

# KAPPAHL 2018

*Fashion is right when it feels right.*

KappAhl

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**12** *KappAhl has been strong in the market for 65 years. Our focus is on the customer and product and we will intensify this work in future.*

Göran Bille, Acting President and CEO

## ABOUT THE ANNUAL REPORT

This is KappAhl's Annual Report for the period September 2017 to August 2018, Part I. The previous Annual Report was published on 8 November 2017. This part of the Annual Report presents the Group 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.se/ir](http://kappahl.se/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 Index.

The Annual Report has been prepared in accordance with the Global Reporting Initiative Standards: Core. The contents are based on our sustainability strategy and materiality analysis.

We report on sustainability in compliance with the Annual Accounts Act. For information on our business model, please refer to Part I, pages 16–17, policies, risks and performance concerning: environment, see Part I, pages 29–30, 33, 35–41, 44, 47 and 49–50 as well as Part 2, page 47, social conditions and staff, see Part I, pages 25–27 and Part 2, page 46, human rights, see Part I, pages 35–41 and anti-corruption, see Part I, pages 26 and 35–36.

Information on sustainability presented in the Annual Report has not been reviewed by a third party. For the auditor's statement on the statutory sustainability report, please refer to Part 2, page 51.





# *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.*

# YEAR IN SUMMARY

*The 2017/2018 financial year was challenging for KappAhl. The effects of fewer visits to stores and tough competition contributed to a decrease in sales of 3.2 per cent. At the same time, good cost control and intensive development work with digital solutions and in the store network have meant that we are in a stronger starting position than a year ago.*

# 4,760

SALES,  
SEK MILLIONS

# 61.8%

GROSS MARGIN



# 57%

SUSTAINABILITY LABELLED  
FASHION

# 5.9%

OPERATING MARGIN

# 2.92

EARNINGS PER SHARE, SEK



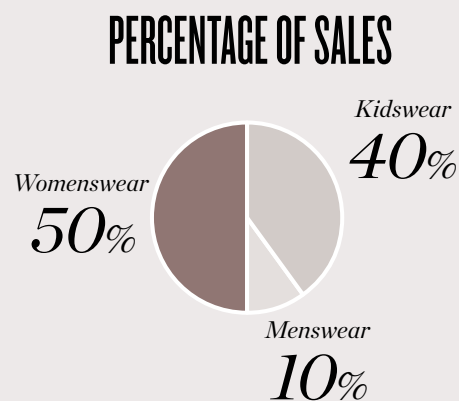
OUR LIMITED  
EDITION collections  
were successful and  
well-received by  
customers.

## IMPORTANT EVENTS

- During the year KappAhl opened four new stores, closed four and converted 23.
- Newbie Store opened 11 stores and closed one.
- Our eCommerce increased by 38 per cent compared with the previous year and is now about five per cent of total sales.
- During the year we launched the services Click&Collect, Shop Online in Store and Klarna in Store, to increase our service level.
- During the year the sustainability labelled fashion range increased its share to 57 (53) per cent.
- KappAhl joined the Sustainable Apparel Coalition.
- The Board of Directors proposes to the Annual General Meeting a dividend of SEK 2.00 per share.



**NEWBIE STORE** has continued its successful expansion and opened eleven new stores during the year

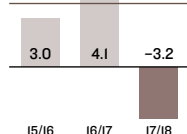


## FINANCIAL TARGETS

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

### GROWTH, %

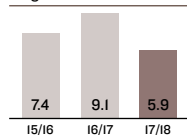
Target: 4%



KappAhl's annual growth is to be an average of 4 per cent over a business cycle. Sales decreased by 3.2 per cent during the year.

### OPERATING MARGIN, %

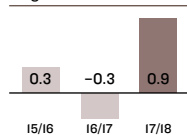
Target: 10%



The operating margin must be at least 10 per cent. This year the operating margin was 5.9 per cent.

### INTEREST BEARING NET DEBT, TIMES EBITDA

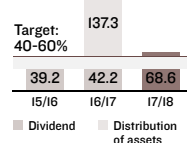
Target: ≤3



Interest-bearing net debt is not to exceed, other than temporarily, 3 times EBITDA. At the year-end KappAhl's net financial assets were 0.9 times EBITDA.

### DIVIDEND, % OF PROFIT AFTER TAX

Target: 40-60%



Dividend is to be 40-60 per cent of the profit after tax provided that the Group meets the financial targets above. The Board of Directors proposes to the 2018 Annual General Meeting that dividend of SEK 2.00 per share be distributed, which is equivalent to about 68.6 per cent of net profit.



## IN 2018 KAPPAHL WILL BE 65 YEARS OLD

THIS YEAR it is 65 years since Per-Olof Ahl, popularly called Kapp-Ahl, started his business in a small cellar in Kallebäck in Gothenburg. At that time Per-Olof was able to buy large volumes of coats – and demand was great. Each coat that left the store spread the reputation of high quality at low prices.

Today KappAhl is one of the leading fashion groups in the Nordics, with 369 stores and 4,000 employees.

# THIS IS THE KAPPAHL GROUP

KappAhl was established in 1953 in Gothenburg and is one of the leading Nordic fashion chains. The Group consists of 369 stores under the brands of KappAhl and Newbie Store in Sweden, Norway, Finland, Poland and the United Kingdom. In addition, 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 proportion of sustainability-labelled garments is increasing steadily. What we do must feel right for our customer and our world.

In 2017/2018 net sales were SEK 4.8 billion and the number of coworkers was about 4,000 in ten countries. KappAhl has been listed on Nasdaq Stockholm since 2006.

369  
STORES

## OUR KEYWORDS

TEAM SPIRIT. CREATIVITY. CLARITY. ENERGY. COURAGE.

## RESPONSIBLE FASHION

KappAhl wants to take care of both our customers' wardrobe and the world. Our clothes should feel good and be our customers' wardrobe favourites. But they should also feel right because the customers know that the clothes are produced with care – without compromising either quality or design.

Our sustainability strategy Responsible Fashion is based on the challenges we see in our value chain, the UN global goals for sustainable development in Agenda 2030, and research on the impact of the fashion industry and

fashion products on people and the environment.

The strategy is integrated in all parts of our organisation and includes important issues such as working conditions, use of resources, production technology, gender equality and diversity.

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.



## OUR PRESENCE

### SWEDEN

Net sales, SEK million:  
2,689 (2,760)

KappAhl's presence: 169 (173)  
stores including Shop Online.

Newbie's presence: 8 (6) stores

Average number of full-time  
positions<sup>1,2</sup>: 1,598 (1,385)

### NORWAY

Net sales, SEK million:  
1,249 (1,333)

KappAhl's presence: 95  
(93) stores including  
Shop Online.

Newbie's presence: 4 (3)  
stores

Average number of full-time  
positions<sup>1</sup>: 544 (580)

### FINLAND

Net sales, SEK million:  
564 (584)

KappAhl's presence: 59 (57)  
stores including Shop Online.

Newbie's presence: 3 (2)  
stores

Average number of full-time  
positions<sup>1</sup>: 339 (344)

### POLAND

Net sales, SEK million:  
242 (239)

KappAhl's presence: 24 (22)  
stores including Shop Online.

Newbie's presence: 1 (0) store

Average number of full-time  
positions<sup>1</sup>: 237 (257)

### UNITED KINGDOM

Net sales, SEK million: 16 (0)

Newbie's presence: 6 (0) Newbie  
Stores including eCommerce.

Average number of  
full-time positions<sup>1</sup>: 15 (0)

### ROMANIA

Share of production<sup>3</sup>: 1 (<1)%

### INDIA

Share of production<sup>3</sup>: 5 (8) %  
Number of coworkers<sup>4</sup>: 16 (17)

### TURKEY

Share of production<sup>3</sup>: 8 (7) %  
Number of coworkers<sup>4</sup>: 8 (8)

### SRI LANKA

Share of production<sup>3</sup>:  
2 (<1)%

### BANGLADESH

Share of production<sup>3</sup>: 41 (40) %  
Number of coworkers<sup>4</sup>: 49 (50)

### CHINA

Share of production<sup>3</sup>: 40 (45) %  
Number of coworkers<sup>4</sup>: 68 (67)

### MYANMAR

Share of production<sup>3</sup>: 3 (<1)%  
Number of coworkers<sup>4</sup>: 4 (4)

## OUR CONCEPTS

KappAhl — newbie

READ MORE ON THE FOLLOWING PAGES



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

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

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

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

# KAPPAHL



NUMBER OF STORES

347

NUMBER OF MARKETS

4

NEW STORES 2017/2018<sup>1)</sup>

4

At KappAhl you find fashion that both feels right and looks good. We offer clothes of good quality and fit for women, children and men. Here you find fashionable and value-for-money clothes for all occasions – both everyday and festive. A lot has happened since we started selling coats in a cellar 65 years ago. Today we sell clothes online and in 347 stores. But one thing is the same. For us fashion is about one thing – you. Regardless of who you are.

For us everyone is of equal worth.

1) During the year we opened four stores and also closed four stores.



# Woman

DURING THE FINANCIAL YEAR WE released four Limited Edition collections in our womenswear department. These are special collections that are sold in a limited edition in Shop Online and selected stores. The idea behind Limited Edition is mainly to offer our customers unique garments with higher fashionability but also to be talked about by fashion journalists and influencers.



# *Kids*

WITH THE UNITE collection we let the children set their own rules for fashion. The contemporary unisex collection was inspired by the relaxed street style and allows children to be just children.



*Man*

KAPPAHL'S MENSWEAR RANGE sets the framework for a good-looking and well-dressed working day. Key garments are shirts, chinos, odd jackets and knitwear in good materials.

# NEWBIE



NUMBER OF STORES

*22*

NUMBER OF MARKETS

*5*

NEW STORES 2017/2018<sup>1</sup>

*11*

The Newbie story started in 2010 when designers at KappAhl created a baby collection with the key words timeless, sustainable and value-for-money, with the idea of garments that can be passed down the generations. Newbie was perfectly in tune with the times and took hold virally. There and then many “Newbie Lovers” adopted the brand and their commitment has influenced both design and range, as well as creating an extensive second-hand market for the collection – entirely in line with Newbie’s focus on sustainability. There are now Newbie Stores in Sweden, Norway, Finland, Poland and the United Kingdom.

1) During the year we opened eleven stores and closed one store.



NEWBIE FOCUSES on sustainability, quality and design and the majority of products are in organic cotton. The non-cotton materials are from other more sustainable sources. For Newbie's designers sustainability is not just a matter of which materials are used, but also of length of life – their approach to design, with patterns and colours inspired by nature, has developed to create garments that do not age, and will be able to be inherited and loved for generations.

# A CHALLENGING YEAR

*The year was characterised by tough competition and fewer visits to the physical stores, but also by great progress in the area of sustainability, increased sales in Shop Online and successful launch of Newbie Store in the UK. We met Acting President and Chief Executive Officer Göran Bille to talk about the past year.*

## HOW WAS THE YEAR?

Quite clearly it has been a challenging year. There are things we have done well and things that did not work as we wanted, but in total we are not satisfied with the year's performance. The tough competition and effects of fewer visits to stores impacted our sales negatively during the year.

## WHAT DO YOU THINK YOU DID WELL?

Childrenswear and above all Newbie have been our grains of gold during the year. Newbie has landed well in the United Kingdom and we see that it is also going well for Newbie in our other sales markets. In childrenswear we also concentrated on developing brands such as Rückie, Woxo 720° and Lab Industries, which has meant a strengthening of our offer.

The positive performance in Poland is also a cause for celebration. KappAhl has been on the market for a long time and we have now adapted our strategy to more local conditions, which has been successful both regarding price strategy and the offer in general.

It is also gratifying that we are moving towards our ambitious sustainability objectives.

## WHAT DID NOT WORK OUT AS YOU WANTED?

Above all our campaign and price strategy focusing on full price sales. The industry has worked intensively on campaigns during the year, which meant that

we got out of step and had to go back to the more campaign-intensive strategy we had before.

Nor are we satisfied with the outcome of our endeavours to keep inventory levels down in stores. This meant shortages of some goods in stores, mainly the womenswear range in seasonal transitions, with weakening sales as a result.

## WHAT IS THE APPROACH TO EXPANDING NEWBIE?

We have created the embryo of a fantastic brand and we are caring for it like a baby. We want to continue the roll-out at a sensible pace and position ourselves in the United Kingdom in particular. It is terrific that Newbie has received so much attention and won several prizes during the year. The launch of Newbie as a stand-alone brand has been a fortunate move and we want to continue further development of the range in a similar way in the future.

## WHAT ARE THE GREATEST CHALLENGES IN THE REST OF THE WORLD?

The simple answer is digitalisation. That is a major transition – not just from an eCommerce perspective, but also in terms of communication and design of physical stores through omnichannel solutions and similar. We can see, just like our colleagues in the industry, that traffic to physical stores is declining and this is partly due to increasing eCommerce.

Other important challenges are to contribute to effective solutions for a sustainable and circular fashion industry, for example as regards fair wages and sustainable technologies etc.

## WHAT IMPACT DOES DIGITALISATION HAVE ON KAPPAHL?

Of course it has a great impact, on everything from our communication to how we organise ourselves internally. Sales in Shop Online have increased by 38 per cent during the year and our omnichannel solutions such as Click&Collect and Shop Online in Store have been successful. At the same time it is important to remember that 95 per cent of our sales are still made in physical stores. In the past year we have put a lot of effort into Shop Online. This was necessary and important to us, but in the coming year we will focus more on our physical stores.

## HOW WILL YOU DO THAT?

It is an ongoing task to adapt the store network and this applies to store space, location and rent levels to optimise sales per square metre in relation to traffic to the store. During the year we upgraded 23 KappAhl stores and among these we reduced store space in eleven stores. That work will continue in coming years.

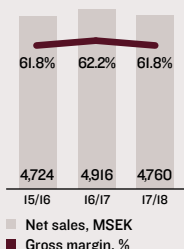
In the future we also want to allow stores to take greater responsibility as regards the customer meeting. I believe that in the future we will work in a more decentralised way with more locally



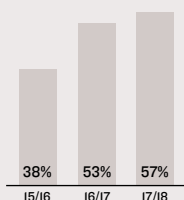
*“Sales in  
Shop Online  
increased by  
38 per cent  
during the  
year.”*



#### SALES AND GROSS MARGIN



#### PERCENTAGE OF SUSTAINABILITY LABELLED FASHION



*“Our focus is on the customer and product and we will intensify this work in the future.”*

adapted stores and this will also strengthen our offer. We also want to help the stores become more efficient so that they have more time for the customer meeting.

#### HOW WILL YOU TACKLE THE INVENTORY LEVELS?

We must constantly work a bit smarter and ensure that the goods are where they meet the customer. In the coming winter we will implement a major logistics project to create a common inventory for our physical stores and Shop Online. This is a very important step towards managing our inventory levels, but also to increase the efficiency of the distribution centre.

#### WHAT ARE YOU DOING TO BE THE CUSTOMER'S FIRST CHOICE?

KappAhl has been strong in the market for 65 years. Our focus is on the customer and product and we will intensify this work in the future. It is all about our offer and our meeting with the customer, regardless of channel. Developing the analysis of our different target groups and how we best meet them is an important part of this. We work a lot on developing an attractive, more sustainable range and giving it a better balance as well as a better expression. During the year we have changed our design language in campaigns. I think our autumn campaign “My Everyday Essentials” with Lena Olin and Bahar Pars is a good example of this.

#### HOW DO YOU WORK ON SUSTAINABILITY AT KAPPAHL TODAY?

Well-developed and integrated sustainability work is also important for KappAhl's long-term success. The work in this area is based on our sustainability strategy Responsible Fashion, which is part of our business plan, which we have rolled out in the organisation during the year. The strategy captures important questions; anything from sustainable materials and production processes to human rights and wages in the production countries and on to textile collecting and circular economy. To create participation and

increase knowledge of our sustainability work in the organisation, all coworkers have undergone training in “The sustainable customer meeting” during the year, which was much appreciated.

#### WHAT PROGRESS HAVE YOU MADE IN THE AREA DURING THE YEAR?

We are proud to have increased the percentage of sustainability labelled fashion from 53 to 57 per cent. We have also implemented our scorecard for sustainable design in our assortment and design department. In May we joined the Sustainable Apparel Coalition, where we act to harmonise our working methods with other actors in the fashion industry to create increased transparency and a faster rate of development of sustainable working methods. Together with our customers we also reduced sales of plastic bags by 70 per cent during the year as part of One Bag Habit. It's impressive!

#### THERE IS SOME SHIFTING OF PRODUCTION CLOSER TO THE SALES COUNTRIES, WHAT ARE YOUR THOUGHTS ON THAT?

We are exploring how to locate more production closer to our sales markets to increase flexibility in our supply chain. Working with suppliers close to sales markets has several advantages: above all we can reduce delivery times, but also improve our inventory levels by working with suppliers who themselves can store fabrics and finished goods close to our sales markets. Today it is usually more advantageous to be able to submit certain orders later in the season, albeit at a slightly higher purchase price, since it reduces the risk of price reductions.

#### WHERE IS KAPPAHL HEADED AS A GROUP?

There is incredibly great commitment among our coworkers to make KappAhl the best company for customers, shareholders and coworkers. During the year we have taken several steps to develop KappAhl, but I would like the next President to be the one to map the way forward!



**MY STYLE.**

**MY POWER.**

# OUR BUSINESS

*At KappAhl our purpose is to make everyday life better for the woman in the prime of life, and her family, by offering a wide range of well-designed and feel good fashion, always in a sustainable way. Through a deep understanding of our business environment and with a clear business plan we can create permanent value throughout our value chain. In that way we achieve our goals.*

## *Our business environment*

**GROWING MARKET**

**PURCHASING EXPERIENCE IN FOCUS**

**UNIFIED RETAIL – THE WAY FORWARD**

**A MORE PERSONAL RELATIONSHIP WITH CUSTOMERS**

**CIRCULAR AND SUSTAINABLE FASHION**

## *Our business plan*

*Clarity for the customer*

**COORDINATED CONCEPTS**

**SALES AND SERVICE**

**CHANNEL OPTIMISATION**

**COMMUNICATION AND MARKETING**

**RESPONSIBLE FASHION**

## *Our value chain*



## *Our goals*

GROWTH

4%

OPERATING MARGIN

10%

FIRST CHOICE  
FOR OUR CUSTOMER

EMPLOYEE NET PROMOTER SCORE

>25

COWORKERS HAVE  
TRUST IN KAPPAHL'S  
SUSTAINABILITY WORK

7.0

# OUR BUSINESS ENVIRONMENT AND BUSINESS PLAN

*KappAhl, like the rest of the fashion industry, is in the midst of a transformation. Accelerating digitalisation, increased demands from customers and consumers and a high awareness of the sustainability challenges of the industry are changing our business environment and its conditions. With our business plan, Clarity for the Customer, we are preparing ourselves to work in a targeted and agile way to reach our goals in a changing world.*



## GROWING FASHION MARKET

Fashion consumption is growing. In Sweden, consumers bought 18 per cent more clothes and shoes in 2016 compared with 2006<sup>1</sup>. But every third Swede seldom, or never, uses half the garments in their wardrobe<sup>2</sup>. This may be because the garment is the wrong fit, size or simply doesn't feel right. It is often because the consumers have no matching garments or accessories.

The growing market has led to increased competition, not least from eCommerce companies that operate both in our sales markets and abroad. This makes it increasingly important for us to be relevant in our offer. Our range must be inspiring, attractive and clear to our customers. We need to hit the mark as regards trends, sizes, season and demand. By working with clear concepts and guidance we help our customers to find fashion that feels right.

Today's consumers are often informed and want to consume more sustainably. Demand for garments in sustainable materials is growing. Textile collecting, second hand apps and clothing swap days are other phenomena in society that are gaining popularity. They all aim to extend the life of garments when they no longer have a place in the wardrobe.



1) Consumption report 2017, University of Gothenburg  
2) Waste Sweden

## Strategy COORDINATED CONCEPTS

*The right garment,  
at the right time,  
well-coordinated for our  
customer's wardrobe.*

### INITIATIVES 2017/2018

- Launch of Limited Edition – collections with a higher level of fashion, read more on page 7.
- Review of menswear range, read more on page 29.
- Implementation of scorecard for sustainable design, read more on page 30.

### INITIATIVES 2018/2019

- Deeper focus on the needs of KappAhl's different customer segments, women in the prime of life, men, parents and the Newbie customer.
- Continued development of the scorecard for sustainable design.

## PURCHASING EXPERIENCE IN FOCUS

Today consumers have high expectations that the purchasing experience will be personal and simple, regardless of whether they are visiting a physical store or searching an online shop. The need for simplicity also extends to payment options and eCommerce deliveries.

In addition, consumers spend less time in physical stores and often exhibit more rational shopping behaviour in that they are more often looking for a specific garment. Fast and knowledgeable service becomes central to fulfilling the customer's expectations. We also need to be able to offer help at the right time and the goods must be rapidly available, in store or online, which makes demands of inventory levels and availability.

### Strategy SALES AND SERVICE

*A high performance  
sales and service  
organisation with  
extensive knowledge of  
customer and product.*

#### INITIATIVES 2017/2018

- Launch of payments via Klarna in stores as well, read more on page 43.
- Implemented central customer services, read more on page 43.
- Inventory levels in focus, read more on page 29.

#### INITIATIVES 2018/2019

- Introduction of a single logistics platform for all sales, regardless of channel, which will give more effective logistics, for example in handling more orders and speeding up deliveries.

## UNIFIED RETAIL\* – THE WAY FORWARD

Consumers are increasingly choosing to shop online. According to figures from the Swedish Trade Federation, in principle all consumer retail growth in 2017 was on the internet.

Nordic eCommerce sales were almost SEK 210 billion in 2017 and clothes and shoes were the largest product category in Nordic eCommerce<sup>3</sup>. But eCommerce is not only used for purchases. Some customers use stores to feel and try on garments and then complete the purchase online, others do research on range and availability online before they go to a physical store to complete the purchase.

The physical store as a phenomenon remains strong, however, and in recent years formerly purely eCommerce actors have opened physical stores. Having access to a store network gives the large chains major advantages<sup>4</sup>. The habit of shopping in stores is still well-established among consumers and closeness to the customer is central to be able to create a strong offer, even online.

\* Today channel optimisation is not about physical stores or eCommerce, but about how sales can be optimised through a symbiosis in which both channels drive each other: Unified Retail.

### Strategy CHANNEL OPTIMISATION

*Optimised and updated stores based on  
concept, space and location with Shop Online  
as flagship store.*

#### INITIATIVES 2017/2018

- Opened, upgraded and closed stores in our sales markets, read more on page 43.
- Continued development of Click&Collect and Shop Online, read more on page 43.
- Establishment of Newbie Store in the UK with six new stores including eCommerce, read more on page 45.

#### INITIATIVES 2018/2019

- Continued optimisation and updating of the physical store network.
- Continued refinement of omnichannel solutions with a focus on increased relevance for each individual visitor.



3) E-barometer 2018, Post Nord

4) Brendan Wither, Forrester Research

## A MORE PERSONAL RELATIONSHIP WITH CUSTOMERS

Consumers' gut feeling and how they decide to interact with brands is influenced by the values, aims and sustainability work of the fashion companies. Creating relevant brands, channels and experiences is therefore central to the work of creating close relations with consumers.

Consumers scroll through enormous content in social media and on websites every day. Consequently, it is more important for us to create engaging and relevant content that reaches the customer at the right time.

Increased digitalisation and consequent access to data and ultimately the use of artificial intelligence to analyse the data, create opportunities to adapt and personalise communications with customers. In that way they can be linked even closer to the brand. This will be decisive for future success in the fashion industry.

### *Strategy* **COMMUNICATION AND MARKETING**

*Strong brand and strong relation to our customer, leading to increased percentage of full-price sales.*

#### **INITIATIVES 2017/2018**

- Continued work on customer segmentation, read more on page 44.
- Established an analysis hub for customer data, read more on page 43.
- Increased focus on user-generated content online, read more on page 44.
- New strategy for store windows and entrance areas with clearer offers for our customer.

#### **INITIATIVES 2018/2019**

- Continued work to strengthen the relation with our many loyal customers as well as to be more relevant for each individual customer in the channels they choose to meet us in.

## CIRCULAR AND SUSTAINABLE FASHION

Knowledge of the fashion industry's challenges is growing. The planet's finite resources and the major focus on the climate issue is leading to greater interest in recycling, circular business models and innovative product technologies. Important questions such as working conditions, living wages and health and safety in production countries need continued development and the fashion industry needs to take responsibility for promoting that development.

Consumers expect the fashion industry to have active and transparent sustainability work. Actors who achieve this have a competitive advantage compared with those who have not come so far.

To be able to drive sustainable development in the fashion industry increased interaction is needed between a number of different actors, for example on issues concerning sustainable consumption and production. Examples of this are initiatives such as the Sustainable Apparel Coalition that works to make the industry more sustainable and transparent.

### *Strategy* **RESPONSIBLE FASHION**



#### **INITIATIVES 2017/2018**

- Increased percentage of sustainability labelled fashion, read more on page 29.
- Membership of the Sustainable Apparel Coalition (SAC), read more on page 41.
- One Bag Habit now also launched in Norway, Finland and Poland, read more on page 50.
- Sustainability training for all store coworkers, read more on page 25.
- Contribution to research for development of more sustainable production technologies, read more on page 40.

#### **INITIATIVES 2018/2019**

- Start rolling out Sustainable Apparel Coalitions Higg Index in the supplier chain.
- Continued implementation of the communication concept for Responsible Fashion.
- Continued commitment to the research programme Re:Source.

# OUR VALUE CHAIN

*KappAhl's value chain is complex and characterised by opportunities as well as challenges. The work to make operations more effective and integrate sustainability into all parts of our value chain is taking big steps forward every year. On the following pages you can read more about how we work to create profitable and sustainable operations.*



## COWORKERS

KappAhl is a large and attractive workplace with more than 4,000 coworkers in 400 workplaces in ten countries. Here you have the opportunity to grow and the tools to contribute to the success of the entire organisation. Read more on page 24.

## DESIGN AND PURCHASING

In our design and purchasing department we are working to create a relevant and clear range for women, children and men. We produce about 7,700 unique articles every year – always according to our customers' needs and wishes, focusing on quality and sustainability. Read more on page 28.

## PRODUCTION AND LOGISTICS

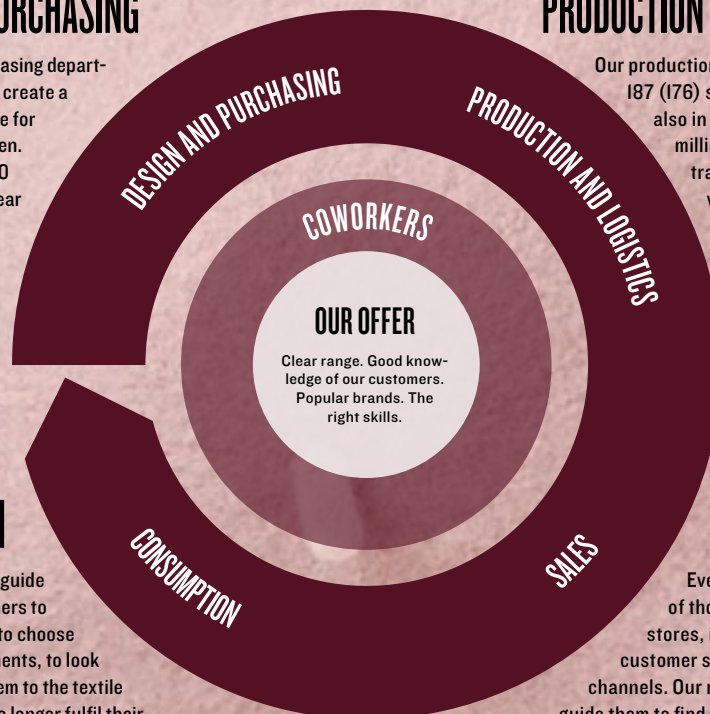
Our production during the year was with 187 (176) suppliers, mainly in Asia but also in Europe. The more than 43 million products we order are transported from the factories, via our distribution centre, to our stores and home to the customers in a highly effective logistics chain. Read more on page 34.

## CONSUMPTION

At KappAhl we want to guide and inspire our customers to sustainable choices – to choose more sustainable garments, to look after them and take them to the textile collecting when they no longer fulfil their function. We also take an active part in the transition to a circular fashion industry. Read more on page 48.

## SALES

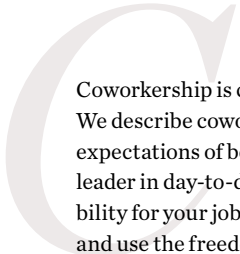
Every day we meet hundreds of thousands of customers, in stores, in our Shop Online, in our customer services and in the social channels. Our motivation is to inspire and guide them to find their own style, regardless of channel. Read more on page 42.





# COWORKERS

*KappAhl's more than 4,000 coworkers at 400 workplaces in ten countries are driven to exceed our customers' expectations. As a coworker you have clear goals, explicit responsibility and get regular feedback on your performance to enable you to continue to grow and develop.*



Coworkership is central for us at KappAhl. We describe coworkership through our expectations of being able to be your own leader in day-to-day work. Take responsibility for your job and our common goals, and use the freedom to find smart ways of getting results together with colleagues. Leaders at KappAhl support and challenge coworkers to constantly develop by delegating responsibility and seeing coworkers grow with that responsibility. The leaders set clear goals, follow up and give feedback so that the entire team works towards common goals.

## **MOTIVATING AND FULFILLING GOALS**

During the year we continued to develop a simple and well-appreciated way of clarifying goals and activities to creating results in the form of performance reviews. Frequent briefings between coworkers and leaders create commitment and increase motivation. The briefings give coworkers increased understanding of how their own work contributes to the goals of the workplace, and ultimately to KappAhl's goals. Together leaders and coworkers also identify the coworker's development needs to enable him or her to take responsibility for both activities and performance. In that way we get busi-

ness-driven coworker development that creates benefit for both customer and organisation and in addition contributes directly to our overall objectives.

## **COMMUNICATION AND LEADERSHIP**

We believe the foundation of good leadership is communication. We have continued to develop the tools that support our leaders in dialogue with coworkers. One of these is feedback, as we know that expectations of feedback are high and that they give us many other positive effects in the form of motivation, results and development. Feedback is not only something that our leaders are responsible for, but something we see as a part of all coworkers' responsibility for developing our teams and colleagues.

## **CUSTOMISED TRAINING**

Training is important to stand strong in a changing market. With our business environment and our business plan as the starting point, we customise training that develops both coworkers and KappAhl. All coworkers have participated in skills development during the year; on average 9.2 (11.5) training hours per coworker.

One major training initiative during the year was the "The sustainable cus-

tomers meeting" course, which is an important part of our sustainability strategy Responsible Fashion. To fulfil the customer's needs we want to be able to answer the questions we are asked, but also guide towards sustainable choices. At KappAhl we focus on sustainability throughout the value chain.

For coworkers in stores we have also continued to offer our digital training in contextual selling, styling and fit.

## **ATTRACTIVE WORKPLACE**

KappAhl is a popular place to work, which can be seen from the interest expressed in working at KappAhl; Universum's ranking of Sweden's best employers and Randstad's ranking of the most attractive companies in retail and sales. We also have high marks in our annual employee survey. Our Employee Net Promotor Score (eNPS), a measure of how probable it is that coworkers will recommend the workplace to friends and acquaintances, registered the high rating of 23 in the latest measurement. Our long-term objective is to achieve a NPS of 25, which is a high level of coworker loyalty. Coworkers also score high points on trust in our sustainability work in the latest employee survey; on average 6.1 points out of 7.

## COWORKERS

23

EMPLOYEE  
NET PROMOTOR  
SCORE

## RESPONSIBLE FASHION

*Develop a  
sustainable  
organisation  
and stores*

- Work for diversity and equality
- Educate and support all coworkers on sustainability



## DO YOU WANT TO WORK FOR US?

Our vacancies are listed at  
[www.kappahl.com/work-with-us](http://www.kappahl.com/work-with-us)

## FLYING START

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 coworkers post pictures of their working day.

We want our new coworkers to have the best start possible at KappAhl and therefore offer a digital introduction training that is completed before the first day at the new job. The training gives our newly employed colleagues a clear picture of KappAhl, our customers, values and sustainability work. All to be able to contribute from the first day in the new job.

## NEW ROUTES

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

For our coworkers in stores who aim to be store managers we offer the Store Manager Trainees course. The programme equips the 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.

## 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, etc. 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. The questions are important to us, both in our sales markets and in our production countries, and apply to purchases of both goods and services.

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 5.8 (5.7) per cent during the year and is regularly followed up. It is gratifying that we have very few occupational injuries.

Every coworker has the possibility of reporting events that are perceived as discriminating and derogatory in the annual coworker survey, or directly to the immediate superior or to the HR department when a situation arises. All cases of bullying or victimisation at KappAhl are followed up by the HR coworker responsible and must be treated promptly and confidentially. Read more in Part 2, page 46.

In Sweden, Finland and Norway all coworkers are covered by collective agreements, representing 91 (90) per cent of KappAhl's coworkers. National legislation applies in other countries. In these countries in some cases we decide to augment the terms of employment beyond legislation.

KEY RATIOS, COWORKERS<sup>1</sup>

	17/18	16/17	15/16	14/15
Total number of coworkers	4,016	4,001	4,047	4,104
Full time positions <sup>2</sup>	2,878	2,708	2,812	2,885
Staff turnover, %	13.1	14.3	14.0	10.5
Percentage of women	93.2	92.9	91.5	92.6
Percentage of men	6.8	7.1	9.5	7.4
Average age	36.8	37.9	37.3	35.8
Training hours per person	9.2	11.5	11.6	9.5
Sickness absence, %	5.8	5.7	5.7	5.9

1) For more coworker data, see Part 2, pages 25 and 46.

2) Total number of services restated as full-time positions.

## TREND CHECK AND BRIDGE BUILDING – INGRID IS KAPPAHL'S EXTENDED ARM IN SHANGHAI



*The latest trends, new purchasing behaviour and innovations in the textile industry. In Shanghai there are many keys to the future fashion industry – as well as KappAhl's head of product development Ingrid Ljungsvik. "Working here means being both a link between design/purchase and production and keeping an eye on the latest trends and bringing them back to KappAhl," says Ingrid Ljungsvik.*

SHANGHAI IS A MODERN, PULSING CITY, with 24 million inhabitants and an enormous variety of more or less everything – not least fashion, of course. Inspiration flows for anyone interested in design and trends.

In addition, Shanghai and China in general are major textile producers. About 40 per cent of KappAhl's production is in China.

"Above all, the Chinese factories are talented at outerwear, knitwear and ready-made clothing; dresses, coats, jackets and garments that require a finer finish. They are also very good at fleece. For example, we manufacture almost all our dressing gowns in China. A lot of fabric and wool is also manufactured here, which is also exported to other production countries," relates Ingrid Ljungsvik.

She is in Sweden to visit for a few days, because her home ground just now is Shanghai. She has lived and worked there at KappAhl's production office for almost a year and will stay for another year – at least.

"The original idea of having a function like mine in Shanghai was to build a bridge between production and purchasing. With 24 years experience at KappAhl, mainly as a buyer, I can give direct feedback to the production based on our approach and our customer. This makes the processes shorter and mistakes fewer. I know which fabrics, colours, patterns, cuts and samples that work for us at KappAhl," says Ingrid Ljungsvik.

Apart from product development and being KappAhl's eyes in the production, Ingrid Ljungsvik is also something of a trend-spotter. It is not uncommon for new fashion phenomena to emerge on the streets of Shanghai and with Ingrid in place there is every opportunity to get a sense of what is new and pick out what suits the KappAhl customer.

"A few times per season I visit the head office and present a compilation of new items and trends for designers and buyers. We look at innovations, models we want to develop and new types of quality or yarns. And we discuss how we could twist it to suit our customer," says Ingrid Ljungsvik.

She is very happy in Shanghai and only sees advantages in working from there.

"I believe it is useful for someone to look at KappAhl slightly from the outside, as I am doing now, it makes it easier to see what can be improved and developed.

### KAPPAHL IN SHANGHAI

KappAhl's production office in Shanghai has 32 coworkers. Apart from Ingrid Ljungsvik, there is a site manager and several merchandisers who are responsible for various textile areas, such as woven, jersey and knitwear. Merchandisers act as the extended arm of the purchasing department in production and when orders are placed it is they who contact the suppliers and order samples and negotiate prices, for example.

## KAPPAHL ACADEMY FOR VISUAL MERCHAN- DISER TRAINEES

VISUAL MERCHANDISERS, or store communicators, are important actors in our endeavours to inspire and guide customers in stores. Therefore we arrange the KappAhl Academy for Visual Merchandiser Trainees, which consists of lectures, mentorship, individual work and assignments in seven steps over three months. Styling, thematising, grouping of mannequins, use of accessories, lighting and graphic message are examples of the subjects dealt with.



## GREEN LIGHT FOR KAPPAHL

Our executive management team and Board were among the most gender equal of listed companies in Sweden in 2017. Read more at [www.allbright.se/rapporter/](http://www.allbright.se/rapporter/)



# DESIGN AND PURCHASING

*In our design and purchasing department we work to create a relevant and inspiring assortment for women, children and men. We produce about 7,700 articles every year – always according to our customers' needs and wishes, focusing on quality and sustainability.*

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

## AT THE FASHION LAB

It all starts at our studio at head office where we are constantly working to develop our range. All the products we sell in our stores and in Shop Online have been created and designed here. The coworkers include designers, design assistants, controllers, buyers, buyer assistants, pattern constructors, design, purchasing and collection managers, as well as coworkers responsible for ensuring that our range is constantly becoming more sustainable. Together they contribute varying experiences and knowledge for designing an inspiring range and they are driven by the passion to create fine garments for our customers.

Normally work continues for up to three seasons simultaneously. Some of the garments we are sketching and developing only turn up in the stores nine to twelve months later. Other garments, usually with a higher level of fashionability, reach the stores much faster than that. 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. During the year we have also had much focus on keeping good inventory levels. We worked actively to reduce lead times and prepare decisions so that we can act and place orders later in the season.

## KNOWLEDGE AND INSPIRATION

Knowledge of our customers is central for our design and purchasing department – 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. We also monitor searches in Shop Online.

To be on the right track and snap up trends early we always have our ears to the ground 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 cities like Paris, London, New York and Seoul our designers and buyers can identify new trends in anything from silhouettes to details and material choices.

## RANGE DEVELOPMENT

Our range is constantly being developed, and we always offer a mix of high fashionability and basic garments and well-fitting trousers that mean that our customers can always find what they want with us.

Work on the range is steered partly by range strategy, product policy and our scorecard for sustainability. During the 2017/2018 financial year we appointed a business area designer for all business areas. In that way we strengthen our range development.

Our range strategy for womenswear is based on our idea of clear coordinated concepts for our customer. This makes our expression more integrated both in the collections and in stores. During the year we focused on developing the menswear and childrenswear ranges. On the menswear side we have reduced the share of stand-alone brands to be able to give our menswear customer a clearer and inspiring range. The childrenswear department has many brands that are popular with both children and parents – brands that have taken greater space in both range development and communication during the year.

## A SUSTAINABLE WARDROBE

A great challenge in the fashion industry is the transition to a circular economy. KappAhl can contribute by working with circular products in sustainable materials and production processes. We want our garments to have longer lives and be part of a circular flow of textiles. Consequently, one of our focus areas in our sustainability strategy Responsible Fashion is to design fashion for a sustainable wardrobe. During the year 57 (53) per cent of our range had sustainable fashion labelling. Today most of our collections and product categories are more sustainable throughout.

## DESIGN AND PURCHASING

1%  
OF KAPPAHL'S TOTAL  
CLIMATE IMPACT

## RESPONSIBLE FASHION

## Design fashion for a sustainable wardrobe

- Design sustainable products and collections
- Complete the transition to more sustainable materials
- Enable circular fashion



*“It all starts at our studio at head office where we are constantly working to develop our range. All the products we sell in our stores and in Shop Online have been created and designed here.”*

An important part of achieving our objective is our scorecard for sustainability that is integrated into our product development system. In spring 2017 we tested our successful scorecard and in January 2018 it was implemented in all design and assortment departments. The scorecard is based on five criteria: choice of material, circular fashion, design and life, material consumption and sustainable production technology.

“The scorecard gives us support in assessing the products’ sustainability performance but also acts as a guide in our product development. With the scorecard we can steer and measure the effect of our sustainability strategy at product level,” explains Lina Nyqvist, Head of Sourcing and Sustainability at KappAhl’s design and assortment department.

The criterion for circular design means for example that at the end of their lifetime the garments are recyclable and our target is that 50 per cent of our garments are to meet this requirement by 2025.

### SUSTAINABLE TECHNOLOGY AND MATERIAL

Sustainable material and technological development are important parts of our endeavour to design fashion for a more sustainable wardrobe. It is here, in the supplier chain, that the garments’ greatest impact on the environment and people is made. We constantly follow development of new fibres and production technologies that save the earth’s resources. A challenge is to find more sustainable materials that are considerably better than the conventional alternative, another is that the sustainable material also needs to meet our requirements as to design, quality and feeling.

Our target is that 100 per cent of our range is to consist of more sustainable material by 2025 and for the 2017/2018 financial year we reached 54 per cent<sup>1</sup>. To complete the transition to more sustainable material we have set a sub-target for example for cotton,

synthetic fibres and cellulose fibres from more sustainable sources.

100 per cent of our cotton is to be from more sustainable sources by 2020. In 2017/2018 we achieved 86 (81) per cent. More sustainable cotton includes Better Cotton, organic cotton and recycled cotton. Using cotton from more sustainable sources has a major positive impact. A lifecycle analysis conducted by the Textile Exchange<sup>2</sup> shows that organic cotton only releases half the amount of greenhouse gases and requires ten per cent of the water consumption for watering compared with conventional cotton.

In 2022 at least 50 per cent of all synthetic fibres such as polyester and polyamide must come from recycled sources. In 2017/2018 recycled synthetic fibres constituted 3.7 per cent of our total purchases of synthetic fibres. We hope that the availability of recycled fibres will increase in future in that we together with industry colleagues set clear targets and contribute to research in the area.

According to the organisation Canopy, one third of the world’s viscose comes from endangered primeval forests. We require that all viscose we use comes from sustainable forests. Our target is that half of our purchased viscose will come from more sustainable sources by 2022, which also includes it being manufactured in closed processes.

All our product packaging and labelling are in more sustainable material; for example, all paper is FSC labelled or recycled and all polyester for washing instruction labels is recycled.

Sustainable production technology includes new types of process to produce garments with less use of water, energy and chemicals. Much is taking place in the area; for example we continually evaluate new processes for printing, dyeing and washing. Our targets are to only use more sustainable production processes by 2030 and that all our denim is to be manufactured using more sustainable production technology and in more sustainable material by 2022.

1) Material from more sustainable sources, such as Better Cotton Initiative (BCI) and certified, organic, recycled or more sustainable material.

2) Life Cycle Assessment (LCA) of Organic Cotton, Textile Exchange and PE International, 2014.

## ROOM FOR LINGERIE

An attractive outfit starts from the inside with the right underwear. At KappAhl our customer finds underwear for all female shapes, regardless of size and style. We have a large range of modern underwear that gives support and feels good every day, all day.

In autumn 2017 we launched our new underwear department "Room for Lingerie" and here clarity has been our watchword. In the department we show clear guides for bra and pant models and the underwear is presented in coloured sections. Collections such as XLNT, Active Wear and nightwear also have their own sections in the department – all to make it easy for our customers to find what they need!



*“We have a large range of modern underwear that gives support and feels good every day, all day.”*



## BELOVED NICKIE!

*Really comfortable trousers that work both as partywear and everyday wear and can be matched with most things. Many of our customers have found Nickie trousers to be a true wardrobe hero.*

NICKIE HAS BEEN IN OUR RANGE since 2011 but was not an immediate success. The silhouette was new and unfamiliar and a certain running-in period was needed before customers took to the trousers. But already in the next season a growing interest was noted in the cool tailored stretch trousers made of strong bengalin, which is a kind of polyester.

Nickie attracted more and more devoted fans and in recent years both material and colours have been discussed keenly on social media. In spring 2018 we also gave our customers the opportunity to vote for a new colour online. The competition created great involvement, with more than 400 votes on Instagram. The winning colour, the strong Mazarine Blue, was released in a limited edition in Shop Online and was sold out in record time.

### WHY DO YOU THINK SO MANY PEOPLE LIKE NICKIE?

“It is a flattering model for many body types; the quality is sturdy and slightly slimming. The model is straight over the hips, which gives it a bit of a “boyish” look that many like. It is very comfortable, since it is so stretchy and in addition is very good value,” says Gabrielle Grennard, the designer behind Nickie.

## SIZE BY MEASUREMENT

### A EUROPEAN PROJECT TO HARMONISE CLOTHES SIZES

SIZES in Europe has been running since 1994. Historically the sizes have differed between countries, but also between different fashion chains in the same country. In autumn 2017 a European standardisation group presented a new uniform sizing system that will apply throughout Europe. Lotta Silow participated in the project. Her normal job is Size and Fit Coordinating Manager at KappAhl.

“The greatest difference is that we will now base sizes on a body measurement. That is clear to both customer and industry!,” says Lotta.



## KAROLINA DRAWS NEWBIE'S UNIQUE PATTERNS

IN NEWBIE'S MAGICAL PATTERN WORLD there is room for anything from foxes, woolly clouds and flying dragons to flowers in general and roses in particular – all drawn by hand by Newbie's own print designer Karolina Persson.

"You get a worked feeling when you let the process take time, that does a lot for the feeling and the credibility. I believe the Newbie customer feels that," says Karolina.

Round the Newbie team's shared workplace at the head office in Mölndal there are rows of hangers with small garments in mild colours from current and future Newbie collections. Karolina browses expertly among the hangers and stops at a small dress with a brown flower pattern on a dusky pink background.

"I like this print, it turned out well," she says and holds up the dress.

The customers – committed, to put it mildly, "Newbie Lovers" around the world – agree. The dress is selling like hotcakes and discussions run high in all the Newbie forums on social media as to how the dress really can best be matched.

"It is super fun to get such appreciation and hear that they like what we are doing and the print I drew," says Karolina.

She is proud to be part of the Newbie team, proud of the print, the garments, the collections, the sustainability and the success story. Read more about Newbie on page 45.

*"Today our babywear and childrenswear accounts for 40 per cent of our sales."*

2018 IS A YEAR OF CELEBRATIONS. It is 65 years since KappAhl was founded and 40 years since we released our first children's collection. Much has happened since then – today our babywear and childrenswear accounts for 40 per cent of KappAhl's sales and we are one of the major players in the childrenswear market. In the past year we worked to further strengthen our well-known and popular brands such as Newbie, Lab Industries, Rükie, Woxo 720° and KAXS Proxtect.



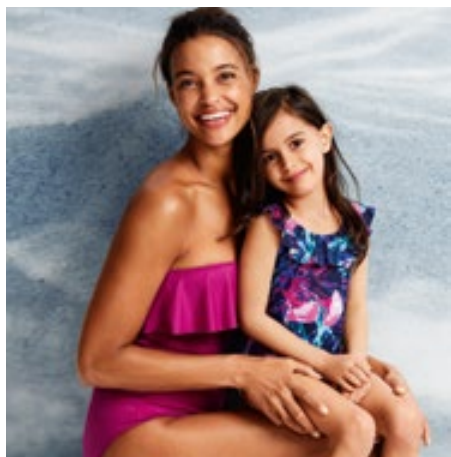
## RE-MAKE BY KAPPAHL

WHAT DO YOU DO WITH YOUR OLD CLOTHES and home textiles when they are torn or no longer fit? Have you thought about reusing the material and making something new?

We want to increase awareness of circular fashion and in the Stockholm Fashion Week in August 2017 we set up two of our textile collecting boxes where the visitors were encouraged to put worn-out clothes and textiles. The collected material was given new life by KappAhl's designer Lovisa Lindstrand, who upcycled the garments into the collection Re:make by KappAhl. The collection included a denim kimono, a suit with lace details and a shirt-dress. A large table-cloth became a jacket and trousers set. The garments were all made in only one copy.

"We received everything from curtains and cushion covers to shoes and jeans and it was a really fun challenge to create a collection from what was collected," says Lovisa Lindstrand.

The Re:make by KappAhl garments were auctioned on Tradera for the benefit of Bris (Children's Right in Society) and gave SEK 4,700 to the important work of the charity.



## THE WATER WORLD A MORE SUSTAINABLE BEACH COLLECTION

PLASTIC IN NATURE in general and in the seas in particular is one of the greatest environmental problems of our time. Plastic takes a long time to break down and can cause great damage to both plants and animals. We need to be careful as to when and how we use plastic and synthetic materials, and one way to tackle the problem of littering is to create incentives that make people see their used plastic products as resources and not as rubbish. In The Water World collection we used material made out of such things as fishing nets and plastic bottles and created a beach collection in more sustainable material that includes both swimwear and beachwear for the whole family.

## UPCYCLING

### – A WINNING CONCEPT IN THE KAPPAHL SUSTAINABLE DESIGN CONTEST

KAPPAHL'S AMBITION is to be an actor that contributes new ideas and methods for sustainable design and manufacture in the fashion industry. So we arrange the KappAhl Sustainable Design Contest for fashion, textile and design students from Sweden, Finland, Poland and Norway who want to be part of developing future sustainable design solutions.

In 2017 Kim Linghoff won the contest with the citation: "The year's winning entry is about upcycling. Kim Linghoff has shown how it is possible to both playfully and tastefully combine newly produced material with material left-over from previous manufacturing in new exciting knitted products. A smart way to use waste material and give it new life and value instead of throwing it away."

Her idea to utilise left-over yarns resulted in two kimonos, one short and one long, in blue tones. Wabi-Sabi, the Japanese philosophy that honours the unassuming and the imperfect, inspired the design so the two garments were named Wabi and Sabi. The garments were released in September 2018 and sold in Shop Online and selected stores.





# PRODUCTION AND LOGISTICS

*Our production during the year was with 187 (176) suppliers, mainly in Asia but also in Europe. The almost 43 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.*

**K**appAhl does not own any factories of its own. All purchases are through suppliers and 89 per cent of our purchases are made from our suppliers in Asia. We have suppliers in Bangladesh, India, China, Turkey, Myanmar and Sri Lanka and our own production offices in all production countries apart from Sri Lanka. Instead, the work in Sri Lanka is managed from our production office in India. The production countries have a well-functioning textile industry with surrounding infrastructure and a quality and price framework that matches our segment.

KappAhl has two types of supplier: suppliers linked to a production office and agents and importers. We work with suppliers linked to production offices for longer periods and they manufacture the products to our design. The agents and importers category is used for specific product categories such as licensed prints, for example with popular cartoon characters.

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 expectations and requirements. In 2017/2018 the 10 largest suppliers were responsible for 31 (31) per cent of our purchases. Co-ordinated production means increased quality, better control and greater opportunities for influence.

The production markets are constantly changing. In recent years the percentage of the products we manufacture in China and India has decreased in favour of other countries in Asia, mainly Bangladesh, but also Myanmar and Sri Lanka, which are new production countries for us.

## **RISKS IN THE PRODUCTION COUNTRIES**

We see risks in production countries regarding human rights, corruption, working conditions, wages, child and forced labour, freedom of association, safety, health and the environment. The issues we regard as most important are social dialogue, wages and working hours. The risks, and lack of transparency, are greatest early in the supply chain. The fashion companies' codes of conduct with associated factory reviews also mean that there is a risk of "audit fatigue" in the supplier chain. Consequently there is a need to work with initiatives such as the Sustainable Apparel Coalition (SAC) to create more commitment and efficiency among suppliers. Read more about SAC on page 41.

Textile production requires large amounts of water, energy and chemicals, which in turn create emissions to both air and water, waste and impact the community and biodiversity. The Asian countries, which account for the greatest part of the world's textile industry, are the fourth largest water user and the World Bank estimates that 20 per cent of global

industrial freshwater pollution is caused by the textile industry.

To be able to manage the risks in the production countries 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.

## **POSITIVE IMPACT ON LOCAL COMMUNITIES**

KappAhl wants to support long-term sustainable development in the countries and factories we buy goods from. We see opportunities to contribute in various ways and reach out to the approximately 138,000 coworkers at our suppliers and even more who work earlier in the supply chain.

We want to work with responsible suppliers and require that they pay statutory wages and other benefits in their factories. We are also involved in industry initiatives and cooperation to influence governments and other actors to drive development forward, particularly with regard to the social dialogue. Through our presence we contribute to development of the local economy, creation of jobs and better conditions for children, women and men in the production countries. Our work also contributes to spreading increased knowledge and better production technology, which leads to reduced use of water, energy and chemicals.

Strengthening the skills and ability of the factory workers to influence their

PRODUCTION AND LOGISTICS

63%

OF KAPPAHL'S TOTAL  
CLIMATE IMPACT

RESPONSIBLE FASHION

*Work for a  
sustainable  
supply chain*

- Work with responsible partners
- Build a sustainable logistics set-up
- Support communities and people affected by our business



workplace is part of our contribution to the local communities in which we operate. We can do this by for example training factory coworkers, both workers and managers, in rights and responsibility. Together with the training company QuizRR we participated in a pilot project in 2016/2017 where we implemented digital training on tablets at suppliers in Bangladesh. The pilot project turned out well and in autumn 2018 we will provide training at four of our suppliers in the country. Since the start, 2,500 factory coworkers have participated in a total of 10,158 training sessions to teach more about workplace policies, health and safety and fire protection, for example.

We see that development in the production countries is going in the right direction: for example, literacy in Bangladesh has increased from 46.6 per cent in 2007 to 72.9 per cent in 2018. In addition changes in labour law are taking place – in December 2018 minimum wages for workers in the textile industry in Bangladesh will be increased by 51 per cent. Despite this, we are not satisfied with the pace of developments. We consider that there must be a system shift and through our Responsible Fashion sustainability strategy and our commitments in SAC and ETI we want to push through exactly that. Read more on pages 40–41.

**CONTROLLING PRODUCTION**

Our supplier strategy, a binding Code of Conduct for suppliers and supplier evaluation are important policy instruments in the work, as are our ethical guidelines for coworkers and business partners and our sustainability strategy Responsible Fashion. In addition all suppliers need to meet the requirements regarding product quality that we have defined in the KappAhl Product Quality Standard.

The Code of Conduct, which our suppliers undertake to follow, covers areas such as forced labour, child labour, the freedom of association and organisation, wages and working hours, safety at the workplace, as well as environmental aspects, depending on the types of pro-

cesses the individual factory works with, for example correct water purification if they work with wet processes. 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 rest of the world and harmonise with the industry initiatives we participate in. Read more on page 38.

When we enter new production markets we go carefully. We carry out preliminary investigations concerning such matters as human rights, labour law and it may for example be relevant to map the ownership structure for the land on which a supplier's factory is built, to determine where there may be risks of infringements.

We have zero tolerance for all types of corruption. It is highly unusual for us to identify cases of fraud either in relation to our coworkers 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 a person is newly employed and also when our suppliers undertake to comply with the guidelines. After that we go through the guidelines with the coworkers and suppliers every year. The greatest risk of corruption is at the supplier stage. Coworkers 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.

**SAFE PRODUCTS**

KappAhl has high requirements when it comes to quality, child safety and the use of chemicals and these are defined in our KappAhl Product Quality Standard. We aim for continual improvements and always apply the precautionary principle. 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 2017/2018 we carried out 767 (942) chemicals tests and 99,9 (99) per cent of the garments were approved. 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 caught up on something. KappAhl participates actively in standardisation for safety in children's

clothes through its membership of the Swedish Standard Institute (SIS).

As part of our product safety work, on two occasions during the year we decided to remove products from stores. The products recalled were a flip-flop slipper because it contained PVC and a soft toy in the form of a rabbit due to loose parts. In all 9,673 products were recalled, corresponding to 0.021 per cent of total sales.

KappAhl has a clear policy for dealing with garments and other products that for various reasons cannot be sold. Any product not meeting our requirements concerning health, safety or environment are burned to ensure that they cannot cause harm to humans or the envi-

ronment. These may be mouldy garments, children's garments with loose parts or products where we have found prohibited chemicals. During the financial year we sent a total of 1.24 (1.49) tonnes of products for incineration for health, safety or environmental reasons. In the cases where we identify products with minor flaws, such as spelling mistakes on prints or sleeves of different length, they are sent to our partner I:Collect that ensures the products are sold outside our sales markets or that the material is recycled. It is important to us from the perspective of both profitability and sustainability, that the percentage of products that cannot be sold is as small as possible.

## REDUCED LOGISTICS COSTS

IN THE PAST FIVE YEARS we at KappAhl have refined and revised our logistics processes based on the goal of maximising the sales potential. Since then we have increased the accuracy of replenishment against sales, halved the lead time for replenishment to stores, developed order placement and range packaging to optimise costs all the way to the sales space. The total logistics cost from supplier to store has been reduced by almost one fifth per garment.

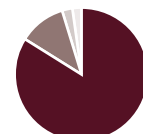
In parallel with the implementation of new services such as Click&Collect and Shop Online in Store, an initiative is in progress for supplementary automation and integration of eCommerce logistics in the existing store automation in KappAhl's distribution centre in Mölndal. The aim is to create a common inventory and flows for all goods, whether bought via stores or eCommerce. The result will be that the logistics cost for an eCommerce order will be considerably reduced while safeguarding capacity for dealing with the vigorous growth in eCommerce. In the first quarter of 2019 the basic strategic logistics platform will be in place for our Unified Retail project and further processes can be refined and developed in this area.

Working to increase efficiency in logistics is also a part of KappAhl's sustainability work, as it leads to reduced emissions per garment. We work with the aim of annually reducing our climate emissions from transportation, which we did not succeed in doing this year. In 2017/2018 transportation contributed greenhouse gas emissions of 138 kg per garment, which is an increase of ten per cent compared with the previous year. The reason is mainly increased air freight compared with the previous year, but also a severe increase in emissions from rail transportation. This is mainly due to increased rail transportation from Asia.

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.

We make environmental and social requirements of all carriers, regardless of mode of transport and since 2008 we have been a member of the Clean Shipping Network, an organisation that promotes the specification of common requirements for more sustainable maritime transport, of which KappAhl was one of the initiators. The Clean Shipping Network provides a database of shipowners that work to improve conditions and reduce the environmental impact of their vessels.

### DISTRIBUTION OF MODES OF TRANSPORT



*The total logistics cost from supplier to store has been reduced by almost one fifth per garment.*

# DIALOGUE PROMOTES COOPERATION IN THE PRODUCTION CHAIN

We conduct an ongoing dialogue on sustainability with our suppliers. Our objective is that the inspections and follow-up visits carried out by our coworkers at the suppliers will promote our relations and our cooperation and in the long term lead to the suppliers themselves taking on greater responsibility and identifying and dealing on their own with any deficiencies, for example in working conditions in their operations.

## MONITORING THE CODE OF CONDUCT

Our coworkers at the local production offices monitor KappAhl's 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 dialogue. 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: Unsatisfactory, Temporarily Approved and Approved. Unsatisfactory 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, even 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 2017/2018 we made 482 (392) inspections and follow-up visits at the suppliers' factories. As a consequence of non-compliance with the Code of Conduct and failure to implement necessary improvements we have discontinued partnership during the year with one supplier in India.

## INSPECTIONS AT NEW FACTORIES

During the year 37 (58) new factories, corresponding to 100 (100) per cent of new factories associated with a production office were inspected. The factories that are inspected in the agents and importers category are in countries where the risk of deficiencies in the working environment and safety conditions are estimated to be higher and that have reached a certain order value.

This means that 83 (81) per cent of the order value for supplier factories added during the year have been inspected and approved.

## WANT TO PROMOTE CHANGE

When we identify non-conformances with our requirements our objective is to contribute to 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. 188 (120) suppliers have drawn up action plans during the year.

Non-conformances with our requirements may differ between different production countries and types of operation, but common deficiencies are in working hours and workplace safety. We also see the need for improvement in conditions of employment, overtime work and wages. Twice a year we also make an evaluation of our suppliers with regard to such factors as price, quality, reliability of deliver, cooperation on order handling etc. The evaluation also includes an important component in which we assess how the supplier performs and cooperates with regard to their own and any sub-contractor's compliance with our Code of Conduct, for example as regards wages. If a supplier does not cooperate, a factory does not live up to the basic requirements or does not carry out agreed improvements, we limit or stop the placing of orders. ■

## CODE OF CONDUCT

### *Focus on human rights*

Human rights are vulnerable in some of our production countries. Consequently, our Code of Conduct for suppliers regulates such matters as human rights in production, such as forced labour, child labour, freedom of association, wages and anti-discrimination.

We take responsibility for the questions in several different ways, such as through controlling purchasing of material and training in human rights of factory workers. An important part of the human rights work is to continually increase awareness of the questions, both internally among KappAhl's coworkers and among external partners and suppliers.

Our Code of Conduct is available to read at [www.kappahl.com/sustainability](http://www.kappahl.com/sustainability). There you will also find our statement in accordance with the UK Modern Slavery Act that describes how we work to prevent forced labour and trafficking in our supplier chain.

## NON-CONFORMANCES WITH THE CODE

	17/18	16/17	15/16
Number of factories	357	296	349
Number of inspections	228	206	176
Number of follow-up visits	254	186	122
Approved, %	64	56	47
Temporarily approved, %	36	32	37
Unsatisfactory, %	7	2	1
Not inspected <sup>1</sup> , %	12	10	15

1) Constitutes factories in the category of agents and importers that have not reached a certain order value or are not in a country assessed as a high risk.

## SOUGHT-AFTER TRAINING

IN THE OUTSKIRTS OF THE BANGLADESH capital Dhaka, since 2010 the local organisation TCM has been running, on behalf of KappAhl, a much-appreciated training centre for women who want to work in the textile industry. The centre accepts 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.

This year 100 women received training and since the start in 2010, 682 women have completed the training. 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. In previous years we have always been able to offer the women positions at our suppliers, but since there are now so many women being trained we have started work to find more suitable workplaces, in particular near the women's homes, which is appreciated by the women.

This year we have also been able to donate € 0,02 to the training centre for every kilo of textiles that our customers have donated to our textile collecting in stores. This has made it possible for them this year to replace their old sewing machines with fifteen new ones!



## COOPERATION FOR REDUCED WATER CONSUMPTION

ONE WAY TO DEVELOP more sustainable production processes is through industry partnerships such as the Sweden Textile Water Initiative (STWI). The initiative allows us, together with our suppliers, to run projects aimed at creating less water-intensive production and reduced use of chemicals and energy, while retaining quality and profitability.

KappAhl is one of the founders of the STWI together with the Stockholm International Water Institute (SIWI), Sida and two industry colleagues. Today about thirty Nordic fashion and leather companies belong to STWI. During the year the STWI has undergone a transition towards reduced external financing and KappAhl has participated in the Institutes steering group to shape the future organisation. Due to this transition we have not carried out any projects at the suppliers together with the STWI during the financial year.

## A NEW ACCORD

SAFETY ISSUES have long been a neglected area in Bangladesh and a fire can 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 guarantee a more secure and safe working environment for thousands 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 extensive improvements regarding fire and building safety in the factories we work with.

The first Accord, which ran until May 2018, has been replaced by a second Accord – the Transition Accord on Fire and Building Safety. KappAhl signed this accord at an early stage and continues the work for safer factories in Bangladesh. The aim is for the Accord to switch from being an industry initiative with foreign purchasing companies and trade unions to being run by an organisation with the Bangladesh government, the Bangladesh Garment Manufacturers and Exporters Association and the Bangladesh Knitwear Manufacturers and Exporters Association as stakeholders in future.

More information can be found at [www.bangladeshaccord.org](http://www.bangladeshaccord.org)

## LIVING WAGES – A CENTRAL ISSUE

LIVING WAGES IS one of KappAhl's most important sustainability issues and at the same time one of the most complex challenges in our production countries in Asia. Wage levels are increasing, but not fast enough.

In Bangladesh the question of wages is a major risk factor and closely linked to the challenges around social dialogue and trade union activities in the country. To achieve a long-term sustainable change the government, employers and coworkers must guarantee a process that builds on collective bargaining. Then it will be possible to continue to raise wage levels and achieve living wages. KappAhl's responsibility, through our position as a purchaser in the country, is to help push this development forward and speed it up. We can do this partly through our choice of, and ongoing cooperation with, suppliers, but also through broad industry partnerships.

We know that the question of living wages requires long-term commitments and sustainable advocacy. An important partner for us is the Ethical Trading Initiative (ETI), an alliance that brings together



companies, trade unions and interest organisations that together want to improve working conditions for factory workers. We have been members since 2016, and during the financial year were elected as a full member of the Initiative. In the next year we will ensure that the ETI's principles and objectives are fully incorporated into our sustainability strategy Responsible Fashion. Our work with QuizRR and the Sustainable Apparel Coalition, see page 41, is also part of our strategy to contribute to the wage issue.

Average monthly wage for the workers in the factories producing KappAhl's clothes in Bangladesh in August 2018 was 7,288 Taka (about €74.50). The minimum wage in Bangladesh is 5,300 Taka (about €54.40) per month and in December 2018 will be increased to 8,000 Taka (about €81.80). The increase will mean an increased average wage for the workers in factories that produce for KappAhl.

More information on the ETI can be found at [www.ethicaltrade.org](http://www.ethicaltrade.org)

*It is important for us to be transparent. You will therefore find a list of the factories that our suppliers use to produce for KappAhl on our website.*

[www.kappahl.com/sustainability](http://www.kappahl.com/sustainability)

## REDUCED USE OF FABRIC SOFTENER

KAPPAHL SETS STRICT REQUIREMENTS on the use of chemicals in our products. In the last wash before the products are sent to our distribution centre it is, however, common for fabric softener to be used to give the garments a soft and pleasing feeling.

Together with the research institute Swerea IVF, KappAhl has run a project to evaluate the use of fabric softener in production. This is part of the major Swedish research initiative Mistra Future Fashion. It is hoped to reduce the use of silicone-based fabric softener in favour of water washing and cationic fabric softeners. This would help to reduce the use of chemicals in the production countries as well as reducing the amount of fabric softener that ends up in the purification plants in our sales countries.

In autumn 2018 the project was evaluated with the aim of incorporating the use of fabric softener in our scorecard for sustainable design.



## TRAINING FOR FEMALE COTTON FARMERS

AS 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 operated a project to strengthen and train 1,546 female cotton farmers in sustainable cotton farming. Among other things, they received training in rotation, how to protect their harvest and reduce their water consumption and the advantages of biofertilizer.

# KAPPAHL JOINS THE SUSTAINABLE APPAREL COALITION

The fashion industry has come far in several sustainability issues in recent years. But we feel that the transition to a more sustainable industry is not going fast enough and many major challenges remain. A system change is needed in the fashion industry and we want to be part of it. To help increase the pace of development of sustainable working methods and solutions in the fashion industry KappAhl joined the industry initiative Sustainable Apparel Coalition (SAC) in May 2018.

The aim of KappAhl's membership of SAC is to contribute to the important work of preparing clear, industry-wide standards on the sustainability of suppliers and products. We want the fashion industry to make a real difference in terms of wages, workers' rights, the climate and other important sustainability issues for the industry.

Via our membership, in recent months we at KappAhl have started to further develop our working methods using the SAC suite of tools, the Higg Index. The tools will give us more effective methods when inspecting and following up our suppliers. We will also be able to impose a greater number of more harmonised requirements, both social and environmental, on our suppliers and support them in improving their operations. A great advantage of the SAC and the Higg Index is that it spreads the respon-

sibility for sustainability work between the fashion chains and the suppliers. The suppliers will perform self-evaluations and actively report in data.

In future we will train the suppliers that are not already working with and reporting in accordance with the Higg Index. Our hope is that it will lead to even better and closer relations with suppliers.

The main part of the Higg Index is still being developed. The Social & Labor Convergence Project (SLCP) is an industry initiative to develop a common tool for evaluation of suppliers' social work, for example as regards wages and data collection in the production chain. KappAhl participates in this initiative and in that way contributes our knowledge of identification of non-conformances and improvement opportunities.

The next step within a few years will be to also have methods to give our customers more information about our garments, such as what impact the garment has had on the environment and humans, so that the customer can compare with other garments and make a conscious choice.

"Harmonized working methods will affect our entire value chain positively and make the industry more transparent. This is the path towards a more sustainable fashion industry," states KappAhl's Head of Sustainability Fredrika Klarén. ■

## ABOUT SUSTAINABLE APPAREL COALITION

THE SUSTAINABLE APPAREL COALITION (SAC) is an organisation that works for a sustainable fashion industry with the vision of an industry that does not harm the environment and has a positive effect on people and communities. SAC's Higg Index is a suite of tools that enables accurate measurement and scoring of a supplier's or product's sustainability performance and contributes to long-term sustainable improvements for factory workers, local communities and the environment. With common working methods and processes the industry will also achieve the transparency that more and more consumers are demanding.

More information can be found at [www.apparelcoalition.org](http://www.apparelcoalition.org)





# 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.*

We are in the midst of a paradigm shift. Physical behaviour is being exchanged for digital and this also means changed purchasing patterns. In just a few years development has moved from shopping in one channel to what we call omnichannels, which means that customers are in all channels.

## OUR SALES CHANNELS

Every customer meeting is equally important to us and we want to create attractive shopping experiences, regardless of channel. Our sales are made in both physical stores and in our Shop Online. Customers mainly seek inspiration in Shop Online and in social channels. However, the physical Stores still have a very great influence, both for inspiration and purchases, and are by far our largest sales channel.

At the end of the financial year we had a total of 347 KappAhl and 22 Newbie Stores in Sweden, Norway, Finland, Poland and the United Kingdom, of which four KappAhl stores and eleven Newbie Stores are new stores opened during the year. To optimise our presence and improve the efficiency of our store network we have also closed five stores, including our two test stores for Hampton Republic 27, and upgraded 23 stores during the year. Our eCommerce accounted for five per cent of our sales in the financial year.

## THE GOOD OF THE CUSTOMER IN FOCUS

The future shopping experience is seamless, and we are continually adapting our organisation to meet customers' changed purchasing patterns. Part of this adaptation is KappAhl's new Customer Experience organisation that collects the Group's knowledge of all that is involved

in the interaction with our customers. From the geographical location to the store concept, goods display, communication, digital development, eCommerce, analysis and customer services. The cross-functional working method means that all activities that concern customers can be coordinated and refined – always with the good of the customer in focus.

"As purchasing behaviour changes we need to start from the needs of the customer, follow the customer's pattern and preferably be one step ahead, of course," says Anna Karin Holck, Vice President Customer Experience at KappAhl.

To learn more about our customers and their purchasing patterns we collect data and analyse it. Insights are then spread out into the organisation so we can develop further. This work was augmented during the year through our newly-started analysis department, which means that we are taking steps towards becoming a more data-driven organisation that is even more relevant to our customers.

## CUSTOMER-ORIENTED SOLUTIONS

Solutions such as Click&Collect and Shop Online in Store are important parts of the digital transition. We launched the services in some selected stores in summer 2017. Click&Collect means that our customer can order online and collect the items in a store and Shop Online in Store means that the customer in a store can order goods online and have them delivered home. The pilot project was very successful and the services were launched in 2017/2018 in all sales markets.

Since freight is an important factor for our customers we always offer a free delivery option through Click&Collect, which is very popular. More than half our

customers choose to collect their goods from stores. When they are there, more than one in four buys at least one more product when they collect their order.

As traffic to physical stores is decreasing with the new digital behaviour, this is a way for us to recreate some of that traffic through our digital channel.

With our "Shop Online in Store" solution we can offer a full range in all our stores, even small stores that do not have as large a range as the largest stores. If a product or size is missing we can order it online directly from the store for the customer.

Customers' changed behaviour gives a clear picture that the purchase, as well as the payment, is to take place on the customer's terms. Therefore, just before the 2017 Christmas shopping season, we introduced the possibility of choosing the payment method in stores as well. We now offer through the Klarna in Store service, direct payment, invoice payment, instalment payment or shop now and pay later. The customer chooses.

## CUSTOMER SERVICES OUT OF THE ORDINARY

In February 2018 KappAhl's new customer services, Customer Experience Support, opened, which is the hub of customer contacts via telephone, direct chat on the website, email, Facebook, Messenger and Instagram in all our markets.

"We invest in coworkers with a holistic perspective of the customer meeting and the services we can offer. Here we can inspire and guide the customer through our assortment and trends, and provide information on everything from inventory status and rules concerning complaints to bonus points and various delivery options," says Kristin Bohman, Head of KappAhl's Customer Experience Support.

## SALES

10%  
OF KAPPAHL'S TOTAL  
CLIMATE IMPACT

## RESPONSIBLE FASHION

*Develop a  
sustainable  
organisation  
and stores*

- Create sustainable store concepts
- Work for diversity and equality
- Educate and support all coworkers on sustainability



130 000 FOLLOWERS

OUR INSTAGRAM ACCOUNT @kappahl is growing rapidly. In September 2017 we reached 100,000 followers and only in the last financial year the account grew by more than 30,000 followers!

The new customer services has an additional advantage – our coworkers in stores can focus on the personal meeting with customers and offer better service. Win-win!

## INSPIRING COMMUNICATION

Marketing today is more and more about meeting the needs of the individual customer at all times. The customer journey becomes central to planning rather than traditional campaigns. Making it possible for the customer to seek inspiration and shop where she wants, when she wants, is central to the customer experience in both our own and external channels. We continually evaluate our channel mix and communication on the basis of results and feedback from our customers.

To be able to adapt our communication and customer reception to our customers in the different business areas of womenswear, childrenswear and menswear, during the year we worked more intensively on increasing our understanding of purchasing behaviour in our different customer segments. With greater insight into the customer we can be even more relevant and target-group adapted in our offer, choice of channel and packaging.

“The ambition is to do more of what inspires our customer. For example, we see that user-generated material in social media is gaining attraction. So it constitutes an increasingly important complement to traditional marketing,” says Glenda Marevind, Head of KappAhl's Brand & Marketing.

It is important for us to be relevant and genuine in our communication regardless of channel. As more customers seek inspiration online the need increases to build the brand around the communities created in social media such as Instagram, Facebook and YouTube, where the users themselves create the material. Our most important ambassadors online are not paid influencers but our customers and coworkers who love our range and offer. In a genuine way they share their outfits and styling tips. At KappAhl we look at all pictures on Instagram hashtagged with #kappahl and

#lifeatkappahl. Some of the pictures we highlight in our own social channels and under the heading “Love, Wear and Share” on our website where customers can be inspired.

Another important channel in creating a close relationship with our customer is our successful customer club Life & Style by KappAhl with several million members. Through our app, text messages, email outs and addressed mail outs we reach our members with inspiration and personal offers.

## 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, chemical content, re-use and responsible production.

We also take decisive steps to reduce our climate impact by setting ambitious targets linked to our energy use in stores. Our aim is that by 2025 we will have reduced our energy consumption by 20 per cent compared with the base year 2017. KappAhl is itself responsible for the electricity contract at the head office, the distribution centre and for 56 per cent of our stores. On these contracts we purchased a total of 23.2 (24.9) GWh of energy during the year, which is a decrease of 7 per cent compared with 2017. In total, 99.7 (89.6) per cent of our energy purchased under our own contracts is renewable, which is a step closer to our objective that in 2020 all energy we purchase should be renewable. Read more in Part 2, page 47.

We also endeavour to reduce and recycle our waste. During the year a total of 970 (915) tonnes of waste was generated at our distribution centre and our head office, of which 94.2 (92) per cent was sent for recycling, 5.2 (8) per cent for energy recycling and 0.6 (<0.1) per cent to landfill. In addition 0.5 (1.8) tonnes of hazardous waste was generated, in the form of electronics and fluorescent tubes.

# NEWBIE STORE – THE SUCCESS STORY CONTINUES

Newbie is the brand that quickly became a success in social media after its launch in 2010. There and then many “Newbie Lovers” adopted the brand and their commitment has influenced both design and range, as well as creating an extensive second-hand market for the collection – entirely in line with Newbie’s focus on sustainability. The successes resulted in Newbie being launched as a stand-alone brand and opening its first store in Stockholm in 2014.

“Newbie is a strong lifestyle-based brand for conscious consumers with children in their lives,” says Camilla Wernlund, Vice President New Business at KappAhl.

During the year we opened for the first time Newbie Stores in the United Kingdom and Poland. At the close of the financial year we had 22 stores in the United Kingdom, Sweden, Norway, Finland and Poland. In the United Kingdom there is an online store [www.newbiestore.com](http://www.newbiestore.com), in other markets Newbie is sold in KappAhl’s Shop Online.

## BREAKING NEW GROUND IN THE UNITED KINGDOM

On 20 October 2017 Newbie Store was launched in the United Kingdom with an online store at [www.newbiestore.com](http://www.newbiestore.com), a PR event, pop up store and participation in England’s largest baby fair, The Baby

Show in London. Shortly afterwards we opened physical stores in the popular areas of Richmond and Kingston in the outskirts of London. During the spring expansion continued, with stores opening in the attractive shopping centres Bluewater and Westfield.

In summer 2018 we opened a concept store in the form of a pop up store on the King’s Road in London. It contains several exciting new features – such as events and invited external brands.

## A WINNING CONCEPT

Newbie has been well-received on the British market, which is reflected in British Vogue nominating Newbie in November 2017 as the best sustainable brand for children. In March 2018 the family magazine Mumii also gave top ranking to Newbie as the best clothing chain for children. Newbie also won a prize in the category of best children’s fashion brand in the Little London Awards 2018.

The brand has also aroused interest at the British Embassy: Ambassador David Cairns visited the Group’s head office in Mölndal in June 2018.

“One of my tasks is to support Swedish companies operating in the United Kingdom. KappAhl is already working very well on the launch of the Newbie Store and I would like to help. This is a very exciting concept,” said David Cairns. ■



## INTERVIEW

*Camilla Wernlund,  
Vice President  
New Business*

## WHAT’S SO SPECIAL WITH NEWBIE IN THE UK?

“With Newbie KappAhl as a Group has decided to enter a new market with a new business model. We have built on Newbie’s strong brand, the customers’ commitment and the latest retail trends and created an offer that attracts the target group in London, one of the world’s fashion capitals.

“Values that permeate the brand are fundamental in all we do and reach beyond the individual products. For example our talks on a sustainable lifestyle, pram walks and Swedish fika are standing and very popular customer events in our stores in the UK. In the future we will launch this approach in our other markets. The feedback and reception we have had to date from the British customers is fantastic and guarantees success,” relates Camilla.



newbie

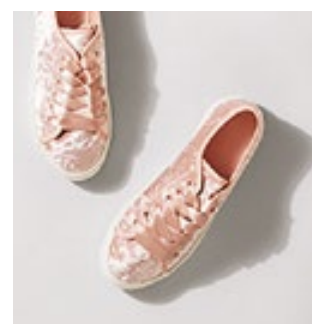
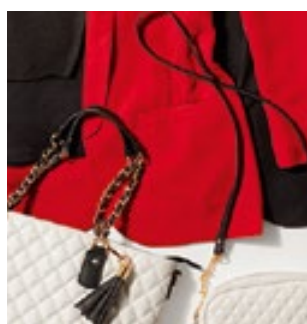


## FASHION PERFECTION

WHEN THE POPULAR FASHION MAGAZINE TWÓJ STYL (Your Style) in Poland awarded the Fashion Perfection 2017 prize our Limited Edition collections won the category "Most popular foreign brand". The jury liked the collections' classic style with a twist and that it is simple to mix and match the garments.

## ADVERSE DECISION BY THE SWEDISH ADVERTISING OMBUDSMAN RO JURY

OUR RESPONSIBLE APPROACH TO MARKETING has resulted historically in few complaints. However, in the 2017/2018 financial year two complaints were made against our marketing to the Swedish Advertising Ombudsman. These referred to a 3 for 2 offer in the Christmas season that was published in Shop Online and sent out in a text message. The offer did not apply to sleepwear and lounge-wear for children or men. This was written directly after the link in the text message but was presented in smaller type in the banner in Shop Online. The Swedish Advertising Ombudsman found that the banner was in violation of Article 5 of the International Chamber of Commerce Code for advertising and marketing communication, as it was perceived as misleading. The text message was cleared as the text about the exception was the same size as the offer.



## FASHION IS RIGHT WHEN IT FEELS RIGHT

EVER SINCE KAPPAHL WAS ESTABLISHED more than 65 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 uplevel 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 we see may be perceived as offensive. We also go through our marketing carefully before launch and have signed The Swedish Ethical Fashion Charter, which gives guidelines for the fashion industry's ideal body image and diversity as well as work environment issues for models. This year we have also implemented an annual following in which our customer club evaluates how well they think we succeed in conveying diversity in our marketing.

## A PRODUCT'S PATH FROM CLICK TO CUSTOMER

*Our customers shop online and then collect their products from a store. But what exactly is involved in this? Join us on a product's path from click to customer!*

The inventory for both physical stores and for Shop Online is at KappAhl's distribution centre in Mölndal. Josip Lijic works here as a logistics developer and coordinator, which means that he is a link between the distribution centre and the IT department. This makes him the lynchpin for Click&Collect. He was here from the start and set the procedures for the practical handling of KappAhl customers' clicks.

So. To start at the beginning. What happens when a customer makes an order in our Shop Online and chooses to collect in a store?

"Every morning here at the DC we go through all orders submitted and pick the orders from our Shop Online inventory. The trucks that take goods to Finland leave first, so we start with the Finnish orders," says Josip Lijic and takes a turn among the seemingly unending shelves of goods.

In his hand he has a pick list containing current Click&Collect orders.

The goods are picked from the inventory and the orders are prepared and placed in the special checked Click&Collect bags, which are then sealed and put in large wheeled wooden crates, one for each country.

The next step is to drive the Click&Collect bags to the distribution centre's enormous sorter. There they are placed on the sorter's conveyor belt together with all the other goods that are destined for the stores.

Everything that enters the sorter has bar codes and when bags and goods are scanned they fall automatically into the right chute. If all goes as it should and there are no technical hitches, the Ängelholm customers' orders end up in the box under the Ängelholm store's chute. When the crate is full it is driven to the right truck and then leaves the distribution centre.

The next stop is the store, where each Click&Collect-order is checked in with its bar code, which then automatically triggers a text message to the customer: "Welcome to the store in Ängelholm to collect your order". After two days a reminder is sent and in total the customer has ten days to collect the order.

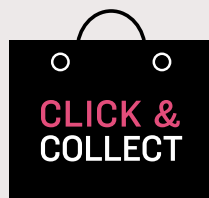
How long is the delivery time for our Click&Collect orders?

"It takes two to four working days before the order is ready to be collected.

How are returns dealt with?

"In general there are few returns from Click&Collect, but if the customers want to return the goods we prefer them to do it in store, even if it is possible to go via customer services as well. Best of all is of course if they buy something extra in the store when they collect their order!

The opportunity for extra sales is an important part of the idea behind Click&Collect," explains Josip Lijic, who also highlights the fact that the stores can now also help customers make online purchases.



## AN INNOVATIVE HANGER

A LIFE CYCLE ANALYSIS conducted by Miljögiraff on behalf of KappAhl showed that our hangers made of recycled plastic are in fact the best for the environment of the entire market. Great! But we are not satisfied with that— together with Ekoligens AB we have therefore developed innovative hangers produced from recycled paper that have an even lower environmental impact. During the year the hangers, EcoligentPaper, have been used for KappAhl's sustainable collection Limited Edition.

"We are very happy to have developed a hanger that is smart, cost-effective and sustainable together with Ekoligens. This is the path towards a more sustainable fashion industry," states KappAhl's Head of Sustainability Fredrika Klarén.

In the partnership KappAhl contributed expertise concerning what a hanger requires to function throughout the production chain, for example as regards handling, logistics and waste in a large-scale fashion industry.

The Ecoligent paper hanger is produced from recycled paper from the Swedish paper industry and partly recycled metal. The hanger's production chain is permeated by a strong environmental focus with control throughout the lifecycle. By using the innovative hanger to show the Limited Edition collection, KappAhl saves up to 1.1 tonnes of plastic.



# CONSUMPTION

*At KappAhl we want to guide and inspire our customers to make sustainable choices – to choose garments that are produced sustainably and to look after them and pass them on for reuse or recycling when they no longer fulfil their function.*

We want to develop solutions for more sustainable fashion consumption. Today consumers purchase more and more clothing but use it fewer times and for a shorter period compared with before. If we were to prolong the life of garments by three months we could reduce water, carbon dioxide and waste impact by 5–10 per cent according to the British organisation WRAP<sup>1</sup>. Consequently, we want to guide our customers to sustainable fashion choices, clothing care and textile collecting to increase the life of the garments and reduce the negative impact of the products. We also cooperate with other actors on industry initiatives to create the conditions for a more circular fashion industry.

## INSPIRING COMMUNICATION

It is important to us to be transparent and persistent in our communication. Our objective is for our customers to have great confidence in our sustainability work and feel that we inspire them to make more sustainable fashion choices.

During the year all store coworkers were trained in sustainability, read more on page 25. During the year, in all our

communication channels, we also provided information about our sustainability strategy Responsible Fashion. In social media we also spread posts about our sustainability work, such as clips from our film series “Make it feel right”. In Shop Online we also give customers the opportunity to filter products to only see those that are in more sustainable materials.

## WELL-APPRECIATED TEXTILE COLLECTING

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 in the household garbage<sup>2</sup>. More than 95 per cent of these textiles could have a new life if we donated them to textile collectings instead. Our well-appreciated textile collecting is offered in all stores. For every bag of used textiles they donate, customers receive a voucher to use next time they shop at KappAhl, an incentive to get more customers to go from word to action. In the financial year we collected almost 232 (228) tonnes of clothes and home textiles. Our objective is to collect

250 tonnes of textiles per year in our stores by 2020.

The textiles collected are sent to our partner I:Collect in Germany for sorting by quality to optimise garment life through 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. I:Collect, whose vision is to build textile circularity, also works to create new, high-quality material from recycled textiles.

## ADVANCES FOR CIRCULAR FASHION

Creating new, high-quality materials from recycled textiles is a great challenge. To be able to realise the idea of a circular fashion industry there must be great understanding of the lifecycle of the garment – from drawing board to recycling. KappAhl is one of the industry partners in the Swedish research initiative Mistra Future Fashion, and is participating in a project on how the industry can reduce environmental impact in production on the basis of choices made in

1) Valuing our Clothes: The cost of UK Fashion, WRAP, 2018.

2) SMED on behalf of the Swedish Environmental Protection Agency.

## CONSUMPTION

26%

OF KAPPAHL'S TOTAL  
CLIMATE IMPACT

## RESPONSIBLE FASHION

*Inspire our  
customers  
to make  
sustainable  
choices*

- Create solutions for more sustainable fashion consumption
- Be transparent and dedicated in our communication



the design phase. Read more about this project on page 40.

We also want to create the conditions for sorting and recycling of textiles in Sweden. KappAhl is therefore participating in an innovation project for RE:Source, together with Innovatum, Vargön Innovation and Myrorna, among others, to develop sorting technologies and business models for textile waste. In the first phase, completed during the year, an evaluation was made of what an optimal sorting plant would look like. The second phase, aimed at building a sorting plant on Vargön, was started in the summer of 2018. As well as textile recycling, the pilot plant will include an innovation hub for circular fashion in future.

**ONE BAG HABIT**

It is not just clothes that have a major impact on the environment; various kinds of bags also have a negative impact. In 2017 each EU citizen consumed on average 198 plastic bags in a year. By 2025 the Swedish Government has set a target that by 2015 Swedish consumption should have decreased to 40 bags per person and year.

Through the One Bag Habit initiative we want to help reduce the use of all types of bags and increase awareness of their negative environmental impact. The initiative was launched together with Lindex and H&M in the Swedish market in June 2017. In 2016/2017 we have also launched One Bag Habit in Norway, Finland and Poland. This means that we charge for all bags in our stores in these markets to change consumer behaviour. All the proceeds of bag sales are passed on in full to causes that promote sustainable development in environmental or social contexts. Read more on page 51.

Our aim is to reduce bag use by 50 per cent by 2020 in all markets, compared with the 2016/2017 financial year. During the year bag use decreased by 70 per cent compared with the previous financial year, which means that we met the target we set by a good margin. We are satisfied and pleased about the commitment that

One Bag Habit has created among our customers and coworkers.

The Sustainable Brand Index nominated One Bag Habit as the Venture of the Year within Sustainable Branding in April 2018. One Bag Habit thus met the Sustainable Brand Index four criteria of daring to test something new, putting a clear focus on the company's sustainability work, involving consumers and getting them to change their behaviour, as well as creating potential permanent change for both the company and consumers.

Many of the garments sent from our distribution centre to our stores and Shop Online orders sent to our customers are wrapped in plastic to protect the products. The risk of transport damage, making them unusable, is otherwise too great and we consider that this outweighs the environmental impact of the plastic. We also know that the type of soft plastic we use can be recycled in our sales markets; which is something we encourage our customers to do!

As eCommerce grows, we see a challenge to our industry in the increasing amount of packaging and transport this involves. As part of our ongoing sustainability work, we monitor development and work to optimise both use of material and transport. We continually follow new trends and research findings to always use the alternative that has least environmental impact.

-70%

REDUCED USE  
OF BAGS

# RESPONSIBLE ACTIONS



As part of our ambition to contribute to more sustainable development, KappAhl also conducts activities aimed at helping civil society, locally and globally. We want our efforts to actively spread knowledge and commitment and create opportunities for long-term positive progress on various issues related to our business. We gather our activities under the term Responsible Actions. Together with our customers, during the financial year we donated SEK 4,844,489 (3,353,587).

## FINE AS I AM

Through our recurring campaign “Fine as I am” we want to highlight and combat the fact that there are children and young people in our community who do not feel they are good enough as they are. In campaigns we give money to organisations that do important work to support children and young people on these matters: Bris (Children’s Rights in Society) in Sweden, Kors på halsen (Cross your Heart) in Norway, Mannerheimin Lastensuojeluliitto (Mannerheim League) in Finland and Fundacja Dajemy Dzieciom Siłę (Empowering Children Foundation) in Poland. On three occasions every year – spring, school start and Christmas we sell special “Fine as I am” products and part of the proceeds goes to the organisations. During the financial year the campaign brought in SEK 2,240,619 for the organisations.

## ONE BAG HABIT

Bag sales in the context of the well-appreciated initiative One Bag Habit have generated SEK 2,081,373. The money is to go to causes in the environment area and this year will be donated to the environmental organisations Håll Sverige Rent (Keep Sweden Tidy) in Sweden, Handelens Miljøfond (Norwegian Retailers Environment Fund) in Norway, Håll Skärgården Ren (Keep the Archipelago Tidy) in Finland and Nasza Ziemia (Our Earth Foundation) in Poland, all working to reduce litter in the natural environment. To also highlight internally the great need to deal with plastic, for example, in a responsible way, every month we will give one of KappAhl’s 380 or so workplaces the task of choosing a cause in the environmental area to which we will donate SEK 10,000, which is a total of SEK 120,000 kronor.

## RUNDA UPP – ROUND UP

In December 2017 our Swedish stores became affiliated to Runda Upp (Round Up), a foundation with the task of making it simpler for stores to collect money for donation to good causes. During the year our customers have rounded up as much as SEK 523,397. The amount is paid in full to the charities KappAhl has decided to support – during the financial year it was Bris (Children’s Rights in Society),

Majblomman (Mayflower Charity Foundation) and the Hunger Project. We are evaluating the possibilities of implementing similar systems for our other sales markets.

## MAJBLOMMAN – MAYFLOWER CHARITY FOUNDATION

KappAhl also supports a number of local charities. In Sweden KappAhl has supported Majblomman (the Mayflower Charity Foundation) since 2008, for example by allowing the organisation to buy gift vouchers from KappAhl at heavily discounted prices; gift vouchers that are then distributed to families with children in need. The concept has gladdened, warmed and helped thousands of children and helped them to feel a sense of community with their friends in and out of school. Our gift voucher sponsoring is equivalent to about SEK 1.5 million. In September 2017 KappAhl was given the Blossoming Company of the Year award for its support to Majblomman.

## SEWING MACHINES TO VULNERABLE WOMEN’S TRAINING

The surplus from our textile collecting, SEK 28,797 was used to buy new, better sewing machines for TCM, which runs KappAhl’s training centre for vulnerable women in Bangladesh. Read more on page 39. ■



KappAhl’s Head Corporate Communications, Charlotte Högberg, Her Majesty Queen Silvia and KappAhl’s Vice President Customer Experience, Anna Karin Holck at the award ceremony for the Blossoming Company of the Year 2017.

Backpack from the “Fine as I am” campaign.

# FIGURES IN SUMMARY

KEY FIGURES	Sept–Aug 2017/2018	Sept–Aug 2016/2017	Sept–Aug 2015/2016	Sept–Aug 2014/2015	Sept–Aug 2013/2014
Net sales, SEK million	4,760.0	4,916.2	4,723.6	4,588.2	4,742.9
Sales growth, %	–3.2	4.1	3.0	–3.3	–0.2
Operating profit (EBIT), SEK million	282.1	448.6	349.3	197.8	272.1
Adjusted operating profit (EBIT), SEK million	282.1	448.6	349.3	207.5	295.1
Operating profit (EBITDA), SEK million	433.1	579.2	479.8	333.4	400.6
Adjusted operating profit (EBITDA), SEK million	433.1	579.2	479.8	342.8	423.6
Total depreciation/amortisation, SEK million	151.0	130.6	130.5	135.3	128.5
Gross margin %	61.8	62.2	61.8	60.1	60.8
Operating margin, %	5.9	9.1	7.4	4.3	5.7
Adjusted operating margin, %	5.9	9.1	7.4	4.5	6.2
Interest coverage ratio (multiple)	36.1	20.2	35.1	9.0	4.0
Net interest-bearing liabilities (+) Net financial assets (–) SEK million	373.4	–168.2	144.2	282.3	460.0
Net interest-bearing liabilities/Adjusted EBITDA (multiple)	0.9	–0.3	0.3	0.8	1.1
Equity-assets ratio, %	57.6	67.4	58.1	56.6	56.1
Equity per share, SEK	21.43	26.58	23.50	21.36	20.12
Equity per share after dilution, SEK	21.43	26.58	23.50	21.30	19.99
Cash flow from operating activities per share, SEK	3.83	7.46	3.94	4.75	4.60
Market price, SEK	34.8	45.0	42.70	25.90	38.30
Market value, SEK million	2,676.4	3,456.9	3,280.2	1,989.6	2,874.0
P/E ratio (multiple)	11.9	9.5	13.4	17.9	22.3
Dividend yield, %	5.7	4.4	2.9	2.9	2.0
Market price/equity per share, %	62	169	182	82	188
Earnings per share, SEK	2.92	4.73	3.19	1.45	1.71
Dividend per share, SEK (proposed 2017/2018)	2.00	2.00	1.25	0.75	0.75
Weighted average number of shares	76,820,380	76,820,380	76,820,380	76,296,003	75,040,000
Number of shares at close of period	76,820,380	76,820,380	76,820,380	76,820,380	75,040,000
Number of shares after dilution	76,820,380	76,820,380	76,820,380	76,296,003	75,522,814

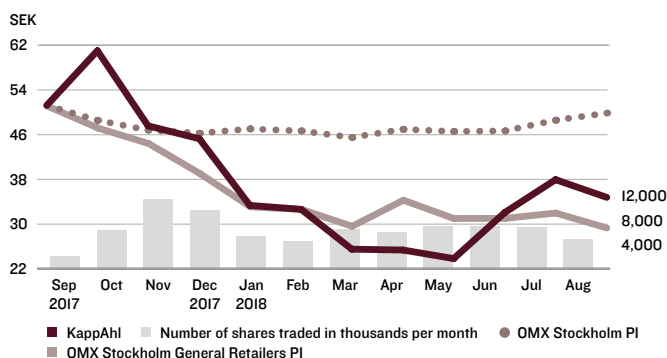
CONSOLIDATED INCOME STATEMENT (SEK MILLION)	Sept–Aug 2017/2018	Sept–Aug 2016/2017	Sept–Aug 2015/2016	Sept–Aug 2014/2015	Sept–Aug 2013/2014
Net sales	4,760.0	4,916.2	4,723.6	4,588.2	4,742.9
Cost of goods sold	–1,818.4	–1,860.0	–1,806.4	–1,831.9	–1,856.6
<b>Gross profit</b>	<b>2,941.6</b>	<b>3,056.2</b>	<b>2,917.2</b>	<b>2,756.3</b>	<b>2,886.4</b>
Selling expenses	–2,431.9	–2,402.6	–2,356.0	–2,384.8	–2,468.9
Administrative expenses	–227.7	–205.0	–211.9	–173.7	–145.4
Other operating income	–	0.0	–	–	–
<b>Operating profit</b>	<b>282.1</b>	<b>448.6</b>	<b>349.3</b>	<b>197.8</b>	<b>272.1</b>
<b>Adjusted operating profit</b>	<b>282.1</b>	<b>448.6</b>	<b>349.3</b>	<b>207.5</b>	<b>295.1</b>
Financial income	8.0	0.9	1.2	0.7	0.4
Financial expenses	–8.0	–22.3	–10.1	–21.8	–68.1
<b>Profit/loss before tax</b>	<b>282.1</b>	<b>427.2</b>	<b>340.5</b>	<b>176.7</b>	<b>204.4</b>
Taxes	–57.6	–63.5	–95.6	–65.3	–75.1
<b>Profit/loss for the year</b>	<b>224.5</b>	<b>363.7</b>	<b>244.9</b>	<b>111.4</b>	<b>129.3</b>

## HERE ARE THE FIGURES!

Would you like to read Part 2 of our Annual Report? You can find it at [www.kappahl.com/ir](http://www.kappahl.com/ir). There you will find the financial reporting, the corporate governance report and supplementary sustainability report.

## THE KAPPAHL SHARE

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 fell by 22.6 per cent. This can be compared with the Nasdaq Stockholm All-Share index that increased in value by 10.5 per cent and Nasdaq Stockholm General Retailers that decreased by 35.5 per cent in the same period. See Part 2, pages 2–3 for more share information.



## FINANCIAL CALENDAR

Annual General Meeting	6 December 2018
First quarter (Sep–Nov)	19 December 2018
Second quarter (Dec–Feb)	20 March 2019
Third quarter (Mar–May)	26 June 2019
Fourth quarter (Jun–Aug)	9 October 2019

An updated financial calendar is published regularly at [www.kappahl.com/ir](http://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](http://www.kappahl.com/ir). Part 2 of KappAhl's Annual Report is available for download from the same place on the website.



KappAhl AB, P O Box 303, SE 431 24 Mölndal  
Telephone: + 46 31 771 55 00  
[www.kappahl.com](http://www.kappahl.com)

Please contact us via the form at  
[www.kappahl.com/contact](http://www.kappahl.com/contact) or  
via [info@kappahl.com](mailto:info@kappahl.com)

# KappAhl

