Interim report for the Second Quarter of financial year 2005/06

Second Quarter (December 2005 – February 2006)

- KappAhl's net sales for the period, excluding VAT, amounted to MSEK 1,026 (953), an increase of 7.7 percent.
- Operating profit amounted to MSEK 88 (63), an increase of 40 percent.
- The gross margin was 57.4 percent (54.4) and the operating margin was 8.6 percent (6.6).
- MSEK 40 in non-recurring costs has been charged to financial expenses for the listing of the company on the stock exchange and restructuring of the Group's financing.
- Profit after taxes totalled MSEK 19 (45) which is equivalent to SEK 0.25 (0.60) per share.
- The number of stores has remained unchanged.

CEO Christian W. Jansson's comments on KappAhl's second quarter

- KappAhl's operating profit of MSEK 88 indicates a sharp increase compared with the corresponding period in the previous year. This was KappAhl's best second quarter ever. We had a quarter with a good increase in sales, despite weaker performance during the year-end sale period. The sales increase is primarily from our newly opened stores, which have had a very good start. We saw an excellent Christmas shopping season and the late arrival of spring has only marginally affected the period.
- KappAhl's development is proceeding according to plan and the fact that we continue to increase operating profit compared with previous years provides us with special reason to be pleased. This illustrates that in addition to do well on top-line growth we continue to enhance our purchasing and logistics functions. During the year, we have thus far opened twelve new stores and closed one. We expect to continue the rapid pace of establishing new locations and will be opening 15 to 20 new stores per year in the next two years.

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Six months (September 2005 – February 2006)

- KappAhl's net sales for the period, excluding VAT, amounted to MSEK 2,178 (1,992), an increase of 9.3 percent.
- Operating profit amounted to MSEK 237 (171), an increase of 39 percent.
- The gross margin was 58.0 percent (56.1) and the operating margin was 10.9 percent (8.6).
- MSEK 40 in non-recurring costs has been charged to financial expenses for the listing of the company on the stock exchange and restructuring of the Group's financing.
- Profit after taxes amounted to MSEK 114 (144), which is equivalent to SEK 1.52 (1.92) per share.
- We have opened twelve stores and closed one.

Comments on the Second Quarter

Market

During the period 1 December to 28 February, private consumption continued to increase within our various sales markets. This has continued to support the apparel sector. Sales during the Christmas season were also positive.

Net sales and result for the Second Quarter

KappAhl's net sales for the period, excluding VAT, amounted to MSEK 1,026 (953), which is an increase of 7.7 percent. This increase is comprised of exchange rate differences (primarily against NOK) 2.7 percent, new and closed stores 5.7 percent, and the development of sales in comparable stores -0.7 percent. The sale of cosmetics is being phased out and, consequently, net sales in this area decreased to MSEK 27 (47) for the period.

The increase in sales is primarily attributable to the fact that during this period we have had 18 more stores open than during the previous year. Moreover, favourable exchange rate developments resulted in an increase in net sales in SEK. The Christmas season was good, while the year-end sale period was somewhat weaker.

Gross profit for the period totalled MSEK 589 (518), which is equivalent to a gross margin of 57.4 percent (54.4). The gross margin increase demonstrates that our continued focus on making purchasing and price setting processes more efficient is paying off.

Sales and administrative costs amounted to MSEK 501 (455) for the period. This increase is mainly attributable to the fact that we have 18 additional stores compared with the previous year.

Operating profit was MSEK 88 (63), which corresponds to an operating margin of 8.6 percent (6.6). The substantial improvement of 40 percent has foremost been driven by the improvement in gross margin.

Depreciation according to plan amounted to MSEK 41 (38).

Net financial items for the period were MSEK -62 (-23) and profit after financial items was MSEK 26 (40). Of the period's financial net, MSEK 40 referred to costs for the listing process and for restructuring of the Group's finances. Both are non-recurring items. The new financing has resulted in better future interest and amortisation terms. Profit after estimated tax was MSEK 19 (45). Profit per share after tax, excluding the one-off items named above, was SEK 0.64 for the period.

Taxes

During the period, tax rates were calculated at standardised levels according to each country's tax rates. This results in a rate of 27 percent for the group. The previous year's tax was an income of MSEK 5 resulting from the capitalisation of previous fiscal losses.

Store network

KappAhl has opened twelve stores thus far in the financial year. Three stores have opened in Sweden, five in Norway, three in Finland, and one in Poland. One store has closed in Norway. At the end of the period, the total number of stores was 253. Of these, 128 were in Sweden, 78 in Norway, 35 in Finland and 12 in Poland.

Expansion

The search for new store sites continues according to plan. In addition to the 253 stores which were in operation as of 28 February this year, there are, at present, contracts for an additional 28 new stores. During the second part of the year we will open 6 to 8 stores.

Employees

The average number of employees was 2,656 for the period, compared to 2,469 for the abbreviated financial year of 1 January – 31 August 2005.

Inventory

At the end of the period, KappAhl's inventory amounted to MSEK 498, a decrease of MSEK 37 compared with the previous year. This was achieved through successful efforts with inventory management, despite a significant increase in the number of stores.

Investments

A total of MSEK 66 was invested during the period, the majority in new and existing stores. The investments are directed toward efforts to enhance customer experience in our stores.

Transactions with related parties

There have been no significant transactions with related parties.

Cash flow

KappAhl's cash flow from current operations amounted to MSEK 120 during the period and cash flow after investments amounted to MSEK 54.

Financing and liquidity

Net debt at the end of the period totalled MSEK 1,529, compared with MSEK 1,685 as per 31 August 2005. At the end of the period, the equity/assets ratio was at 14 percent, compared with 10 percent as per 31 August 2005. Net interest-bearing liabilities/EBITDA ratio was 2.5 at the end of the period.

Cash and cash equivalents totalled MSEK 53 on 28 February 2006, compared with MSEK 83 on 31 August 2005. In addition, there were unutilised credit facilities amounting to MSEK 360.

Initial public offering

KappAhl shares were listed on the Stockholm Stock Exchange's O-list on 23 February 2006. In conjunction with the listing, greater diversity in ownership of the company's shares was achieved via the sale of existing shares. The company's costs for the listing process totalled MSEK 20 and are reported under financial costs.

Parent company

The parent company's net sales during the second quarter were MSEK 0 and profits after financial items amounted to MSEK -57. Profit after financial items for the first six months amounted to MSEK -75. The parent company did not make any investments during the period.

Events following the end of the reporting period

As was reported in the listing prospectus, re-financing of the company's operations has now taken place. All costs for settlement of previous financing were charged to income as per February 2006.

The KappAhl share may be purchased from 23 March, not including the right to receive the dividends of SEK 2.25 per share which will be paid 30 March.

This interim report has been reviewed by the company's auditors.

Upcoming financial reports

The interim report for the first nine months of the financial year will be published 28 June 2006.

The year-end report for the current financial year will be published 29 September 2006.

Mölndal 29 March 2006
KappAhl Holding AB (publ)
The Board of Directors

Consolidated Income Statement - Summary (MSEK)		Dec–Feb 2005/06	Dec–Feb 2004/05 1)	Sept–Feb 2005/06	Sept–Feb 2004/05 1)	Last 12 m Mar-Feb
Net sales		1,026	953	2,178	1,992	4,131
Cost of goods sold		-437	-435	-914	-875	-1,673
Gross profit		**589**	**518**	**1,264**	**1,117**	**2,458**
Selling costs		-472	-420	-959	-880	-1,854
Aministration expenses		-29	-35	-68	-66	-133
Operating profit		**88**	**63**	**237**	**171**	**471**
Financial income		2	2	3	4	7
Financial expenses	Note 1	-64	-25	-83	-31	-164
Profit after financial items		**26**	**40**	**157**	**144**	**314**
Tax		-7	5	-43	0	-78
Profit after tax		**19**	**45**	**114**	**144**	**236**
Earnings per share, SEK		0.25	0.60	1.52	1.92	3.14
Earnings per share after dilution, SEK		0.25	0.60	1.52	1.92	3.14

Consolidated Balance Sheet - Summary (MSEK)	28 Feb 06	31 Aug 05
Tangible fixed assets	653	618
Intangible fixed assets*	1,353	1,344
Financial fixed assets	209	231
Inventories	498	590
Other current receivables	107	75
Cash and cash equivalents	53	83
Total assets	**2,873**	**2,941**
Equity	407	284
Interest-bearing long-term liabilities	1,546	1,601
Non interest-bearing long-term liabilities	257	272
Interest-bearing current liabilities	36	167
Non interest-bearing current liabilities	627	617
Total equity and liabilities	**2,873**	**2,941**
*Of which goodwill	704	704
*Of which trademarks	610	610

Consolidated Cash Flow Statement - Summary (MSEK)	Dec-Feb 2005/06	Sept-Feb 2005/06
Cash flow from continuing operations before changes in working capital	**56**	**206**
Change in working capital	64	75
Cash flow from continuing operations	**120**	**281**
Cash flow from investment activities	-66	-126
Cash flow after investments	**54**	**155**
Cash flow from financial activities	-46	-54
Change in bank overdraft facilities	-42	-131
Cash flow from financing activities	**-88**	**-185**
Cash flow for the period	**-34**	**-30**
Cash and cash equivalents at the beginning of the period	**87**	**83**
Cash and cash equivalents at the period's end	**53**	**53**

Specification of Changes in the Group's Equity	Sept-Feb 2005/06	Jan-Aug 2005
Opening equity	284	197
Translation differences for the period	1	12
Change in fair value reserves	8	15
New share issue	0	7
Profit for the period	114	53
Closing equity	**407**	**284**

1) Refers to pro forma figures, as the KappAhl Holding Group began operations 31 Dec 2004.
Pro forma figures have not been included in the auditior's review

Number of stores per country	28 Feb 06	28 Feb 05	31 Aug 05	31Aug 04	31 Dec 04
Sweden	128	124	125	122	124
Norway	78	72	74	72	72
Finland	35	30	32	30	30
Poland	12	9	11	9	9
Total	**253**	**235**	**242**	**233**	**235**

Sales per country	Dec-Feb 2005-06	Dec–Feb 2004/05 1)	Change SEK %	Change local currency %
Sweden	567	552	2,8%	2,8%
Norway	312	275	13,7%	4,4%
Finland	113	100	12,4%	9,1%
Poland	34	26	29,3%	7,7%
Totalt	**1,026**	**953**	**7,7%**	

Sales per country	Sep–Feb 2005-06	Sep–Feb 2004/05 1)	Change SEK %	Change local currency %
Sweden	1,224	1,170	4,7%	4,7%
Norway	647	561	15,3%	5,9%
Finland	235	206	14,3%	10,9%
Poland	72	55	30,6%	8,8%
Total	**2,178**	**1,992**	**9,4%**	

Segment reporting	Sales Sep-Feb 2005/2006	Sales Sep-Feb 2004/2005 1)	Operating profit Sep-Feb 2005/2006	Operating profit Sep-Feb 2004/2005 1)
Nordic countries	2,107	1,937	233	165
Poland	72	55	4	6
Total	**2,178**	**1,992**	**237**	**171**

Quarterly Income Statements (MSEK)	Dec–Feb 2005/2006	Sep–Nov 2005	June–Aug 2005	March–May 2005	Dec–Feb 2004/2005 1)	Sep- Nov 2004 1)
Net sales	1,026	1,152	987	966	953	1,039
Costs of goods solds	-437	-476	-390	-370	-435	-440
Gross profit	**589**	**676**	**597**	**596**	**518**	**599**
Selling expenses	-472	-487	-447	-448	-420	-461
Administration expenses	-29	-39	-30	-34	-35	-31
Operating profit	**88**	**150**	**120**	**113**	**63**	**108**
Financial income	2	1	3	1	2	2
Financial expenses	-64	-19	-48	-33	-25	-6
Profit after financial items	**26**	**132**	**75**	**81**	**40**	**104**
Tax	-7	-36	-11	-24	5	-5
Profit after tax	**19**	**96**	**64**	**57**	**45**	**99**

1) Refers to pro forma figures, as the KappAhl Holding Group began operations 31 Dec 2004.
Pro forma figures have not been included in the auditor's review.

Key ratios	Dec–Feb 2005/06	Dec–Feb 2004/05	Sept-Feb 2005/06	Sept-Feb 2004-05	12m 2005/06
Growth in sales	7.7%	-	9.3%	-	-
Earnings per share, SEK	0.25	0.60	1.52	1.92	3.14
Total depreciation/amortisation	41	38	81	83	147
EBITA	88	63	237	171	471
Gross margin	57.4%	54.4%	58.0%	56.1%	59.5%
Operating margin	8.6%	6.6%	10.9%	8.6%	11.4%
EBITA-margin	8.6%	6.6%	10.9%	8.6%	11.4%
Interest coverage ratio	-	-	-	-	5.28
Net interest-bearing liabilities	-	-	-	-	1,529
Net interest-bearing liabilities/EBITDA	-	-	-	-	2.47
Equity/assets ratio	14.2%	-	14.2%	-	-
Equity per share, SEK	5.42	-	5.42	-	-
Equity per share after dilution, SEK	5.42	-	5.42	-	-
Average number of employees	2,656	-	2,445	-	-
Number of shares at the end of period	75,040,000	75,040,000	75,040,000	75,040,000	75,040,000
Number of shares after dilution	75,040,000	75,040,000	75,040,000	75,040,000	75,040,000

Definitions	
Equity/assets ratio	Equity / balance sheet total
Earnings per share	Profit after tax/average number of shares
Earnings per share after dilution	Profit after tax/average number of shares after full dilution
Equity per share	Equity /average number of shares
EBITA	Operating profit before amortisation of intangible fixed assets
EBITDA	Operating profit before depreciation/amortisation
Average number of employees	Average number of employees converted to full-time employees
Interest coverage ratio	EBITDA / net interest excl. one-off items, for the previous twelve month period
Net interest-bearing liablilities	Interest-bearing liablilities minus liquid assets
Net interest-bearing liabilities/EBITA	Net interest-bearing liabililties / EBITDA for the previous twelve month period

KappAhl's Largest Shareholders 28 Feb 2006	Number of shares	Percent of shares and votes
PEGATRO LIMITED	19,096,000	25.5
NORDIC FASHION S.A.R.L	14,000,000	18.7
ACCENT EQUITY	6,000,000	8.0
GOLDMAN SACHS INTERNATIONAL LTD	3,211,000	4.3
MORGAN STANLEY & CO INC, W9	2,235,500	3.0
D. CARNEGIE AB	1,605,900	2.1
OKOBANK OY	1,239,000	1.7
GOLDMAN SACHS INTERNATIONAL	1,156,500	1.5
MORGAN STANLEY & CO INTL LTD	1,096,580	1.5
FORSTA AP-FONDEN	1,000,000	1.3
FJÄRDE AP-FONDEN	800,000	1.1
D. CARNEGIE AB	788,810	1.1
SSB CL OMNIBUS AC OM07 (15 PCT)	765,013	1.0
JP MORGAN CHASE BANK W9	707,449	0.9
MELLON AAM OMNIBUS 15 % AGENT F ABN AMRO G C	649,000	0.9
Other shareholders	20,689,248	27.6
Total	**75,040,000**	**100,0**

Accounting principles

Starting from 1 January 2005 the Group is applying the International Financial Reporting Standards, IFRS, adopted by the EU Commission. As regards reporting for the Group, this interim report has been prepared in accordance with IAS 34: Interim Reporting and Swedish Financial Accounting Standards Council recommendation RR 31. For the Parent Company, the interim report is presented in accordance with the Swedish Annual Accounts Act and Financial Accounting Standards Council recommendation RR32.

The accounting principles remain unchanged in comparison with those applied in the annual accounts for the abbreviated financial of 1 January – 31 August 2005.

The company has no outstanding convertible loans or warrants.

Note 1

Financial expenses include a non-recurring cost of a total of MSEK 40 for the listing of the company (MSEK 20) and costs for restructuring the Group's finances (MSEK 20).

Principles for pro forma accounting

In order to illustrate the financial development of the KappAhl Holding AB Group for the period as compared with the corresponding period in the previous year, pro forma financial statements are presented containing comparative figures for the corresponding period in 2004/2005.

The pro forma financial statements describe the operations of the KappAhl Holding AB Group as if they had been conducted under an equivalent legal structure during 2004/ 2005. The pro forma financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

The pro forma income statement is based on the past performance of the operations included in the acquired KappAhl AB Group.

Amortisation of goodwill has been reversed in the pro forma financial statements and trademarks with indeterminate life spans are not subject to amortisation according to plan.

Interest expenses have been reported in the pro forma financial statements at the actual amounts recorded during the respective periods.

In conjunction with the acquisition of the KappAhl AB Group in December 2004, the KappAhl Holding AB Group has increased the Group's debt/equity ratio. Higher interest expenses resulting from increased borrowing have not been reported in the pro forma financial statements for the period prior to1 January 2005.

Tax in the pro forma financial statements has been calculated using the interest rate in effect in each country based on the year's taxable profits, taking into account the deferred tax effect of the adjustments that were made within the context of the pro forma financial statements.

Review report

Introduction

We have reviewed the accompanying consolidated balance sheet of KappAhl Holding AB (publ.) (556621-2312) as of February 28, 2006 and the related statements of income, changes in equity and cash flows for the six-month period and three-month period then ended, and a summary of significant accounting policies and other explanatory notes.

The pro forma financial statements included in the interim report have not been subject to our review.

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express an opinion on this interim financial information based on our review.

Scope and focus of the review

We conducted our review in accordance with the review standard, SÖG 2410, "Review of Interim Financial Information Performed by the Auditor of the Company", issued by the Swedish Institute of Authorised Public Accountants (FAR). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less broad in scope than an audit conducted in accordance with The Standard of Auditing in Sweden and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at February 28, 2006, and of its financial performance and its cash flows for the six-month period and three-month period then ended in accordance with IAS 34.

Gothenburg, March 29, 2006

PricewaterhouseCoopers AB

Bror Frid

Authorised Public Accountant