Year-end report and interim report for the Fourth Quarter of financial year 2005/06.

KappAhl: The best year so far

Fourth Quarter (June – August 2006)

- KappAhl's net sales for the period, excluding VAT, amounted to MSEK 1,010 (987), an increase of 2.3 percent.
- Operating profit amounted to MSEK 173 (119), an increase of 45 percent. Profit was positively affected by released customs reserves amounting to MSEK 26.
- The gross margin was 63.3 percent (60.5) and the operating margin was 17.1 percent (12.1).
- Profit after taxes totalled MSEK 116 (63), which is equivalent to SEK 1.54 (0.84) per share.
- Cash flow from continuing operations amounted to MSEK 117.

CEO's comments on KappAhl's full-year results

We are proud of our success, and at the same time these accomplishments also cause us to set our ambitions even higher. As a result of our strong focus on profitability, we have broken records for both sales and earnings.

During the year, we opened a total of 20 new stores distributed among our four markets: Sweden, Norway, Finland and Poland.

Our improvements in gross margin are primarily attributable to successful purchasing and good inventory discipline.

Compared with the previous year, sales increased by nearly seven percent, and operating profit increased by over thirty percent. Our goal is now to continue to increase sales volumes, while maintaining the operating margin.

Christian W. Jansson
CEO

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KappAhl sells clothes for women, men and children in more than 260 stores in Sweden, Norway, Finland and Poland. We offer value-for-money fashion for regular people. Our customers are mostly women over 30 years of age with a partner and family. The KappAhl Group employs more than 3,500 people, and sales for the most recent financial year totalled SEK 5 billion including VAT. The head office is located in Mölndal, on the outskirts of Gothenburg, Sweden's second largest city. KappAhl shares are listed on the Stockholm Stock Exchange. Further information about the company is available on **www.kappahl.com** and financial information is available on **www.kappahl.com/ir**.

Full-year (September 2005 – August 2006)

- KappAhl's net sales for the period, excluding VAT, amounted to MSEK 4,217 (3,945), an increase of 6.9 percent.
- Operating profit amounted to MSEK 530 (403), an increase of 32 percent. Profit was positively affected by released customs reserves amounting to MSEK 22.
- The gross margin was 60.2 percent (58.6) and the operating margin was 12.6 percent (10.2).
- 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 302 (264), which is equivalent to SEK 4.02 (3.52) per share.
- Cash flow from continuing operations was MSEK 481.
- We have opened 20 stores and closed two.

Comments on the fourth quarter

Net sales and result for the fourth quarter

KappAhl's net sales for the period, excluding VAT, amounted to MSEK 1,010 (987), an increase of 2.3 percent. This increase is comprised of exchange rate differences (primarily against NOK) -2.0 percent, new and closed stores 5.3 percent and the development of sales in comparable stores -1.0 percent.

The sale of cosmetics is being phased out and, consequently, net sales in this area decreased to MSEK 0 (20) during the period, which affected sales in comparable stores by -2.1 percent. Consequently, sales of clothing in comparable stores have increased by 1.1 percent.

The total increase in sales is primarily attributable to the fact that we have had 18 more stores open than during the previous year. This has been counteracted by unfavourable exchange rate developments that negatively affected net sales upon translation to Swedish kronor.

Gross profit for the period totalled MSEK 639 (597), which is equivalent to a gross margin of 63.3 percent (60.5). Above all, this shows that the Company continues to offer a very attractive range of goods which are appreciated by our customers. The high gross margin level was positively affected by the Company's victory in a dispute concerning customs duties in Norway. A reserve totalling MSEK 26 as per 31 May 2006 has consequently been released, of which MSEK 22 impacted full-year figures.

Sales and administrative expenses amounted to MSEK 466 (478) for the period.

Operating profit was MSEK 173 (119), which corresponds to an operating margin of 17.1 percent (12.1).

Depreciation according to plan amounted to MSEK 50 (40).

Net financial items for the period were MSEK -12 (-45) and profit after financial items was MSEK 161 (74). The new financing, created at the beginning of the third quarter, continues to result in a much improved financial net. Profit after estimated tax was MSEK 116 (63). Earnings per share after tax was SEK 1.54 (0.84) for the period.

Cash flow

KappAhl's cash flow from current operations amounted to MSEK 117 during the fourth quarter and cash flow after investments amounted to MSEK 73.

Financing and liquidity

Net debt at the end of the period totalled MSEK 1,605, compared with MSEK 1,685 as per 31 May 2006. At the end of the period, the equity/assets ratio was 14.3 percent, compared with 9.7 percent as per 31 May 2006. The net interest-bearing liabilities/EBITDA ratio was 2.3 at the end of the period.

Cash and cash equivalents totalled MSEK 73 on 31 August 2006, compared with MSEK 109 on 31 May 2006. In addition, there were unutilised credit facilities amounting to MSEK 420.

Comments on the full-year

Market

The Nordic countries are seeing a strong development in GNP compared with the rest of Europe. This has resulted in a strong development of private consumption and, consequently, a strong development of demand for clothing.

The Group has a strong position in this market. KappAhl is market leader in retail store clothing sales in Sweden, and has advanced from fifth place a year ago to third place in Norway. This information is based on independent statistics from GfK.

Net sales

KappAhl's net sales for the year, excluding VAT, amounted to MSEK 4,217 (3,945), an increase of 6.9 percent. This increase is comprised of exchange rate differences (primarily against NOK) 2.2 percent, new and closed stores 5.3 percent and the development of sales in comparable stores -0.3 percent.

The sale of cosmetics is being phased out and, consequently, net sales in this area decreased to MSEK 38 (97) during the period, which affected sales in comparable stores by -1.5 percent. Consequently, sales of clothing in comparable stores have increased by 1.2 percent.

Store network

KappAhl has opened 20 stores during the financial year. Five stores were opened in Sweden, eight in Norway, four in Finland and three in Poland. One store each in Norway and Poland has been closed. At the end of the period, the total number of stores was 260 (242). Of these, 130 were in Sweden, 81 in Norway, 36 in Finland and 13 in Poland.

Expansion

The search for new store sites continues and our expansion target of 15-20 new stores remains according to plan. In addition to the 260 stores which were in operation as of 31 August this year there are contracts for an additional 26 new stores, of which two opened in September.

Inventory

At the end of the period, KappAhl's inventory amounted to MSEK 558, a decrease of MSEK 32 compared with the beginning of the financial year. Despite a substantial increase in the number of stores, this was achieved through active efforts with inventory management and the successful cutting of purchase prices.

Investments

A total of MSEK 225 has been invested since the beginning of the financial year, the majority in stores. The investments are directed towards efforts to enhance customer experience in our stores. In addition, a substantial portion of the investments has gone towards the opening of new stores.

Cash flow

KappAhl's cash flow from continuing operations amounted to MSEK 481 during the year, and cash flow after investments amounted to MSEK 256.

Financial position

The Group's financial position was strengthened greatly during the year. The net interest-bearing liabilities/EBITDA ratio improved to 2.3 (3.0).

Taxes

The tax rate for the full year has been calculated at approximately 28 percent. An allocation of MSEK 43 has been made to the Tax Allocation Reserve.

Transactions with related parties

There have been no significant transactions with related parties.

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 financial costs in the second quarter.

Parent company

The parent company's net sales during the fourth quarter were MSEK 15 and profits after financial items amounted to MSEK -16. Profit after financial items for the financial year amounted to MSEK -106. 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.

Annual General Meeting

The Annual General Meeting will be held at the Company's headquarters in Mölndal on 21 December 2006. The Annual Report will be available via the Company's home page at the latest two weeks before the Meeting. The Board has decided to propose a dividend payment of SEK 2.50 per share (2.25) at the Annual General Meeting.

Upcoming financial reports

Report	Date of publishing
First quarter (1 Sep – 30 Nov)	21 December 2006
Second quarter (1 Dec – 28 Feb)	29 March 2007
Third quarter (1 March – 31 May)	27 June 2007
Fourth quarter (1 June – 31 Aug)	3 October 2007

This report has not been the subject of an audit by the company's auditors.

Mölndal, 1 October 2006

KappAhl Holding AB (publ)

The Board of Directors

Consolidated income statement - Summary (MSEK)		Q4 2006	Q4 2005	Sept–Aug 2005/06	Sept–Aug 2004/05 1)	8-months Jan-Aug 2005
Net sales		1 010	987	4 217	3 945	2 387
Cost of goods sold	Note 2	-371	-390	-1 677	-1 635	-973
Gross profit/loss		**639**	**597**	**2 540**	**2 310**	**1 414**
Selling expenses		-431	-447	-1 863	-1 781	-1 167
Administrative expenses		-35	-31	-147	-126	-77
Operating profit		**173**	**119**	**530**	**403**	**170**
Financial income		0	3	2	6	2
Financial expenses	Note 1	-12	-48	-113	-109	-98
Profit after financial items		**161**	**74**	**419**	**300**	**74**
Tax		-45	-11	-117	-36	-21
Income efter Tax		**116**	**63**	**302**	**264**	**53**
Earnings per share, SEK		1,54	0,84	4,02	3,52	0,71
Earnings per share after dilution, SEK		1,54	0,84	4,02	3,52	0,71

Consolidated Balance Sheet - Summary (MSEK)	31 Aug 2006	31 Aug 2005
Tangible fixed assets	662	619
Intangible fixed assets*	1 349	1 344
Financial fixed assets	133	199
Inventories	558	590
Other operating receivables	105	107
Cash and cash equivalents	73	83
Total assets	**2 880**	**2 942**
Equity	412	284
Interest-bearing long-term liabilities	1 371	1 594
Non-interest-bearing long-term liabilities	236	272
Interest-bearing current liabilities	307	174
Non-interest-bearing current liabilities	554	618
Total equity and liabilities	**2 880**	**2 942**
*Of which goodwill	696	704
*Of which trademarks	610	610

Consolidated cash flow statement - Summary (MSEK)	June-Aug 2006	Sept-August 2005/06
Cash flow from continuing operations before changes in working capital	**180**	**474**
Change working capital	-63	7
Cash flow from continuing operations	**117**	**481**
Cash flow from investment activities	-44	-225
Cash flow after investments	**73**	**256**
Change bank overdraft facility	-39	45
Dividend	0	-169
Other from financial activities	-70	-142
Cash flow from financial activities	**-109**	**-266**
Cash flow for the period	**-36**	**-10**
Cash and cash equivalents at the beginning of the period	**109**	**83**
Cash and cash equivalents at the end of the period	**73**	**73**

Specification of changes in the Group's equity	Sept-Aug 2005/06	Jan-Aug 2005
Opening equity	284	197
Translation differences for the period	-11	12
Change in fair value reserves	-2	15
Dividend	-169	0
New share issue	8	7
Profit for the period	302	53
Closing equity	**412**	**284**

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

Number of stores per country	31 Aug 2006	31 May 2006	28 Feb 2006	30 Nov 2005	31 Aug 2005
Sweden	130	129	128	128	125
Norway	81	80	78	78	74
Finland	36	36	35	35	32
Poland	13	14	12	12	11
Total	**260**	**259**	**253**	**253**	**242**

Sales per country	Jun-Aug 2006	Jun-Aug 2005 1)	Change SEK %	Change local currency %
Sweden	557	531	4,9%	4,9%
Norway	300	313	-4,2%	0,0%
Finland	119	112	6,0%	8,2%
Poland	34	31	8,2%	11,3%
Total	**1010**	**987**	**2,3%**	

Sales per country	Sept-Aug 2005/06	Sept-Aug 2004/05	Change SEK %	Change local currency %
Sweden	2 365	2 267	4,3%	4,3%
Norway	1 237	1 132	9,2%	3,7%
Finland	473	429	10,3%	8,9%
Poland	142	117	21,2%	11,2%
Total	**4 217**	**3 945**	**6,9%**	

Segment reporting	Net sales Sep-Aug 2005/2006	Net sales Sep-Aug 2004/2005 1)	Operating income Sep-July 2005/2006	Operating income Sep-July 2004/2005 1)
Nordic countries	4075	3828	524	393
Poland	142	117	6	10
Total	**4217**	**3945**	**530**	**403**

Quarterly Income Statement (MSEK)	Q4 Jun-Aug 2006	Q3 Mar-May 2006	Dec–Feb 2005/2006 2)	Q1 Sep–Nov 2005	Q4 Jun–Aug 2005	Q3 Mar–May 2005	Q2 Dec–Feb 2004/2005	Q1 Sep–Nov 2004
Net sales	1 010	1 029	1 026	1 152	987	966	953	1 039
Cost of goods sold	-371	-392	-437	-476	-390	-370	-435	-440
Gross profit	**639**	**637**	**589**	**676**	**597**	**596**	**518**	**599**
Selling expenses	-431	-477	-468	-487	-447	-448	-421	-459
Administrative expenses	-35	-40	-33	-39	-31	-34	-36	-34
Operating profit	**173**	**120**	**88**	**150**	**119**	**113**	**61**	**107**
Financial income	0	0	2	1	3	1	1	2
Financial expenses	-12	-18	-64	-19	-48	-33	-23	-4
Profit after financial items	**161**	**102**	**26**	**132**	**74**	**81**	**40**	**104**
Tax	-45	-29	-7	-36	-11	-24	5	-5
Profit after tax	**116**	**73**	**19**	**96**	**63**	**57**	**44**	**99**

1) Refers to pro forma figures, as the KappAhl Holding AB 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	Q4 2006	Q4 2005 1)	Sep–Aug 2005/06	Sep–Aug 2004/05 1)	8-months Jan-Aug 2005
Growth in sales	2,3%	-	6,9%	-	-
Earnings per share, SEK	1,54	0,84	4,02	3,52	0,71
Total depreciation/amortisation	50	40	177	152	108
EBITA	173	119	530	403	170
Gross margin	63,3%	60,5%	60,2%	58,6%	59,2%
Operating margin	17,1%	12,1%	12,6%	10,2%	7,1%
EBITA margin	17,1%	12,1%	12,6%	10,2%	7,1%
Interest coverage ratio	-	-	4,71	3,75	
Net interest-bearing liabilities	1 605	1 685	1 605	1 685	1 685
Net Interest-bearing liabilities/EBITDA	7,20	10,59	2,27	3,04	6,06
Equity/assets ratio	14,3%	9,7%	14,3%	9,7%	9,7%
Equity per share	5,49	3,78	5,49	3,78	3,78
Equity per share after dilution, SEK	5,49	3,78	5,49	3,78	3,78
Number of shares at the end of the 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, (times)	EBITDA / net interest income excl one-off items, for the previous twelve-month period
Net interest-bearing liabilities	Interest-bearing liabilities less liquid funds
Net interest-bearing liabilities/EBITA (times)	Net Interest-bearing liabilities / EBITDA for the previous twelve-month period

KappAhl's largest shareholders 31 August 2006	Number of shares	Percent of shares and votes	Change compared to 31 May 2006
PEGATRO LIMITED	19 096 000	25,4	0
NORDIC FASHION S.A.R.L	14 000 000	18,7	0
ACCENT EQUITY 2003	6 000 000	8,0	0
STATE STREET BANK	4 166 816	5,6	1 520 958
MORGAN STANLEY & CO INC, W9	3 034 200	4,0	0
OKOBANK OY	1 524 000	2,0	-40 000
NORDEA BANK S A	1 505 417	2,0	30 376
FORTIS BANQUE LUXEMBOURG S.A.	1 314 952	1,8	-538 239
MELLON AAM OMNIBUS 15 %, AGENT F ABN AMRO G C	897 003	1,2	0
BNY GCM CLIENT ACCOUNTS (E) ISG	878 600	1,2	-673 600
BANQUE CARNEGIE LUXEMBOURG S A	830 283	1,1	60 500
FORSTA AP-FONDEN	802 000	1,1	-21 800
DIDNER & GERGE AKTIEFOND	719 800	1,0	-80 200
NORTHEN TRUST COMPANY, THE, W9	557 088	0,7	237 836
NYKREDIT BANK	514 600	0,7	82 200
SEB-STIFTELSEN, SKAND ENSKILDA	500 000	0,7	0
PRAKTIKERTJÄNST AB PENS STIFT	480 682	0,6	-26 000
PNC BLACKRK FDS INT OPP PORT	461 100	0,6	0
SKANDIA FONDER	455 418	0,6	132 145
INVESTORS BANK & TRUST COMPANY	439 337	0,6	0
Other shareholders	16 862 704	22,5	-684 176
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 report has been prepared in accordance with IAS 34: Interim Reporting and with Swedish Financial Accounting Standards Council recommendation RR 31. For the parent company, the 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 totalling MSEK 40 for the listing of the company (MSEK 20) and costs for restructuring the Group's finances (MSEK 20).

Note 2

The Company has won a dispute in Norway concerning customs duties. A reserve amounting to MSEK 26 as per 31 May 2006 has thereby been released, of which MSEK 22 impacted full-year figures.

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.