

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

Third Quarter (March 2006 – May 2006)

- KappAhl's net sales for the period, excluding VAT, amounted to MSEK 1,029 (966), an increase of 6.5 percent.
- Operating profit amounted to MSEK 120 (113), an increase of 6.2 percent.
- The gross margin was 61.9 percent (61.7) and the operating margin was 11.7 percent (11.7).
- Profit after taxes totalled MSEK 73 (57), which is equivalent to SEK 0.97 (0.76) per share.
- Six new stores were opened.

CEO's comments on KappAhl's third quarter

- KappAhl's sales development during this quarter had a weak beginning but improved towards the end of the period. Also, our gross margin of 61.9% provides us with a good reason to be pleased. The high margin is a clear sign that we are doing well with purchasing. We also end the quarter with very satisfactory inventory levels.
- KappAhl had a good start in the many newly-opened stores and we are going to continue our rapid pace of expansion. Thus far, we have opened 18 new stores during the financial year, and we will open 2 more in the final quarter. This will place us at the high end of our plan at the beginning of the year to open 15-20 new stores per year in the next two years.

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Nine months (September 2005 – May 2006)

- KappAhl's net sales for the period, excluding VAT, amounted to MSEK 3,207 (2,959), an increase of 8.4 percent.
- Operating profit amounted to MSEK 357 (284), an increase of 25.7 percent.
- The gross margin was 59.3 percent (57.9) and the operating margin was 11.1 percent (9.6).
- 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 187 (201), which is equivalent to SEK 2.49 (2.67) per share.
- We have opened 18 stores and closed one.

Comments on the Third Quarter

Market

Private consumption continues to increase within our various sales markets. This has also contributed to increased sales in the apparel sector.

Net sales and result for the Third Quarter

KappAhl's net sales for the period, excluding VAT, amounted to MSEK 1,029 (966), an increase of 6.5 percent. This increase is comprised of exchange rate differences (primarily against NOK) 2.9 percent, new and closed stores 5.0 percent, and the development of sales in comparable stores -1.4 percent.

The sale of cosmetics is being phased out and, consequently, net sales in this area decreased to MSEK 2 (19), which affected sales in comparable stores by -2.1 percent.

The increase in sales is primarily attributable to the fact that we have had 17 more stores open than during the previous year. Moreover, favourable exchange rate developments resulted in an increase in net sales in SEK.

Gross profit for the period totalled MSEK 637 (596), which is equivalent to a gross margin of 61.9 percent (61.7). The high gross margin level is a result of the work being carried out to continuously make the purchase and pricing functions more efficient.

Sales and administrative costs amounted to MSEK 517 (482) for the period. This increase is mainly attributable to the fact that we have 17 additional stores compared with the previous year.

Operating profit was MSEK 120 (113), which corresponds to an operating margin of 11.7 percent (11.7).

Depreciation according to plan amounted to MSEK 46 (41).

Net financial items for the period were MSEK -18 (-32) and profit after financial items was MSEK 102 (81). We see now that the new financing created at the beginning of the quarter has resulted in a much higher financial net. Profit after estimated tax was MSEK 73 (57). Profit per share after tax was SEK 0.97 (0.76) for the period.

Comment [JG1]: Q2 = prissättning (pricing), Q3 = prisNEDsättning (price reduction)

Taxes

During the period, tax rates were calculated at standardised levels according to each country's tax rates. This results in a rate of 28 percent of the group.

Store network

KappAhl has opened 18 stores thus far in the financial year. Four stores have opened in Sweden, seven in Norway, four in Finland, and three in Poland. One store has closed in Norway. At the end of the period, the total number of stores was 259. Of these, 129 were in Sweden, 80 in Norway, 36 in Finland, and 14 in Poland.

Expansion

The search for new store sites continues according to plan. In addition to the 259 stores which were in operation as of 31 May this year, there are, at present, contracts for an additional 22 new stores. During the fourth quarter we will open two stores.

Inventory

At the end of the period, KappAhl's inventory amounted to MSEK 479, a decrease of MSEK 111 compared with the beginning of the financial year. This was achieved through successful efforts with inventory management, despite a significant increase in the number of stores.

Investments

A total of MSEK 181 has been invested since the beginning of the financial year, the majority in stores. The investments are directed toward efforts to enhance customer experience in our stores. In addition, a substantial portion of the investments has gone towards the opening of new stores.

Transaction with related parties

There have been no significant transactions with related parties.

Cash flow

KappAhl's cash flow from current operations amounted to MSEK 83 during the period and cash flow after investments amounted to MSEK 28.

Financing and liquidity

Dividends totalling MSEK 169 were paid out during the quarter. Net debt at the end of the period totalled MSEK 1,643, compared with MSEK 1,685 as per 31 August 2005. At the end of the period, the equity/assets ratio was at 10 percent, compared with 10 percent as per 31 August 2005. The net interest-bearing liabilities/EBIDTA ratio was 2.6 at the end of the period.

Cash and cash equivalents totalled MSEK 109 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's 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 were reported as a part of the financial costs for the second quarter.

Parent company

The parent company's net sales during the third quarter were MSEK 0 and profits after financial items amounted to MSEK -15. Profit after financial items for the first nine months amounted to MSEK -90. The parent company did not make any investments during the period.

Events following the end of the reporting period

There have been no significant events after the end of the reporting period.

Upcoming financial reports

The year-end report for the current financial year will be published 2 October 2006.

This report has not been audited by the auditors of the company.

Möln dal 28 June 2006
KappAhl Holding AB (publ)
The Board of Directors

Consolidated Income Statement - Summary (MSEK)	March-May 2006	March-May 2005 ¹⁾	Sept-May 2005/06	Sept-May 2004/05 ¹⁾	Last 12 m June-May
Net sales	1 029	966	3 207	2 959	4 194
Cost of goods sold	-392	-370	-1 306	-1 246	-1 696
Gross profit	637	596	1 901	1 713	2 498
Selling expenses	-477	-448	-1 432	-1 329	-1 879
Administrative expenses	-40	-34	-112	-100	-142
Operating profit	120	113	357	284	477
Financial income	0	1	3	5	6
Financial expenses ^{Note 1}	-18	-33	-101	-64	-149
Profit after financial items	102	81	259	225	334
Tax	-29	-24	-72	-24	-83
Profit after tax	73	57	187	201	251
Earnings per share, SEK	0,97	0,76	2,49	2,67	3,34
Earnings per share after dilution, SEK	0,97	0,76	2,49	2,67	3,34

Consolidated Balance Sheet - Summary (MSEK)	31 May 2006	31 Aug 2005
Tangible fixed assets	660	618
Intangible fixed assets*	1 357	1 344
Financial fixed assets	182	231
Inventories	482	590
Other current receivables	91	75
Cash and cash equivalents	109	83
Total assets	2 881	2 941
Equity	283	284
Interest-bearing long-term liabilities	1 391	1 601
Non-interest-bearing long-term liabilities	251	272
Interest-bearing current liabilities	361	167
Non-interest-bearing current liabilities	595	617
Total equity and liabilities	2 881	2 941
*Of which goodwill	704	704
*Of which trademarks	610	610

Consolidated Cash Flow Statement - Summary (MSEK)	March-May 2006	Sept-May 2005/06
Cash flow from continuing operations before changes in working capital	88	294
Change in working capital	-5	70
Cash flow from continuing operations	83	364
Cash flow from investment activities	-55	-181
Cash flow after investments	28	183
Change in bank overdraft facilities	215	84
Dividend	-169	-169
Other from financial activities	-18	-72
Cash flow from financial activities	28	-157
Cash flow for the period	56	26
Cash and cash equivalents at the beginning of the period	53	83
Cash and cash equivalents at the end of the period	109	109

Specification of Changes in the Group's Equity	Sept-May 2005/06	Jan-Aug 2005
Opening equity	284	197
Translation differences for the period	0	12
Change in fair value reserves	-19	15
Dividend	-169	0
New share issue	0	7
Profit for the period	187	53
Closing equity	283	284

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

Number of stores per country	31 May 2006	31 May 2005	31 Aug 2005	31 Aug 2004	31 Dec 2004
Sweden	129	125	125	122	124
Norway	80	74	74	72	72
Finland	36	32	32	30	30
Poland	14	11	11	9	9
Total	259	242	242	233	235

Sales per country	March-May 2006	March-May 2005 1)	Change SEK %	Change local currency %
Sweden	580	567	2,3%	2,3%
Norway	291	265	9,8%	1,7%
Finland	120	107	11,9%	9,6%
Poland	38	27	40,7%	22,7%
Total	1029	966	6,5%	

Sales per country	Sept-May 2005/06	Sept-May 2004/05	Change SEK %	Change local currency %
Sweden	1 803	1 737	3,8%	3,8%
Norway	940	826	13,7%	4,5%
Finland	355	315	12,7%	9,6%
Poland	110	81	35,6%	13,3%
Total	3 207	2 959	8,4%	

Segment reporting	Sales Sept-May 2005/2006	Sales Sept-May 2004/2005 1)	Operating profit Sept-May 2005/2006	Operating profit Sept-May 2004/2005 1)
Nordic countries	3097	2878	351	275
Poland	110	81	6	9
Total	3207	2959	357	284

Quarterly Income Statement (MSEK)	March-May 2005/2006	Dec-Feb 2005/2006 2)	Sept-Nov 2005	June-Aug 2005	March-May 2005	Dec-Feb 2004/2005 1)
Net sales	1 029	1 026	1 152	987	966	953
Cost of goods sold	-392	-437	-476	-390	-370	-435
Gross profit	637	589	676	597	596	518
Selling expenses	-477	-468	-487	-447	-448	-420
Administrative expenses	-40	-33	-39	-30	-34	-35
Operating profit	120	88	150	120	113	63
Financial income	0	2	1	3	1	2
Financial expenses	-18	-64	-19	-48	-33	-25
Profit after financial items	102	26	132	75	81	40
Tax	-29	-7	-36	-11	-24	5
Profit after tax	73	19	96	64	57	45

1) Refers to pro forma figures, as the KappaAhl Holding Group began operations 31 Dec 2004.

Pro forma figures have not been included in the auditor's review

2) Reclassification of 4 between Selling expenses and Administrative expenses.

Key ratios	March-May 2006	March-May 2005	Sept-May 2005/06	Sept-May 2004-05	12 m 2005/06
Growth in sales	6,5%	-	8,4%	-	-
Earnings per share, SEK	0,97	0,76	2,49	2,67	3,34
Total depreciation/amortisation	46	41	127	112	167
EBITA	120	113	357	284	477
Gross margin	61,9%	61,7%	59,3%	57,9%	59,6%
Operating margin	11,7%	11,7%	11,1%	9,6%	11,4%
EBITA margin	11,7%	11,7%	11,1%	9,6%	11,4%
Interest coverage ratio	-	-	-	-	6,29
Net interest-bearing liabilities	-	-	-	-	1 643
Net interest-bearing liabilities/EBITDA	-	-	-	-	2,55
Equity/assets ratio	9,8%	-	9,8%	-	-
Equity per share, SEK	3,77	-	3,77	-	-
Equity per share after dilution, SEK	3,77	-	3,77	-	-
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 liabilities	Interest-bearing liabilities minus liquid assets
Net interest-bearing liabilities/EBITDA	Net interest-bearing liabilities / EBITDA for the previous twelve month period

KappAhl's Largest Shareholders 31 May 2006	Number of shares	Percent of shares and votes	Change compared with 28 Feb 2006
PEGATRO LIMITED	19096000	25,5	0
NORDIC FASHION S.A.R.L	14000000	18,7	0
ACCENT EQUITY 2003	6000000	8,0	0
MORGAN STANLEY & CO INC, W9	3034200	4,0	0
SSB CL OMNIBUS AC OM07 (15 PCT)	2477369	3,3	265900
FORTIS BANQUE	1853191	2,5	-215949
OKOBANK OY	1564000	2,1	0
BNY GCM CLIENT ACCOUNTS (E) ISG	1552200	2,1	-8600
NORDEA BANK S A	1475041	2,0	-72453
MELLON AAM OMNIBUS 15 %, AGENT F ABN AMRO G C	897003	1,2	248003
FORSTA AP-FONDEN	823800	1,1	0
DIDNER & GERGE AKTIEFOND	800000	1,1	300000
FJÄRDE AP-FONDEN	800000	1,1	0
BANQUE CARNEGIE LUXEMBOURG S A	769783	1,0	-110030
GOLDMAN SACHS & CO	669671	0,9	-343101
SEB SVERIGE SMÅBOLAGSFOND	607500	0,8	0
PRAKTIKERTJÄNST AB PENS STIFT	506682	0,7	290000
INVESTMENT FUND CLIENTS	500000	0,7	100000
SB-STIFTELSEN, S-E-BANKENS	500000	0,7	500000
JP MORGAN CHASE BANK, W9	490903	0,7	113421
Other shareholders	16 622 657	22,1	-1 067 191
Total	75 040 000	100,0	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 year 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 for the KappAhl Holding AB Group for the period as compared with the corresponding period of the previous year, pro forma financial statements are presented containing comparative figures for the corresponding period 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 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 to 1 January 2005.

Taxes in the pro forma financial statements have 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 on the adjustments that were made within the context of the pro forma financial statements.