ANNUAL REPORT TWO THOUSAND AND THREE

Kassa

"The Group's profit before financial items amounted to SEK 120 million "

KappAhl®

Contents

Financial overview

KEY FIGURES	2003	2002	2001	2000	1999
Net sales excl. VAT (SEK million)	3,810	3,869	4,195	3,917	2,902
Investments (SEK million)	115	149	265	132	106
Net margin (%)	2,7	0,5	6,3	3,7	5,2
Profit/Loss after financial items (SEK million)	102	18	–265	144	150
Sales area (thousands of square metres)	199	209	221	213	156
Return on capital employed (%)	13	6	–14	19	47

DEFINITIONS

Net margin – profit/loss after financial items as a percentage of net sales for the period.

Return on capital employed – profit after financial items including financial expenses as a percentage of the average capital employed.

Capital employed – total assets minus non-interest-bearing liabilities.

Administration Report

The Board of Directors and the President and CEO of KappAhl AB (corporate identity number 556060-4158) have pleasure in presenting the Annual Report and the Consolidated Accounts for the financial year 1 January – 31 December 2003.

OPERATIONS IN GENERAL

Group

The KappAhl Group carries out operations in retail sales of ladieswear, menswear, childrenswear and cosmetics. In addition to the parent company, KappAhl AB, the Group also includes wholly owned subsidiaries in Norway, Finland, Poland, the Czech Republic (in liquidation), as well as a purchasing company in China. There is an additional subsidiary in Norway, Vestfold Logistikksenter AS, which is responsible for the distribution of cosmetics in Norway. The Group also has branch offices in Turkey, Lithuania, Bangladesh and India. There is also a dormant Swedish subsidiary. See the detailed list of Group companies in Note 17.

The company in China is responsible for making contact with new suppliers and monitoring production and delivery in the Far East. The sales companies are responsible for retail sales in stores in their respective countries. Branch offices concentrate on providing support for purchasing operations and quality control in their individual markets.

Activities within KappAhl are currently organised into four business areas: Ladieswear, Menswear, Childrenswear and Cosmetics. At the beginning of the financial year, the Group had 240 stores, and at the end of the year, 237. During the course of the year KappAhl opened 3 new stores and closed 6. KappAhl AB is a wholly owned subsidiary of Kooperativa Förbundet (KF), a cooperative society known in English as the Swedish Cooperative Union.

Parent Company

The parent company is responsible for the entire garment purchasing operations of the Group, the store concept and marketing, as well as for sales in Sweden. The parent company also assumes responsibility for IT, corporate financing and logistics.

IMPORTANT EVENTS IN 2003

Group

During the year, we continued to see the results of the comprehensive improvement programme launched in spring 2002. We have increased our operating margin from -5.6% in 2001 to -2.0% in 2002 and +3.2 % in 2003. Measures already implemented are expected to have further positive effects in 2004 and 2005, as will a number of new improvement initiatives, and we expect to see earnings continuing to improve in the future. A large number of measures were taken during the year to improve sales and gross margin. The most important of these have been aimed at adapting our range to the customer groups we are focusing on, and at increasing full-price sales. In addition, we have worked on the various components of the cost of goods sold to improve our margins further.

In the menswear range, for the first time in KappAhl's modern history, an external label has been launched, the U.S. Polo Assn. The launch in the autumn was highly successful, and we anticipate that this range will add to the attractiveness of KappAhl's menswear department.

Investment in the store network has increased significantly in comparison with the preceding year. The aim is to make KappAhl's stores an even more attractive meeting place for our customers. Many loyal KappAhl customers have seen a considerable lightening of the atmosphere in their store during the year. This is essential in achieving a positive trend in visits. The operation in the Czech Republic has been sold, since this involved only one store. The Group can now concentrate on four markets.

The operation at the Group's Distribution Centre in Norway was sold at the beginning of 2003, resulting in a considerable increase in the efficiency of textile distribution. As of summer 2003, all textile distribution has been centralised at the Distribution Centre in Mölndal.

Since the sale of our Distribution Centre at the beginning of 2002, we lease our premises. See note 9 for more information.

SALES

Group

The KappAhl Group's total sales amounted to SEK 3,810 (3,869) million excluding VAT. The trend was weak in the first half-year, but there was a strong upturn in the second half. The drop in sales was largely due to the disposal of the operation in Denmark and the fact that sales in Norway were translated at a lower exchange rate. For comparable stores, sales increased. The gross measure was 53% (48). The foreign component of Group sales fell to 44% (48).

Parent Company

Parent company sales totalled SEK 2,803 (2,819) million excluding VAT, including sales to subsidiaries. Sales to subsidiaries amounted to SEK 646 (789) million.

EARNINGS

Group

Group earnings before financial items were SEK 120.3 (69.6) million, the second highest level in KappAhl's history. The net margin for the Group was 2.7% (0.5). Return on total capital was 8.3% (4.0) and on working capital 13.0% (5.8). The equity ratio for the Group, calculated as total equity in relation to the balance sheet total, was 44.8% (27.8).

Parent Company

Earnings after financial items amounted to SEK 30.3 (87.3) million. The net margin was 1.1% (3.1). Group contributions of SEK 3.4 million in total were made to the Parent Company. The item has been entered directly against equity.

EXPECTATIONS OF FUTURE TRENDS

Group

With the programme for improving results mentioned above and assuming that favourable exchange rate movements continue, profits in 2004 should be noticeably better than in 2003.

CURRENCY EXPOSURE AND CURRENCY POLICY

The aim of the currency policy is to minimise the risk of a negative effect on earnings and increase the predictability of future earnings. This is achieved by hedging receivables (primarily from subsidiaries) and liabilities. In addition, future goods flows are hedged 4-8 months forward. Hedging is carried out using forward agreements.

A substantial proportion of the Group's purchasing of goods is made in US Dollars, and this makes it sensitive to changes in the Dollar exchange rate.

FINANCING

The company is linked to KF's central accounting system. This means that KF supplies funds for payments as required, while incoming payments are credited continuously to KF. During 2003, KappAhl amortized SEK 530 million.

NEW ESTABLISHMENTS

	Number of stores at start of year	Stores opened	Store closures	Number of stores at year-end
KappAhl				
Sweden	125	1	2	124
Finland	30	1	—	31
Norway	74	1	2	73
Poland	10	—	1	9
The Czech Republic	1	—	1	—
Total	**240**	**3**	**6**	**237**

Group

Over the past year, the focus of investment has been on remodelling the existing stores, which is why the new establishment rate has been limited.

INVESTMENTS

Group

Group investments in fixed assets, both tangible and intangible, totalled SEK 115 (149) million during the financial year.

Parent company

During the year the parent company made investments totalling SEK 64 (104) million.

PROPOSED APPROPRIATION OF PROFITS

The Board and the President and CEO propose that the disposable profits, profit brought forward of SEK 725,897,200, and the net loss for the year of SEK –6,761,950, be appropriated as follows:

To be carried forward in the accounts: SEK 719,135,250

It is not proposed to transfer any of the Group's non-restricted reserves of SEK 436 million to restricted reserves.

More detailed information on the company's financial performance and position is contained in the income statements and balance sheets which follow, together with the appropriate notes.

Income statement - Group

AMOUNTS IN SEK MILLION	NOTE	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Net sales	1	3,810.4	3,868.5
Cost of goods sold	2	–1,815.1	–1,998.0
Gross profit		**1,995.3**	**1,870.5**
Selling expenses		–1,754.4	–1,816.6
Administrative expenses		–122.2	–128.7
Items affecting comparability	4	—	148.3
Other operating income	5	1.6	—
Other operating expenses	6	—	–3.9
Operating profit	3,7,9	**120.3**	**69.6**
Result of financial items			
Interest income	11	1.7	4.1
Interest expense	12	–20.0	–55.5
Profit after financial items		**102.0**	**18.2**
Profit before tax		**102.0**	**18.2**
Tax on profit for the year	14	–5.0	–90.2
Profit/loss for the year		**97.0**	**–72.0**

Balance sheet - Group

AMOUNTS IN SEK MILLION	NOTE	31 DEC 2003	31 DEC 2002
ASSETS			
Fixed assets			
Intangible assets			
Software, trademarks	15	9.6	19.7
Renting rights	15	1.1	1.3
Goodwill	15	262.3	342.6
		273.0	363.6
Tangible assets			
Equipment	16	314.5	329.7
		314.5	329.7
Financial assets			
Other securities held as fixed assets		0.2	0.2
Deferred taxes recoverable	19	19.1	20.0
		19.3	20.2
Total fixed assets		**606.8**	**713.5**
Current assets			
Inventories etc.			
Finished products and goods for re-sale		423.6	566.8
		423.6	566.8
Current receivables			
Accounts receivable - trade		9.1	14.7
Other receivables		9.6	228.5
Prepaid expenses and accrued income	20	120.6	144.8
		139.3	388.0
Cash and bank		53.9	62.6
Total current assets		**616.8**	**1,017.4**
TOTAL ASSETS		**1,223.6**	**1,730.9**

Balance sheet - Group

AMOUNTS IN SEK MILLION	NOTE	31 DEC 2003	31 DEC 2002
EQUITY AND LIABILITIES			
Equity	21		
Restricted equity			
Share capital		6.0	6.0
Restricted reserves		107.1	62.2
		113.1	68.2
Non-restricted equity			
Non-restricted reserves		338.5	485.3
Profit/loss for the year		97.0	–72.0
		435.5	413.3
Total equity		**548.6**	**481.5**
Provisions			
Provisions for pensions and similar obligations	23	52.1	56.4
Provisions for deferred tax liabilities	19	24.0	13.9
Other provisions	24	31.8	18.1
Total provisions		**107.9**	**88.4**
Current liabilities			
Liabilities to credit institutions		9.4	56.9
Accounts payable - trade		165.5	237.0
Liabilities to Group companies		55.9	533.2
Other liabilities		106.2	113.2
Accrued expenses and deferred income	26	230.1	220.7
Total current liabilities		**567.1**	**1,161.0**
TOTAL EQUITY AND LIABILITIES		**1,223.6**	**1,730.9**

Pledged assets and contingent liabilities - Group

AMOUNTS IN SEK MILLION	31 DEC 2003	31 DEC 2002
Pledged assets		
For own liabilities and provisions		
Property mortgages	—	8.0
Floating charges	33.0	33.0
	33.0	41.0
Contingent liabilities		
Guarantee undertakings, FPG/PRI (pensions)	0.4	0.4
Guarantees and sureties, others	—	22.9
	0.4	23.3

Cash flow analysis - Group

AMOUNTS IN SEK MILLION	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Current operating activities		
Profit after financial items	102.0	18.3
Adjustments for items not included in cash flow etc	171.7	34.0
	273.7	52.3
Tax paid	—	—
Cash flow from current operating activities before changes in working capital	**273.7**	**52.3**
Cash flow from changes in working capital		
Increase(-)/Decrease(+) in inventories	143.0	15.0
Increase(-)/Decrease(+) in operating receivables	249.0	–202.0
Increase(+)/Decrease(-) in operating liabilities	–41.0	87.0
Cash flow from current operating activities	**624.7**	**–47.7**
Investment activities		
Sale of subsidiaries	—	9.8
Acquisition of intangible assets	–3.0	–12.0
Sale of intangible assets	—	60.0
Acquisition of tangible assets	–100.0	–140.1
Sale of tangible assets	—	197.1
Cash flow from investment activities	**–103.0**	**114.8**
Financing activities		
Amortization of loans and liabilities	–530.0	–87.0
Cash flow from financing activities	**–530.0**	**–87.0**
Cash flow for the year	**–8.3**	**–19.9**
Cash and cash equivalents at start of year	**62.6**	**83.1**
Exchange rate difference in cash and cash equivalents	**–0.4**	**–0.6**
Cash and cash equivalents at year-end	**53.9**	**62.6**

Additional information regarding cash flow analysis - Group

AMOUNTS IN SEK MILLION	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Interest paid and dividend received		
Interest received	1.7	4.1
Interest paid	–20.0	–55.5
Adjustments for items not included in the cash flow etc.		
Depreciation and impairment of assets	154.7	161.2
Capital loss on disposal of fixed assets	—	–142.2
Capital loss on disposal of line of business/subsidiaries	—	–1.0

AMOUNTS IN SEK MILLION	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Provisions for pensions	2.0	3.0
Other provisions	15.0	13.0
	171.7	34.0

Sale of subsidiaries and other business units

Sales of assets and liabilities:

Intangible fixed assets	—	13.9
Tangible fixed assets	—	63.3
Financial assets	—	0.2
Inventories	—	131.2
Operating receivables	—	36.5
Cash and cash equivalents	—	20.8
Total assets	**—**	**265.9**
Provisions	—	1.1
Loan	—	125.3
Operating liabilities	—	109.8
Total provisions and liabilities	**—**	**236.2**
Sale price	—	30.6
Purchase price received	—	30.6
Deduction for: Cash and cash equivalents in operations disposed of	—	–20.8
Effect on cash and cash equivalents	—	9.8

Cash and cash equivalents

The following sub-components are included in cash and cash equivalents:

Cash and bank	53.9	62.6
	53.9	62.6

Operational cash flow

Operating profit	120.3	69.7
Adjustments for items not included in the cash flow	171.7	34.0
Change in working capital	351.0	–100.0
Investments	–103.0	114.8
Operating cash flow	**540.0**	**118.5**

Change in net borrowings

Net borrowings at start of year	586.0	1,089.8
Amortization of interest-bearing liabilities	–530.0	–87.0
Other changes in interest-bearing liabilities	3.1	–440.9
Changes in provisions for pensions	–56.4	3.2
Other changes in interest-bearing assets	—	0.4
Change in cash and cash equivalents	8.7	20.5
Net borrowings at year-end	**11.4**	**586.0**

Income statement - Parent Company

AMOUNTS IN SEK MILLION	NOTE	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Net sales	1	2,803.3	2,819.2
Cost of goods sold		–1,653.3	–1,833.9
Gross profit		**1,150.0**	**985.3**
Selling expenses		–962.3	–897.9
Administrative expenses		–121.6	–168.4
Items affecting comparability	4	—	148.3
Other operating income	5	79.0	77.4
Operating profit	3,7,9	**145.1**	**144.7**
Result of financial items			
Participations in Group companies	10	–114.0	–42.1
Interest income	11	15.9	29.3
Interest expense	12	–16.7	–44.6
Profit after financial items		**30.3**	**87.3**
Appropriations			
Appropriations	13	–36.1	–28.6
Profit/loss before tax		**–5.8**	**58.7**
Tax on profit/loss for the year	14	–0.9	–41.1
Profit/loss for the year		**–6.8**	**17.6**

Balance sheet - Parent Company

AMOUNTS IN SEK MILLION	NOTE	31 DEC 2003	31 DEC 2002
ASSETS			
Fixed assets			
Intangible assets			
Software, trademarks	15	9.3	19.5
Renting rights	15	1.1	1.3
Goodwill	15	40.7	46.7
		51.1	67.5
Tangible assets			
Equipment	16	197.4	188.3
		197.4	188.3
Financial assets			
Participations in Group companies	17	329.7	429.7
Receivables from Group companies	18	221.3	203.2
Other securities held as fixed assets		0.2	0.2
Deferred taxes recoverable	19	2.8	2.8
		554.0	635.9
Total fixed assets		**802.5**	**891.7**
CURRENT ASSETS			
Inventories etc.			
Finished products and goods for re-sale		293.7	350.8
		293.7	350.8
Current receivables			
Accounts receivable - trade		1.6	10.3
Receivables from Group companies		56.1	183.2
Other receivables		8.4	228.2
Prepaid expenses and accrued income	20	93.0	127.1
		159.1	548.8
Cash and bank		5.9	3.7
Total current assets		**458.7**	**903.3**
TOTAL ASSETS		**1,261.2**	**1,795.0**

Balance sheet - Parent Company

AMOUNTS IN SEK MILLION	NOTE	31 DEC 2003	31 DEC 2002
EQUITY AND LIABILITIES			
Equity	21		
Restricted equity			
Share capital (60,000 shares at SEK 100 each)		6.0	6.0
Statutory reserve		1.2	1.2
		7.2	7.2
Non-restricted equity			
Profit brought forward		725.9	710.7
Profit/loss for the year		–6.8	17.6
		719.1	728.3
Total equity		**726.3**	**735.5**
Untaxed reserves			
Accumulated excess depreciation	22	85.9	49.7
		85.9	49.7
Provisions			
Provisions for pensions, PRI/FPG	23	21.0	20.5
Other provisions	24	6.8	6.1
Total provisions		**27.8**	**26.6**
Current liabilities			
Liabilities to credit institutions		9.4	44.3
Accounts payable - trade		147.0	201.0
Liabilities to Group companies		73.4	535.4
Other liabilities		64.6	66.0
Accrued expenses and deferred income	26	126.7	136.5
Total current liabilities		**421.1**	**983.2**
TOTAL EQUITY AND LIABILITIES		**1,261.2**	**1,795.0**

Pledged assets and contingent liabilities - Parent Company

AMOUNTS IN SEK MILLION	31 DEC 2003	31 DEC 2002
Pledged assets		
For own liabilities and provisions		
Property mortgages	—	8.0
Floating charges	33.0	33.0
Total pledged assets	33.0	41.0
Contingent liabilities		
Guarantee undertakings, FPG/PRI (pensions)	0.4	0.4
Rental guarantee in favour of subsidiaries	37.7	37.9
Other liabilities in favour of subsidiaries	10.0	10.7
	48.1	49.0

Cash flow analysis - Parent Company

AMOUNTS IN SEK MILLION	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Current operating activities		
Profit after financial items	30.3	87.3
Adjustments for items not included in the cash flow etc.	190.8	39.6
	221.1	126.9
Cash flow from current operating activities before changes in working capital	**221.1**	**126.9**
Cash flow from changes in working capital		
Increase(-)/Decrease(+) in inventories	57.0	–3.0
Increase(-)/Decrease(+) in operating receivables	376.0	–393.0
Increase(+)/Decrease(-) in operating liabilities	–62.0	67.0
Cash flow from current operating activities	**592.1**	**–202.1**
Investment activities		
Acquisition of intangible assets	–2.0	–11.0
Sale of intangible assets	—	60.0
Acquisition of tangible assets	–61.0	–97.1
Sale of tangible assets	—	197.1
Investments in financial assets	–23.0	
Disposal of/Reduction in financial assets	—	31.4
Cash flow from investment activities	**–86.0**	**180.4**
Financing activities		
Proceeds from borrowing	—	21.0
Amortization of loans	–503.0	—
Cash flow from financing activities	**–503.0**	**21.0**
Cash flow for the year	**3.1**	**–0.7**
Cash and cash equivalents at start of year	**3.7**	**3.9**
Exchange rate difference in cash and cash equivalents	**–0.9**	**0.5**
Cash and cash equivalents at year-end	**5.9**	**3.7**

Additional information regarding cash flow analysis - Parent Company

AMOUNTS IN SEK MILLION	1 JAN 2003 —31 DEC 2003	1 JAN 2002 —31 DEC 2002
Interest paid and dividend received		
Dividend received	—	33.4
Interest received	15.9	29.3
Interest paid	–16.7	–44.6
Adjustments for items not included in cash flow etc.		
Depreciation and impairment of assets	170.4	200.0
Unrealized exchange rate differences	4.4	–0.3
Capital loss on disposal of fixed assets	—	–162.1
Provisions for pensions	1.0	1.0
Other provisions	1.0	1.0
Other profit/loss items not affecting liquidity	14.0	—
	190.8	39.6
Cash and cash equivalents	**5.9**	**3.7**
Operating cash flow		
Operating profit	145.1	144.7
Adjustments for items not included in cash flow	172.4	33.4
Change in working capital	371.0	–329.0
Investments	–63.0	149.0
Operating cash flow	**625.5**	**–1.9**
Change in net borrowings		
Net borrowings at start of year	393.2	844.8
Proceeds from new interest-bearing liabilities	—	21.0
Amortization of interest-bearing liabilities	–503.0	—
Other changes in interest-bearing liabilities	6.2	–315.5
Changes in provisions for pensions	0.5	0.9
Investment in new interest-bearing assets	–23.0	—
Unrealized exchange rate difference in interest-bearing receivables	4.4	0.7
Other changes in interest-bearing assets	0.5	–158.5
Change in cash and cash equivalents	–2.2	–0.2
Net borrowings at year-end	**–123.4**	**393.2**

Notes with accounting principles and comments on the accounts

AMOUNTS IN SEK MILLION UNLESS STATED OTHERWISE

General accounting principles

These annual accounts have been drawn up in accordance with the Swedish Annual Accounts Act and recommendations and general advice from standard-setting bodies. Reference is made under each heading to the recommendations and general advice implemented in each instance.

Unless otherwise stated, the accounting principles remain unchanged from those used for presenting the Group's accounts for 2002.

Valuation principles etc.

Assets, provisions and liabilities have been valued at their acquisition value, unless specified otherwise below.

Intangible assets

The Group and Parent Company apply the Swedish Financial Accounting Standards Council's Recommendation RR 15: Intangible Assets.

Software

Computer programs acquired by the company have been entered in the accounts at their acquisition value minus accumulated depreciation and impairment.

Goodwill relating to the Group's stores

Investments in goodwill relate to a long-term commitment to increase the number of stores operated by the Group. Acquisitions bring with them increased volumes and substantial economies of scale in the areas of purchasing and distribution. The depreciation period for goodwill has been set at ten years.

Trademarks

At the beginning of 2001, KappAhl AB bought all the trademarks and brand names of its subsidiary MacCoy A/S. In conjunction with the sale of this subsidiary at the end of 2002, the value of these trademarks was impaired in the accounts as their future value must be considered uncertain.

Depreciation

The Group and Parent Company apply RR 1 (Tangible Assets).

Depreciation according to plan is based on original acquisition values with a deduction for the residual value. This is calculated as straight-line depreciation that takes place during the entire useful life of the asset and is entered as an expense on the income statement.

The following depreciation periods apply: Acquired intangible assets	Useful life Group	Parent Company
Trademarks	3 years	3 years
Software	3 years	3 years
Renting rights	5 years	5 years
Goodwill	10 years	10 years
Buildings	25 years	25 years
Land improvements (75% of acquisition value)	20 years	20 years
Building equipment	10 years	10 years
Other equipment	3–5 years	3–5 years

Borrowing Costs

The Group and the Parent Company apply RR 21: Borrowing Costs. Borrowing Costs are charged to profits in the period to which they relate, irrespective of how the borrowed funds have been employed.

Impairment

The Group and the Parent Company apply RR 17: Impairment of Assets.

The reported values of the Group's assets are checked at every balance sheet date to ascertain whether an impairment requirement is indicated. If such an indication exists, the asset's recoverable amount is calculated as the higher of value in use and net selling price. An impairment loss is recognised if the recoverable amount is less than the carrying value. In determining the value in use, future cash flows are discounted at a pre-tax rate that reflects the market's assessment of the time value of money and the risks specific to the asset. For an asset that does not generate a cash inflow independently of other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

Receivables

After being individually valued, receivables have been entered at the value at which they are expected to be paid in.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currencies have been translated using the rates in force on the balance sheet date in accordance with RR 8 with the exception of long-term financial dealings with independent foreign operations, for which the historical rate of exchange has been used. Exchange rate differences on operating receivables and operating liabilities are included in the operating result, whereas differences in financial receivables and liabilities are entered under Financial items.

To the extent that receivables and liabilities in foreign currencies have been hedged, they are recalculated at the forward rate notwithstanding the final maturity of the hedge.

Inventories

Inventories, which are valued in accordance with RR 2:02, are entered in the accounts at the lower of acquisition value or net realisable value. Valuing the Group's inventories in this way takes obsolescence risk into account. The acquisition value is calculated in accordance with the first-in, first-out principle or on a weighted average price.

Remuneration of employees

Parent Company

The company applies FAR's (the Institute for the Accountancy Profession in Sweden) recommendation 4, Accounting for pension liabilities and pension costs.

The company's pension commitments to employees have been secured in their entirety through continuous payments to independent pension providers, primarily KP Pension och Försäkring.

Group

The Group's foreign subsidiaries and associated companies apply the generally accepted pension accounting principles in their respective countries, which means that pension credits are entered continuously as an expense. Expenses and provisions estimated in this way have been entered in the consolidated accounts without further revaluation, and charged continuously against operating profit/loss.

Interest on the capital value is entered under financial expenses.

Taxes

The Parent Company and the Group apply RR 9: Income taxes. Total tax comprises actual tax and deferred tax. Taxes are reported in the income statement except when the underlying transaction is entered directly against equity, in which case the associated tax effect is reported in equity. Actual tax (previously known as Paid tax) is tax that must be paid or may be recovered during the year covered by the accounting period. This heading also includes adjustments to actual tax arising as a result of the fiscal effects of transactions in earlier accounting periods. Deferred tax is calculated using the balance sheet method based on temporary differences between the book values of assets and liabilities and the values of the same as assessed for tax purposes. The amounts are calculated based on assumptions as to how the temporary differences are expected to even out using the tax rates and taxation regulations in force or notified on the balance sheet date. No heed is paid to temporary differences in calculating Group goodwill, nor to the differences relating to shares and/or participations in subsidiary or associated companies which are not expected to be taxed within the foreseeable future. In the case of a legal person, untaxed reserves are entered in the accounts including any deferred tax liability. In the Group consolidated accounts, however, untaxed reserves are divided up into Provisions for deferred tax liability and Equity.

Deferred taxes recoverable in temporary tax-deductible differences and loss carry-forwards are entered in the accounts only when it seems likely that these will lead to reduced tax payments in the future. The appraisal is based on a maximum of five years' forecast tax payments.

Provisions

A provision is recorded in accordance with RR 16 (Provisions, Contingent Liabilities and Contingent Assets in the Balance Sheet) when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Revenue recognition

Revenue is recognized in accordance with RR 11 (Revenue). Revenue is recognized at the actual value of consideration received or receivable, less discounts offered.

All sales are on a 30-day sale-or-return basis. Revenue is recognized on the date of sale subject to sale-or-return. With effect from accounting year 2003, provision is made for sale-or-return in Sweden.

Leases – lessee

RR 6:99 is applied. Leasing is classified in the consolidated accounts as either financial or operating leasing.

Operational leasing means that operating lease payments are expensed over the lease term on the basis of use, which may differ from the de facto amount paid as lease payments during the year.

The Parent Company reports all leasing contracts in accordance with the rules for operating leasing

Items affecting comparability

RR 4 is applied, which means that the effect on results of specific events and transactions of material importance are specified within each income concept. Examples of such events and transactions are the capital gains/losses on discontinuing operations through sale or disposal, and the sale of significant assets, impairment losses and restructuring costs.

Hedging of commercial currency flows

When contracted future currency flows are hedged, exchange rate differences on the hedging transactions are entered in the accounts for the same period as the underlying currency flow. The estimated net flow of foreign currency hedged through forward agreements as per 31 December 2003 totals SEK 279 (103) million.

Consolidated accounts

The consolidated accounts have been prepared in accordance with Recommendation RR 1:00.

Subsidiaries

A subsidiary is a company in which the Parent Company, either directly or indirectly, owns more than 50% of the voting rights, or over which the Parent Company exercises a controlling influence in the operational and financial management. Acquisition accounting is the norm for presenting accounts for subsidiaries.

Acquisition accounting means that the acquisition of a subsidiary is regarded as a transaction by which the Parent Company indirectly acquires the assets of the subsidiary and simultaneously assumes its liabilities. With effect from the date upon which the acquisition was made, the earnings and expenses of the acquired company are included in the consolidated accounts together with any goodwill arising or negative goodwill.

Translation of the annual accounts of foreign subsidiaries or other foreign operations

Foreign currency translations are made in accordance with RR 8. The current exchange rate method is used for translating the income statements and balance sheets of independent foreign subsidiaries.

The current exchange method means that all assets, provisions and liabilities are translated using the rate in force at the year-end, while all income statement items are translated using the average rate of exchange for the year as a whole. Any translation differences that arise are taken directly to equity.

If an independent foreign operation is sold, the accumulated translation differences relating to the operation are realised in the consolidated income statement after due deduction has been made for any hedging.

Group contributions and shareholders' contributions

The company accounts for Group contributions and shareholders' contributions in accordance with the statement issued by the Swedish Financial Accounting Standards Council's Emerging Issues Group.

Shareholders' contributions are entered directly against equity by the recipient, and capitalised as shares and participations by

the donor, to the extent that impairment is not required. Group contributions are entered in the accounts in accordance with their financial significance. This means that Group contributions that have been made in order to minimize the Group's overall tax burden are entered directly against profits carried forward after the appropriate deduction for the actual tax effect.

Cash flow

The company applies the indirect method in RR 7.

Changes in accounting principles
Application of the Swedish Financial Accounting Standards Council's recommendations

With effect from 1 January 2003 the following recommendation of the Swedish Financial Accounting Standards Council has been implemented: RR 2:02 Inventories.

Group information

The company is a wholly owned subsidiary of Kooperativa Förbundet (KF) known in English as the Swedish Cooperative Union, and registered in Stockholm under the corporate identity number 700201-1693.

Related Party relationships

Related Party relationships which involve a significant influence.

The company applies RR 23.

Group

The Swedish Cooperative Union exercises a significant influence on the Group.

Parent Company

In addition to the related party relationship stated for the Group, the Parent Company has related party relationships which involve a significant influence on its subsidiaries, see note 3.

Transactions with Related Parties

Group

At the beginning of 2003, the operations of the subsidiary company, Vestfold Logistikksenter AS, were sold to Total Logistik Sweden AB. The Executive Vice President of KappAhl, Paul Frankenius, is a shareholder in and a director of the purchasing company, and, therefore, took no part in this business transaction. Total Logistik Sweden AB has subsequently supplied logistics services to KappAhl for cosmetics in Norway.

For salaries and other remuneration, expenses and obligations relating to pensions and similar benefits, agreements in respect of severance pay, and loans to Directors and the CEO, please see note 3.

Parent Company

See the comments under "Group" above.

NOTE 1
NET SALES BY GEOGRAPHICAL MARKET

	1 Jan 2003 —31 Dec 2003	1 Jan 2002 —31 Dec 2002
Group		
Net sales by geographical market		
Sweden	2,157.0	2,030.0
Denmark	—	163.6
Finland	396.1	383.4
Norway	1,142.4	1,155.1
Poland	114.3	116.0
The Czech Republic	0.6	20.4
	3,810.4	3,868.5

NOTE 2
COST OF GOODS SOLD

For KappAhl AS, the cost of goods sold for 2002 has been reduced by a total of SEK 11 million. This figure relates to VAT for the financial year 2001.

NOTE 3
NUMBER OF EMPLOYEES, PAYROLL COSTS AND REMUNERATION TO THE DIRECTORS AND AUDITORS

Average number of employees	1 Jan 2003 —31 Dec 2003	of which men	1 Jan 2002 —31 Dec 2002	of which men
Parent Company				
Sweden	1,269	14%	1,320	13%
Total for Parent Company	1,269	14%	1,320	13%
Subsidiaries				
Sweden	—	0%	—	0%
Asia	105	49%	97	52%
Finland	260	3%	274	3%
Norway	611	4%	592	10%
Poland	149	12%	139	14%
The Czech Republic	—	0%	19	11%
Total for subsidiaries	1,125	9%	1,121	12%
Group total	2,394	11%	2,441	13%

Accounting of gender distribution of corporate management

Gender distribution of corporate management	31 Dec 2003 Proportion of women	31 Dec 2002 Proportion of women
Parent Company		
The Board of Directors	38%	38%
Other senior executives	69%	62%
Group total		
The Board of Directors	38%	38%
Other senior executives	63%	56%

Salaries, other remuneration and social security expenses

	1 Jan 2003—31 Dec 2003		1 Jan 2002—31 Dec 2002	
	Salaries and remuneration	Social security expenses	Salaries and remuneration	Social security expenses
Parent Company	386.7	168.2	358.3	163.8
(of which pension costs)		*1) 32.6*		*1) 35.8*
Subsidiaries	288.4	72.1	251.2	75.5
(of which pension costs)		*21.7*		*20.7*
Group total	675.1	240.3	609.5	239.3
(of which pension costs)		*1) 54.3*		*1) 56.5*

1) Pension costs for the Parent company include 1.7 (4.3) for the KappAhl Group's Board and CEO. The company's outstanding pension obligations to these amount to 1.8 (1.4).

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

	1 Jan 2003—31 Dec 2003		1 Jan 2002—31 Dec 2002	
	Board and Pres/CEO	Other employees	Board and Pres/CEO	Other employees
Parent Company				
Sweden	4.9	381.7	8.1	352.3
(of which bonus etc.)	*1.2*	*20.5*	—	*18.5*
Parent Company total	4.9	381.7	8.1	352.3
(of which bonus etc.)	*1.2*	*20.5*	—	*18.5*
Foreign subsidiaries				
Asia	1.1	8.1	1.3	11.0
Denmark	—	—	6.8	46.2
Finland	1.3	61.6	1.3	52.6
Norway	1.7	204.9	4.9	176.1
Poland	0.9	8.2	1.2	10.2
The Czech Republic	—	0.5	—	1.3
Subsidiaries total	5.0	283.3	15.5	297.4
Group total	9.9	665.0	23.6	649.7
(of which bonus etc.)	*1.2*	*20.5*	—	*18.5*

The salary paid to the CEO was SEK 3.75 million, of which SEK 0.75 million is bonus. His pension is payable under the ITP plan. Of the salaries and remuneration paid to other employees in the Group, SEK 7.7 (6.0) million relates to senior executives other than the Board and CEO.

Severance pay

If requested by their employer to relinquish their positions, some senior executives have contracts that guarantee them the right to retain their salary in full for a period of between 12 and 24 months. Retirement benefits are based on national pension plans from 65 years of age. In the event of early retirement from 60 years of age and onwards, some senior executives have the right to a pension up to their 65th birthday corresponding to 70% of their salary at the time of retirement.

Absence due to illness

	1 Jan 2003 —31 Dec 2003	1 Jan 2002 —31 Dec 2002
Total absence due to illness as a percentage of normal working hours	9.2%	9.8%
The percentage of total absence due to illness relating to continuous sick leave of 60 days or more	52.3%	54.1%

Absence due to illness as a percentage of each group's normal working hours:

Absence due to illness by gender:		
Men	5.9%	4.9%
Women	13.7%	13.5%
Absence due to illness by age category:		
29 years or younger	1.7%	2.9%
30-49 years	13.7%	14.4%
50 years or older	26.6%	26.5%

Remuneration and expenses for the auditors

	Group	Parent Company
KPMG		
Auditing assignments	1.4	0.8
Other assignments	0.7	0.4

NOTE 4
ITEMS AFFECTING COMPARABILITY

	1 Jan 2003 —31 Dec 2003	1 Jan 2002 —31 Dec 2002
Group		
Sale of "Kicks" brand	—	60.0
Sale of property (Distribution Centre, Mölndal)	—	88.3
	—	148.3
Parent Company		
Sale of "Kicks" brand	—	60.0
Sale of property (Distribution Centre, Mölndal)	—	88.3
	—	148.3

NOTE 5
OTHER OPERATING INCOME

	1 Jan 2003 —31 Dec 2003	1 Jan 2002 —31 Dec 2002
Group		
Sale of MacCoy A/S (final settlement)	1.6	
	1.6	
Parent Company		
Service fees from Group companies	79.0	77.4
	79.0	77.4

NOTE 6
OTHER OPERATING EXPENSES

	1 Jan 2003 —31 Dec 2003	1 Jan 2002 —31 Dec 2002
Group		
Sale of MacCoy A/S		–3.9
	—	–3.9

NOTE 7
DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Group		
Depreciation according to plan classified by asset		
Software, trademarks	–12.2	–15.3
Renting rights	–0.6	–0.6
Goodwill	–39.8	–42.5
Buildings and land	—	–4.1
Equipment	–99.8	–105.5
	–152.4	–168.0
Depreciation according to plan classified by function		
Cost of goods sold	–21.3	–24.8
Selling expenses	–118.6	–122.6
Administrative expenses	–12.5	–20.6
	–152.4	–168.0
Impairment classified by function		
Selling expenses *	–2.3	—
	–2.3	—
Parent Company		
Depreciation according to plan classified by asset		
Software, trademarks	–12.2	–15.0
Renting rights	–0.6	–0.6
Goodwill	–6.0	–5.7
Buildings and land	—	–4.0
Equipment	–51.6	–43.8
	–70.4	–69.1
Depreciation according to plan classified by function		
Cost of goods sold	–20.1	–18.6
Selling expenses	–38.7	–32.0
Administrative expenses	–11.6	–18.5
	–70.4	–69.1
Impairment classified by asset		
Trademarks	—	–39.6
	—	–39.6
Impairment classified by function		
Administrative expenses	—	–39.6
	—	–39.6

* Refers to closure of stores in Finland.

NOTE 8
LEASING FEES REGARDING OPERATIONAL LEASING

	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Group		
Assets held via operational leasing agreements		
Minimum leasing fees	2.0	1.9
Total leasing costs	2.0	1.9
Agreed minimum fees for future leasing relating to non-terminable contracts due for payment:		
Within 1 year	2.0	1.9
Between 1 and 5 years	2.7	3.8
	4.7	5.7
Parent Company		
Assets held via operational leasing agreements		
Minimum leasing fees	1.5	1.5
Total leasing costs	1.5	1.5
Agreed minimum fees for future leasing relating to non-terminable contracts due for payment:		
Within 1 year	1.5	1.5
Between 1 and 5 years	1.8	2.4
	3.3	3.9

NOTE 9
EXPENSES FOR PREMISES

Operating profit has been charged with SEK 486 (490) million in respect of the costs incurred for premises rented by the Group. The corresponding charge for the parent company was SEK 221 (210) million. The rents paid by the company are, to a large extent, based on turnover. The length of the lease agreements and the periods of notice to quit vary, and the various agreements themselves are renegotiated individually on an ongoing basis. This makes it difficult to give a picture of future costs for rented premises. During 2003 there were additional rental costs for the Distribution Centre in Mölndal that was previously owned by KappAhl. This will increase annual rental costs by about SEK 20 million (the total cost for the 15-year period agreed amounts to SEK 450 million).

NOTE 10
RESULT OF PARTICIPATIONS IN GROUP COMPANIES

	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Reversed dividend/dividend	–14.0	33.4
Capital gain on sale of participations	—	13.0
Impairment	–100.0	–88.5
	–114.0	–42.1

NOTE 11
INTEREST INCOME

	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Group		
Interest income, other	1.7	4.1
	1.7	4.1
Parent Company		
Interest income, Group companies	14.2	29.3
Other	1.7	—
	15.9	29.3

NOTE 12
INTEREST EXPENSE

	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Group		
Interest expense, Group companies	–15.8	–30.3
Interest expense, other	–4.2	–25.2
	–20.0	–55.5
Parent Company		
Interest expense, Group companies	–15.8	–30.3
Interest expense, other	–0.9	–14.3
	–16.7	–44.6

NOTE 13
APPROPRIATIONS

	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Difference between depreciation booked and depreciation according to plan		
– Buildings and land	—	3.8
– Equipment	–36.1	–32.4
	–36.1	–28.6

NOTE 14
TAX ON RESULT FOR THE YEAR

Group

Actual tax expense	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Tax expense for the period	–1.8	–39.0
	–1.8	–39.0
Deferred tax expense		
Deferred tax liabilities relating to temporary differences	12.3	54.4
Deferred tax income: capitalised tax value in loss carry-forward	–21.1	–41.7
Deferred tax expense as a result of previously capitalized tax value in loss carry-forward	5.6	–2.4
Deferred tax relating to review of booked value of taxes recoverable	—	–61.6
	–3.2	–51.3
Total booked tax expense in the Group	**–5.0**	**–90.3**

Parent Company

Actual tax expense	1 Jan 2003 –31 Dec 2003	1 Jan 2002 –31 Dec 2002
Tax expense for the period	–0.9	–39.0
Adjustment of tax for previous years	—	—
	–0.9	–39.0
Deferred tax expense		
Deferred tax liabilities relating to temporary differences	—	–0.1
Deferred tax expense as a result of previously capitalized tax value in loss carry-forward	—	–2.0
	—	–2.1
Total booked tax expense in Parent Company	**–0.9**	**–41.1**

Reconciliation of effective tax	1 Jan 2003 –31 Dec 2003		1 Jan 2002 –31 Dec 2002	
Group	*Percent*	*Amount*	*Percent*	*Amount*
Pre-tax profit		102.0		18.2
Tax at actual tax rate for Parent company	28.0%	–28.6	28.0%	–5.1
Effect of other tax rates for foreign subsidiaries	0.0%	—	–2.7%	0.5
Other non-deductible expenses	5.1%	–5.2	2.7%	–0.5
Utilization of previously non-capitalized losses carried forward	–29.7%	30.3	12.1%	–2.2
Revaluation of deferred taxes recoverable	5.6%	–5.7	451.6%	–82.2
Sale of shares, difference net result/tax result	0.0%	—	–14.8%	2.7
Other items	–4.5%	4.6	18.7%	–3.4
Effective tax	4.9%	–5.0	495.6%	–90.2

Reconciliation of effective tax	1 Jan 2003 –31 Dec 2003		1 Jan 2002 –31 Dec 2002	
Parent Company	*Percent*	*Amount*	*Percent*	*Amount*
Pre-tax profit/loss		–5.8		58.7
Tax at actual tax rate for Parent company	28.0%	1.6	28.0%	–16.4
Non-deductible expenses	–78.8%	–4.6	62.0%	–36.4
Non-taxable income	0.0%	—	–16.0%	9.4
Utilization of previously non-capitalized losses carried forward	519.0%	30.3	3.7%	–2.2
Sales of shares, properties and rights of ownership	0.0%	—	–4.6%	2.7
Other items	0.0%	—	–3.2%	1.9
Other items	–484.0%	–28.3	0.1%	–0.1
Effective tax	–16.1%	–0.9	70.0%	–41.1

Tax items booked directly against equity	31 Dec 2003	31 Dec 2002
Deferred tax in group contributions paid	0.9	39.0
	0.9	39.0

Tax items booked directly against equity	31 Dec 2003	31 Dec 2002
Parent Company		
Actual tax in group contributions received/paid	0.9	39.0
	0.9	39.0

NOTE 15
INTANGIBLE ASSETS

Software	Group	Parent Company
Acquired		
Accumulated acquisition values		
At start of year	55.2	53.4
New acquisitions	2.0	1.8
Exchange rate differences for the year	–0.1	—
At year-end	57.1	55.2
Accumulated depreciation according to plan		
At start of year	–35.5	–33.9
Depreciation for the year according to plan	–12.3	–12.2
Exchange rate differences for the year	0.1	—
At year-end	–47.7	–46.1
Booked value at start of accounting period	**19.7**	**19.5**
Booked value at close of accounting period	**9.4**	**9.1**

Renting rights	Group	Parent Company
Acquired		
Accumulated acquisition values		
At start of year	16.7	16.6
New acquisitions	0.4	0.4
At year-end	17.1	17.0
Accumulated depreciation according to plan		
At start of year	–15.4	–15.3
Depreciation according to plan for the year	–0.6	–0.6
At year-end	–16.0	–15.9
Booked value at start of accounting period	**1.3**	**1.3**
Booked value at close of accounting period	**1.1**	**1.1**

Goodwill	Group	Parent Company
Acquired		
Accumulated acquisition values		
At start of year	492.7	59.6
Exchange rate differences for the year	–63.4	—
At year-end	429.3	59.6
Accumulated depreciation according to plan		
At start of year	–97.2	–12.9
Depreciation for the year according to plan	–39.8	–6.0
Exchange rate differences for the year	15.2	
At year-end	–121.8	–18.9
Accumulated impairment		
At start of year	–52.9	—
Exchange rate differences for the year	7.7	—
At year-end	–45.2	—

Goodwill	Group	Parent Company
Booked value at start of accounting period	**342.6**	**46.7**
Booked value at close of accounting period	**262.3**	**40.7**

Trademarks	Group	Parent Company
Acquired		
Accumulated acquisition values		
At start of year		39.6
New acquisitions	0.2	0.2
At year-end	0.2	39.8
Accumulated depreciation according to plan		
At start of year	—	–4.0
At year-end	—	–4.0
Accumulated impairment		
At start of year		–35.6
At year-end	—	–35.6
Booked value at start of accounting period	**0**	**0**
Booked value at close of accounting period	**0.2**	**0.2**

Total intangible assets	Group	Parent Company
Acquired		
Accumulated acquisition values		
At start of year	604.2	169.3
New acquisitions	2.6	2.4
Exchange rate differences for the year	–63.6	—
At year-end	543.2	171.7
Accumulated depreciation according to plan		
At start of year	–152.0	–66.1
Depreciation for the year according to plan	–52.7	–18.8
Exchange rate differences for the year	15.3	—
At year-end	–189.4	–84.9
Accumulated impairment		
At start of year	–88.6	–35.7
Exchange rate differences for the year	7.8	—
At year-end	–80.8	–35.7
Booked value at start of accounting period	**363.6**	**67.5**
Booked value at close of accounting period	**273.0**	**51.1**

NOTE 16
EQUIPMENT

	Group	Parent Company
Accumulated acquisition values		
At start of year	925.9	425.0
New acquisitions	112.3	61.2
Acquisition of subsidiary	—	–3.3
Sales and disposals	–71.3	—
Exchange rate differences for the year	–48.4	—
	918.5	483.0

Accumulated depreciation according to plan		
At start of year	–596.1	–236.7
Sales and disposals	58.0	2.8
Reclassifications	1.3	
Depreciation for the year according to plan of acquisition values	–99.9	–51.6
Exchange rate differences for the year	35.0	—
	–601.7	–285.6
Accumulated impairment		
At start of year	–0.2	—
Impairment reversed during the year	0.2	—
Impairment for the year	–2.3	—
	–2.3	—
Booked value at close of accounting period	**314.5**	**197.4**

NOTE 17
PARTICIPATIONS IN GROUP COMPANIES

	31 Dec 2003	31 Dec 2002
Accumulated acquisition values		
At start of year	809.2	640.0
Shareholders contribution	—	269.5
Sales	—	–100.3
	809.2	809.2
Accumulated impairment		
At start of year	–379.5	–393.0
Sales	—	82.8
Impairment for the year	–100.0	–69.3
	–479.5	–379.5
Booked value at close of accounting period	**329.7**	**429.7**

Specification of the Parent company's and Group's participations in Group companies

Subsidiary/Corporate ID No.	Number Participation	Participations in % 1)	Booked value
KappAhl OY, 460.230, Finland	200	100.0	0.3
KappAhl Åland AB 1737564-2 Mariehamn	100	100.0	—
KappAhl AS 947659138, Norway	24,100	100.0	314.7
KappAhl Sp.z o.o. 526-22-60-963 Poland	10,000	100.0	14.0
KappAhl Czech Republic s.r.o. 26447142, The Czech Republic	10,000	100.0	0.7
KappAhl Far East Ltd 438724 Hong Kong	10,000	100.0	—
Vestfold Logistikksenter AS 830400672 Norway	8,639,100	100.0	—
Detaljhandel Logistik AB 556636-2132 Sweden	1,000	100.0	0.1
			329.7

1) This refers to participating interest of capital, which also corresponds to the proportion of votes for the total number of shares.

NOTE 18
RECEIVABLES FROM GROUP COMPANIES

	31 Dec 2003	31 Dec 2002
Parent Company		
Accumulated acquisition values		
At start of year	203.2	45.5
Additional receivables	—	181.0
Receivables settled	22.5	–0.3
Reclassifications	—	–19.2
Exchange rate differences for the year	–4.4	–3.8
Booked value at close of accounting period	**221.3**	**203.2**

NOTE 19
DEFERRED TAXES RECOVERABLE

Group –31 Dec 2003	Deferred taxes recoverable	Deferred tax liability	Net
Equipment	—	24.0	–24.0
Loss carry-forward	19.1	—	19.1
	19.1	24.0	–4.9
Set-off	—	—	—
Net deferred tax liability	19.1	24.0	–4.9

Group –31 Dec 2002	Deferred taxes recoverable	Deferred tax liability	Net
Other	—	13.9	–13.9
Loss carry-forward	20.0	—	20.0
	20.0	27.8	–7.8
Set-off	—	—	—
Net deferred taxes recoverable	20.0	13.9	–7.8

Deferred taxes recoverable not entered in the accounts total SEK 120 million, which is attributable to loss carry-forward.

SEK 58 million of the deferred taxes recoverable shown in the accounts is attributable to KappAhl AS in Norway. The time limit for claiming these monies is 10 years from the taxation year when the loss was incurred (in this instance 2004).

Parent Company –31 Dec 2003	Deferred taxes recoverable	Deferred tax liability	Net
Loss carry-forward	2.8	—	2.8
	2.8	—	2.8
Set-off	—	—	—
Net deferred taxes recoverable	2.8	—	2.8

Parent Company –31 Dec 2002	Deferred taxes recoverable	Deferred tax liability	Net
Loss carry-forward	2.8	—	2.8
	2.8	—	2.8
Set-off	—	—	—
Net deferred taxes recoverable	2.8	—	2.8

NOTE 20
PREPAID EXPENSES AND ACCRUED INCOME

	Group	Parent Company
Prepaid rents	59.3	57.9
Other items	61.3	35.1
	120.6	93.0

NOTE 21
EQUITY

	Share capital	Restricted reserves	Non-restricted equity
Group			
At start of year	6.0	62.2	413.3
Group contribution			–3.4
Tax effect of Group contribution			0.9
Transfers between restricted and non-restricted equity		44.9	–44.9
Profit/loss for the year			97.0
Exchange rate difference for the year		—	–27.3
At year-end	**6.0**	**107.1**	**435.5**

	Share capital	Restricted reserves	Non-restricted equity
Parent Company			
At start of year	6.0	1.2	728.3
Group contribution			–3.4
Tax effect of Group contribution			0.9
Profit/loss for the year			–6.8
At year-end	**6.0**	**1.2**	**719.1**

NOTE 22
ACCUMULATED ACCELERATED DEPRECIATION

	31 Dec 2003	31 Dec 2002
Equipment	85.9	49.7
	85.9	49.7

NOTE 23
PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

	Group	Parent Company
PRI/FPG	21.0	21.0
Other provisions for pensions	31.1	—
	52.1	21.0
Of which credit-insured via FPG/PRI	21.0	21.0
Pledged assets for pensions obligations	**None**	**None**

NOTE 24
OTHER PROVISIONS

	Group	Parent Company
Booked value at start of period	**18.1**	**6.1**
Liabilities to Medmera loyalty cardholders	0.7	0.7
Disposal of stores	13.0	—
Booked value at close of period	**31.8**	**6.8**

Includes increases in existing provisions.

Specification of balance carried forward	Group	Parent Company
Liabilities to Medmera loyalty cardholders	6.8	6.8
Disposal of stores	20.6	—
Tariff revision	4.4	—
	31.8	6.8

NOTE 25
LIMIT FOR LETTERS OF CREDIT

The company has a limit with its bank for outstanding letters of credit up to a value of SEK 300 (300) million.

NOTE 26
ACCRUED EXPENSES AND DEFERRED INCOME

	Group	Parent Company
Accrued salaries and holiday pay	108.6	69.8
Accrued social security expenses	44.5	43.1
Other items	77.0	13.8
	230.1	126.7

Mölndal, Sweden, 19 February 2004.

Börje Fors
Chairman of the Board

Bernt Bregmo

Magnus Håkansson

Lena Ingren

Eva Larsson

Leif Olsson

Rose-Marie Zell–Lindström

Christian W. Jansson
President and CEO

Our Auditors' Report was presented on 19 February 2004
KPMG

Per Bergman
Authorised Public Accountant

Ulf Careland
Authorised Public Accountant

Auditors' Report

To the General Meeting of Shareholders of KappAhl AB
Corporate identity number 556060-4158

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President and CEO of KappAhl AB for the financial year 2003. These accounts and the administration of the company are the responsibility of the Board and the President and CEO. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board and the President and CEO, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board Member or the President and CEO. We also examined whether any Board Member or the President and CEO has, in any other way, acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the articles of association of the company. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting standards in Sweden.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the Parent company and the Group be adopted, that the profit of the Parent company be dealt with in accordance with the proposal in the Administration Report, and that the members of the Board of Directors and the President and CEO be discharged from liability for the financial year.

Göteborg, Sweden, 19 February 2004.
KPMG

Per Bergman
Authorised Public Accountant

Ulf Careland
Authorised Public Accountant

EXECUTIVE MANAGEMENT TEAM Håkan Westin, Christian W. Jansson, Gudrun Fahlback, Stig Högsta, Paul Frankenius and Kajsa Räftegård.

THE BOARD OF DIRECTORS Berndt Bregmo, Lena Ingren, Bodil Nilsson, Eva Larsson, Börje Fors, Melinda Hedström, Christian W. Jansson, Magnus Håkansson, Leif Olsson and Rose-Marie Zell-Lindström.

D.T.R.T. Reklambyrå. Text: Ulrika Thordin, Toob. Photo: Gunilla Holz. Print: Eskils Tryckeri AB.

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