN

INFLUENCER Nastaran Kowkabi's advice for creating a wardrobe you feel good in:

- » Start from makes you unique, highlight what you like about yourself!
- » Ask for advice to find garments with the correct fit.
- » Collect garments that make you feel attractive.
- » Trust your gut feeling!

In Part three of our Make It Feel Right film series you can go with Nastaran and the presenter Annika Leone on a hunt for clothes that feel right. www.kappahl.com/makeitfeelright



THE KAPPAHL GUIDE >> PART 3



RESPONSIBLE ACTIONS

UNDER THE HEADING Responsible Actions we gather our sponsoring initiatives for a better and more sustainable society, both in our production countries and on our sales markets. The surplus from our One Bag Habit bag sales was SEK 539,829, which was donated to the Hunger Project and UNHCR. Other funds come from our textile collecting and activities together with our customers.

In total we have donated SEK 3,353,587 (2,453,700) during the year to organisations working to improve people's lives. The "Fine

as I am" campaign for the benefit of the child rights organisations Bris (Children's Rights in Society, Sweden), Kors på Halsen (Cross your heart, Norway), the Mannerheim League (Finland) and Nobodys Children Foundation (Poland) is a recurring campaign. Other examples are the organisation TCM Bangladesh, which runs our training centre in Dhaka, Bangladesh, the Hunger Project in Bangladesh, UNHCR, the Mayflower Charity Foundation, the City Mission and more.



The Newbie expansion is continuing; in autumn 2017 we are launching the concept both in the United Kingdom and Poland.

NEWBIE – A STRONG CONCEPT

Newbie, our collection in sustainable materials for babies and children, has been a success story since the start in 2010 and is now a stand-alone store chain.

This year we opened seven new Newbie Stores, four in Sweden, one in Norway and two in Finland. In all there are now eleven

Newbie Stores in our markets. That Newbie is a sought-after brand for shopping centres could be seen in the nomination of Newbie for the NCSC Sweden Awards 2016 – a competition that rewards Sweden's best tenant concept. One example of Newbie's power of attraction is the opening of the first Newbie Store in the Frölunda Torg shopping centre in Gothenburg in August 2017.

"Even before the store had opened the queue stretched the length of the whole shopping centre! There is great allegiance to Newbie among customers and we are proud of the success of the brand," says Camilla Wernlund, Vice President, New Business at KappAhl.

The Newbies expansion is continuing; in autumn 2017 we are launching the concept

both in the United Kingdom and Poland. The United Kingdom is not only a new market for Newbie, but also for KappAhl. It is also a market characterised by tough competition, why did the choice fall on the United Kingdom?

"We have carried out extensive pre-studies and we know that there is great awareness concerning sustainable lifestyle and consumption in the United Kingdom. There is considerable demand for responsibly produced childrenswear in sustainable materials, which is not that common on the British market today. Newbie fills a gap and we know that the attractive range will be popular with this target group! In addition, British families with children already spend the most in Europe on their children and the childrenswear market is expected to grow by another 13 per cent in the next five years."



NEW BUSINESS FOR KAPPAHL

AN IMPORTANT PART OF OUR PLAN for the KappAhl Group is to develop new business opportunities. A business model that was developed further during the year is our stand-alone concept stores, Newbie Store, which in the autumn will be in all our markets and is ready to take off in an entirely new market, the United Kingdom.



CONSUMPTION

We at KappAhl endeavour to inspire our customers to make sustainable choices and create conditions for more sustainable consumption. KappAhl takes an active role in the transition to a circular fashion industry, for example by offering textile collecting in our stores.

CIRCULAR FASHION

The fashion industry's use of resources is not sustainable. Producing a normal cotton t-shirt, for example, may take 2,700 litres of water¹. The average customer uses garments for 3.3 years, according to WRAP². If the average garment is used three times longer than today, its climate impact is reduced by 65 per cent according to Mistra Future Fashion.

A transition to a more sustainable fashion industry in which consumers use garments longer and the materials are then recycled will reduce climate impact considerably. The importance of a changeover to sustainable consumption and circular business models can be seen both in the UN global goals for sustainable development and in the Swedish Government's strategy for sustainable consumption. KappAhl wants to make circular fashion possible and one of our targets is for 50 per cent of our products to be recyclable by 2025.

We endeavour to design clothes on average that work for several seasons, but

also to pass on knowledge on how customers themselves can contribute, for example through clothing care and taking garments they have finished using to textile collecting points. Because we know that our customer is aware, interested in sustainability and wants to do good and act right.

WEAR, LOVE AND GIVE BACK

Every year we consumers buy on average more than 12 kilos of clothing and textiles per person. Every year we also throw away eight kilos of textiles as household garbage³. More than 95 per cent of these textiles could have a new life if we took them to textile collecting points instead. Our attention-drawing textile collecting "Wear, Love and Give Back" was launched in Sweden, Norway and Finland in 2015. In December 2016 the initiative was rolled out in Poland and textile collecting is now offered in all KappAhl stores. The customers receive a voucher to use next time they shop at KappAhl for every bag of used

textiles they donate, an incentive to get more customers to go from word to deed. In the financial year we collected almost 140 (128) tonnes of clothes and home textiles.

The collected textiles are sent to our partner I:Collect for sorting by quality to optimise re-use and recycling. The main part, up to 60 per cent, are put on the global second hand market by I:Collect and are sold as they are to new owners. The remaining 40 per cent is recycled and turned into insulation for example. KappAhl and our partner I:Collect also contribute to research and work to create new, high quality material from recycled textiles. That's how we close the circle!

PARTNERSHIPS AND RESEARCH

Recycled fibres are an important part of creating a circular and sustainable fashion industry but the transition is still in its infancy. There must be cooperation with other actors in order to develop large-scale systems for textile recycling. »

1 World Wide Fund for Nature

2 Valuing Our Clothes: the cost of UK fashion, WRAP, 2017

3 SMED on behalf of the Swedish Environmental Protection Agency

CONSUMPTION

24%
OF KAPPAHL'S TOTAL
CLIMATE IMPACT

CHALLENGES

- » Contributing to sustainable consumption, where products are produced and used in a more sustainable way.
- » Spreading knowledge to our customer on sustainable fashion consumption.
- » Create large-scale technology for closing the circle for textiles and recycling more.

OPPORTUNITIES

- » Better management of resources and finances, thanks among other things to resource efficiency and recycling.
- » Increase the life of our garments.
- » Guide customers to sustainable fashion choices, clothing care and textile collecting to reduce the impact of the products.

139,857 kg of textiles have been collected as part of our “Wear, Love and Give Back” textile collecting during the year.

We are therefore involved in several projects together with partners in research, public agencies and the business sector, who also want to create the conditions for circular fashion.

One of these projects is the Swedish research initiative Mistra Future Fashion, in which KappAhl participates, for example in a project on how the industry can reduce environmental impact in production on the basis of choices made in the design phase. The aim is to produce a toolbox for sustainable design. Read more about KappAhl's collaboration with Mistra Future Fashion in the interview on page 43.

KappAhl also participates in an innovation project as part of RE:source, together with Innovatum, Wargön Innovation and Myrorna, among others, to develop sorting technologies and business models for textile waste. The aim is to establish a national pilot facility and collection point for developing sorting technologies and business models. It is hoped that this will lead to greater use of worn-out textiles in Sweden.

ONE BAG HABIT

It is not only clothes that have a great impact on the environment; all types of bags also have a negative impact on the environment. At present each EU citizen consumes an average of 198 plastic bags in a year according to the Swedish Environmental Protection Agency. Most bags are usually only used a few times, but it takes more than 400 years for them to decompose naturally. Meanwhile they are reduced to fragments and become a harmful ingredient in the food chain for both animals and humans. In addition bags are very energy-intensive to produce, transport and recycle – even if they are made of renewable materials such as paper.

Through the One Bag Habit initiative we want to help reduce the use of all types of bags and increase awareness of the negative environmental impact of bags. Consequently, since 1 June 2017 we charge for different bags in our Swedish stores. All the proceeds of the sale are passed on in full to causes that promote sustainable development in environmental or social contexts.

The initiative was launched together with Lindex and H&M in June 2017. Since then several other retail companies have joined.

We can already see that our customers' behaviour has changed; in June-August 2017 fewer than half of our customers bought bags. We regard this as a great success! In addition, income from the bags sold contributed SEK 539,829 to Responsible Actions, which will be donated to the Hunger Project and UNHCR. Read more on page 38.

We are now evaluating the possibilities of implementing the One Bag Habit in our other markets.

FILMS THAT INSPIRE

With our film series “Make it feel right”, launched during the year, we want to inspire more customers to think sustainably. The journalist Annika Leone, together with KappAhl's employees, partners and suppliers, guides the viewers in everything from washing instructions to water purification in India. The six films are available at www.kappahl.com/makeitfeelright

The theme of the first film is exactly how consumers can create a sustainable wardrobe and prolong the life of their wardrobe heroes. ■

NEW PROJECT FOR REDUCED USE OF CHEMICALS

Sandra Roos is a doctor in environmental systems analysis at Swerea IVF and one of the researchers working at Mistra Future Fashion. In January 2017 she defended her thesis on the environmental impact of clothes from a life-cycle perspective.



WHAT WERE THE MOST IMPORTANT CONCLUSIONS OF THE THESIS?
 “The most important conclusion was that the greatest climate impact, as much as 70 per cent, is in the production of the clothes. The conclusion shows the major responsibility of the fashion industry to create a more sustainable supply chain and they face great challenges when it comes to the use of chemicals and water, not just in climate terms. In addition it is great to be able to present scientific facts so that the industry focuses on the right things. I can do this, since the thesis sets different types of climate impact in relation to each other.

SO WHAT CAN THE CUSTOMER DO?
 “Something the customer can influence is the journey to and from the store. Filling up the car to drive to a clothes shop actually plays a big part in the garment’s total climate impact. Then of course it is important to see the value of a garment and find ways to give it a longer life. You can do this by buying garments you think are beautiful that you want to keep for a long time. It is also important to care for the garment correctly: learn how to sew on a button or use a wash bag for garments made from delicate material. And choose eco-labelled garments, such as more sustainable cotton, GOTS certified or ÖkoTex certified! It is important to signal to the fashion chains that there is a demand and an interest among consumers.

WHAT IS YOUR IMPRESSION OF KAPPAHL’S SUSTAINABILITY WORK?
 “It’s clear to me that KappAhl takes sustainability issues seriously and I also see that work on sustainability has really been strengthened in recent years. The industry initiative STWI* to reduce the use of chemicals and water in production, which KappAhl had a share in starting, is also important and a really good thing! Also, it is gratifying that KappAhl constantly wants to learn more and use our research results in its operations.

YOU HAVE A JOINT PROJECT TO REDUCE THE USE OF CHEMICALS IN PRODUCTION AS PART OF THE RESEARCH PROGRAMME MISTRA FUTURE FASHION. WHY IS IT GOOD THAT KAPPAHL IS INVOLVED IN SUCH PROJECTS?
 “For me it’s an important question – there’s no point in doing a lot of environmental analyses if the information is not put to practical use. There used to be a gap between research and the fashion industry, but Mistra creates contexts in which we can share knowledge necessary for the industry to make better choices and give us researchers an insight into the decisions that buyers can influence and change. I think it is great that KappAhl is stepping up and investing resources in this!

*Read more about STWI on pages 28–29.

HOW TO CREATE A SUSTAINABLE WARDROBE

- » Choose garments that you like and will use for a long time.
- » Buy from a store that works on sustainability and has fair conditions.
- » Look after the garment carefully, care for it correctly and give it to a textile collecting when you no longer want it.

In the first part of our film series Make It Feel Right you can get more inspiration to create a sustainable wardrobe.
www.kappahl.com/makeitfeelright



THE KAPPAHL GUIDE >> PART I

SAFE PRODUCTS

AS PART of our work on product safety we decided to withdraw products from stores on two occasions during the year: a soft toy rabbit and a child’s printed jumper. The rabbit was recalled since there was a risk that the arms could become detached and the child’s jumper was recalled when it did not meet KappAhl’s high requirements concerning chemicals. A total of 38,000 goods were recalled, which is less than 0.01 per cent of our total sales.

“The industry initiative STWI to reduce the use of chemicals and water in production, which KappAhl had a share in starting, is important and a really good thing!”

–Sandra Roos, Swerea IVF

THIS IS KAPPAHL

OUR PURPOSE

At KappAhl our purpose is to create a better everyday life for the woman in the prime of life, and her family, through offering a wide range of well-designed and feel good fashion, always in a sustainable way.

OUR KEYWORDS

TEAM SPIRIT. ENERGY. CREATIVITY. CLARITY. COURAGE.

OUR CUSTOMER

KappAhl's customers are women, men and their children. Our main target group is the woman in the prime of life and we know her well. We know that she appreciates clear concepts, good fit and seeks inspiration and guidance both in the store and online. She wants a warm reception and value-for-money clothes. She buys both for herself and for the rest of the family. It is also important for our customer that the clothes are sustainably produced and that they can have a long life through good quality and recycling.

OUR PRESENCE

SWEDEN

Net sales, SEK million:
2,760 (2,666)
KappAhl's presence: 172 (171)
stores and Shop Online.
Newbie Store: 7 (3)
Average number of full-time
positions¹: 1,392 (1,410)

NORWAY

Net sales, SEK million:
1,333 (1,216)
KappAhl's presence: 94
(98) stores and Shop
Online.
Newbie Store: 2 (2)
Average number of full-time
positions¹: 580 (597)

FINLAND

Net sales, SEK million:
584 (559)
KappAhl's presence: 57 (59)
stores and Shop Online.
Newbie Store: 2 (0)
Average number of full-time
positions¹: 344 (336)

POLAND

Net sales, SEK million:
239 (282)
KappAhl's presence: 22 (35)
stores and Shop Online.
Average number of full-time
positions¹: 257 (336)

UNITED KINGDOM

In autumn 2017 a Newbie Store
will open in the United Kingdom.

TURKEY

Share of production³: 7 (8) %
Number of employees⁴: 8 (8)

INDIA

Share of production³: 8 (8) %
Number of employees⁴: 17 (17)

SRI LANKA

Share of production³:
<1 (-) %

BANGLADESH

Share of production³: 40 (35) %
Number of employees⁴: 50 (47)

CHINA

Share of production³: 45 (49) %
Number of employees⁴: 67 (66)

MYANMAR

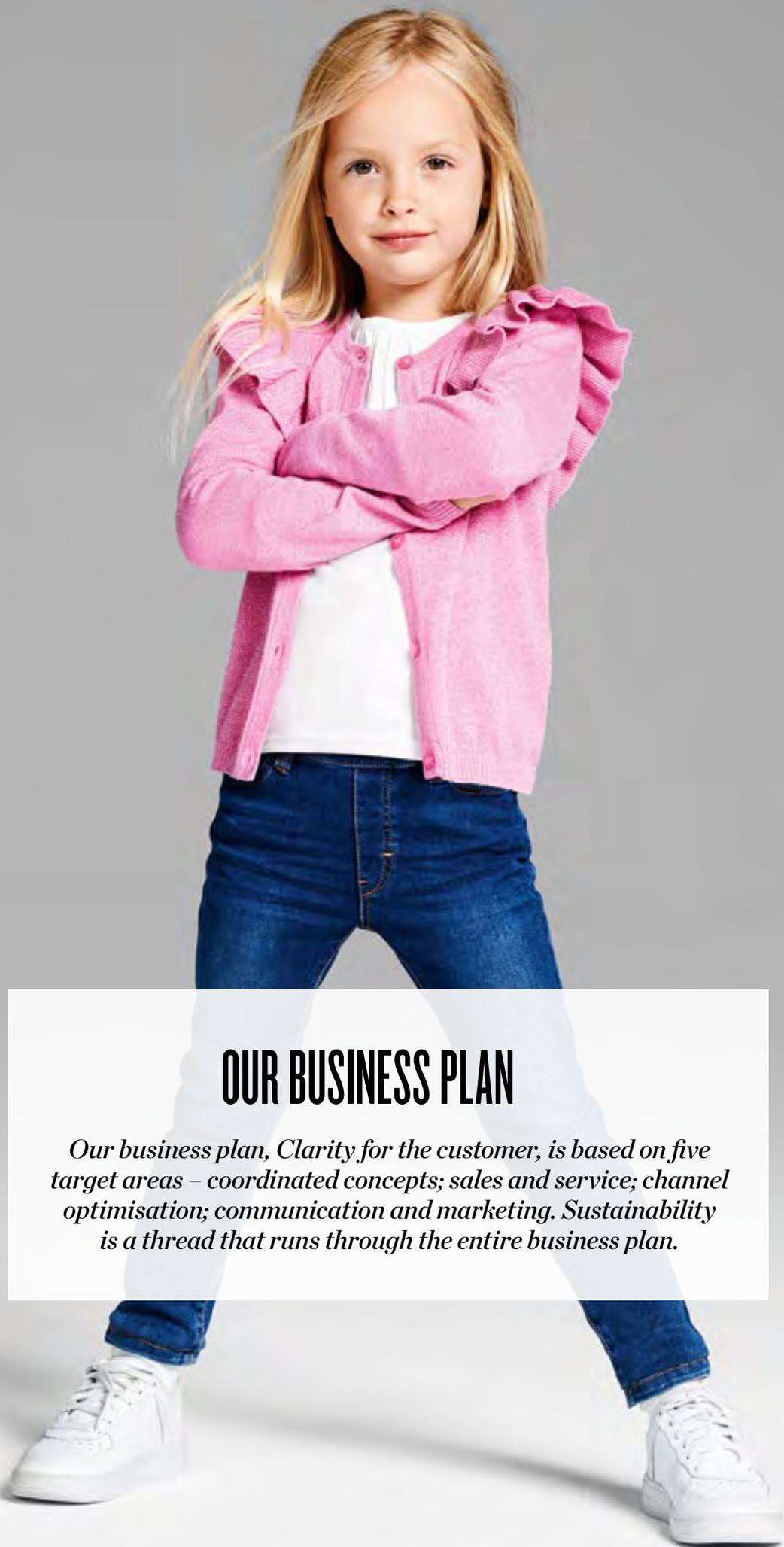
Share of production³: <1 (<1) %
Number of employees⁴: 4 (4)

1 Total number of positions restated as full-time positions.

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

3 Based on order value. Excluding production at agents and importers.

4 Refers to employees of the KappAhl Group working at our production offices.



OUR BUSINESS PLAN

Our business plan, Clarity for the customer, is based on five target areas – coordinated concepts; sales and service; channel optimisation; communication and marketing. Sustainability is a thread that runs through the entire business plan.

	STRATEGY	INITIATIVES 2016/2017	FOLLOW-UP
COORDINATED CONCEPTS	The right garment, at the right time, well-coordinated for our customer's wardrobe.	Clearer fashion concepts all the way from design to sales space.	» Ongoing, read more on page 22.
		Launched our new range strategy for Woman, Scandinavian Feminine.	» Completed, read more on page 22.
SALES & SERVICE	A high performance sales and service organisation with extensive knowledge of customer and product.	Development of our allocation strategy.	» Ongoing, read more on page 36.
		Continued sales and service training.	» Ongoing, read more on pages 15–16.
		Launched pilot project for Click&Collect and Shop Online in Store on all our sales markets.	» Ongoing, read more on page 36.
		Implemented a tool with digital customer feedback linked directly to purchases.	» Completed, read more on page 37.
CHANNEL OPTIMISATION	Optimise and update stores based on concept, space and location with Shop Online as flagship store.	Continued adaptation of store offer and implementation of store concept For You 2.0.	» Ongoing, read more on pages 35–37.
		Continued development of functionality and inspiration in Shop Online.	» Ongoing, read more on page 36.
		Launch of Newbie Store as a stand-alone store chain in several markets.	» Ongoing, read more on page 39.
		Work of readjustment in Poland completed.	» Completed, read more on page 35.
COMMUNICATION & MARKETING	Strong brand and strong relation to our customer, leading to increased percentage of full-price sales.	Launch of our new communication strategy Feel.	» Completed, read more on inside cover.
		Launch of digital customer club and app in Poland as well.	» Completed, read more on page 37.
		Preparation of new communication strategy for sustainability.	» Ongoing, read more on page 48.
SUSTAINABILITY	Sustainability is a target area in all parts of the organisation.	Test of tool for sustainable product development.	» Ongoing, read more on page 22.
		Increased percentage of sustainability labelled fashion.	» Ongoing, read more on page 22.
		Launch of more sustainable denim.	» Completed, read more on page 24.
		Launch of One Bag Habit in Sweden.	» Completed, read more on page 42.

OUR SUSTAINABILITY STRATEGY

This year we launched our new sustainability strategy Responsible Fashion. It is based on the challenges we see in our value chain, the UN global goals for sustainable development in Agenda 2030 and the Stockholm Resilience Centre’s research on the planetary boundaries. We present here the focus areas of the strategy and which of the UN goals for sustainable development they contribute to. The strategy is being implemented in 2017 and in the 2017/2018 targets and actions will be set for all areas.

FOCUS AREAS	COMMITMENT	UN GLOBAL GOALS	READ MORE
Design fashion for a sustainable wardrobe	Design sustainable products and collections		Page 22
	Complete the transition to more sustainable materials		Page 22
	Enable circular fashion		Pages 22–23, 41–42
Work towards a sustainable supply chain	Work with responsible partners		Page 26–32
	Build a sustainable logistics set-up		Page 29
	Support communities and people affected by our business		Pages 26–32, 38
Develop a sustainable organisation and stores	Create sustainable store concepts		Pages 37
	Work for diversity and equality		Pages 16, 31, 38
	Educate and support all coworkers on sustainability		Pages 15–16, 22, 28
Inspire our customers to make sustainable choices	Create solutions for a sustainable fashion consumption		Pages 41–43
	Be transparent and dedicated in our communication		Page 42

The Responsible Fashion Strategy replaces our previous sustainability strategy Future Friendly Fashion. Implementation of Responsible Fashion concerns all parts of, and employees of, the KappAhl Group. The work is led by KappAhl’s sustainability organisation, management team and sustainability manager.

OUR FINANCIAL TARGETS

Our financial targets refer to growth, operating margin, interest-bearing net debt and dividend policy. You can read more below about the past year.

	TARGET	OUTCOME	COMMENTS												
OPERATIVE TARGETS	KappAhl's growth is to be an average of 4 per cent over a business cycle.	GROWTH, % Target: 4% <table border="1"> <tr><th>Year</th><th>Growth (%)</th></tr> <tr><td>2014/2015</td><td>-3.3</td></tr> <tr><td>2015/2016</td><td>3.0</td></tr> <tr><td>2016/2017</td><td>4.1</td></tr> </table>	Year	Growth (%)	2014/2015	-3.3	2015/2016	3.0	2016/2017	4.1	Sales increase of 4.1 per cent for the year.				
	Year	Growth (%)													
2014/2015	-3.3														
2015/2016	3.0														
2016/2017	4.1														
	The operating margin shall be at least 10 per cent.	OPERATING MARGIN, % Target: 10% <table border="1"> <tr><th>Year</th><th>Operating Margin (%)</th></tr> <tr><td>2014/2015</td><td>4.5</td></tr> <tr><td>2015/2016</td><td>7.4</td></tr> <tr><td>2016/2017</td><td>9.1</td></tr> </table>	Year	Operating Margin (%)	2014/2015	4.5	2015/2016	7.4	2016/2017	9.1	The operating margin moved steadily towards 10 per cent and ended up at 9.1 per cent.				
Year	Operating Margin (%)														
2014/2015	4.5														
2015/2016	7.4														
2016/2017	9.1														
FINANCIAL TARGETS	Interest-bearing net debt is not to exceed, other than temporarily, 3 times EBITDA.	INTEREST BEARING NET DEBT, TIMES EBITDA Target: <3 <table border="1"> <tr><th>Year</th><th>Times EBITDA</th></tr> <tr><td>2014/2015</td><td>0.8</td></tr> <tr><td>2015/2016</td><td>0.3</td></tr> <tr><td>2016/2017</td><td>-0.3</td></tr> </table>	Year	Times EBITDA	2014/2015	0.8	2015/2016	0.3	2016/2017	-0.3	At year-end KappAhl had net financial assets of 0.3 times EBITDA.				
Year	Times EBITDA														
2014/2015	0.8														
2015/2016	0.3														
2016/2017	-0.3														
DIVIDEND POLICY	Dividend is to be 40-60 per cent of the profit after tax provided that the Group meets the financial targets above.	DIVIDEND, % OF PROFIT AFTER TAX Target: 40-60% <table border="1"> <tr><th>Year</th><th>Dividend (%)</th><th>Distribution of assets (%)</th></tr> <tr><td>2014/2015</td><td>51.7</td><td>39.2</td></tr> <tr><td>2015/2016</td><td>39.2</td><td>42.2</td></tr> <tr><td>2016/2017</td><td>-</td><td>137.3</td></tr> </table>	Year	Dividend (%)	Distribution of assets (%)	2014/2015	51.7	39.2	2015/2016	39.2	42.2	2016/2017	-	137.3	The Board of Directors proposes to the 2017 Annual General Meeting that dividend of SEK 2.00 per share be distributed, which is equivalent to 42,2 per cent of net profit. In addition the Board of Directors proposes a distribution of assets of SEK 6.50 per share by means of a redemption procedure.
Year	Dividend (%)	Distribution of assets (%)													
2014/2015	51.7	39.2													
2015/2016	39.2	42.2													
2016/2017	-	137.3													

FIGURES IN SUMMARY

KEY FIGURES

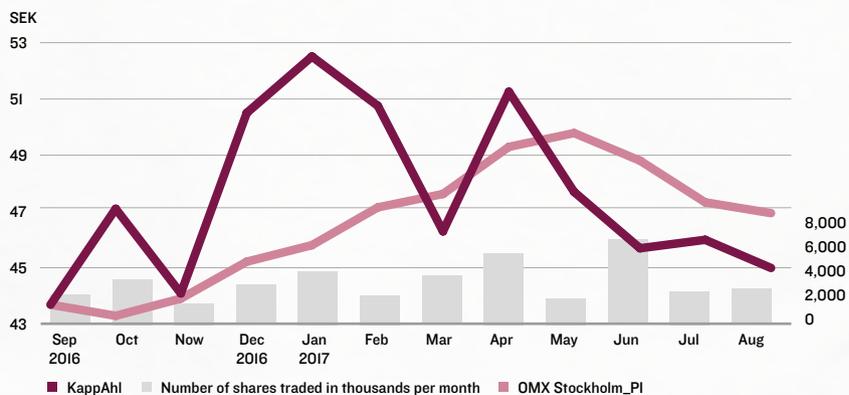
	Sept–Aug 2016/2017	Sept–Aug 2015/2016	Sept–Aug 2014/2015	Sept–Aug 2013/2014	Sept–Aug 2012/2013
Net sales, SEK million	4,916.2	4,723.6	4,588.2	4,742.9	4,750.9
Sales growth, %	4.1	3.0	–3.3	–0.2	3.6
Operating profit (EBIT), SEK million	448.6	349.3	197.8	272.1	252.3
Adjusted operating profit (EBIT), SEK million	448.6	349.3	207.5	295.1	202.3
Operating profit (EBITDA), SEK million	579.2	479.8	333.4	400.6	395.9
Adjusted operating profit (EBITDA), SEK million	579.2	479.8	342.8	423.6	345.9
Total depreciation/amortisation, SEK million	130.6	130.5	135.3	128.5	140.6
Gross margin %	62.2	61.8	60.1	60.8	59.2
Operating margin, %	9.1	7.4	4.3	5.7	5.3
Adjusted operating margin, %	9.1	7.4	4.5	6.2	4.3
Interest coverage ratio (multiple)	20.2	35.1	9.0	4.0	2.9
Net interest-bearing liabilities (+) (Net financial assets) (–) SEK million	–168.2	144.2	282.3	460.0	660.9
Net interest-bearing liabilities/Adjusted EBITDA (multiple)	–0.3	0.3	0.8	1.1	1.7
Equity-assets ratio, %	67.4	58.1	56.6	56.1	49.4
Equity per share, SEK	26.58	23.50	21.36	20.12	18.42
Equity per share after dilution, SEK	26.58	23.50	21.30	19.99	18.42
Cash flow from operating activities per share, SEK	7.46	3.94	4.75	4.60	3.06
Market price, SEK	45.0	42.70	25.90	38.30	38.34
Market value, SEK million	3,456.9	3,280.2	1,989.6	2,874.0	2,877.0
P/E ratio (multiple)	9.5	13.4	17.9	22.3	31.6
Dividend yield, %	4.4	2.9	2.9	2.0	0.0
Market price/equity per share, %	169	182	82	188	208
Earnings per share, SEK	4.73	3.19	1.45	1.71	1.32
Dividend per share, SEK (proposed 2015/2016)	2.00	1.25	0.75	0.75	0.00
Weighted average number of shares	76,820,380	76,820,380	76,296,003	75,040,000	68,474,000
Number of shares at close of period	76,820,380	76,820,380	76,820,380	75,040,000	75,040,000
Number of shares after dilution	76,820,380	76,820,380	76,296,003	75,522,814	75,040,000

CONSOLIDATED INCOME STATEMENT

SEK million	Sept–Aug 2016/2017	Sept–Aug 2015/2016	Sept–Aug 2014/2015	Sept–Aug 2013/2014	Sept–Aug 2012/2013
Net sales	4,916.2	4,723.6	4,588.2	4,742.9	4,750.9
Cost of goods sold	–1,860.0	–1,806.4	–1,831.9	–1,856.6	–1,937.1
Gross profit	3,056.2	2,917.2	2,756.3	2,886.4	2,813.8
Selling expenses	–2,402.6	–2,356.0	–2,384.8	–2,468.9	–2,486.8
Administrative expenses	–205.0	–211.9	–173.7	–145.4	–150.2
Other operating income	0.0	–	–	–	75.5
Operating profit	448.6	349.3	197.8	272.1	252.3
Adjusted operating profit	448.6	349.3	207.5	295.1	202.3
Financial income	0.9	1.2	0.7	0.4	0.1
Financial expenses	–22.3	–10.1	–21.8	–68.1	–87.3
Profit/loss before tax	427.2	340.5	176.7	204.4	165.1
Taxes	–63.5	–95.6	–65.3	–75.1	–74.0
Profit/loss for the year	363.7	244.9	111.4	129.3	91.1

KAPPAHL SHARE PERFORMANCE

The KappAhl share has been listed on Nasdaq Stockholm, Mid Cap since 23 February 2006. The KappAhl share is included in the Nasdaq Stockholm Consumer Discretionary Index. During the financial year the market value of the share increased by 5.4 per cent. This can be compared with the Nasdaq Stockholm All-Share index that increased in value by 9.1 per cent and Nasdaq Stockholm General Retailers that decreased by 20.3 per cent in the same period. See Part 2, page 2-3 of the Annual Report for more share information. Part 2 can be found at www.kappahl.com/ir



NOTICE TO ATTEND THE ANNUAL GENERAL MEETING

The Annual General Meeting of KappAhl AB (publ) will be held on Tuesday, 5 December 2017 at 10.00 at KappAhl's head office in Mölndal, Idrottsvägen 14.

RIGHT TO PARTICIPATE

Shareholders wishing to participate in the Annual General Meeting must be registered in the share register kept by Euroclear Sweden AB no later than Wednesday, 29 November 2017, and have given notice of their attendance and that of any advisers by the same date, preferably before 12.00, via email to stamma@kappahl.com. Notification of participation can also be given by telephone on +46 31 771 55 00 or by post to KappAhl AB, Annual General Meeting, P O Box 303, SE 431 24 Mölndal, Sweden.

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

Any powers of attorney must be in writing and be submitted no later than, but preferably before, the Annual General Meeting. A natural person representing a legal person shall also submit a certified copy of the certificate of registration. The period of validity of the power of attorney may be a maximum of five years from its date of issue.

KappAhl will provide a form for a power of attorney on request and the form is also available from KappAhl's website www.kappahl.com/ir.

Shareholders whose shares are registered in the name of a nominee through a bank's trust department or a private securities dealer must temporarily register the shares in their own name to be entitled to participate in the Meeting. This temporary registration of ownership must have been completed by Wednesday 29 November 2017. This means that the shareholder must notify the nominee of this well in advance of that date.

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

FINANCIAL CALENDAR

Annual General Meeting	5 December 2017
First quarter (September–November)	20 December 2017
Second quarter (December–February)	23 March 2018
Third quarter (March–May)	27 June 2018
Fourth quarter (June–August)	11 October 2018

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

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



HERE ARE THE FIGURES

Would you like to read Part 2
of our Annual Report?

You will find it at www.kappahl.com/ir.
There you will find the financial reporting,
the corporate governance report and
supplementary sustainability reporting.

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

KappAhl

