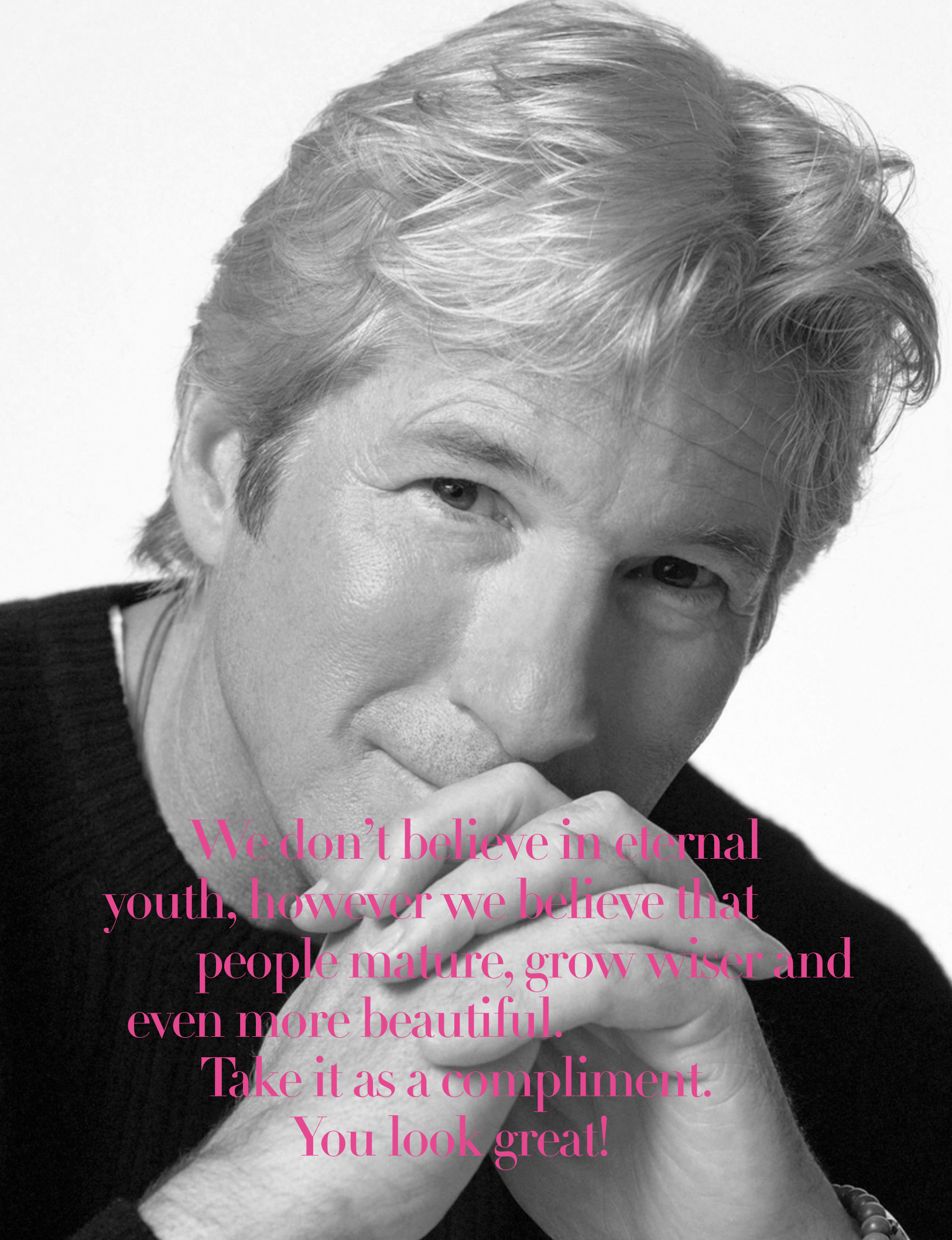
Annual Report 2006/2007

KappAhl®


We don't believe in eternal
youth, however we believe that
people mature, grow wiser and
even more beautiful.
Take it as a compliment.
You look great!

Year in summary

- Best annual results so far
- Net sales up 6.1 per cent
- Operating profit up 16.6 per cent
- Strong sales increases on all markets
- 17 new stores opened and five closed
- Proposed doubling of share dividend

Key figures

	Sep 06–Aug 07	Sep 05–Aug 06
Net sales, SEK m	4,473	4,217
Operating profit, SEK m	618	530
Profit after tax, SEK m	659	302
Gross profit margin, %	61.1	60.2
Operating margin, %	13.8	12.6
EPS, SEK	8.78	4.02
Number of stores	272	260

Business areas

SHARE OF NET SALES


Women 56.8%


Children 27.2%


Men 16.0%

WOMEN

Womenswear offers a wide, varied range of clothes for every occasion – party, smart-casual and leisure.

The collections include complete wardrobes, from underwear to outdoor clothing and accessories.

CHILDREN

Childrenswear has a broad target group and covers babies to “tweenies”, a rapidly growing group of young people between children and teenagers.

MEN

Menswear offers a varied range, both for parties and for everyday and leisurewear.

The collections contain a coordinated range from underwear to outdoor clothing.

After end of year

At an EGM on 17 September 2007 it was decided to authorise the Board, through a share issue, to re-finance part of the loans for the offer to acquire all shares in AB Lindex (publ) through a share issue. As the offer to AB Lindex shareholders was accepted to a limited degree KappAhl decided on 1 October 2007 to terminate the offer.

1950 | 1960 | 1970 | 1980

1953
KappAhl starts at Omvägen in Mölndal

1988
KappAhl opens in Norway

1990
KappAhl opens in Finland
KF buys KappAhl

Mission

KappAhl's mission is "Value-for-money fashion with a wide appeal". It is the company's job to give people the opportunity to be well dressed. When customers have shopped with KappAhl they should feel they are fashionably dressed and feel that it was money well spent.

Strategy

KappAhl's strategy is aimed at sales growth and improved profits.
The strategy consists of:

- expansion of store network
- continual upgrade of stores
- increased sales in existing stores
- using benefits of scale in the business model

Customers

KappAhl sells fashion for the entire family, but the target group is women aged 30 to 50 who buy for the entire family. KappAhl focuses major resources on understanding the customers and their situation in order to help them dress themselves, and their families, well.

KappAhl monitors fashion trends and adapts them to products that meet our customers' needs. This customer focus is an important reason why KappAhl is one of the biggest in the Nordic region in ladies clothes and that the company is also forging ahead in childrenswear and menswear.

Contents

1990

2000

1999
KappAhl opens its first stores in Poland
Bought of the Norwegian chain Adelsten

2002
New management for KappAhl

2003
KappAhl profitable

2004
KF sells KappAhl to private equity companies

2006
KappAhl listed on OMX Nordic Exchange Stockholm

2006/2007
KappAhl reports a very successful year

KappAhl is a leading Nordic fashion chain with 272 stores in Sweden, Norway, Finland and Poland. We design, market and sell clothes for women, children and men.

CEO's statement

Another strong year for KappAhl

2006/2007 was also a very good year for KappAhl. Both sales and earnings trends were strong. Sales climbed by 6.1 per cent to SEK 4,473 million. Meanwhile the operating profit improved by 16.6 per cent to SEK 618 million. The Group continues to report high margins and I also consider this to be confirmation of the KappAhl Group's strength.

That we have seen a positive performance is partly due to us opening more stores during the year. Net growth was 12 new stores. Meanwhile sales in existing stores progressed strongly. A contributory factor to this is the improved in-store displays, meaning that single items and collections are being displayed more clearly. This makes it easier for customers to be inspired, find matching items and make active choices. Another success factor is the joint experience within the Group. This can be described as "many who can do a lot". This expansive knowledge ensures that we have a clear grasp of fashion trends, but also that we know what the customer wants. By predicting fashion trends, customer orientation and marketing, we can pave the way for profitable growth for KappAhl's business.

The past financial year was also KappAhl's first full year as a listed company on the stock exchange and the organisation has seen many changes over the year. Reflecting back, the most notable change was the attention caused by the listing, which was in itself positive. That so many people – especially in the media – now follow, monitor and discuss what KappAhl is doing day-to-day feels stimulating and basically a good thing for the entire company.

Culture with customer focus

Understanding customers is extremely important to us. We are pleased with our long, established relationships with customers, who prefer to buy their clothes from us. In my view this is due to the fact that we provide the right clothes at the right time. This gives us customers that are pleased with their last purchase and who will come back.

KappAhl has many creative and talented employees who help us provide the right fashion at the right time, along with effective systems and routines to back them up. They work in a world where the pace is probably faster than ever. We now introduce around 14 collections annually and to have a grasp on many trends at the same time require both experience and instinct. Working with collections also involves daring to have a relaxed attitude towards failure. Every year we make numerous choices and not always with positive results. When this happens we must learn from our mistakes and try again, that's to say that the fear of failure shouldn't hold us back. This kind of corporate culture – where creativity, risk-taking and experience are permitted to develop from one another – is important in a profit-oriented fashion company like ours.

Alongside daring we like to also emphasise the will to win. It's through this ambition that we achieve clear change in the business. Over the year we got all employees in the Group to participate in inspiration days, where also one of the messages was "the will to win" and the experience gained from these meetings is positive. We are currently a large, public company and creating a joint feeling for the business and the challenges we face is urgent. Following this year's inspiration days we now know that many of our 3,000 employees that participated appreciated the efforts and message put across.

Responsibility – it goes without saying

Taking responsibility for our business goes without saying. By this I mean environmental issues, but also broader standpoints in ethical issues, usually called Corporate Social Responsibility (CSR), an area where we are leaders. KappAhl was the first fashion company to be environmentally certified, which was back in 1999. We were also front-runners in codes of conduct, where we take a clear social responsibility and make sure that the content of the regulations are followed. We also make sure that the demands in these areas increase constantly. A serious company today cannot stand back and not make a stance. Faults in companies' production processes are quickly spread across the globe and force change, or at least successive improvements. Our work with CSR goes today back to the manufacturers of our clothes. Over the long-term I feel developments will go even further back to include raw materials. An example of this is ecologically-grown cotton and in August KappAhl launched an eco-collection with clothing made from 100 per cent ecological cotton.

Continued growth

After yet another strong year we are setting our sights on continued growth. The aim is to grow by a further 20–25 stores each year in the future. It will be equally important to protect the excellent organic sales growth in

our existing stores. Our recipe for success remains unchanged. The driving forces are equal amounts of a feeling for fashion and customer focus that will provide continued profit growth in the Group. Meanwhile, expansion into new markets will continue. We are currently evaluating the possibility of setting up KappAhl in a fifth country. We base our business on markets where customer behaviour and purchase patterns suit us, which in concrete terms means countries in Southern or Eastern Europe. Another expansion route is to acquire parallel chains and establish a so called multi-brand concept, where we also gain synergy effects in competition-neutral areas between the chains. It is against this background that our Lindex offer should be seen.

We have successfully implemented the streamlining of KappAhl and know what's required to achieve clear results. In all, this covers major and minor investments that will pave the way for continued progress – everything from fine tuning in stores to exciting structural deals and establishing new stores on the European market, which will help make KappAhl even stronger.

Mölndal, 14 October 2007

Christian W. Jansson

Market

Continued growth on the clothing market

KappAhl sells clothes in Sweden, Norway, Finland and Poland. The company's single biggest market is Sweden. Increased growth has been reported on all markets in recent years. Meanwhile competition has successively stiffened. The total value of KappAhl's markets in 2006 was around SEK 229 billion. The market also continued to grow in 2006 and 2007 and growth has been good in all countries where KappAhl operates.

Clothes – larger part of consumer spending

Overall economic growth (GDP) affects growth in the clothing industry. Equally, consumer spending, which to a greater extent is spent on clothing, contributed to KappAhl's markets growing. Changes in population growth are also starting to slowly affect consumer patterns and behaviour. The amount of people over 30 is increasing in most European countries. This is good for KappAhl, where the key target group is women between 30 and 50. Another benefit is that this target group is more predictable than younger consumers, which provides KappAhl with a relatively stable customer base that makes relatively frequent return visits to our stores.

Autumn and winter are our best seasons in terms of sale volumes. The reason is that customers buy more expensive items of clothing, including coats and jackets. A warm autumn can delay demand for these items, which will mean lower than expected sales figures for that quarter. Seen over the long-term the effects of the weather are of minor importance.

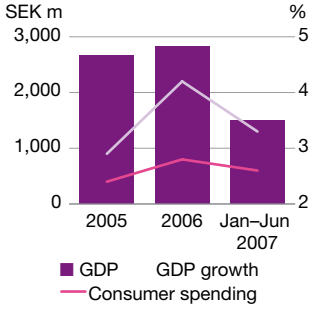
The larger chains dominate

There are also a number of factors within the clothing industry that affect demand. The world of fashion is becoming more global and similar. This has benefited the major fashion chains, at the cost of smaller, local stores and the major chains are constantly increasing their market share. Globally it's companies like H&M, Inditex and Gap, while on the Nordic market it's companies like KappAhl, Lindex and Dressmann that are strengthening their positions. Many of these players are known as fully integrated chains with control of the entire business process, from manufacturing to store. This makes them faster and more flexible at adapting to new trends, purchase patterns and shifting customer requirements. Another trend affecting the market is shopping centres, often located out of town, which now represent a greater share of the clothing industry in the Nordic region.

Distinct concepts and a well-defined market position are important factors irrespective of geographic market. Trends pass quickly

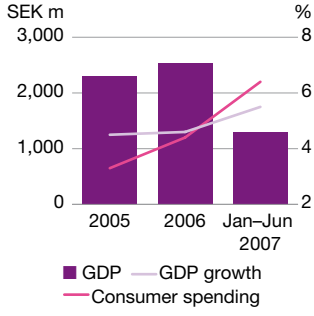
SWEDEN

Population: 9.1 million
Consumer spending on clothing and shoes per capita: SEK 7,800 per year
KappAhl's sales 2006/2007: SEK 2,514 million



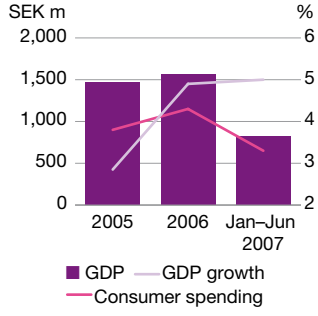
NORWAY

Population: 4.7 million
Consumer spending on clothing and shoes per capita: SEK 10,990 per year
KappAhl's sales 2006/2007: SEK 1,270 million



FINLAND

Population: 5.3 million
Consumer spending on clothing and shoes per capita: SEK 7,030 per year
KappAhl's sales 2006/2007: SEK 520 million



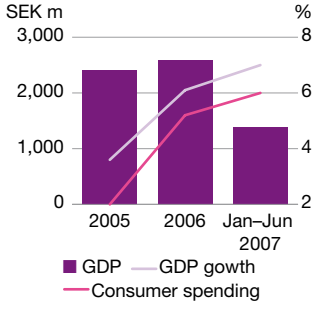
and in more numbers than ever before. Consumers are also more likely now to mix styles, fashions, quality and price. KappAhl has a well-defined target group and a clear message – value-for-money fashion with a wide appeal.

Stiff competition

Competition in the clothing industry is stiff, but KappAhl is continuing to strengthen its position. Clothes are now competing with other products for consumer spending. KappAhl competes with other international chains, local chains, independent stores, department store's clothes departments, supermarkets and sports stores. Some of the competitors are H&M, Lindex and MQ from Sweden, Cubus and Dressmann from Norway and Seppälä from Finland. In Poland KappAhl competes with Reserved and Royal Collection.

POLAND

Population: 39 million
Consumer spending on clothing and shoes per capita: SEK 1,760 per year
KappAhl's sales 2006/2007: SEK 169 million



Strategy and financial targets

Focus on growth

KappAhl's strong brand is associated with positive qualities such as loyalty, reliability, value-for-money and casual fashion clothing. The company's strategic market position is based on a wide range of fashionable, value-for-money clothes and accessories for women, children and men. The target group is growing and now has more spending power than the younger customer categories.

Well-defined target group

KappAhl's main target group is women aged 30–50 with a family. This age group is large and growing as a percentage of the population in all countries where KappAhl operates. Another advantage is that these customers are more loyal and not as unpredictable as younger target groups. They might not spend most money on clothes, but they buy for more than themselves – often buying for their partners and children. They want to dress fashionably and trust that KappAhl can help them do that. Many of the customers work in the public sector. They therefore belong to a category of people that might not benefit most during times of prosperity, but neither are they affected badly in times of economic crisis. This makes it easier for KappAhl to plan its business and makes the company less sensitive to fluctuations in economic lifecycles than most of our competitors.

Expansion in new and existing stores

In recent years KappAhl has been strongly oriented towards increased profitability through boosting gross margins. This strategy has been successful and the company's gross margin is among the highest in the industry. The improved profit has created a stable foundation for growth. The focus on growth for the 2006/2007 financial year has also been strong. The strategy aims at expanding the store network and increasing sales in existing stores. Other goals have also included improved profitability by continuing to use KappAhl's purchasing and logistics resources more effectively.

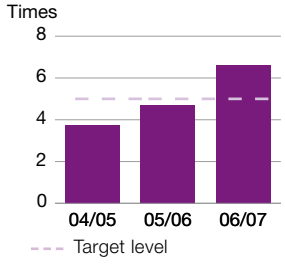
Expansion of store network

The store network shall continue to expand and thereby increase the company's market share. The expansion of new stores will focus on shopping centres and small to mid-sized towns and cities. From a historical perspective it's there that KappAhl has been most profitable. The aim is to open 20–25 new stores every year. There is a continued strong potential for establishing new stores in the Nordic countries and Poland. KappAhl is also planning to expand its business to a fifth European country.

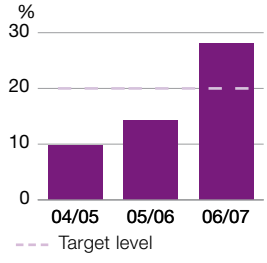
CHANGES TO STORE NETWORK 2006/2007

	31 Aug 2006	New	Closed	31 Aug 2007
Sweden	130	4	3	131
Norway	81	4	1	84
Finland	36	6	–	42
Poland	13	3	1	15
Total	**260**	**17**	**5**	**272**

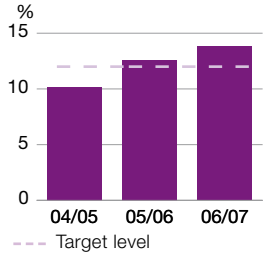
INTEREST COVERAGE RATIO



EQUITY/ASSETS RATIO



OPERATING MARGIN



Continued investment in stores
KappAhl has completed a comprehensive investment phase for the renovation and rebuilding of stores. Renovated stores usually generate more business, a greater number of shoppers and more sales per square meter. Future plans include store renovations every 5 to 7 years. Stores in the best locations often require more frequent renovation to retain the competitive edge.

Sales increases
It's important for KappAhl to increase sales in existing stores. This goal was also met in 2006/2007 as sales in comparable stores rose by 3.6 per cent. Activities that contribute to higher sales included upgrading stores, marketing, improved store layout, more sales-oriented displays and the development of the product mix.

Benefits of scale provide improved profitability
When expanding the store network, large-scale benefits in existing structures can be utilised. The current organisation of central functions is scaled to manage expansion, which means that costs of running the store network do not increase at the same rate as sales.

Targets and performance
KappAhl's board has established operative and financial targets for the Group.

Operative targets
- The number of stores will increase by 20–25 each year.
- The operating margin will exceed 12 per cent over a business cycle with a minimum of 10 per cent.

KappAhl opened 17 new stores in 2006/2007, while five closed. The operating margin was 13.8 per cent.

Financial targets
- The interest-bearing net debt should only exceed EBITDA temporarily by a multiple of three. As of 31 August 2007 the interest-bearing net debt was 1.7 (2.3) times EBITDA.
- The interest coverage ratio should exceed a multiple of five. The interest coverage ratio was 6.61 (4.71) times on 31 August 2007.
- The equity/assets ratio should exceed 20 per cent at the end of the 2007/2008 financial year. As of 31 August 2007 the equity/assets ratio was 28.0 (14.3) per cent.

Dividend policy
Over the past financial year KappAhl has increased its dividend target to 70–100 per cent of the profit after tax.

Value chain

Customer-oriented business model

KappAhl's business model includes having control of the entire value chain – from design all the way to selling in-store. The model for design, purchases, supply and acquisition, quality control, distribution and sales is integrated. This makes it possible to work with open order books, which means that we can alter designs very late to adapt the garment for changes in fashion. Responsibility for designing commercially viable collections rests with teams specialising in women's, children's and men's collections. The teams include designers, buyers, product technicians, assistants and an economist. The products are developed for four season collections a year that are then split into a number of series and themes. The teams work with many seasons at the same time – they design for the coming season and sometimes the coming two seasons, while keeping track of how the current season's collection is selling.

THE VALUE CHAIN OF THE CLOTHING INDUSTRY:

Design › Purchasing › Manufacturing › Distribution › Store sales

Design

Customer-oriented design

Design has a central role at KappAhl. The company's own designers design all the clothes and accessories sold and there are around 30 designers. They get their inspiration from many different areas such as street fashion from the major cities around the world, music videos, sporting events, literature and also from the international textile exhibitions and fashion shows. They search professional fashion databases and industry organisations. They capture fashion trends, examine quality and materials and then adapt the prevailing fashion into clothes that appeal to KappAhl's customers. All the collections are set off against one another to ensure a clear range and conformity with KappAhl's brand. The design is customer-oriented rather than product-oriented and has been important for KappAhl's success in recent years. This way of working leads to better ranges in terms of fashion, sizes, quality and price. This provides full-price sales and thereby greater profits.

Purchasing

Effective purchasing
Together with KappAhl's designers, the buyers have major responsibility for ensuring that what arrives at the stores is commercially viable. Buyers decide what garments will be manufactured and in what volume. They set the sales prices and they negotiate purchase prices with the support of the purchasing department. They can also make changes to designs of certain garments, for example to make manufacturing easier. Buyers are responsible for gross profit of sales of the garments. They conduct follow-ups of each garment, from initial design to the product reaching the stores. They are also responsible for deciding when to reduce prices.

Safe clothes for aware customers
KappAhl's clothes should be safe from a health and environmental perspective and free from any harmful substances. To help towards cleaner production KappAhl need the suppliers to follow statutory environmental legislation and also meet KappAhl's strict demands, which are stricter than the Nordic legislation stipulates. The company also carefully follow research and development in the chemicals industry and keep up-to-date with new findings.

Manufacturing

Carefully controlled manufacturing
KappAhl doesn't have any in-house manufacturing and all production is subcontracted to independent companies. KappAhl is not dependent on any individual supplier as orders are placed with around 200 companies. 30 or so manufacturers supply around 60 per cent of the volumes bought in. Most of our purchasing is in Asia, with around 70 per cent of garments coming from there and the remaining 30 per cent coming from Europe. Acquisition and supply

are coordinated by KappAhl's supply and production department, which works closely with our purchasing offices in Bangladesh, Hong Kong, India, China, Lithuania, Turkey and the Ukraine. The purchasing offices follow up quality and price and how manufacturers keep to KappAhl's code of conduct. They also follow up manufacturers' environmental work, search for new suppliers, monitor goods dispatch and administer exports. In brief: they are the extended arm of KappAhl in key purchasing markets.

Distribution

Effective distribution
In recent years KappAhl has carried out major investments to make the flow of goods more effective. We currently have a cost-effective distribution network that can stand up against the best in the industry. The aim is for the right product to be in the right store at the right time and at the right quantity in order to maximise sales. Too few goods or goods arriving too early, leads to a loss of sales and too many or goods arriving late increases the need for price reductions. The distribution centre is located next to the head office in Mölndal, on the outskirts of Göteborg. It is the most modern in Northern Europe and is almost fully automated. Every year almost 50 million garments pass through the centre and it has the capacity to be extended to handle around 100 million garments with a relatively small investment.

Most transport from the manufacturing countries is by sea for environmental and cost reasons, and air freight is only used if absolutely necessary. Most goods go straight out to the stores and are given bar codes at the manufacturing site according to electronic packing lists. Stores receive deliveries three to four times a week, or more often if sales dictate otherwise. Store stockrooms are as small as possible so floor area can be used for sales. Our allocation system is upgraded continually to handle quantities, timing, sizes and colour plus the climate in the regions where the stores are located. Goods allocation is centralised and now run from Mölndal for all markets. This improves efficiency and routines, reduces the number of goods for sell offs and thereby increases profitability.

Value chain

Store sales

Stores are obviously the hub of KappAhl's business. This is where we meet our customers and where ideas, concepts, service and products link together to create attractive, competitive product ranges. The store network consists of 272 stores in four countries with around 100 million people visiting these stores every year. Further expansion is an important goal and the sights are mainly set on new stores establishing in shopping centres and in small and medium sized towns. KappAhl opened 17 new stores in 2006/2007.

Focusing on customer understanding

An exciting in-store initiative has been on displays, which means that the garments are displayed to enhance sales potential and allowing collections to come to the forefront. This makes it easier for customers to find and match various garments. The new guidelines have been introduced at all women's departments in all countries. Special manuals help the stores meet the new guidelines, but also ensure that the theme and trends are displayed uniformly everywhere. Results so far have been positive and the new ideas behind the displays will be transferred to children's and men's clothing.

The work to streamline the in-store concept is ongoing. With the streamlining follows a review of the entire in-store environment, including fitting rooms, cash desks, work spaces, lighting and the arrangement of the clothes in the store. The new concept will make stores more attractive, clearer and inspiring. The aim is to make it easier for customers to make their own decisions. In addition to inspiring and making it easier for customers they will also be able to move through the store more quickly and effectively.

Cont.

Improved internal efficiency
A lot of effort has also been spent on getting uniform routines in stores and in increasing the exchange of experience between stores of similar size. New technology and technical aids have helped improve efficiency. KappAhl has an efficient stock system that helps keep stock at a suitable level, maximise profits and increase turnover rates. Stock turnover rate is constantly monitored. Smart pricing and well-thought out campaigns also help towards such a large amount of stock being able to be sold at the full price.

Well-thought out new stores
KappAhl's long-term strategy is for between 20–25 new stores to open every year. Before a new store opens KappAhl carries out extensive analyses of the potential of the town or location. There are many basic data for decision-making – how big will the store's catchment area be, what is the consumer pattern, what age structure do the local inhabitants have and what is the competition like? The objective is to spread the stores for the best market coverage and establishing in shopping centres is a priority. The aim is always to be in an attractive location with a good flow of customers. Investments to find suitable premises are long-term. Many projects have a longer planning cycle – such as if the store is to be located in a new shopping centre that's being built – but new stores can also happen quickly. If the right premises suddenly becomes available then a new store can be ready in just a few months.

Adaptive closing
A number of stores have closed in recent years. The reason is often simple – profitability has fallen below KappAhl's strict demands. To ensure the quality of the store network KappAhl therefore closes stores that have not met their targets over time. This has also been the subject of significant analyses and great consideration is taken to conceivable market changes, both over the short- and long-term. A review of the store network has quickened pace in recent years and many changes have now been implemented. This means that store closures are expected to drop in future.

Positive relocation
Moving a store can mean a lift for the entire business. The reason might be that the store is too small, that a new shopping centre is being built, or that another area in a particular town is considered to have better potential. Relocation can be carried out when rental contracts run out because a change of location would then be a natural progression. The result shows that relocations carried out so far have been positive and that profitability in these stores has increased.

Renovations/rebuildings
Increased profitability is also the aim of all the renovations and rebuilding that's regularly carried out. The customers' experience of the store environment is central to planning the project. The store's floor area must be constantly adapted to achieve an optimal store environment for the customer. The store should feel light, roomy and comfortable, but also practical to move around in. Escalators therefore often replace stairs, new lights are installed that highlight displays and changing rooms and cashier desks are made bigger to make it easier for both customers and staff. An average of 30 major renovation projects are carried out every year in the store network. Many minor maintenance tasks are also seen to, such as painting and flooring, which ensures that the in-store environment is always of the highest standard.

Balanced manning
Manning stores is another core area. It is about finding a good balance where manning both meets the company's need for low personnel costs and customers' demand for good service. Manning follows variations in demand between different days of the week and different seasons. Today around 75 per cent of in-store personnel work part time and the rest work full time.

Marketing

You Look Great – focusing on the customers' own style

You Look Great is the new concept that characterises KappAhl's marketing campaign. It's been the main theme of the campaign since autumn 2006 and provides a common and consistent expression of sales campaigns, external media, advertising, display material, in-store pictures and PR activities.

You Look Great is a compliment to the customer, showing that KappAhl is a modern company that listens and understands women and their families clothing and accessory needs, both on a day-to-day level and for parties. The message to customers is also that she's good enough as she is and for people who want to spice up their ordinary day KappAhl can help. You Look Great emanates from our mission, which emphasises the importance of creating collections that suit most people.

New TV campaign

The You Look Great initiative includes a KappAhl TV campaign in 2006/2007. The campaign is receiving extra attention because international superstars like Dustin Hoffman and Goldie Hawn have promoted it. The marketing has been coordinated at Group level. The campaigns are uniform in format in all stores and every time a new campaign is launched we change collections, graphic communication and store displays. You Look Great also works as a platform that helps hold together the profile, in terms of images, language, style and pitch of the advertising.

Digital channels are more important

The stores are KappAhl's most important channels of communication. We also use printed media, our website, TV, radio, CRM activities that is sending cards, SMS and email, plus marketing PR activities. Digital media is becoming more important for building relationships with customers and create a flow of customers to stores. SMS and email are therefore used more often to send personal invitations to customers. The contacts are established via recruitment campaigns in stores, where customers provide their mobile phone numbers and email addresses. Experience shows us that these marketing channels provide good results. Another positive effect is that interest in KappAhl's website has increased, since the digital invitations are often linked to this channel.

Major sales from the loyalty cards

Apart from SMS and email, KappAhl also uses loyalty cards in direct marketing activities. By using these cards the right invitation can be targeted at the right customer. Customers with these cards are more loyal and they shop for more than the average customer.

KappAhl's loyalty scheme is available on all markets. In Sweden the Medmera card, KF's membership card, is linked to the scheme. In Norway KappAhl works in association with the Coop NKL card, while in Finland and Poland the KappAhl Club card is used. During 2006/2007 there has been an increase in the flow of loyalty card customers.

Women

Fashion for different needs and tastes

Womenswear offers a wide, varied range of clothing for all occasions – party, smart-casual and leisure.

The collections include complete wardrobes, from underwear to outdoor clothing and accessories. There is also a wide-ranging swimwear collection in the spring. Womenswear also includes XLNT, a coordinated collection for ladies with a fuller figure. The aim is to satisfy many different needs and tastes.

Women are KappAhl's most important group of customers and Womenswear is KappAhl's biggest representing approximately 57 per cent of the Group's sales in 2006/2007.

Customer focus

At KappAhl we are very clear about who we design our clothes for – women aged 30–50 with a family. Because no two women are the same it's important that the collections vary so that as many people as possible can find their own style and feel able to find the fashion they're looking for at KappAhl.

Fashion is becoming more accessible for customers through the internet, bloggs, magazines and TV, with more trends and styles in circulation than there were just a few years ago.

KappAhl's customers are fashion-conscious and they should feel secure in the notion that we have the latest fashion for them. We help customers find the right ready-matched wardrobe.

KappAhl's designers and purchasers are experts at finding the latest fashion, while also being experts at finding the major fashion phenomenon and making them commercially viable.

It's a matter of taking charge of current trends and adapting them to KappAhl's customers. Timing is also an important success factor. It is important to know when trends reach the masses and when they become passé. These are factors that are analysed daily.

It's important for KappAhl's customers to quickly find total solutions for their wardrobes in one store. By providing a complete top-to-toe range KappAhl makes it easy for customers to shop.

Trousers – strategic garment group

For many years KappAhl has actively worked to become the "trouser store" and is now the market leader in the target group. A good fit, top quality and variety, combined with the right fashion have characterised KappAhl, which today sells as many smart trousers as jeans and many people return because they've found the right trousers.

Another important garment group is tricot. It is the most rapidly expanding garment group, and customers can renew their wardrobes cheaply. KappAhl has more than a thousand different tricot tops in its range every year.

Shoes – new addition

A completely new range of shoes was launched in the spring, with everything from cute ballerina shoes, bold patterns and feminine sandals. This investment proved very successful and also created a lot of positive PR in fashion publications.

Soft – soft and comfortable

The new Soft collection is a completely new clothes collection for cosy evenings and lazy days at home. This range arrived in stores in the spring. A collection made from comfortable, soft material that the customer can feel well dressed in at home and to wear even if a surprise visitor comes round.

KappAhl®

Most ladies clothes are sold under the KappAhl brand. The range is divided into well-dressed and casually-dressed sections.

creem® CLOSE TO YOU

The Creem bra collection consists of models to suit many female forms and requirements. Extra special care is taken from the choice of materials to the models.

bodyzone®

Underwear, nightwear, socks, tights and in the summer also swimwear.

soft.

Soft, comfortable clothes that allow you to be well-dressed even for those cosy, relaxed evenings at home.

XLNT

XLNT is a growing collection and a good sign that it's possible to combine fashion, function and freedom of movement. The XLNT collection is available in sizes 44 to 56.

Children

Playful fashion for children of all ages

Childrenswear has a broad target group and covers babies to "tweenies", a rapidly growing group of young people between children and teenagers.

Though "impulse purchases" are increasing for children clothes, most purchases are made out of necessity. KappAhl therefore has a full range for children, from underwear and rain clothes to "Sunday best" clothes and nightdresses.

Childrenswear has strengthened its position on all markets and represented approximately 27 per cent of Group sales in 2006/2007.

Tweenies – they know what they like!

KappAhl has always been good for clothes for children of all ages, but in recent years more emphasis has been on clothes for "tweenies". These are fashion-conscious children that decide what is bought for them.

KappAhl is now in a strong position in this segment. Older children know what they like and we need to find the balance between fashion, comfort, function and safety. The market is growing because parents are spending more money on their children, especially school children.

After many years of falling birth rates we are now seeing an increase in the number of births in the Nordic region again. Small children are therefore a very important target group. In this group it's the mother who mainly affects what's bought. Over the year KappAhl has seen major successes for small children and increased its market shares for many groups.

Wide range of trousers

Lab Industries is one of the strongest brands, a trendy collection for older children, focusing on jeans.

The trousers group is important for KappAhl. It's often hard work trying on trousers on children and finding the right size. KappAhl has trousers for most children with a wide range of different models, fits and quality.

Launch of children's shoes

We carried out a successful launch of children's shoes in the spring. This included tough canvas shoes and cute ballerina shoes. There has been a huge demand and the company has noticed an increased interest for all types of children's accessories.

Safety is important

KappAhl follows the European child safety standard and also actively develops this standard together with the Swedish Standards Institute (SIS).

KappAhl do not lower its standards and the company's instinctive designers have been hugely successful in combining fashion with the highest of safety standards.

KappAhl®

KappAhl Baby, 50–80 cl
Clothes for babies up to one year old.

KappAhl, 86–122 cl
Playful, comfortable clothes for boys and girls.

KappAhl, 122–170 cl
Cool, hard-wearing clothes for older boys and girls.

kaxs®

KAXS 50-170 cl
The KAXS collection contains basic garments of extra quality that can be worn and washed often.

body zone®

Everything from underwear and socks to nightwear and dressing gowns.

Lab INDUSTRIES®

Lab Industries is a trendy jeans collection for boys and girls aged 7 to 14.

Disney

KappAhl's Disney collection consists of Winnie the Pooh's world (sizes 50-80 cl) and Mickey and Minnie Mouse (sizes 86–116 cl).


ROCKER
BORN TO ROCK

Men

Well-coordinated range

Menswear offers a varied range, both for parties and for everyday and leisurewear.

The collections contain a coordinated range from underwear to outdoor clothing. There is also a swimwear collection in the spring.

Menswear represented approximately 16 per cent of total sales in 2006/2007.

Collections

The collections are divided into three major sections.

- U.S. Polo Association is an updated leisure classic with strong influences from the US east coast.
- Madison Avenue is a range of well-tailored, modern garments with the emphasis on blazers and shirts.
- Redwood is a range of comfortable everyday clothing focusing on jeans.

Semi-dressed fashion

Semi-dressed fashion has received a foothold over the past year. Leisurewear is mixed with blazers, or a smart shirt mixed with a knitted jumper instead of a blazer.

KappAhl has therefore invested more in knitwear and shirts than ever before with very favourable results.

Helping the customer decide

Men are also buying more garments at a time, so it's important to have a coordinated range, which helps the customer choose.

Most men buy their clothes when they need them, closer to the time they wear them. This means that men's clothes start to sell later in the season and end later.

Wide range of trousers

KappAhl has strengthened its position in jeans and has a wide range. A wide selection of sizes, fits and models has meant that customers make return visits.

Shirts – focus on leisure

Shirt sales during the year have gone up dramatically and it's the leisurewear shirts that are in most demand.

Underwear – high sales

KappAhl's men's underwear is sold under the Body Zone brand. Men's underwear has been characterised over the year by continued high sales.

The fashion level is high with a broad spectrum of colours and patterns. This has made the underwear attractive for men of all ages.

U.S. POLO ASSN.
SINCE 1890

U.S. Polo Association was established in 1890 and is the U.S. Polo Association's official trademark. Relaxed but well-dressed fashion with classic clothing for both work and leisure.

MADISON AVENUE

A subdued and well-dressed look with well-tailored, modern garments that follow the fluctuations in fashion concerning colour and design.

REDWOOD®
OUTDOOR · SPORTSWEAR

Practical and comfortable clothes adapted for a relaxed but good-looking style for leisure and work.

BZ BODY ZONE®

Underwear, socks, night clothes and swimwear.

Sustainable development

Long-term solutions on the climate and ethics

Working towards long-term sustainable development is fundamental to KappAhl. KappAhl was certified in 1999 according to ISO 14001, thereby becoming the first environmentally-certified fashion chain in the world. In practical terms this means that issues concerning the environment and the effects of climate and social responsibility are natural parts of our work. Customers and employees expect a clear stance on these issues. By taking a stance and also reporting on our achievements, the company demonstrates that it doesn't see any conflict between fashion and the environment or between fashion and ethics.

Stance on these issues mainly deals with clear values, basically about wanting to improve conditions for the people making the 50 million or so garments that the company sells every year. It is therefore very important to control the working conditions at the independent companies and factories in Asia and Europe, where KappAhl is one of many purchasers. It is just as important to limit the company's environmental burden and affect on the climate, both internally and externally.

Responsibility for environmental affect

Climate change is possibly the most important environmental issue in society today. KappAhl has worked for many years to cut carbon dioxide emissions. The company began already in 1999 to commit itself to so called green electricity. Most stores, the head office and KappAhl's distribution centre in Mölndal, which is the company's single biggest consumer of electricity, now use green electricity.

The company has introduced an energy scheme to cut energy use. Another eco-critical area is transport. By optimising volumes and freight and using less eco-damaging means of transport, such as sea transport instead of air transport and rail transport instead of road transport, the relative emissions of carbon dioxide have been cut. KappAhl started transporting clothes by rail to the Swedish store network back in 1991. Transport to Norway is now also by rail. Rail transport for distribution to our stores now represents around one third of every transported tonne per transported kilometre. Transports in and around Göteborg are by gas-powered truck.

All suppliers must agree to follow KappAhl's environmental and quality control demands. The company carries out checks to ensure that these demands are met. KappAhl is also trying to increase the number of garments checked and approved by Öko-tex and the EU-flower. To further increase environmental adaptation the company has also started an initiative to use ecological cotton, which is cotton grown without using chemical pesticides and fertilizers.

Improved working environment

KappAhl doesn't own any factories. This means that inspections and follow-ups of improvement measures of suppliers is important. This work includes areas such as working environment, health and safety, child labour, wages and work hours, which is mainly carried out via Business Social Compliance Initiative (BSCI), a collaboration of 80 or so companies, mainly in retail.

BSCI members agree that over a tree-year period, two thirds of purchase volumes will come from suppliers that have undergone the BSCI control. An important part of this system is to inform and train suppliers about what demands are set and how they can make improvements. A supplier that meets BSCI's demands is then qualified to supply all member companies. This means that suppliers avoid having to be inspected according to different systems and codes of conduct and they also have access to new customer contacts.

Before KappAhl starts working with a new manufacturer, and the first order is made,

ÖKO-TEX

The Öko-Tex Standard 100 is the leading textile standard that tests for harmful substances.
Detailed information about Öko-Tex can be found at: www.oeko-tex.com

1,6 MILJONERKLUBBEN

KappAhl promotes research into heart and lung disease by supporting the 1,6 miljonerklubben.

EU-FLOWER

The EU-flower is an European environmental standard that inspects the entire chain from raw material to finished garment. Read more at: www.blomman.nu

KAPPAHL APPROVED BY ROBUR

After an analysis of KappAhl's sustainability work, Robur has approved KappAhl as an investment object for all its ethical funds, including the spearhead fund Ethics and Environmental Fund.

KappAhl always visit their plant and make a first assessment of the prevailing conditions. For a company to make an inspection before a working partnership begins is uncommon in the clothing industry. If a partnership is then established a BSCI inspection is carried out.

Quality and safety

KappAhl provides its customers with value-for-money products, a term that means the right quality at the right price. Materials and entire garments are wash-tested for colourfastness, shrinkage and abrasion resistance. Inspections are also carried out to ensure the products live up to KappAhl's demands for chemicals. Safety is also paramount, not least for children's clothes. KappAhl is active in the industry organisation that draws up the guidelines for children's clothes.

Supporting women's well-being

KappAhl prioritises humane and environmental areas for sponsorship and prefers long-term projects with clear targets. KappAhl joined the Hunger project in 2004, whose aim is to reduce hunger in the world by helping people in need to help themselves.

To support children and young people affected by bullying and various kinds of assault KappAhl sponsors BRIS, Children's Right in Society in Sweden. In Norway we work with the Red Cross and in Finland with Save the Children. KappAhl also donates clothes, or provides support, to other well-renowned local charities on all markets where the company operates. This support goes to Erikshjälpen in Sweden, children's homes in Lithuania and schools for street children in Bangladesh.

The latest project was for 1,6 miljonerklubben (The 1.6 million club) – an organisation whose aim is to raise awareness of women's health and supports heart and lung disease research.

Employees

Aiming for development

All KappAhl's employees should be given the opportunity to grow and develop in their respective careers. Creating job satisfaction, enthusiasm and development are therefore fundamental. KappAhl's annual attitude survey, aimed at all KappAhl employees, captures attitudes and views that later make up the cornerstones of continued development work. It's just as important to provide business-adapted training and career development initiatives that together boost employees' enthusiasm and the company's competitive strength.

Our values guide

There are just over 300 workplaces at KappAhl and around 3,800 employees. The store network is widespread, which means that many career development and training initiatives are decentralised. This meanwhile allows store managers to become key players in this work. All managers are people who personally enjoy training, but also enjoy helping others to develop. KappAhl's managers receive active support in this role from the Group, which offers advice, guidelines and defined tools for this development work.

The business culture contains the basic values for all skills development. This is summarised by the will to win, simplicity, clarity and pace and is seen in the organisation through such things as internal communication channels and intra-Group training. The will to win means that KappAhl must continue working hard to be one step ahead of the competition. This is achieved through simplicity in our day-to-day work, but also through clarity, where aims are always clearly formulated. We also need pace, ensuring that decisions and input provide quick decisions in order for KappAhl to be one step ahead.

KappAhl's employee initiatives also include five ingredients for success. These should characterise activities in areas such as recruitment, training and career and management development. Together they will help make the Group stronger and more competitive, but also provide KappAhl with employees who enjoy their work and who want to develop.

The five ingredients describe what the company needs to be good at and are summarised as follows:

- Attract employees
- Create enthusiasm
- Develop skills
- Professional management
- Improve–Renew

Biggest training initiative

KappAhl conducted its biggest training initiative to date in 2006/2007, which was completely in line with the five ingredients for success. Sales personnel were gathered together in each country for joint training days, which included almost 3,000 individuals. The key words were inspiration, job satisfaction and personal development. The aim was for all sales personnel to understand how important they are, how they can affect their own situation and also meet customers' expectations in the best possible way.

Other examples of skills development include KappAhl's store manager training, which around 20 individuals complete every year. This type of investment in internal recruitment is important and means that the potential in the company is well taken care of. The results have been very good and around 70 per cent of the individuals that complete the training also progress in their careers and become store managers. The course mixes theory and practical training, which are completed with a mentor from their own workplace.

Managers and key individuals at KappAhl's various offices are also offered specific leadership training. This helps to ensure a long-term supply of managers, but also strengthens the internal network in the company. The course – which includes leadership, communication and practical business simulation was carried out in 2006/2007 with a total of 19 participants.

The Group also runs various specialist training schemes. Display assistants and buyers are offered special programs. Many of the courses combine KappAhl's own specialists with external teachers and instructors. If necessary personal, tailored training schemes can also be provided for selected key employees.

Recognise diversity

Fashion is a boundless phenomenon, which can be found in most cultures and societies. In the same way as fashion recognises the crossing of borders, KappAhl's workplaces should also be characterised by openness,

tolerance and diversity. There are many nationalities at the company today. This mix is important because KappAhl then becomes a reflection of society and of the customers. Diversity is therefore positive and if handled properly can make the company and its workplaces more creative and ready to negotiate, that is when different ideas, points of view and experience can cross-fertilise one another.

Mutual contacts with schools and universities can also provide new impulses. KappAhl has a far-reaching cooperation in this area, mainly with a connection to trade and design. Many students apply for positions at the company every year. This cooperation helps profile the company as a workplace, but also means that the organisation can be influenced by new, young ideas, both large and small.

KappAhl's shares

Proposed doubling of dividend

KappAhl's shares have been quoted on the OMX Nordic Exchange Stockholm's, Mid Cap since 23 February 2006. A round lot consists of 100 shares. KappAhl's shares are included on the OMX Nordic Exchange Stockholm index for rarely bought commodities, the OMX Stockholm Consumer Discretionary.

The share capital on 31 August 2007 was SEK 10,720,000 divided between 75,040,000 shares. One share entitles the holder to one vote. All shares have equal rights to a share of KappAhl's assets and profits.

Exchange growth and trade

From the start of the financial year to 31 August 2007 KappAhl's shares rose by 38.5 per cent, compared to the OMX Nordic Exchange Stockholm (SIX General Index) that rose by 21.6 per cent for the same period. The OMX Stockholm Consumer Discretionary rose by 27.5 per cent for the same period. The highest price paid was SEK 85.75 on 11 June 2007 and the lowest price paid was SEK 45.60 on 1 September 2006. At the end of the financial year KappAhl's market value was SEK 4,859 million and the P/E ratio estimated on the profit for the year was 7.4.

Between 1 September 2006 and 31 August 2007 a total of 120.6 million KappAhl shares were traded at a value of SEK 8.4 billion. This means that each share was traded 1.6 times over the year, corresponding to an average of 478,000 shares traded every day.

Ownership structure

KappAhl had 8,769 shareholders on 31 August 2007. The biggest owner is Pegatro Limited, with an ownership of 30 per cent, which is controlled equally by KappAhl's CEO Christian W. Jansson and board member Paul Frankenius.

Of all shareholders, around17.5 per cent own more than 1,000 shares. Shareholdings registered with companies and institutional owners stood at around 90.7 per cent and shareholdings registered with foreign investors was around 64.1 per cent.

Dividend

The board proposes to the AGM 2007 a dividend of SEK 5.00 (2.50) per share for the 2006/2007 financial year.

Stockmarket information

KappAhl's information to the stockmarket and shareholders shall be characterised by correctness, relevance, openness and speed.

KappAhl's press releases, quarterly reports and annual reports are available at www.kappahl.com/ir. Additional information is also available about the company, financial performance and shares and the option of subscribing to information from KappAhl.

KEY RATIOS
As on 31 August 2007
Amounts in SEK unless otherwise stated

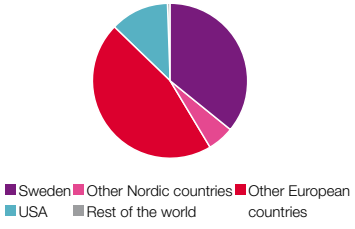
Share related key ratios	
Earnings per share	8.78
Equity per share	11.86
Cash flow from operating activities per share	8.89
Dividend per share (proposed)	5.00
Dividend share, %	95.0
Price related data	
Market price	64.75
Market value, SEK m	4,859
P/E ratio, multiple	7.4
Direct yield, %	7.7
Price/Equity, %	546
Number of shares	
At end of financial year	75,040,000
Average	75,040,000

DIVISION OF OWNERSHIP, SHAREHOLDING

THE TEN BIGGEST OWNERS

Name	Number of shares	Voting rights %
Pegatro Limited	22,511,000	30
Morgan Stanley & Co Inc, W9	3,686,899	4.91
State Street Bank	2,640,765	3.52
Fortis Banque Luxembourg S.A.	2,387,845	3.18
Nordea fonder incl. Luxembourg	2,295,195	3.06
SEB Investment Management	1,894,900	2.53
Swedbank Robur Fonder	1,862,381	2.48
Svenska Handelsbanken Clients ACC:3	1,819,800	2.43
Catella Fondförvaltning	1,777,000	2.37
US Residents Omnibus Lending A/C	1,758,260	2.34

GEOGRAPHIC DIVISION, SHAREHOLDING

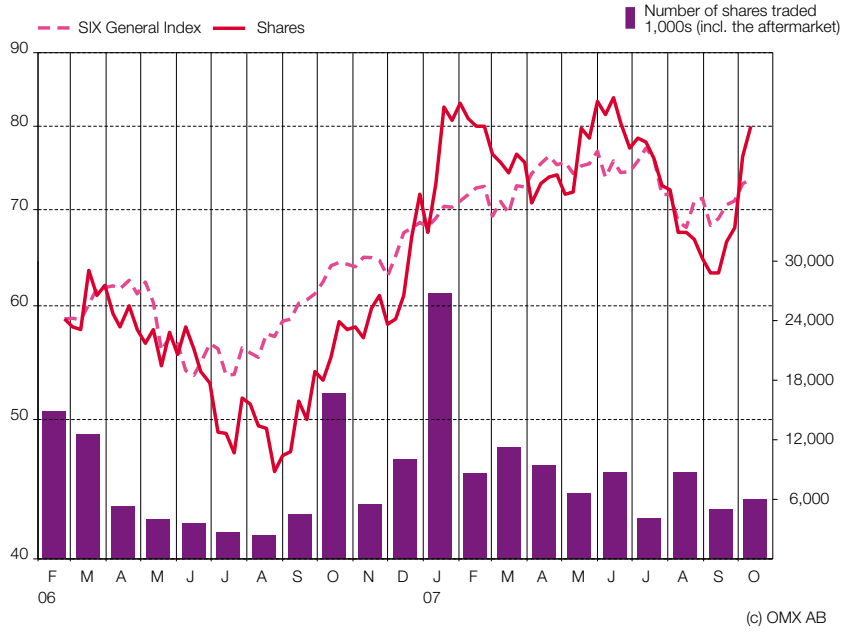


DIVISION OF OWNERSHIP SIZE

Shareholding	Number of shareholders	Number of shares	Shareholding, %
1–500	6,003	1,105,522	1.47
501–1,000	1,230	1,105,662	1.47
1,001–5,000	1,099	2,698,703	3.60
5,001–10,000	180	1,422,390	1.90
10,001–15,000	46	605,899	0.81
15,001–20,000	29	538,283	0.72
20,001–	182	67,563,541	90.03
Total	**8,769**	**75,040,000**	**100.00**

KAPPAHL'S SHARES PERFORMANCE

up to 14 October 2007



Directors' report

The Board of Directors and CEO of KappAhl Holding AB (publ), Co. Reg. No. 556661-2312, with its registered office in Mölndal, hereby submit the Annual Report and the consolidated accounts for the financial year, 1 September 2006 to 31 August 2007.

Group

The Group runs business activities in retail sales of ladieswear, childrenswear and menswear. In addition to the parent company, KappAhl Holding AB (publ), the Group includes the wholly-owned company KappAhl Sverige AB, the sales companies in Norway, Finland and Poland, and a purchasing company in China.

The Group also has branch offices in Turkey, Lithuania, the Ukraine, Bangladesh and India.

KappAhl Sverige AB and the sales companies in Norway, Finland and Poland are responsible for retail sales in their respective countries. See the full list of companies in the Group in Note 28.

At the beginning of the 2006/2007 financial year, the KappAhl Holding AB (publ) Group had 260 stores and at the end of the year, 272 stores. During the year, 17 new stores were opened and 5 were closed.

The company in China is responsible for making contact with new suppliers and overseeing production and delivery in the Far East. Branch offices are responsible for providing support for purchasing operations and quality control in the respective markets

No. of stores per country

	31 Aug 07	31 Aug 06	31 Aug 05	31 Aug 04	31 Aug 04
Sweden	131	130	125	122	124
Norway	84	81	74	72	72
Finland	42	36	32	30	30
Poland	15	13	11	9	9
Total	**272**	**260**	**242**	**233**	**235**

Through a financial leasing agreement, the Group rents the head office and distribution centre in Mölndal where all of the Group's clothing is prepared for delivery to the various stores.

Parent company

The parent company provides certain group-wide services.

Ownership

As of 31 August 2007 the ten largest shareholders were as indicated in the table below:

	No. of shares	Participation of shares and voting rights in %
Pegatro Limited *)	22,511,000	30.00
Morgan Stanley & Co Inc, W9	3,686,899	4.91
State Street Bank	2,640,765	3.52
Fortis Banque Luxembourg S.A.	2,387,845	3.18
Nordea fonder incl. Luxembourg	2,295,195	3.06
SEB Investment Management	1,894,900	2.53
Swedbank Robur Fonder	1,862,381	2.48
Svenska Handelsbanken Clients ACC:3	1,819,800	2.43
Catella Fondförvaltning	1,777,000	2.37
US Residents Omnibus Lending A/C	1,758,260	2.34
Other owners	32,405,955	43.18
Total	**75,040,000**	**100.00**

*) See Note 27

Financial performance and significant events of the financial year

Financial performance – The Group

Net sales and gross profit

KappAhl's net sales for the period, excluding VAT, amounted to SEK 4,473 million (4,217), an increase of 6.1 per cent compared with the previous financial year. The increase consists of the effect of new and closed stores, 3.9 per cent, development of comparable stores, 3.6 per cent and by translation differences in foreign currency (mainly NOK) by –1.4 per cent. Last year's sales figure included cosmetics, SEK 38 million. The overall sales trend is thus explained primarily by having 12 more stores open in the financial year and also good sales in comparable stores.

The gross profit amounted to SEK 2,735 million (2,540), giving a gross margin of 61.1 per cent (60.2), thereby further strengthening the Group's gross margin compared to last year. The most important

factors behind the high gross margin are better purchasing and good stock management.

Operating profit

Sales and administration costs amounted to SEK 2,126 million (2,010), meaning cost increases are less than sales increases and thereby further contribute to the improved results.

Other operating income (SEK 15.9 m) refers to the sale of two stores and for other operating costs (SEK 6.5 m) reported in conjunction with the offer to acquire shares in AB Lindex (publ), see Events after the end of the financial year.

The Group's operating profit for the financial year reached SEK 618 million (530), an increase of 16.6 per cent, representing an operating margin of 13.8 per cent (12.6).

Taxes

The taxes in the Group's income statement for the year include a positive one-off effect from company acquisitions of SEK 269 million. See also Note 9 and Note 30.

Store network and expansion

17 new stores opened in the financial year, four in Sweden and Norway respectively, six in Finland and three in Poland. Three stores in Sweden and one in Norway and Poland respectively closed during the same period. The total number of stores at the end of the financial year amounted to 272 (260). Of these, 131 are in Sweden, 84 in Norway, 42 in Finland and 15 in Poland.

The pace of expansion continues to accelerate. The expansion target for the coming financial year has been raised to include 20 to 25 new stores. As of 31 August there are contracts for an additional 33 new stores.

Financial instruments and risk management

The aim of the Group's currency policy is to minimise the risk of negative effects on earnings and increase the predictability of future earnings. This is achieved by hedging the subsidiaries' revenues. The Group's goods purchases are also hedged including future goods flows, which are hedged three to nine months forward. Hedging is carried out using a combination of forward contracts and currency options. A substantial portion of the Group's goods purchasing is done in USD, which makes the business sensitive to changes in the dollar exchange rate. More information is available in Note 23.

Financing

All financing and investing of funds is done through KappAhl Holding AB (publ). The KappAhl Holding Group's liquid assets amounted to SEK 60 million on 31 August 2007, compared to SEK 72 million on 31 August 2006.

The company's financing is primarily in the form of bank loans.

Financial performance – Parent company

The parent company's sales for the period amounted to SEK 7 million (15) and the profit after financial items amounted to SEK 525 million (–106).

Significant events

Market

The Nordic countries saw a strong trend in GDP compared to the rest of Europe over the financial year. This contributed to a strengthening in private consumption and, consequently, a strong demand for clothing. In addition, tax reductions in Sweden have helped to boost consumption. KappAhl continues to hold a strong position as one of the leading players on the Nordic clothing market.

KappAhl's success builds on its ability to sell value-for-money fashion to many people. KappAhl focuses on women aged 30–50 with family – the customer group that has been the most faithful to KappAhl over the years. In the past year KappAhl continued to adapt its activities to this primary group. The You Look Great marketing activities have been a contributory factor to the continued positive sales trend.

During the financial year KappAhl continued to press down purchasing prices. This helped to further increase the gross margins, and is necessary both for continuing to give the customers a good offer and ensuring strong finances over the long term for the Group.

Capital expenditure

Group

The year's net capital expenditure amounted to SEK 276 million (237). Most of this amount refers to capital expenditure in existing and new

stores. Apart from our range of products, store design and atmosphere are the most important factors in creating customer satisfaction leading to repeat visits. The capital expenditure in store maintenance is an important factor in ensuring the Group's long-term earning capacity.

Of total investments, SEK 54 million was in the acquisition of two companies, which merged into the company during the financial year, see Note 30.

Parent company

No investments were made during the year in KappAhl Holding AB (publ).

Foreign offices

The Group has a number of offices in other countries that support purchasing operations. The offices in Lithuania and Turkey belong to KappAhl Sverige AB, while the offices in China, Bangladesh and India belong to KappAhl Far East Ltd.

Future expectations

Consumer spending is expected to continue increasing in the year ahead. Consumer spending trends are an important factor for KappAhl and for retail trade in general. At the same time, it is essential to keep control of purchasing prices and ensure that customers like our products. The Group also aims to open 20–25 new stores per year. In all, the conditions are considered favourable for the Group to enjoy strong earnings.

Significant risks and uncertainty factors

KappAhl faces many risks, concerning its own operations and more general risks related to the industry. These risks can in turn be divided into business-related or operative risks respectively in financial risks. The financial risks and their management are reported in more detail in Note 23. Risk management is also described in the Corporate Governance Report on page 64 under the heading "Internal Control Report".

The following is a description of the biggest risks and uncertainties identified and summary of how KappAhl works with the respective area of risk.

Competition among fashion chains

The industry is characterised by intense competition, both in terms of product range and markets. The main competition includes Hennes & Mauritz, Lindex, Dressman, Cubus and Seppälä, department stores, post-order companies and the internet, for the sale of clothes and accessories to women, children and men. There is also competition for the best store locations and best rental contracts. Nordic and international competitors have major financial, marketing and other resources. This could give them better conditions to adapt to customer requirements, set aside more resources for the marketing and design of products and stores as well as achieve greater brand-awareness. The increasing competition can lead to price pressure and reduced market shares. KappAhl focuses on clear concepts and market positioning through a well-defined target group, combined with a clear message, which is considered to be a significant competitive advantage.

Fashion trends

KappAhl's success is due to its ability to identify and constantly adapt to shifting fashion trends and customer requirements and to introduce attractive, new products at the right time. The products must also attract a broad range of customers, whose perception of fashion cannot be safely predicted. If consumer trends are misread or if existing products fail to sell it can lead to a surplus of stock, price cuts and lost sales opportunities. The brand can be damaged if customers perceive that KappAhl can't provide them with products they see as fashionable. By recruiting talented designers and buyers who constantly work to spot and predict trends, coupled with the company working on a customer-oriented business model where customer's purchase patterns and behaviour are constantly analysed, the company is fully aware of this central area of risk.

Trade restrictions

Around two thirds of KappAhl's products are bought in Asia and the rest from Europe. Possible trade restrictions, including customs tariffs, precautions or quotas for clothes and accessories, like the measures introduced as a result of the recurring dispute between the EU and China on the import of clothes, can have effects that affect costs or access to products, meaning that purchasing routines must be changed. It's impossible to predict if any of the countries where the clothes or accessories are made, currently or in future, will be subject to further trade restrictions. Neither is it possible to predict the likelihood of it happening and in which case, its effects.

Upgrading and expansion of the store network requires significant investment

KappAhl continually invests in existing stores to support the long-term, strategic aims. These investments vary in size from minor renovations to major upgrades. The Group is currently in an intense phase with major upgrading of the store network. The strategy also covers the expansion of the store network on all four geographic markets. The upgrades and expansion requires significant investment and management resources. There is no guarantee that the investments will generate sufficient returns to cover the investments.

Expansion of stores

KappAhl's strategy covers a major store expansion initiative and future results are partly dependent on the ability to increase sales in existing stores, opening new stores and developing new store concepts. The opportunity of opening new stores and upgrading and expanding existing stores is dependent on a number of factors, of which some are beyond the control of the company. This includes access to new sites on selected markets, sites close to existing stores and rental contract conditions. If new stores don't open or if expansion and upgrades of existing stores doesn't happen at the right pace then it might have a negative impact on the company's ability to increase market shares and sales. Although rental contracts for stores are usually long-term, some may expire and may not be able to be renewed under optimal conditions at all. Relocation or expansion and upgrading can also mean periods of weaker sales. All these factors can significantly affect the chosen strategy and business.

Interested parties' observance of employment and other acts

The Group manufactures all of its clothes and accessories through independent producers in Asia, Europe and the rest of the world. This increases the company's exposure to political and financial conditions and restrictions in these areas as well as causes a number of issues concerning local business and employment practices. If external producers break laws, regulations or norms or deviate from working conditions considered ethical in the EU or international working norms, it can seriously harm KappAhl's brand and general reputation. Though KappAhl has decided upon a code of conduct for independent suppliers, checks cannot be made of all their actions and therefore cannot provide any guarantees that they operate their business according to ethical working norms.

Commercials and advertising

KappAhl depends on marketing to increase sales volumes and retain and improve the strength of the brand. Future marketing campaigns can be costly and are no guarantee of sales increases. If major advertising campaigns are started that don't result in increased revenues, combined with possible negative affects on the brand and the loss of market shares, it might hit sales negatively and thereby negatively affect the business.

Distribution centre

All clothes sold by KappAhl pass through the distribution centre in Mölndal. If it, or its equipment, is damaged or needs to be shut, the company would have difficulty in supplying stores. If these conditions cannot be rectified quickly and cost-efficiently it would damage the business. We have insurance for property and production stoppages but there are no guarantees that this sum would be sufficient or be able to be recovered in full.

Brand protection or involvement in disputes

It is KappAhl's policy to register and protect its brand and name in the jurisdictions the Group is active in. There are however no guarantees that measures are sufficient in order to protect the brand and property. However, unauthorised use of the brand through pirate copies, or an imitation of KappAhl's stores would damage the company's image and reputation. Fashion designers tend to follow the same trends and designs look very similar to other designers' and stores creations. It might therefore be that designers, stores and third parties state that KappAhl's products breach their intellectual property rights. Though KappAhl is not currently involved in any such legal process, there are no guarantees that such accusations won't be directed at the company in the future.

These factors can be very costly and risk damaging the company's reputation.

Information systems and information security

KappAhl depends on information systems to steer the flow of goods from purchase to selling in store and to put together operative and statistical information. Risks include expediency in existing systems and the safeguarding of business-sensitive information. Each continuous stoppage or lack of functionality of the information system can mean that important information is lost or that measures become delayed, especially if problems occur during the peak season, such as Christmas.

Existing system structures are therefore evaluated continuously to ensure that the information systems set the demands of the business. There is also sharp focus on ensuring information security in all important parts of the Group.

Changes to the business cycle

The industry that KappAhl is active in is affected by changes to the general business cycle, which affects the total demand and thereby the consumption level. The consumer patterns are affected by many general factors beyond the control of the company, including general business conditions, interest, currency rates, inflation and deflation levels, taxes, access to credit, stock market trends, unemployment levels, uncertainty of future economic outlooks and the shift in consumerism of rarely bough commodities to other goods and services. There are no guarantees of maintaining sales volumes or profit levels, in particular not if the general clothing market on any of the four geographic markets stagnates or drops.

Events after the end of the financial year

An Extraordinary General Meeting (EGM) was held on 17 September 2007 as a result of KappAhl Holding AB's (publ) offer on 13 August 2007 to acquire all the shares in AB Lindex (publ). The EGM authorised the Board of Directors to decide on the issue of shares or convertibles. The authorisation would only be utilised with the intention of refinancing parts of the loan for the offer. During the application period for the offer, which ran out on 27 September 2007, the offer had only been accepted by a small number of shareholders of AB Lindex (publ). Because the completion conditions of 90 per cent consent had not been met the Board of Directors in KappAhl Holding AB (publ) decided on 1 October 2007 not to go ahead with the offer.

Corporate governance

Information concerning corporate governance is reported in a separate Corporate Governance report. (See page 61)

Proposed appropriation of the company's profits

The Board of Directors and CEO propose that the disposable profits of SEK 1 359 529 041 be appropriated as follows:

	SEK
Dividend (75,040,000 x 5.00 SEK)	375,200,000
Brought forward	984,329,041
Total	**1,359,529,041**

The financial statements were approved for publication by the parent company's Board of Directors on 14 October 2007.

For information about the company's earnings and financial position, please refer to the income statement, balance sheet and the notes that follow.

Income statement – Group

Amounts in SEK million	Note	1 Sep 2006 31 Aug 2007	1 Sep 2005 31 Aug 2006
Net sales	2, 3, 4	4,473.5	4,217.0
Cost of goods sold	7	–1,738.3	–1,676.7
Gross profit		**2,735.2**	**2,540.3**
Selling expenses		–1,984.6	–1,862.8
Administrative expenses		–141.8	–147.1
Other operating income	2	15.9	0.0
Other operating expenses	7	–6.5	0.0
Operating profit	3, 5, 6, 7,19, 24	**618.2**	**530.4**
Financial income		22.6	1.8
Financial expenses		–96.9	–113.5
Net financial items	8	**–74.3**	**–111.7**
Profit before tax		**543.9**	**418.7**
Tax	9	114.9	–116.7
Profit for the year		**658.8**	**302.0**
Earnings per share			
Before dilution (SEK)		8.78	4.02
After dilution (SEK)		8.78	4.02

Comments to the income statement – Group

Net sales
Net sales amounted to SEK 4,474 million (4,217), equivalent to an increase of 6.1 per cent. The increase consists of the effect of new and closed stores, 3.9 per cent, development of stores comparable between the years, 3.6 per cent and by translation differences in foreign currency, mainly in NOK, by –1.4 per cent.

Gross profit
The gross profit was SEK 2,735 million, equivalent to a rise of SEK 195 million. The gross margin amounts to 61.1 per cent, compared to 60.2 percent last year. Last year's gross profit also included the positive one-off effect of a redeemed reserve for the customs dispute in Norway of SEK 22 million. The reason the gross margin has risen is mainly attributable to lower purchase costs, which in turn are affected by more effective purchases meaning lower prices and by positive currency effects, mainly in USD.

Operating profit
The operating profit was SEK 618 million, an increase of SEK 88 million compared to last year. The operating margin was 13.8 per cent, compared to 12.6 per cent last year. The operating profit includes the profit from other operating income such as the sale of two rental properties, totalling SEK 15.9 million. Other operating costs include costs for the offer to acquire shares in AB Lindex (publ) of SEK 6.5 million.

Profit before tax
The profit after financial items was SEK 544 million, equivalent to an improvement on last year of SEK 125 million. Net financial items amounted to SEK 74 million, which is an improvement on last year of SEK 37 million. Last year's net financial items included the effect of rearranging loans of SEK 20 million and of costs for the stock market listing of KappAhl Holding AB (publ), equivalent to SEK 20 million.

Tax
The tax cost for the year was positively affected by tax revenue for deferred tax for the revaluation of loss carry-forwards during the year of acquired companies, see also comments to the balance sheet/deferred tax assets.

Balance sheet – Group

Amounts in SEK million	Note	31 Aug 2007	31 Aug 2006
ASSETS	25		
Fixed assets			
Intangible fixed assets	10	1,354.3	1,349.1
Tangible fixed assets	11	685.3	662.0
Long-term receivables	13	1.6	1.4
Deferred tax assets	9	407.7	123.0
Total fixed assets		**2,448.9**	**2,135.5**
Current assets			
Inventories	14	605.9	557.7
Accounts receivable		1.4	10.7
Prepaid expenses and accrued income	15	71.3	80.9
Other receivables	13	24.9	22.7
Cash and cash equivalents	16	59.9	72.3
Total current assets		**763.4**	**744.3**
Total assets		**3,212.3**	**2,879.8**
EQUITY AND LIABILITIES			
Equity			
Share capital		10.7	10.7
Other contributed equity		205.1	205.1
Other reserves		19.6	13.5
Retained earnings		654.1	182.9
Total equity		889.5	412.2
Liabilities			
Long-term liabilities			
Financial leasing loans	11	151.1	162.7
Long-term interest-bearing liabilities	17, 23	1,049.0	1,144.0
Provisions for pensions and similar commitments	19	61.3	63.6
Other provisions	20	7.4	9.2
Deferred tax liabilities	9	258.9	227.7
Total long-term liabilities		**1,527.7**	**1,607.2**
Current liabilities			
Financial leasing loans	11	22.3	22.3
Short-term interest-bearing liabilities	17	56.0	56.0
Accounts payable – trade		239.8	274.1
Income tax liabilities	9	34.4	0.2
Other liabilities	21	102.5	97.3
Accrued expenses and deferred income	22	232.8	192.1
Bank overdraft facilities	16	107.3	218.4
Total current liabilities		**795.1**	**860.4**
Total liabilities		**2,322.8**	**2,467.6**
Total equity and liabilities		**3,212.3**	**2,879.8**

Information on the Group's pledged assets and contingent liabilities, see Note 26.

Comments to the balance sheet – Group

Fixed assets
Intangible fixed assets
Intangible fixed assets mainly consist of goodwill, SEK 696 million and the brand, SEK 610 million. An annual assessment is made of these values, or more often if considered necessary. The company doesn't consider there to be any impairment risk and no change of value has been made between the years.

Deferred tax assets
Deferred tax assets have increased by SEK 285 million between the years. The majority of the sub-item refers to deferred tax assets concerning loss carry-forwards, which rose by SEK 292 million. This is mainly due to the acquisition of companies with taxable loss carry-forwards, which are valued at SEK 319 million.

Current assets
Inventories
Inventories are stated at the lower of cost and net realisable value. Inventories increased by SEK 48 million between the years. This is partly due to KappAhl increasing the number of stores from 260 to 272 at the end of the financial year and partly due to goods in transport increasing. Inventories are well balanced in terms of range and quantity.

Equity
Changes to shareholders' equity amounted to SEK 477 million and, in addition to the year's net profit of SEK 659 million, mainly consisted of paying dividends to shareholders totalling SEK 188 million.

Long-term liabilities
Financial leasing loans
KappAhl rents the premises that house the distribution centre and the head office. The rental contract is run as a financial leasing contract, meaning that the buildings are included in tangible fixed assets and corresponding liability items classified as loans, divided into long-term and short-term. The values fall in line with the depreciation of the building, which is carried out over the contract period of 15 years.

Deferred tax liabilities
Deferred tax liabilities have increased by SEK 31 million between the years. The change is mainly due to an increase in deferred tax concerning untaxed reserves.

Current liabilities
Accrued liabilities and prepaid income
Accrued liabilities and prepaid income rose by SEK 41 million between the years. The balance item mainly consists of personnel-related liabilities, which increased by SEK 12 million.

Statement of changes in equity – Group

	Attributable to equity holders of the parent company					
			Other reserves			
Amounts in SEK million	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total share-holders' equity
Opening equity, 1 Sep 2005	**10.4**	**197.0**	**14.7**	**11.7**	**49.7**	**283.5**
Dividend	–	–	–	–	–168.8	**–168.8**
Cash flow hedging, after tax [1]	–	–	–2.3	–	–	**–2.3**
Translation difference	–	–	–	–10.6	–	**–10.6**
Profit for the year	–	–	–	–	302.0	**302.0**
New share issue	0.3	8.1	–	–	–	**8.4**
Closing equity, 31 Aug 2006	**10.7**	**205.1**	**12.4**	**1.1**	**182.9**	**412.2**

	Attributable to equity holders of the parent company					
			Other reserves			
Amounts in SEK million	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total share-holders' equity
Opening equity, 1 Sep 2006	**10.7**	**205.1**	**12.4**	**1.1**	**182.9**	**412.2**
Dividend	–	–	–	–	–187.6	**–187.6**
Cash flow hedging, after tax [1]	–	–	–3.4	–	–	**–3.4**
Translation difference	–	–	–	9.5	–	**9.5**
Profit for the year	–	–	–	–	658.8	**658.8**
Closing equity, 31 Aug 2007	**10.7**	**205.1**	**9.0**	**10.6**	**654.1**	**889.5**

[1] See Note 1 on the effects on the accounting according to IAS 39.

Cash flow statement – Group

Amounts in SEK million	Note	1 Sep 2006 31 Aug 2007	1 Sep 2005 31 Aug 2006
Operating activities	29		
Profit after financial items		543.9	418.7
Adjustment for non-cash items		197.0	121.4
Tax paid	9	–49.0	–64.3
Cash flow from operating activities before changes in working capital		**691.9**	**475.8**
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in inventory		–48.2	32.2
Decrease (+)/Increase (–) in operating receivables		14.8	–1.8
Decrease (–)/Increase (+) in operating liabilities		8.8	–32.7
Cash flow from operating activities		**667.3**	**473.5**
Investing activities			
Acquisition of tangible fixed assets		–200.4	–206.1
Acquisition of intangible fixed assets		–21.0	–24.1
Acquisition of subsidiaries, net effect on liquidity		–54.4	–
Acquisition of financial assets		–0.2	–7.2
Cash flow from investing activities		**–276.0**	**–237.4**
Financing activities			
Dividend paid		–187.6	–168.8
Repayment of short-term credit		–111.2	117.7
Repayment of loans		–106.6	–202.0
New share issue		–	8.4
Cash flow from financing activities		**–405.4**	**–244.7**
Cash flow for the year		**–14.1**	**–8.6**
Cash and cash equivalents at the beginning of the year		72.3	83.2
Currency translation effect		1.7	–2.3
Cash and cash equivalents at the end of the year	16	**59.9**	**72.3**

Comments to the cash flow statement – Group

Cash flow from operating activities before changes in working capital
Cash flow from operating activities for the financial year before changes in working capital was SEK 692 million (476), which consists of an improved profit and minor changes to the non-cash flow-affecting items.

Cash flow from changes to working capital
Cash flow from changes to working capital only affected cash flow by SEK –24.6 million (–2.3), which is explained by changes in liquid assets and liabilities net not being significant and thereby tied up capital in liquid assets only increasing to a limited degree, despite an expanding business.

Cash flow from investing activities
Investment activities have meant payments totalling SEK 276 million (237). The majority is, similar to last year, due to investment in renovated stores. The year's investments also include items totalling SEK 54 million for company acquisitions.

Cash flow from financing activities
Cash flow from financing activities amounted to SEK 405 million (245). This includes dividends to shareholders of SEK 188 million (169). The remainder of the change is due to the higher rate of amortisation of long-term loans and of short-term credit, totalling SEK 218 million (84).

Income statement – Parent company

Amounts in SEK million	Note	1 Sep 2006 31 Aug 2007	1 Sep 2005 31 Aug 2006
Net sales		7.2	15
Cost of goods sold		–	–
Gross profit		**7.2**	**15**
Other operating expenses		–12.3	–8.4
Operating loss/profit	5, 6,7	**–5.1**	**6.6**
Profit/loss from financial items:	8		
Profit from participations in subsidiaries	29	590.4	–
Other interest income and similar profit items		1.8	–
Interest expense and similar loss items		–62.0	–112.9
Profit/loss after financial items		**525.1**	**–106.3**
Profit/loss before tax		**525.1**	**–106.3**
Tax	9	18.3	29.8
Profit/loss for the year		**543.4**	**–76.5**

Balance sheet – Parent company

Amounts in SEK million	Note	31 Aug 2007	31 Aug 2006
ASSETS	25		
Fixed assets			
Financial fixed assets			
Participations in Group companies	28	2,882.4	2,971.1
Deferred tax assets	9	–	1.1
Total financial fixed assets		**2,882.4**	**2,972.2**
Total fixed assets		**2,882.4**	**2,972.2**
Current assets			
Current receivables			
Receivables from Group companies	12	736.8	195.7
Other receivables	13	13.3	15.0
Prepaid expenses and accrued income	15	2.4	4.7
Total current receivables		**752.5**	**215.4**
Cash and cash equivalents		0.0	0.0
Total current assets		**752.5**	**215.4**
Total assets		**3,634.9**	**3,187.6**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		10.7	10.7
Statutory reserve		205.1	205.1
Non-restricted equity			
Retained earnings		816.1	1,034.4
Profit/loss for the year		543.4	–76.5
Total equity		**1,575.3**	**1,173.7**
Long-term liabilities			
Liabilities to credit institutions	18	1,049.0	1,144.0
Deferred tax liabilities	9	1.0	2.6
Total long-term liabilities		**1,050.0**	**1,146.6**
Current liabilities			
Liabilities to credit institutions	18	56.0	56.0
Liabilities to Group companies		838.3	582.7
Other liabilities	21	0.7	2.2
Accrued expenses and deferred income	22	7.3	8.0
Bank overdraft facilities	16	107.3	218.4
Total current liabilities		**1,009.6**	**867.3**
Total liabilities		**2,059.6**	**2,013.9**
Total equity and liabilities		**3,634.9**	**3,187.6**

Pledged assets and Contingent liabilities – Parent company

SEK million	Note	31 Aug 2007	31 Aug 2006
Pledged assets	26		
Shares in subsidiaries		1,271.1	1,271.1
Contingent liabilities	26	None	None

Statement of changes in equity – Parent company

	Restricted equity			Non-restricted equity			
SEK million	Share capital	Statutory reserve	Share premium reserve	Hedging reserve	Retained earnings	Profit/loss for the year	Total equity
Opening equity, 1 Sep 2005	**10.4**	**–**	**197.0**	**–6.8**	**59.7**	**1,059.7**	**1,320.0**
Dividend	–	–	–	–	–	–168.8	**–168.8**
New share issue *)	0.3	–	8.1	–	–	–	**8.4**
Restatement of previous year's profit/loss	–	–	–	–	890.9	–890.9	**0.0**
Cash flow hedging, after tax	–	–	–	13.5	–	–	**13.5**
Profit/loss for the year	–	–	–	–	–	–76.5	**–76.5**
Group contributions received	–	–	–	–	107.0	–	**107.0**
Tax on Group contributions received	–	–	–	–	–29.9	–	**–29.9**
Transfer to statutory reserve	–	205.1	–205.1	–	–	–	**0.0**
Closing equity, 31 Aug 2006	**10.7**	**205.1**	**0.0**	**6.7**	**1,027.7**	**–76.5**	**1,173.7**

	Restricted equity			Non-restricted equity			
SEK million	Share capital	Statutory reserve	Share premium reserve	Hedging reserve	Retained earnings	Profit/loss for the year	Total equity
Opening equity, 1 Sep 2006	**10.7**	**205.1**	**0.0**	**6.7**	**1,027.7**	**–76.5**	**1,173.7**
Dividend	–	–	–	–	–	–187.6	**–187.6**
Restatement of previous year's profit/loss	–	–	–	–	–264.1	264.1	**0.0**
Cash flow hedging, after tax	–	–	–	2.6	–	–	**2.6**
Profit/loss for the year	–	–	–	–	–	543.4	**543.4**
Group contributions received	–	–	–	–	60.0	–	**60.0**
Tax on Group contributions received	–	–	–	–	–16.8	–	**–16.8**
Closing equity, 31 Aug 2007	**10.7**	**205.1**	**0.0**	**9.3**	**806.8**	**543.4**	**1,575.3**

*) See table of development of number of shares and share capital, below.

Development of number of shares and share capital

	Number of shares	Par value
Company listed, April 2004	1,000	100,000
Split 1:100 2004	99,000	–
New share issue, January 2005	9,900,000	9,900,000
New share issue, April 2005	366,000	366,000
Subscription for new shares, December 2005	354,000	354,000
Split 7:1, January 2006	64,320,000	–
Closing amount, 31 Aug 2007	**75,040,000**	**10,720,000**

Cash flow statement – Parent company

Amounts in SEK million	Note	1 Sep 2006 31 Aug 2007	1 Sep 2005 31 Aug 2006
Operating activities	29		
Profit/loss after financial items		525.1	–106.3
Adjustment for non-cash items		–370.6	0.1
Cash flow from operating activities before changes in working capital		**154.5**	**–106.2**
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in operating receivables		–14.1	23.4
Decrease (–)/Increase (+) of liabilities		–2.5	4.9
Cash flow from operating activities		**137.9**	**–77.9**
Investing activities			
Cash flow from investing activities		**–**	**–**
Financing activities			
Dividend paid		–187.6	–168.8
New share issue		–	8.4
Raised loan		160.8	238.3
Repayment of borrowings		–111.1	–
Cash flow from financing activities		**–137.9**	**77.9**
Cash flow for the year		**0.0**	**0.0**
Cash and cash equivalents at the beginning of the year		0.0	0.0
Currency translation effect		0.0	0.0
Cash and cash equivalents at the end of the year	16	**0.0**	**0.0**

Notes to the financial reports

Contents

NOTE 1 | ACCOUNTING PRINCIPLES

Compliance with standards and laws

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the European Commission for use within the EU.

The parent company uses the same accounting principles as the Group, except in the cases that are indicated below under the heading "Parent company's accounting principles." The deviations between the parent company's and the group's accounting principles are due to restrictions imposed by the Annual Accounts Act and the "Tryggandelagen" affecting the parent company's ability to apply IFRS, and in some cases for tax reasons. Furthermore, the Swedish Financial Accounting Standards Council's recommendation RR32 Reporting for Legal Entities has been applied.

Basis on preparation of the parent company's and the Group's financial statements

The functional currency used by the parent company in its operations is Swedish kronor and this is also the reporting currency of the parent company and the Group. This means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise indicated, are rounded to the nearest million kronor. Assets and liabilities are recognised at their historic acquisition values, with the exception of financial assets and liabilities, which are stated at their fair value. Financial assets and liabilities stated at their fair value consist of derivative instruments, liquid funds, loans, and liabilities and receivables in foreign currency.

In order to present the financial statements in accordance with IFRS, it is necessary for the company's corporate management to make assessments, estimations and assumptions that affect the application of the accounting principles and the stated amounts of assets, liabilities, income and expenses. These estimations and assumptions are based on past experience and a number of other factors that are deemed appropriate under the present circumstances. The result of these assessments and assumptions are subsequently used to determine the recognised amounts of assets and liabilities that could not otherwise be clearly determined using other sources. The actual outcome may deviate from these assessments and assumptions.

The assessments and assumptions are reviewed on a regular basis. Changes in assessments are reported in the period the changes are made if the changes only impact that period, or in the period the changes are made and future periods if the changes impact both the current period and future periods.

Assessments made by corporate management in connection with the application of IFRS that have a significant impact on the financial reports and estimations made that may cause significant adjustments to the financial reports of the following year, are described in more detail in Note 32.

The Group's accounting principles have been applied consistently in all reporting and consolidation of subsidiaries.

Changes in accounting principles

The Group's and parent company's accounting principles remain unchanged compared to last year.

Classification etc.

The fixed assets and long-term liabilities of the parent company and the Group essentially consist only of the amounts that are expected to be recovered or paid more than twelve months from the balance sheet date. The current

assets and current liabilities of the parent company and the Group essentially consist only of the amounts that are expected to be recovered or paid within a twelve-month period from the balance sheet date.

Consolidation principles

Subsidiaries

Subsidiaries are entities over which KappAhl Holding AB has a controlling influence. Controlling influence means having the direct or indirect right to formulate a company's financial and operative strategies for the purpose of making financial gains. The purchase method of accounting is used for the acquisition of subsidiaries. The purchase method means that the acquisition of a subsidiary is regarded as a transaction by which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and contingent liabilities. The consolidated acquisition value is established through an acquisition analysis in connection with the acquisition of operations.

This analysis establishes both the acquisition value of the shares or operations, and the fair value of the identifiable acquired assets and assumed liabilities and contingent liabilities. The difference between the acquisition value of the subsidiary's shares and the fair value of the acquired assets, assumed liabilities and contingent liabilities is recorded as goodwill.

The subsidiaries' financial reports are included in the consolidated accounts from the date of their acquisition until the date the Group's controlling influence over them ceases to exist.

Foreign currency

Transactions in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities in foreign currencies are translated to the functional currency using the exchange rate prevailing at the date of the balance sheet. Translation differences that arise in connection with translation are recorded in the income statement. Translation differences on non-monetary assets and liabilities, recorded at historical purchase values, are translated at the exchange rate on the date of the transaction. Non-monetary assets and liabilities that are reported at their fair values are translated into the functional currency using the exchange rates prevailing at the time they are recognised at their fair value. The translation differences are then reported in the same way as other changes in the amounts of assets and liabilities.

The functional currency is the currency of the primary economic environment in which the company operates. The companies in the Group are the parent company and subsidiaries. The parent company's functional currency and its reporting currency is Swedish kronor. The Group's reporting currency is also Swedish kronor. The functional currency of the subsidiaries is the local currency in the each country.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and other consolidated surplus and deficits, are translated into Swedish kronor at the exchange rate in effect on the balance sheet date. The income and expenses of foreign operations are translated into Swedish kronor at an average rate that is an approximation of the rates at the respective transaction dates. The translation differences that arise in connection with translation of foreign operations are recorded directly to equity in the accounts as a translation reserve.

Net investment in a foreign operation

Translation differences that arise in connection with translation of a foreign net investment are recorded directly as translation reserves in equity. When a foreign operation is divested, the accumulated translated differences pertaining to the operations are realised after deduction of possible hedging in the consolidated income statement.

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and benefits associated with ownership of the goods have been transferred to the buyer. Revenue is recognised at the actual value of the consideration received or receivable, less any discounts provided.

All sales are made on a 30-day sale-or-return basis. Revenue is recognised on the date of the sale, subject to sale-or-return.

Operating expenses and financial income and expenses

Payments relating to operational leases

Payments relating to operational leasing agreements are reported in the income statement on a straight-line basis over the leasing period. Benefits received in connection with the signing of an agreement are reported as part of the total leasing expense in the income statement.

Payments relating to financial leases

Minimal leasing fees are divided into interest expense and amortisation of the outstanding liability. Interest expense is distributed over the leasing period so that each accounting period is charged with an amount that is equivalent to a fixed interest rate for reported liability during the respective period. Variable fees are expensed in the periods they arise.

Financial income and expense

Financial income and expense consists of interest income on bank balances, interest expense relating to loans and other financial items.

Financial instruments

Financial instruments are valued and recorded in the Group according to IAS 39.

Financial instruments recorded in the balance sheet include the categories, on the assets side, accounts receivables and derivative instruments that are reported as long term receivables and other receivables. Liabilities and equity include accounts payable – trade, loan liabilities (financial leasing loans and interest-bearing liabilities on the balance sheet) and derivative instruments, which are reported as other long term and short-term liabilities respectively.

Financial instruments are initially recognised at fair value on the date a derivative contract is entered into, including transaction costs for all financial instruments except for those belonging to the financial assets category, which are recognised in the income statement at fair value. Reporting thereafter depends on how the instruments are classified as follows.

The classification depends on the acquirer's intention with the acquisition of the financial instrument. KappAhl's corporate management determines how the instruments are categorised at initial recognition. KappAhl only has the following categories:

Interest-bearing liabilities and financial leasing loans

Financial liabilities that are not held for trading are valued at accrued acquisition value. Accrued acquisition value is determined based on the effective interest that was calculated when the liability was originally recognised. This means that surplus and deficit as well as direct issue costs are allocated over the life of the liability.

Long-term and other receivables and other long-term and short-term liabilities

Derivative instruments used for hedging are reported in the balance sheet under appropriate headings.

All derivatives are stated at their fair value in the balance sheet. Changes in value are recognised in shareholders' equity when fair values are hedged. In the case of cash-flow hedging, changes in value are recorded in separate components of equity until the hedged item is recognised in the income statement. Hedge accounting is described in more detail overleaf.

Accounts receivable
Accounts receivable are classified in the account receivables category. Accounts receivable are recorded at the amount that is expected to be paid in after deduction for doubtful receivables determined on an individual basis. The expected life of accounts receivable is short-term, and accordingly their value is reported at a nominal value without discount. Impairment of accounts receivable is recorded as operating expenses.

Liabilities
Liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received. After acquisition, loans are valued at accrued acquisition value. Transaction costs for acquiring the loan are capitalised and reported as costs during the lifetime of the loan using the effective interest rate method. Long-term liabilities have an expected life of more than one year, while current liabilities have a life of less than one year.

Accounts payable – trade
Accounts payable – trade are classified as other financial liabilities. Accounts payable – trade have a short expected life and are valued without discount at nominal amounts.

Derivatives and hedge accounting
Derivatives are currency forwards, options, currency swaps and interest rate swaps that are used to handle the risk of exchange rate fluctuation and exposure to interest risk.

Transaction exposure – cash flow hedging
Foreign currency exposure relating to future forecast cash flows are hedged either through currency forwards or through currency options. Currency forwards or currency options that protect the forecast cash flows are reported in the balance sheet at their fair value. Changes in value are recognised directly in equity in a hedging reserve until such time as the hedged cash flow enters the income statement, at which point the hedging instrument's accumulated value changes are transferred to the income statement where they will offset the effects of the hedged transaction on the profit. The hedged cash flows can be both contracted and forecast transactions.

When the hedged future cash flow relates to a transaction that is capitalised in the balance sheet, the hedging reserve is reversed when the hedged item is recorded in the balance sheet. If the hedged item consists of a non-financial asset or a non-financial liability, the amount reversed from the hedging reserve is included in the original acquisition for the asset or liability.

When hedging instruments mature, are sold or redeemed, or the company breaks the identification of the hedging relationship before the hedged transaction has taken place and the forecast transaction is still expected to take place, the reported accumulated gain or loss remains in the hedging reserve in equity and is recorded in a similar way as above when the transaction takes place. If the hedged transaction is no longer expected to take place, the hedging instrument's accumulated gains or losses are immediately reversed against the income statement.

Hedging the Group's fixed interest – cash flow hedging
Interest rate swaps are used to hedge interest rate risk. Interest rate swaps are stated at their fair value in the balance sheet. In the income statement the interest coupon portion is recognised on a continuous basis as interest income or interest expense and other changes in value relating to interest rate swaps are credited or charged to the hedging reserve in equity as long as the hedging reserve and efficiency criteria are met.

Tangible fixed assets
Owned assets
Tangible fixed assets are recognised as assets in the balance sheet if it is likely that the company will receive future financial gains and the acquisition value of the asset can be reliably measured.

Tangible fixed assets are recognised in the consolidated accounts at their acquisition value after deducting accumulated depreciation and possible write-down. The acquisition value includes the purchase price and costs directly relating to the assets to put it in place and in a condition enabling it to be used for the purpose for which it was acquired.

Leased assets
Leasing is classified in the consolidated accounts either as financial or operational leasing. Financial leasing is when the economic risks and benefits associated with ownership are essentially transferred to the lessee. If this is not the case, it is classified as operational leasing.

Assets that are leased under financial leasing agreements are recognised as assets in the consolidated balance sheet. Future leasing fee obligations are recorded as long-term and current liabilities. The leased assets are depreciated according to plan while leasing fees are recorded as interest and amortisation of liabilities.

In the case of operational leasing, the leasing fees are expensed over the lease term on the basis of use, which may differ from the de facto amount of leasing fees paid during the course of the year.

Loan expenses
Loan expenses relating to the acquisition of fixed assets are not capitalised.

Depreciation principles
Straight-line depreciation is used over the estimated useful life of the asset. Estimated useful life periods:

– buildings, distribution centre	15 years
– equipment, tools and installations	3–10 years

The Group's head office and distribution centre are reported as financial leases and their useful life is the duration of the leasing agreement.

Annual impairment tests are made of the residual value of assets and their useful life.

Intangible fixed assets
Goodwill
Goodwill represents the difference between the acquisition value of acquired operations and the fair value of acquired assets and liabilities and contingent liabilities.

Goodwill is recognised at the acquisition value minus any accumulated impairment losses. Goodwill is distributed to cash-generating units and is not amortised, but impairment tests are carried out on an annual basis.

Software
Computer programs acquired by the company are recorded at their acquisition value minus accumulated depreciation and impairment.

Brands
Brands acquired by the company are recorded at their acquisition value minus accumulated impairment. The KappAhl brand has existed for 50 years and has been gradually strengthened over the years, first through distribution in Sweden and then in other countries. The company has for many years been seeing a trend whereby the type of chain concept represented by KappAhl has been increasing its market share. Based on KappAhl's own growth and the general trends on the market, the brand is expected to endure for many years to come and is therefore believed to have an indefinite useful life. The value in the brand is not amortised but an impairment test is conducted on an annual basis.

Tenancy rights
Tenancy rights for the stores are recorded in the accounts at their acquisition value with an estimated period of use of 5 years.

Amortisation
Amortisation is recorded in the income statement on a straight-line basis over the estimated useful life of the intangible asset, unless the useful life is indefinite. Goodwill and brands have an indefinite useful life and an impairment

test is conducted annually, or as soon as there are indications that the asset in question has fallen in value. Amortisable intangible assets are amortised from the date they are available for use. The estimated useful life periods are:

– Software	3 years
– Tenancy rights	5 years

Inventory

Inventory is valued at the lowest of the acquisition value and the net realisable value. The net realisable value is the estimated selling price in current operations, after deduction for the estimated cost of preparation to bring about a sale.

The acquisition value of inventory is calculated using the first-in, first-out method and includes costs incurred in connection with the acquisition of the inventory items and transportation to their current location and in their current condition.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank assets that can be accessed immediately held in banks and similar institutions, as well as short-term investments with original maturity of less than three months and which are only ex-posed to a marginal risk of fluctuations in value.

Impairment

The reported values of the Group's assets – with the exception of inventories, actuarial plan assets used for financing employee benefits and deferred tax assets, are reviewed on each balance sheet date to assess if impairment is indicated. If such an indication exists, the asset's recoverable value is assessed. The value of assets that are exempt as stated above is reviewed according to the relevant standards in place.

The recovery value of goodwill and brands with an indefinite useful life and intangible assets that are not yet ready for use, are assessed annually.

If it is not possible to establish the individual cash inflow of an individual asset, when an impairment requirement is assessed, the assets are grouped at the lowest level where it is possible to identify essentially independent cash flows. Impairment is indicated when an asset's or a cash-generating unit's reported value exceeds the recovery value. Impairment write-down is recorded in the income statement. Impairment write-down of the assets of a cash-generating entity is allocated firstly to goodwill, thereafter a proportional impairment write-down of the unit's other assets is done. Impairment tests of goodwill were based on the Group's segments, which are considered to be the lowest cash-generating units.

Goodwill and brands were acquired in connection with the acquisition of the KappAhl AB Group at the end of December 2004.

Employee benefits

Defined contribution plans

The company's obligations with respect to contributions to defined contribution plans are recognised in the income statement when they are due.

Defined benefit plans

The Group's net obligation with respect to defined benefit plans is calculated individually for each plan by estimating the future amount the employees will have earned from their employment for both current and previous periods. This amount is discounted to its present value and the actual value of any administrative assets is deducted. The discount rate is the rate of interest on the balance sheet date of first-class corporate bonds with a term that corresponds to the Group's pension commitments. When there is no active market for such corporate bonds, the market interest rate on government bonds with the same term is used. A qualified actuary using the projected unit credit method makes the calculation.

When plan contributions are increased, the portion of the increase relating to the employee's service during previous periods is reported as an expense in the income statement distributed in a straight line over the average period until the amount is fully realised. If the amount is fully realised, a cost is recognised directly in the income statement because the subsidiary group's pension commitments are included in the Group from the date of acquisition, 31 December 2004.

For actuarial gains and losses that arise in connection with the calculation of the Group's obligations to different plans after 1 January 2005, the so-called corridor is applied. This means that the portion of the accumulated actuarial gains and losses that exceeds 10 per cent of the highest of the obligations' current value and the administrative assets' actual value is recognised in the result of the expected average remaining service period of the employees that are covered by the plan. In all other cases, actuarial gains and losses are not taken into account.

When there is a difference in the way in which the pension expenses are measured for legal entities and groups, a provision or claim is reported in respect of a special payroll tax based on this difference. The provision or claim is not calculated at its present value.

Provisions

A provision is reported in the balance sheet when the Group has an existing legal or informal 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 of the amount can be made. When the effect of the timing of the payment is important, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects actual market assessments of the money's time value, and where appropriate, the risks that are associated with the liability.

Other provisions

"Medmera" cards

Provisions are made for estimated customer bonuses relating to the KF "Medmera" card (loyalty card) scheme. The provision is calculated using sales statistics from KF.

Closure of stores

Provisions are made for restructuring measures, which mainly consist of expenses in connection with the closure of stores. A minor provision has been made regarding tenancy rights for stores.

Purchase on approval

Provisions are made for returned goods or complaints in connection with the utilisation of purchase on approval. The provision is based on sales statistics and judgements of future complaints and returned goods.

Taxes

Tax consists of current tax and deferred tax. Taxes are recorded in the income statement except when the underlying transaction is recognised directly in equity, in which case the associated tax effect is recognised in equity.

Current tax is tax that must be paid or may be recovered for the current year using the tax rates in effect or notified as of the balance sheet date. This also includes adjustments to actual tax relating to earlier periods.

Deferred tax is calculated using the balance sheet method based on temporary differences between the book value of assets and liabilities and their value as assessed for tax purposes. The following temporary differences are not taken into account: temporary differences that have arisen upon first recognition of goodwill; first recognition of assets and liabilities that are not acquisitions of operations and at the time of the transaction do not affect the reported or taxable profit; temporary differences relating to participations in subsidiaries that are not expected to be reversed in the foreseeable future. The value of deferred tax is based on how the reported amounts of assets or liabilities are expected to be realised or paid. Deferred tax is calculated using the tax rates and tax rules that are in effect or notified as of the balance sheet date.

Deferred tax assets relating to temporary tax-deductible differences and loss carry-forwards are entered in the accounts only when it is likely that these will be able to be used in the future. The value of deferred tax assets are reduced when it is no longer deemed likely that they can be used.

Parent company's accounting principles

The parent company presents its annual accounts according to the Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Council's recommendation RR 32 Accounting of Legal Entities. According to RR 32, in the annual accounts for a legal entity, the parent company must apply all of the IFRS rules and statements approved by the EU to the extent possible within the framework of the Annual Accounts Act and taking into account the connection between accounting and taxation. The recommendation states the exceptions from and additions to IFRS that are to be made. The differences between the Group's and the parent company's accounting principles are outlined below.

In accordance with the transition rules in RR 32, the company has applied chapter 4 §14 a–e in the Annual Accounts Act, which permits financial instruments to be recognised at their fair value.

The accounting principles outlined below for the parent company have been consistently applied to all periods that are presented in the parent company's financial statements and remain unchanged compared with last year.

Taxes

The parent company reports untaxed reserves including deferred tax liability. In the consolidated accounts, however, the untaxed reserves are divided up into deferred tax liability and equity.

Group contributions and shareholders' contributions for legal entities

The company accounts for Group contributions in accordance with the statement issued by the Swedish Financial Accounting Standards Council's Emerging Issues Group. Group contributions are entered in the accounts according to their financial significance. This means that Group contributions that have been made in order to minimise the Group's overall tax burden are entered directly against retained earnings after a deduction for the actual tax effect.

New IFRS-standards and IFRIC-interpretations

Below is a brief account of the standards and interpretations considered to have an affect on KappAhl and a preliminary assessment of their affect. They have not yet been applied by the company.

IFRS 7 Financial instruments: Information. This standard came into force for the financial year beginning 1 January 2007 and will be applied for the financial year 2007/2008. The standard will require further information of importance to financial instruments for the financial position and the result and of character and scope of the risks in the financial instruments that the Group is exposed to and how the risks can be handled.

IFRS 8 Operative segment. This standard will come into force on 1 January 2009 and will therefore be adopted by KappAhl for financial year 2009/2010. The standard includes the division of the business into different segments, which will be based on the intra-company follow-up and set reportable segments from that.

IFRIC 13 Customer Loyalty Schemes. This proposed interpretation will come into effect for financial years beginning from 1 July 2008. The proposition covers sales to customers who take part in some type of customer loyalty scheme and will mean that certain identified sales, equivalent to customers' loyalty payments, will be postponed. The interpretation's possible affect on KappAhl's business is being studied, but is not initially expected to have any significant effect on the Consolidated Accounts.

NOTE 2 | DIVISION OF REVENUE

The Group's revenues consist entirely of the sale of goods.
Other operating income is for revenues from the sale of two rental locations.

NOTE 3 | SEGMENT REPORTING

Segment reporting is established for the Group's geographic areas. The Group's internal reporting system is based on returns from activities in different geographic areas, which is why geographical areas are the primary basis for division.

Internal prices between different segments are determined using the "arm's length" principle, that is between parties independent of each other, well informed and with an interest that the transactions are completed.

Included in the profit/loss, assets and liabilities are directly attributable items and items that can be included in the segment in a reasonable and reliable way. Assets and liabilities not divided by segment include brands, interest-bearing long-term and current liabilities, deferred tax receivables and deferred tax liabilities, and other financial liabilities.

The segment's investment in tangible and intangible assets includes all investment except investment in current inventories and low value inventories.

Geographic areas

The Group's segments are divided into the following two geographic areas: Nordic countries and Other. The Nordic countries are Sweden, Norway and Finland. "Other" refers to Poland. The same type of activity is carried out in the various geographic areas, that is sales of womenswear, childrenswear and menswear.

Information about the segments' assets and investment in tangible and intangible assets is based on geographic areas grouped according to where the assets are located.

cont. Note 3

Segment

Group SEK million	Nordic 1 Sep 06 31 Aug 07	Nordic 1 Sep 05 31 Aug 06	Other 1 Sep 06 31 Aug 07	Other 1 Sep 05 31 Aug 06	Eliminations 1 Sep 06 31 Aug 07	Eliminations 1 Sep 05 31 Aug 06	Group 1 Sep 06 31 Aug 07	Group 1 Sep 05 31 Aug 06
Sales	4,304.1	4,075.2	169.4	141.8	–	–	4,473.5	4,217.0
Operating profit per segment	608.0	522.9	10.2	7.5	–	–	618.2	530.4
Operating profit	**608.0**	**522.9**	**10.2**	**7.5**	**–**	**–**	**618.2**	**530.4**
Assets	2,111.3	2,062.5	71.4	48.8	–	–	2,182.7	2,111.3
Undivided assets	–	–	–	–	1,000.8	768.5	1,000.8	768.5
Total assets	**2,111.3**	**2,062.5**	**71.4**	**48.8**	**1,000.8**	**768.5**	**3,183.5**	**2,879.8**

Group SEK million	Nordic 1 Sep 06 31 Aug 07	Nordic 1 Sep 05 31 Aug 06	Other 1 Sep 06 31 Aug 07	Other 1 Sep 05 31 Aug 06	Eliminations 1 Sep 06 31 Aug 07	Eliminations 1 Sep 05 31 Aug 06	Group 1 Sep 06 31 Aug 07	Group 1 Sep 05 31 Aug 06
Liabilities	606.5	619.4	54.1	38.4	–	–32.4	660.6	625.4
Undivided liabilities	–	–	–	–	1,633.4	1,841.1	1,633.4	1,841.1
Total liabilities	**606.5**	**619.4**	**54.1**	**38.4**	**1,633.4**	**1,808.7**	**2,294.0**	**2,466.5**
Investments	199.0	224.5	23.9	12.5	–	–	222.9	237.0
Undivided investments	–	–	–	–	53.9	–	53.9	–
Total investments	**199.0**	**224.5**	**23.9**	**12.5**	**53.9**	**–**	**276.8**	**237.0**

NOTE 4 | NET SALES

Net sales by geographic market

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Sweden	2,514.5	2,365.2
Finland	1,269.7	473.2
Norway	519.9	1,236.6
Poland	169.4	142.0
The Czech Republic	–	–
Total	**4,473.5**	**4,217.0**

NOTE 5 | EMPLOYEES AND STAFF COSTS

Average number of employees

	1 Sep 06 31 Aug 07	Of which men	1 Sep 05 31 Aug 06	Of which men
Parent company				
Sweden	2	100 %	2	100 %
Total parent company	**2**	**100 %**	**2**	**100 %**
Subsidiaries				
Sweden	1,507	12.6 %	1,509	14.0 %
Norway	611	5.9 %	586	7.5 %
Finland	382	1.6 %	267	2.2 %
Poland	167	9.6 %	130	9.8 %
Asia	120	45.0 %	98	44.6 %
Total, subsidiaries	**2,787**	**10.5 %**	**2,590**	**12.5 %**
Group total	**2,789**	**10.6 %**	**2,592**	**12.6 %**

Distribution according to gender in corporate management

	31 Aug 07 Proportion of women	31 Aug 06 Proportion of women
Parent company		
Board of directors	66.7 %	60 %
Other senior executives	0 %	0 %
Group total		
Board of Directors	66.7 %	60 %
Other senior executives	66.7 %	71 %

cont. Note 5

Salaries, other remuneration and social security costs

SEK million	1 Sep 06 – 31 Aug 07 Salaries and remuneration	1 Sep 06 – 31 Aug 07 Social security costs	1 Sep 05 – 31 Aug 06 Salaries and remuneration	1 Sep 05 – 31 Aug 06 Social security costs
Parent company	**2.5**	**0.8**	**3.1**	**1.0**
(of which pension costs)	–	0.1	–	–
Subsidiaries	**723.4**	**199.1**	**721.0**	**202.6**
(of which pension costs)	–	38.3[1]	–	37.5 [1]
Group total	**725.9**	**199.9**	**724.1**	**203.6**
(of which pension costs)	–	38.4[1]	–	37.5 [1]

[1] The Group's pension costs include SEK 1.2 million (1.4) for the Board of Directors and the CEO. For a total summary of remuneration and other benefits to the Board of Directors, CEO and Senior Executives see Note 19.

Salaries and other remunerations by country and between board members etc. and other employees

SEK million	1 Sep 06 – 31 Aug 07 Board and CEO	1 Sep 06 – 31 Aug 07 Other employees	1 Sep 05 – 31 Aug 06 Board and CEO	1 Sep 05 – 31 Aug 06 Other employees
Parent company				
Sweden	1.8	0.7	2.5	0.6
(of which bonus etc.)	–	–	–	–
Parent company total	**1.8**	**0.7**	**2.5**	**0.6**
(of which bonus etc.)	–	–	–	–
Subsidiaries in Sweden	3.7	435.1	4.5	413.5
(of which bonus etc.)	0.6	3.0	0.6	5.6
Foreign subsidiaries				
Norway	1.7	191.3	2.4	217.1
(of which bonus etc.)	–	2.4	–	0.7
Finland	1.7	60.1	1.5	56.6
(of which bonus etc.)	–	0.2	–	0.4
Poland	1.2	14.3	0.6	12.1
(of which bonus etc.)	–		–	–
Asia	3.1	10.2	1.1	9.9
(of which bonus etc.)	–	—	–	–
Subsidiaries total	**11.4**	**711.0**	**10.1**	**709.2**
(of which bonus etc.)	0.6	5.6	0.6	6.7
Group total	**13.2**	**711.7**	**12.6**	**709.8**
(of which bonus etc.)	0.6	5.6	0.6	6.7

Of the salaries and remunerations paid to other employees in the Group, SEK 10.3 (9.0) million is for senior executives other than the Board of Directors and the CEO.

Severance pay
If requested by their employer to resign their position, some senior executives have contracts that guarantee them the right to retain their salaries in full for a period of six months. Retirement benefits are based on national pension plans from 65 years of age.

Employment terms of the CEO
If requested by the employer to resign his position, the CEO has a contract that guarantees him the right to retain his salary in full for a period of six months. Retirement benefits are based on national pension plans from 60 years of age.

Absence due to illness at KappAhl Holding AB
The parent company, KappAhl Holding AB had an average of two employees during the period. There was no absence due to illness during the period. Last year the parent company had two employees.

Other information
For information on remuneration to employees after terminated employment and share-related remuneration, see Note 19.

NOTE 6 | FEES AND REMUNERATION TO AUDITORS

SEK million	Group 1 Sep 06 31 Aug 07	Group 1 Sep 05 31 Aug 06	Parent company 1 Sep 06 31 Aug 07	Parent company 1 Sep 05 31 Aug 06
PricewaterhouseCoopers				
Auditing assignments	2.4	2.5	0.2	0.2
Other assignments	0.7	5.0	0.1	0.1
KPMG				
Other assignments	–	1.7	–	0.1

Auditing assignments refers to audits of the annual report and accounts as well as the Board of Directors' and CEO's administration of the company, other tasks that are the responsibility of the company's auditors, as well as advice or other assistance relating to observations made during auditing assignments or while conducting tasks of a similar nature. Everything else is "Other assignments". The costs of the stock market listing are also included in "Other assignments" for last year.

NOTE 7 | OPERATING COSTS

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Raw materials and supplies	1,738.3	1,676.7
Changes in stocks of finished goods and work in progress	2.2	–
Staff costs	982.4	928.4
Amortisation	194.9	173.3
Other operating costs	937.5	908.3
	3,855.3	**3,686.7**

Other operating costs include SEK 6.5 million for the offer to acquire shares in AB Lindex (publ).

Last year's figures include the "Raw materials and supplies" item resulting in a profit effect of resolving the customs dispute in Norway, worth a total of SEK 22 million (see Note 26).

NOTE 8 | NET FINANCIAL ITEMS

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Interest income	22.6	1.8
Financial income	**22.6**	**1.8**
Cost of stock market listing	–0.8	–19.8
Cost of restructuring finances	–	–19.8
Interest expenses	–96.1	–73.9
Financial expenses	**–96.9**	**–113.5**
Net financial items	**–74.3**	**–111.7**

Parent company SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Dividend from subsidiaries	590.4	–
Profit from participations in subsidiaries	**590.4**	**–**
Interest income	1.8	–
Interest income	**1.8**	**–**
Cost of stock market listing	–0.8	–19.8
Cost of restructuring finances	–	–19.8
Interest expenses	–61.2	–73.3
Interest expenses and similar loss items	**–62.0**	**–112.9**
Net financial items	**530.2**	**–112.9**

NOTE 9 | TAXES

Reported in income statement

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Actual tax expense (–)		
Tax expense for the period	–83.2	–36.0
Adjustment of tax pertaining to previous years	–0.1	–0.3
Deferred tax expense (–) /tax credit (+)		
Deferred tax relating to temporary differences	–28.1	9.8
Deferred tax in change of loss carry-forward	226.3	–90.2
Total reported tax credit/tax expense for the Group	**114.9**	**–116.7**

Parent company SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Actual tax credit (+)		
Tax credit for the period	16.8	30.0
Deferred tax expense (–)/tax credit (+)		
Deferred tax due to capitalized tax values in loss carry-forwards during the year	1.5	–0.2
Total reported tax credit in the parent company	**18.3**	**29.8**

This year's tax expenses include a positive item of SEK 269 million concerning taxable loss carry-forwards in acquired companies. Reporting of the acquired companies is further explained in Note 30.

Reconciliation of effective tax

Group SEK million	31 Aug 07 (%)	31 Aug 07	31 Aug 06 (%)	31 Aug 06
Profit before tax		543.9		418.7
Tax at effective tax rate for parent company	28.0	152.3	28.0	117.2
Effect of other tax rates for foreign subsidiaries	0.1	0.4	–	–
Non-deductible expenses	0.5	2.8	0.3	1.4
Non-taxable income	–0.3	–1.6	–0.3	–1.4
Revaluation of deferred tax assets in acquired companies[1]	–49.5	–269.2	–	–
Other	0.1	0.4	–0.1	–0.5
Effective tax	**–21.1**	**–114.9**	**27.9**	**116.7**

[1] See Note 30.

Reconciliation of effective tax

Parent company SEK million	31 Aug 07 (%)	31 Aug 07	31 Aug 06 (%)	31 Aug 06
Profit before tax		525.1		–106.3
Tax at effective tax rate for parent company	28.0	147.0	28.0	29.8
Share dividend	–31.5	–165.3	–	–
Effective tax	**–3.5**	**–18.3**	**28.0**	**29.8**

Reported in the balance sheet
Deferred tax asset and tax liability

Deferred tax asset and tax liability pertain to the following:

Group	Deferred tax asset		Deferred tax liability		Net	
SEK million	31 Aug 07	31 Aug 06	31 Aug 07	31 Aug 06	31 Aug 07	31 Aug 06
Intangible fixed assets	63.2	74.5	–170.8	–175.2	–107.6	–100.7
Provisions	11.4	10.7	–	–	11.4	10.7
Untaxed reserves	–	–	–83.4	–59.4	–83.4	–59.4
Loss carry-forwards	335.3	43.0	–	–	335.3	43.0
Current assets and liabilities	3.1	1.7	–10.0	–	–6.9	1.7
Deferred tax asset/deferred tax liability	**413.0**	**129.9**	**–264.2**	**–234.6**	**148.8**	**–104.7**
Offset	–5.3	–6.9	5.3	6.9	–	–
Net tax asset/tax liability	**407.7**	**123.0**	**–258.9**	**–227.7**	**148.8**	**–104.7**

cont. Note 9

Deferred tax asset and tax liability pertain to the following:

Parent company	Deferred tax asset		Deferred tax liability		Net	
SEK million	**31 Aug 07**	**31 Aug 06**	**31 Aug 07**	**31 Aug 06**	**31 Aug 07**	**31 Aug 06**
Provisions and long-term liabilities	–	–	–3.6	–2.6	–3.6	–2.6
Loss-carry forwards	2.6	1.1	–	–	2.6	1.1
Deferred tax asset/deferred tax liability	**2.6**	**1.1**	**–3.6**	**–2.6**	**–**	**–**
Offset	–2.6	–1.1	2.6	1.1	–	–
Tax assets/liabilities, net	**0**	**0**	**–1.0**	**–1.5**	**–1.0**	**–1.5**

The differences between the years in the case of the parent company have been reported as deferred tax expense/credit.

Expiration time for reported deferred tax assets

	Group		Parent company	
SEK million	**31 Aug 07**	**31 Aug 06**	**31 Aug 07**	**31 Aug 06**
Deferred tax asset recovered within one year	21.3	52.4	–	–
Deferred tax asset recovered after one year	386.4	70.6	–	–
	407.7	**123.0**	**–**	**–**

Of this sum, SEK 274 million is expected to be recovered after five years, see Note 30.

Expiration time for reported deferred tax liability

	Group		Parent company	
SEK million	**31 Aug 07**	**31 Aug 06**	**31 Aug 07**	**31 Aug 06**
Deferred tax liability due for payment within one year	–	–	1,0	–
Deferred tax liability due for payment after one year	258.9	227.7	–	1.5
	258.9	**227.7**	**1.0**	**1.5**

NOTE 10 | INTANGIBLE FIXED ASSETS

Group SEK million	Software	Brand	Leases	Goodwill	Total
Accumulated acquisition values					
Opening balance 1 Sep 2005	76.7	610.1	37.2	703.9	1,427.9
Other investments	24.1	–	–	–	24.1
Changes in acquisition analysis	–	–	–	–8.1	–8.1
Closing balance 31 Aug 2006	**100.8**	**610.1**	**37.2**	**695.8**	**1,443.9**
Opening balance 1 Sep 2006	100.8	610.1	37.2	695.8	1,443.9
Other investments	9.5	–	11.5	–	21.0
Closing balance 31 Aug 2007	**110.3**	**610.1**	**48.7**	**695.8**	**1,464.9**
Opening balance 1 Sep 2005	–56.7	–	–27.1	–	–83.8
Amortisation for the year	–8.7	–	–2.3	–	–11.0
Closing balance 31 Aug 2006	**–65.4**	**–**	**–29.4**	**–**	**–94.8**
Opening balance 1 Sep 2006	–65.4	–	–29.4	–	–94.8
Amortisation for the year	–13.6	–	–2.2	–	–15.8
Closing balance 31 Aug 2007	**–79.0**	**–**	**–31.6**	**–**	**–110.7**
Booked values					
Per 1 Sep 2005	20.0	610.1	10.1	703.9	1,344.1
Per 31 Aug 2006	**35.4**	**610.1**	**7.8**	**695.8**	**1,349.1**
Per 1 Sep 2006	35.4	610.1	7.8	695.8	1,349.1
Per 31 Aug 2007	**31.3**	**610.1**	**17.1**	**695.8**	**1,354.3**

cont. Note 10

Amortisation
Amortisation is included in the following lines in the income statement

	Group		Parent company	
SEK million	**2007**	**2006**	**2007**	**2006**
Cost of goods sold	–2,5	–2,9	–	–
Administrative expenses	–13,3	–8,1	–	–
	–15,8	**–11,0**	**–**	**–**

Impairment tests for cash-generating units with goodwill and brands
An impairment test has been carried out for the segments of the Group, the Nordic countries and others, which are considered as cash-generating units.

The Group has considerable recorded values pertaining to goodwill and brands and the recoverable amounts of both items is based in the same important assumptions.

The impairment test is based on a calculation of future useful value. The calculation is based on cash flow forecasts for four years and then on a constant flow, since these assets have an indefinite period of use. The forecast cash flows after the first four years have been on an annual growth rate of 2 per cent, which is equivalent to the long-term growth rate of the unit's markets. The forecast cash flows have been calculated at their present value with a discount pre-tax rate of 6.3 per cent. The important assumptions in the impairment test are described in the table below.

Important variables	Methods for assessing amounts
Market share and market growth	The demand for these mature products has historically followed general economic trends. An assumption has been made regarding the appropriate market share in future periods for the existing stores. Also included is an assumption that the number of stores will increase to some extent. The forecast is in line with past experiences and external sources of information.
Gross margins	By way of precaution, the gross margin has been set at a slightly lower level than the existing level, even though the intention is that this will not be the case. The forecast is in line with past experiences.
Costs	Costs are expected to increase along with net sales apart from certain common costs that are expected to grow with inflation. The forecast is in line with past experiences.

Corporate management believes that possible changes in assumed variables – although still important variables in the calculations – would not have such a big impact that each of them would reduce the recoverable value to a value that is lower than the book value.

In order to support the impairment test performed on goodwill and brands within the Group, a comprehensive analysis has been made of the sensitivity of the variables used in the model. An assumption of a decreased annual growth down to 0 per cent in combination with an increase of the discount rate by two percentage points, still shows a very good margin between recoverable value and book value. Accordingly, there is no need for an impairment of the assets.

NOTE 11 | TANGIBLE FIXED ASSETS

Group SEK million	Buildings	Equipment, tools and installations	Total
Acquisition value			
Opening balance 1 Sep 2005	221.0	1,209.3	1,430.3
Year's acquisitions	–	206.1	206.1
Disposals	–	–1.5	–1.5
Translation differences	–	–11.9	–12.6
Closing balance 31 Aug 2006	**221.0**	**1,402.0**	**1,623.0**
Opening balance 1 Sep 2006	221.0	1,402.0	1,623.0
Year's acquisitions	–	200.4	200.4
Disposals	–	–9.6	–9.6
Translation differences	–	16.9	16.9
Closing balance 31 Aug 2007	**221.0**	**1,609.7**	**1,830.7**
Depreciation and impairment			
Opening balance 1 Sep 2005	–38.0	–774.0	–812.0
Depreciation for the year	–14.8	–147.4	–162.2
Disposals	–	2.4	2.4
Translation differences	–	10.8	10.8
Closing balance 31 Aug 2006	**–52.8**	**–908.2**	**–961.0**
Opening balance 1 Sep 2006	–52.8	–908.2	–961.0
Depreciation for the year	–14.7	–164.4	–179.1
Disposals	–	6.7	6.7
Translation differences	–	–12.0	–12.0
Closing balance 31 Aug 2007	**–67.5**	**–1,077.9**	**–1,145.4**
Booked values			
Per 1 Sep 2005	183.0	435.3	618.3
Per 31 Aug 2006	**168.2**	**493.8**	**662.0**
Per 1 Sep 2006	168.2	493.8	662.0
Per 31 Aug 2007	**153.5**	**531.8**	**685.3**

Depreciation
Depreciation is included in the following lines in the income statement

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Cost of goods sold	–10.1	–12.6
Administrative expenses	–9.0	–5.6
Selling expenses	–160.0	–144.0
	–179.1	**–162.2**

Leasing – distribution centre and head office
The Group leases a property that houses the Group's distribution centre and head office in Mölndal. The building is included in the Group's tangible fixed assets at a booked value of SEK 153.5 million (168.2).

Future minimum leasing fees are due for payment as follows:

Within one year	22.3
1 – 5 years	89.2
Later than five years	42.0
	153.5

The present value of future minimum leasing fees is entered in the accounts partly as a current liability and partly as a long-term liability.

NOTE 12 | RECEIVABLES FROM GROUP COMPANIES

Parent company SEK million	Receivables from Group companies 31 Aug 07	 31 Aug 06
Accumulated acquisition value		
At beginning of year	195.7	1,789.1
Group contributions	60.0	107.0
Dividend received	679.1	–1,700.0
Other	–198.0	–0.4
Closing balance	**736.8**	**195.7**

NOTE 13 | LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

Group SEK million	31 Aug 07	31 Aug 06
Long-term receivables that are fixed assets		
Other	1.6	1.4
	1.6	**1.4**
Other receivables that are current assets		
Interest rate derivatives	13.3	9.4
Exchange rate derivatives	4.6	10.7
Other	7.0	2.6
	24.9	**22.7**

Parent company SEK million	31 Aug 07	31 Aug 06
Other receivables that are current assets		
Interest rate derivatives	13.3	9.4

NOTE 14 | INVENTORIES

Group SEK million	31 Aug 07	31 Aug 06
Finished goods and goods for resale	605.9	557.7
	605.9	**557.7**

NOTE 15 | PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent company	
SEK million	31 Aug 07	31 Aug 06	31 Aug 07	31 Aug 06
Prepaid rental costs	46.9	52.6	–	–
Prepaid banking costs	2.9	6.2	1.9	2.4
Prepaid custom costs	–	7.8	–	–
Other	21.5	14.3	0.5	2.3
	71.3	**80.9**	**2.4**	**4.7**

Prepaid banking costs are to all extents and purposes costs for financing. These costs are included in the income statement over the contract period.

NOTE 16 | CASH AND CASH EQUIVALENTS

Group SEK million	31 Aug 07	31 Aug 06
The following components are included in Cash and cash equivalents:		
Cash	9.6	9.2
Bank accounts	50.3	63.1
Total according to the balance sheet and cash flow statement	**59.9**	**72.3**

The Group's total overdraft facility limit is SEK 494 million (496) with an unutilised overdraft facility of SEK 200 million (200).

NOTE 17 | INTEREST-BEARING LIABILITIES

This note contains information about contractual terms and conditions for the company with respect to interest-bearing liabilities. For more information about the company's exposure to interest rate risk and exchange rate fluctuation risk, see Note 23.

Group SEK million	31 Aug 07	31 Aug 06
Long-term liabilities		
Bank loans	1,049.0	1,144.0
Current liabilities		
Bank loans	56.0	56.0
	1,105.0	**1,200.0**

The Group has a bank limit for outstanding letters of credit worth SEK 200 million.

Terms & conditions and repayment deadlines
Security for the bank loans has been issued in the form of shares in the subsidiary KappAhl AB.

NOTE 18 | LIABILITIES TO CREDIT INSTITUTIONS

Parent company SEK million	31 Aug 07	31 Aug 06
Long-term liabilities		
Bank loans	1,049.0	1,144.0
Current liabilities		
Bank loans	56.0	56.0
	1,105.0	**1,200.0**

The bank loans fall due in full in February 2011 and amortisation during the remainder of the period of the agreement amounts to SEK 477 million, of which SEK 56 million falls due within one year.

See also Note 23 concerning interest rate exposure.

NOTE 19 | REMUNERATION TO EMPLOYEES

Pensions and other remuneration after terminated employment
Defined benefit plans

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Present value of partially or fully funded obligations	151.2	149.5
Actual amount of plan assets	–118.0	–104.0
Net of partially or fully funded obligations	33.2	45.5
Present value of unfunded obligations	26.9	26.7
Present value of the net obligation	60.1	72.3
Unrecognised actuarial gains (+) and losses (–)	1.2	–8.6
Net obligation for defined benefit plans	**61.3**	**63.6**

Net amount reported in the following items in the balance sheet:

Provisions for pensions	61,3	63,6

Provision for defined benefit obligations
The Group offers both defined contribution and defined benefit pension plans. In the case of the defined contribution plans, the Group's obligation is limited to fixed contributions that are paid to a separate legal entity. The Group's profits are charged as the benefits are earned. In the defined benefit plans, the Group's obligation is based on the employee's salary at the time he/she retires and the number of years served. The Group stands the risk associated with payment of the pledged benefits.

In the balance sheet the difference between the present value of the obligations and the actual value of any plan assets is recorded as either a provision or a long-term financial asset.

Defined benefit plans are calculated according to the Projected Unit Credit Method. This method distributes the cost of pensions as the employees carry out services for the company that increases their right to future benefits. This calculation is done annually by independent actuaries. The company's commitments are valued at the present value of the expected future payments.

Actuarial gains and losses may occur if the actual outcome deviates from previous assumptions or if the assumptions are changed. The portion of the accumulated actuarial gains and losses at the end of the previous year in excess of 10 per cent of the greater of the present value of the obligations and plan assets' actual value is entered as profit over employees' remaining employment period.

cont. Note 19

Changes in net obligation for defined benefit plans as stated in the balance sheet

Group SEK million	31 Aug 07	31 Aug 06
Net obligation for defined benefit plans as of 1 September	64.4	73.8
Benefits paid out	–3.8	–1.9
Contributions received	–8.8	–20.3
Cost reported in the income statement	9.4	13.0
Exchange rate differences	0	–1.1
Net obligation for defined benefit plans as of 31 August	**61.3**	**63.6**

Actuarial assumptions for defined benefit obligations

The most significant actuarial assumptions as of the balance sheet date (expressed as weighted average amounts)

Sweden and Norway compared	Sweden		Norway	
Procent	2007	2006	2007	2006
Discount rate as of 31 August	4.2	3.9	4.5	4.5
Future salary increases	3.0	3.0	3.5	3.3
Future pension increases	2.0	2.0	2.0	2.5
Employee turnover	5.0	5.0	–	–
Inflation	2.0	2.0	–	–
Expected yield	4.2	3.9	5.5	5.5

Cost reported in the income statement

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Costs relating to service in current period	5.9	6.4
Interest expenses relating to obligation	7.3	6.7
Expected yield on plan assets	–4.1	–2.6
Effects of reductions and adjustments	0.3	2.5
Total net cost in the income statement	**9.4**	**13.0**

SEK million	Group 2007	2006
Amount in the provision that is expected to be paid after a period of 12 months	61.3	63.6

The cost is reported in the following lines in the income statement:

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Cost of goods sold	2.7	2.7
Selling expenses	3.2	3.3
Administrative costs	0.2	0.3
Financial expenses	3.3	6.7
	9.4	**13.0**
Actual yield on plan assets	5.9	6.7

Benefits for senior executives
Remuneration and other benefits during the year

	1 Sep 06 – 31 Aug 07				1 Sep 05 – 31 Aug 06			
SEK million	Base salary Board of Directors	Variable remuneration	Pension cost	Total	Base salary Board of Directors	Variable remuneration	Pension cost	Total
Chairman of the Board, Finn Johnsson	0.5	–	–	0.5	0.4	–	–	0.4
Board member, Amelia Adamo	0.2	–	–	0.2	0.1	–	–	0.1
Board member, Paul Frankenius	0.1	–	0.1	0.2	1.1	–	–	1.1
Board member, Jan Samuelson	0.3	–	–	0.3	0.2	–	–	0.2
Board member, Pernilla Ström	0.2	–	–	0.2	0.2	–	–	0.2
Board member, Bo Söderberg	–	–	–	–	0.1	–	–	0.1
Other (4 board member)	0.1	–	–	0.1	0.1	–	–	0.1
CEO	3.4	0.6	1.1	4.5	3.4	0.6	1.1	5.1
Management team	7.8	1.1	1.4	10.3	7.4	1.0	0.6	9.0
Total	**12.6**	**1.7**	**2.6**	**16.3**	**13.0**	**1.6**	**1.7**	**16.3**

NOTE 20 | OTHER PROVISIONS

Group SEK million	31 Aug 07	31 Aug 06
Provisions that are long-term liabilities		
Medmera loyalty cards	6.9	7.2
Discontinuation of operations	0.5	2.0
Total	**7.4**	**9.2**

Group
Changes during the year

SEK million	31 Aug 07	31 Aug 06
Reported value at beginning of period	**9.2**	**50.9**
Unutilised amount reversed during the period	–1.8	–41.7
Reported value at end of period	**7.4**	**9.2**

Payments

Group SEK million	31 Aug 07	31 Aug 06
Amount of the provision that is expected to be paid after a period of twelve months	0.5	2.0

NOTE 21 | OTHER LIABILITIES

Group SEK million	31 Aug 07	31 Aug 06
Current		
VAT	39.3	38.9
Liabilities to employees	32.2	31.1
Gift vouchers	15.6	13.5
Currency derivatives	12.8	9.9
Other	2.6	3.9
	102.5	**97.3**

Liabilities that fall due for payment more than five years from the balance sheet date
A certain portion of the gift vouchers liability for the Swedish operating subsidiary is spread over more than five years because the gift vouchers are valid for 10 years.

Parent company SEK million	31 Aug 07	31 Aug 06
Current		
VAT	0.1	2.0
Other	0.6	0.2
	0.7	**2.2**

NOTE 22 | ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent company	
SEK million	31 Aug 07	31 Aug 06	31 Aug 07	31 Aug 06
Personnel related expenses	163.1	151.4	–	–
Financial costs	0.7	7.3	0.7	7.3
Rental liabilities	–	6.1	–	–
Costs related to proposed acquisition of AB Lindex (publ)	6.5	–	6.5	–
Other	62.5	27.3	0.1	0.7
	232.8	**192.1**	**7.3**	**8.0**

NOTE 23 | FINANCIAL RISKS AND FINANCIAL POLICY

In its business activities, the Group is exposed to different types of financial risk. Financial risk refers to fluctuations in the company's earnings and cash flow as a result of changes in foreign exchange rates, interest rates, refinancing and credit risks.

Management of the Group's financial risk is concentrated to a central financing department that uses the finance policy established by the Board of Directors. The Board of Directors has appointed a finance and Audit Committee, which among other tasks, is responsible for overseeing the formulation of the finance policy and, if necessary, proposing changes to the policy to the Board.

The Group's finance department is responsible for raising capital, liquidity management, currency exposure and interest rate risk management. The finance department is also responsible for finance policy issues and acts as an internal bank for the Group's subsidiaries. The overall objective of the finance department is to provide cost-effective financing and to minimise the negative effects of market fluctuation on the Group's profit.

Liquidity risk

Liquidity risk (also called financing risk) is the risk that the company's financing will not be able to be maintained, or only maintained at a significantly increased cost. According to the finance policy, there should always be sufficient cash funds to cover foreseeable expenses and investments. In addition, the maturity dates of the financial liabilities have been spread over time to limit the liquidity risk.

The company's financial liability as of 31 August 2007 was SEK 1,105 million (1,200). In addition to this, there are overdraft facilities in multiple currencies equivalent to SEK 696 million (496), of which SEK 143 million (218) was utilised as of 31 August 2007.

Interest rate risks

Interest rate risk may consist of changes in actual value, price risk, changes in cash flow and cash flow risk. A significant factor that changes interest rate risk is fixed interest terms. Long fixed interest terms mainly impact the cash flow risk, while short fixed interest terms affect the price risk.

Of the Group's debt, 60 per cent has been converted to fixed interest debt through interest swaps. The effective rate of interest on remaining loans amounted to 3.6 per cent as of 31 August 2007.

Management of the Group's interest exposure is a centralised function, which means that the central finance department is responsible for identifying and managing this type of exposure.

According to the finance policy, approximately 75 per cent of the company's loans that mature more than one year in the future are subject to interest rate hedging. Derivatives, such as interest rate swaps, are used to manage interest rate risk. The company uses hedge accounting when there is an effective connection between secured loans and interest rate swaps, (see also Note 1 Accounting Principles).

As of 31 August 2007, the company had interest rate swaps with a contractual value of SEK 1,000 million (800).

The actual net value of the swaps on 31 August 2007 was SEK 13 million (9) consisting of assets of SEK 13 million (9) and liabilities of SEK 0 million (0).

Total interest costs, including interest swaps with the loan structure of 31 August 2007 amounted to around SEK 56 million (56) for the financial year, which corresponds to around 1.5 per cent of the Group's costs.

Credit risk

Credit risk associated with financial activities

Financial risk management involves exposure to credit risk. This is mainly in the form of counterparty risk in connection with receivables from banks and other counterparties that arise when derivatives are purchased. The finance policy states that the company may only use internationally reputable banks.

Credit risk associated with accounts receivable

Since the Group is engaged essentially in cash sales with its customers, the credit risk associated with accounts receivable is minimal.

Currency exposure

The Group is exposed to various types of foreign currency risk since it has operations in several different countries and since much of the Group's purchasing is transacted in foreign currencies.

Transaction exposure

The Group has income and expenses in a number of foreign currencies. Thus KappAhl is exposed to exchange rate fluctuations. This risk is called transaction exposure and affects the Group's operating profit. The finance policy sets the parameters for managing this risk and this involves hedging the flows within a period of twelve months.

The foreign companies essentially generate income and expenses in their local currencies. This means that the Group's transaction exposure can most easily be illustrated by looking at the net currency flows in Sweden:

	1 Sep 06 31 Aug 07		1 Sep 05 31 Aug 06	
Currency	Outward	Inward	Outward	Inward
USD million	130	–	120	–
EUR million	36	30	31	28
NOK million	–	553	–	605
PLN million	–	25	–	25

The Group classifies forward contracts that are used to hedge forecast transactions as cash flow hedging. The actual value of forward contracts used to hedge forecast flows totalled a net amount of SEK –8 million as of 31 August 2007. Assets amounted to SEK 5 million and liabilities to SEK 13 million, which are recorded in the balance sheet.

On the closing date, underlying value of currency contracts amounted to USD 47 million, NOK –350 million and PLN –15 million.

Translation exposure

KappAhl uses Swedish kronor for its income statement and balance sheet. Parts of the Group use other currencies for their accounts, which mean that KappAhl's consolidated profit/loss and equity are exposed to exchange rate fluctuations. This type of currency exposure is called translation exposure and is not hedged.

The Group's net foreign assets are distributed into the following currencies:

Group Currency	31 Aug 07 SEK million	31 Aug 06 SEK million
NOK	191	273
EUR	102	84
PLN	17	10
HKD	0	4

NOTE 24 | OPERATIONAL LEASING

Lease agreements where the company is the lessee
Non-cancellable lease payments amount to:

	Group		Parent company	
SEK million	**31 Aug 07**	**31 Aug 06**	**31 Aug 07**	**31 Aug 06**
Within one year	2.1	1.3	–	–
Between one and five years	1.5	1.3	–	–
	3.6	**2.6**	**–**	**–**

NOTE 25 | INVESTMENT COMMITMENTS

Group
In 2007 the Group signed a number of low value agreements regarding the acquisition of tangible fixed assets, mainly for new stores. All agreements are within the Group's overall capital expenditure budget, which for the coming financial year is at a level comparable with the outcome for the financial year that ended on 31 August 2007. These undertakings are expected to be settled over the course of the next financial year.

NOTE 26 | PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent company	
SEK million	**31 Aug 07**	**31 Aug 06**	**31 Aug 07**	**31 Aug 06**
Pledged assets				
In the form of assets pledged to secure the company's own liabilities and provisions				
Floating charge	43.1	43.1	–	–
Net assets in subsidiaries	–	1,383.1	–	–
Shares in subsidiaries	–	–	1,271.1	1,271.1
Total pledged assets	**43.1**	**1,426.2**	**1,271.1**	**1,271.1**
Contingent liabilities				
Guarantee undertakings, FPG/PRI	0.4	0.4	None	None
Purchase guarantee	0.2	0.2	None	None
Total contingent liabilities	**0.6**	**0.6**	**None**	**None**

See Note 32 for a description and assessment of the customs dispute in Norway.

NOTE 27 | RELATED PARTIES

Related party relationships
The parent company has no related party relationship with its subsidiaries, see Note 28.

Transactions with key personnel in senior positions
The company's CEO, Christian W. Jansson and board member Paul Frankenius control 30.0 per cent (24.5) of the voting rights in the company via Pegatro Limited. Other senior executives control 1.7 per cent (2.4) of the voting rights in the company. The total remuneration is included in "remuneration to employees" (see Note 5 and 19).

NOTE 28 | PARTICIPATIONS IN GROUP COMPANIES

Parent company **SEK million**	**31 Aug 07**	**31 Aug 06**
Accumulated acquisition values		
Opening balance	2,971.1	1,271.1
Acquisition of all shares in KappAhl AS and KappAhl OY	–	1,700.0
Impairment due to dividends*	–88.7	–
Closing balance	**2,882.4**	**2,971.1**

* Impairment has been carried out on the shares in KappAhl AS due to dividends exceeding the profits earned after the acquisition.

cont. Note 28

Specification of the parent company's and the Group's holdings in Group companies

Subsidiary / Corporate ID number / Registered office	Number of shares	Share in %	31 Aug 07 Recorded value	31 Aug 06 Recorded value
KappAhl Sverige AB, 556060-4158, Sweden	60 000	100.0	1,271.1	1,271.1
KappAhl AS, 947659138, Norway		100.0	1,311.3	1,400.0
KappAhl OY, 460.230, Finland		100.0	300.0	300.0
Indirectly owned				
KappAhl Åland AB, 1737564-2, Åland		100.0	–	–
KappAhl Polska Sp.zo.o, 526-22-60-963, Poland		100.0	–	–
KappAhl Czech Republic s.r.o, 26447142, Czech Republic		100.0	–	–
KappAhl Far East Ltd, 438724, Hong Kong		100.0	–	–
Detaljhandel Logistik AB, 556636-2132, Sweden		100.0	–	–
KappAhl Mölndal AB, 556714-1444, Sweden		100.0	–	–
			2,882.4	**2,971.1**

NOTE 29 | CASH FLOW STATEMENT

The cash flow statement was drawn up using the indirect method.

Cash and cash equivalents

Group SEK million	31 Aug 07	31 Aug 06
The following components are included in cash and cash equivalents:		
Cash and cash equivalents	59.9	72.3
Total according to the balance sheet and cash flow statement	**59.9**	**72.3**

Cash and cash equivalents

Parent company SEK million	31 Aug 07	31 Aug 06
The following components are included in cash and cash equivalents:		
Cash and cash equivalents	0.0	0.0
Total according to the balance sheet and cash flow statement	**0.0**	**0.0**

Interest paid and dividend received

	Group		Parent company	
SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Dividend received from participations in subsidiaries	–	–	590.4	–
Interest received	22.6	1.8	1.8	–
Interest paid and other financial items	–96.9	–113.5	–62.0	–112.9
	–74.3	**–111.7**	**530.2**	**–112.9**

Adjustment for non-cash items

	Group		Parent company	
SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Depreciation	194.9	173.3	–	–
Provisions for pensions	–2.3	–10.2	–	–
Anticipated dividend	–	–	–459.0	–
Impairment due to dividend in addition to shareholders' equity	–	–	88.7	–
Other provisions	4.4	–41.7	–0.3	0.1
	197.0	**121.4**	**–370.6**	**0.1**

Acquisition of subsidiaries

Group SEK million	1 Sep 06 31 Aug 07	1 Sep 05 31 Aug 06
Purchase price:	1,672.4	–
Less: Cash and cash equivalents in the acquired operation	1,618.0	–
Effect on cash and cash equivalents	54.4	–

NOTE 30 | ACQUISITION OF SUBSIDIARIES

KappAhl Mölndal AB acquired the following subsidiaries over the year:

Company	Operation	Time of acquisition	Share of capital and voting rights %
Simbel Investment AB 556549-3870	Dormant company	6 Dec 2006	100
KappAhl Mölndal 2 AB 556226-6477	Dormant company	6 Dec 2006	100

The companies were acquired in cash for a total purchase price of SEK 1,671 million. The actual value of the acquired assets and liabilities amounted to SEK 1,671 million net, including deferred tax assets of SEK 49 million. Additionally a loss carry-forward has been received of SEK 1,140 million. Of this SEK 979 million has been blocked up to and including the 2011/2012 financial year. The acquired companies run no business activities. The acquisition has provided a positive net effect on the year's booked tax and equity of SEK 269 million, as a result of a re-evaluation of existing loss carry-forwards during the financial year. The value of the loss carry-forwards is motivated by the expected future surplus generated.

The two acquired companies were merged into the acquiring company in the third quarter of the financial year.

NOTE 31 | EVENTS AFTER THE CLOSING DATE

The parent company's Board of Directors approved the financial reports for issue on 14 October 2007.

NOTE 32 | CRITICAL ESTIMATES AND ASSESSMENTS

The Group's corporate management has held discussions with the Audit Committee on the subject of the development, decisions and information relating to the Group's critical accounting principles and assessments, as well as on the application of these principles and assessments. The items listed below are considered critical in this context.

Impairment tests

Impairment tests for goodwill and brands are conducted annually and described in Note 10.

Inventory valuation

Inventories are stated at the lower of cost and net realisable value. The amount of the net realisable value takes into account calculations based, among other things, on estimates of future selling prices, taking also into account discounts. The actual future sales price may differ from the estimates.

Taxes

A taxable deficit was seen in conjunction with the acquisition of the two companies, which has been valued in accordance with Note 30.

Customs dispute in Norway

During the 2005/2006 financial year a dispute with the customs authorities in Norway was settled in KappAhl's favour and the verdict gained legal force during the current financial year. There have however been further demands from the customs authorities, which contravene the verdict by the law court. There is therefore still a risk of uncertainty in this case, but the company and its advisers consider that the law court's initial verdict is correct.

NOTE 33 | PARENT COMPANY DETAILS

KappAhl Holding AB (publ) is a Swedish limited company (corporate ID number 556661-2312) that is registered in Mölndal. The head office address is Idrottsvägen 14, 431 24 Mölndal. The consolidated accounts for 2006/2007 consist of the parent company and its subsidiaries referred to as the Group.

The Board of Directors and CEO certify that the annual report has been prepared in accordance with good accounting principles, provides a true and fair view of the parent company's financial position and results of business activities, and that the directors' report gives a true and fair view of the development of the parent company's business, position and results, and describes significant risks and uncertainty factors faced by the parent company. The Board of Directors and CEO also certify that the consolidated accounts have been prepared in accordance with the international financial reporting standards, IFRS, as adopted by the EU, and give a true and fair view of the Group's financial position and results of operations, and describes significant risks and uncertainty factors faced by the Group.

Mölndal, 14 October 2007

Finn Johnsson
Chairman of the Board

Amelia Adamo
Board member

Paul Frankenius
Board member

Bodil Agneta Nilsson
Employee representative

Jan Samuelson
Board member

Pernilla Ström
Board member

Rose-Marie Zell-Lindström
Employee representative

Christian W. Jansson
CEO

Our audit report was issued on 15 October 2007

PriceWaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

Audit report

To the general meeting of the shareholders of
KappAhl Holding AB (publ)
Corporate Identity Number 556661-2312

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the CEO of KappAhl Holding AB (publ) for the financial year 1 September 2006 – 31 August 2007. The Annual Report is included in pages 26–59 of the printed version of this document. The Board of Directors and the CEO are responsible for these accounts and the administration of the company as well as for the application of international financial reporting standards, IFRS, as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 from 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 of Directors and the CEO and significant estimates made by the Board of Directors and the CEO when preparing the annual accounts and consolidated accounts 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 CEO. We also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the consolidated accounts. We recommend to the meeting of shareholders that the income statement 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 CEO be discharged from liability for the financial year.

Göteborg, 15 October 2007

PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

Corporate governance report

Group management

KappAhl Holding AB (publ) is a public Swedish company listed on the OMX Nordic Exchange Stockholm.

Corporate governance of the KappAhl Group is based on laws, listing agreements and good business practices. The corporate governance is also based on relevant guidelines and statements, including the 2007 Annual Report issued by the Swedish Corporate Governance Board.

This corporate governance report has been drawn up in accordance with the Swedish Code of Corporate Governance (the "Code") for the financial year. This report has not been subject to an inspection by the company's auditors. KappAhl's Articles of Association and other information concerning Corporate Governance is available at www.kappahl.com/ir.

Application of the code

KappAhl applies the Code, with the exception that the Audit Committee, in accordance with point 3.8.2 of the Code shall comprise of at least three Board members, while KappAhl's Audit Committee shall comprise of two Board members. The reason for this difference is that the Nominations Committee considers that the Audit Committee has worked effectively with two Board members and met their duties well in accordance with the instructions set by the Board of Directors.

Shareholders etc.

According to the VPC, Swedish Securities Register Centre, KappAhl had 8,769 shareholders on 31 August 2007 with foreign investors owning around 64 per cent of the shares. The ten largest shareholders as of 31 August 2007 are listed in the Directors' Report. In conjunction with the stock market listing of the company, CEO Christian W. Jansson and Board Member Paul Frankenius, who own equal shares in Pegatro Ltd., undertook not to sell or pledge more than half of their shareholding in KappAhl as per 22 February 2006.

Shares

The share capital in KappAhl Holding AB (publ) on 31 August 2007, amounted to SEK 10,720,000, divided among 75,040,000 shares. A round lot comprises 100 shares and trading takes place on the OMX Nordic Exchange Stockholm. KappAhl's market value as of 31 August 2007 was around SEK 4,800 million.

All shares are of the same type, entitling shareholders to the same rights in terms of the company's assets, profits and dividends. The most recently adopted dividend policy states that a dividend will be paid corresponding to 70–100 per cent of the net profit after tax.

Annual general meeting

The Annual General Meeting (AGM) of shareholders is KappAhl's highest decision-making body. The meeting will be held within six months of the end of each financial year. The notice to attend the meeting will be issued no earlier than six weeks before and no later than four weeks before the meeting. All shareholders listed in the share register and who have issued notice of attendance in time have the right to attend and vote at the meeting. A proxy may represent shareholders who are unable to attend.

The most recent General Meeting (GM) was held on 17 September 2007 in Mölndal. It was decided to authorise the Board of Directors that by the next AGM, and on one occasion, with preferential rights to existing shareholders, to decide on a share issue or to issue convertible debentures. The authorisation has not been utilised.

The most recent AGM was held on 21 December 2006 in Mölndal. Five ordinary Board Members were re-elected according to the Nominations Committee's proposals. Finn Johnsson was elected to the post of Chairman. The members elected by the meeting were: Finn Johnsson, Amelia Adamo, Paul Frankenius, Jan Samuelson and Pernilla Ström. The trade union representatives on the Board of Directors are Bodil Agneta Nilsson and Rose-Marie Zell-Lindström, with Melinda Hedström and Eva Larsson as deputies.

The minutes of all meetings are available at: www.kappahl.com/ir.

The next AGM will be held on 17 December 2007 in Mölndal. Shareholders wishing to have an item addressed at the meeting should send a written request to KappAhl Holding AB (publ), Attn: Chairman of the Board of Directors, Idrottsvägen 14, SE-431 24, Mölndal. The request must reach the Board of Directors at least seven weeks before the meeting, or in good time that the item, if necessary, can be included in the notification of the meeting. See also www.kappahl.com/ir.

Nominations committee

Election of the Board of Directors

The AGM set out instructions and a formal work plan for the Nominations Committee. The latter will consist of three members who will be representative for the three biggest owners as of the start of the month before the company's Q3 report. The Chairman of the Board of Directors will then contact the three biggest owners and be co-opted to the committee. As stated in a press release dated 18 June 2007, the Nominations Committee will consist, until the next AGM, of Kristian Lundius, Pegatro Ltd, Erik Sjöström, Skandia Liv and Arne Lööw, Fourth AP-fund. Chairman of the Board of Directors, Finn Johnsson, has been co-opted to the committee. The Nominations Committee held its meeting on 27 June 2007, whereby Kristian Lundius was elected as the committee's chairman. The committee will present its proposals in connection with the notice to attend the AGM. Shareholders wishing to make proposals to the Nominations Committee can do so in accordance with the information provided at www.kappahl.com/ir

The Nominations Committee decides upon, with respect of the Group's needs, what skills, experience and qualities the Board of Directors should possess. The aim is to create a suitable composition of the Board of Directors and for its joint skills and experience to provide a broad base to suit the phases and market situations faced by KappAhl. The committee also keeps itself up-to-date with general developments in issues of fees and remuneration in Swedish listed companies. The committee considered the issue of re-election and possible new-elections in 2007. A consultancy fee of SEK 100,000 was paid to an external consultant for surveys conducted on behalf of the Nominations Committee.

Chairman of the Board of Directors, Finn Johnsson, commissioned an individual assessment of the work of the Board of Directors and its committees during the summer of 2007 (similar to the assessment carried out during the summer 2006). The results of the latest assessment were reported to the committee on 5 September 2007. The assessment called for further training of employee representatives in certain subject areas, which is expected to be addressed in the next Board meeting. The Chairman of the Board of Directors has presented its assessment that the Board of Directors works well in fulfilling its duties.

The Nominations Committee has made the assessment that four of the five Board members elected by shareholders are independent in relation to the company and senior executives. Paul Frankenius, former deputy CEO of KappAhl, may, in accordance with the Code's definition in point 3.2.4, not be considered independent in relation to the company and senior executives.

Furthermore, the Nominations Committee considers that all four AGM-elected Board members, who are independent in relation to the company and the senior executives, are also independent in relation to the company's major shareholders.

Ahead of the AGM in December 2007 the Nominations Committee will make its proposals for Chairman of the meeting, the number of Board members, Chairman of the Board of Directors and other AGM elected members. The Nominations Committee will also submit its proposals for fees and remuneration for Board work and its committees.

Election of auditors

The 2005 AGM appointed PricewaterhouseCoopers AB as auditors with Bror Frid as the lead auditor for the period up to the AGM held in the fourth year after the election of auditors. The Nominations Committee and Auditors Committee made the judgement that PricewaterhouseCoopers AB has the necessary competence and experience for the assignment. Bror Frid has also auditing assignments at the following large companies: Broström, Geveko, Gunnebo, Gunnebo Industrier and VBG. He has no assignments in companies with close links to the main owners of KappAhl.

Bror Frid has personally reported his observations of auditing assignments to the Audit Committee and the Board of Directors. Within the framework of the auditing assignments, the annual report, accounts and the administration of the CEO and Board of Directors are checked. In addition tot the auditing assignment, which is remunerated in accordance with normal debit norms and the principle of a fixed account, PricewaterhouseCoopers AB has during the financial year sold services to the company for around SEK 0.7 million, of which most relates to ongoing consultancy for accountancy issues.

THE BOARD OF DIRECTORS

General

The Board of Directors is responsible for the company's administration of its affairs and organisation. Five ordinary members were elected to the Board of Directors at the AGM in December 2006 as stated above. As mentioned, the Board of Directors also includes two trade union representative members, each with a deputy. Jonas Frii, lawyer, is the secretary of the Board of Directors. Since the AGM on 21

December 2006 and up to 31 August 2007 the Board of Directors held six meetings, all of which were minuted. One meeting was a Board meeting after election, three meetings were ordinary meetings and two were extra meetings. Members' attendance at the respective meetings appears in the table below:

	22 Dec 2006	28 Mar 2007	27 Jun 2007	2 Aug 2007	9 Aug 2007	16 Aug 2007
Finn Johnsson	Yes	Yes	Yes	Yes	Yes	Yes
Amelia Adamo	Yes	Yes	Yes	Yes	Yes	Nej
Paul Frankenius	Yes	Yes	Yes	Yes	Yes	Yes
Jan Samuelson	Yes	Yes	Yes	Yes	Yes	Yes
Pernilla Ström	Yes	Yes	Yes	Yes	Yes	Yes
Melinda Hedström	Yes	Yes	Yes	Yes	Yes	Yes
Eva Larsson	Yes	Yes	Yes	Yes	Yes	Yes
Bodil Agneta Nilsson	Yes	Yes	Yes	Yes	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	No	Yes	Yes	Yes

The CEO and CFO made presentations at Board meetings. Remuneration and benefits for Board members are presented in Note 19 on page 53. Board members' shareholdings in KappAhl are presented on pages 68–69.

Work of the Board of Directors

Between AGMs the Board of Directors shall hold four to six meetings. These meetings normally take place at the head office in Mölndal. Extra meetings may also be arranged and they may take the form of a telephone conference if time prevents a more conventional meeting. The chairman leads and organises the work of the Board of Directors. Prior to each meeting, a proposed agenda and relevant documents are sent out. The chairman in consultation with the CEO draws up the proposed agenda. Matters are presented at meetings either for a decision or to provide information. Decisions are made after a discussion and after all members present have had an opportunity to express their views.. The broad experience of members in various areas often leads to an open and constructive discussion. During the year no Board member has opposed any of the decisions made. Open questions are followed up continually.

The Board of Directors has not divided responsibilities among members other than that which is required by the work procedures. These procedures were established at the first Board meeting after election on 22 December 2006 and are revised annually. They stipulate the division of assignments between chairman, Board members and committees, and indicate which matters are to be addressed at certain meetings. For example, the June meeting addressed KappAhl's foreign business activities. At each ordinary meeting, directors receive reports from the audit committee, remuneration committee and senior executives. Decisions are also made concerning new start-ups and investments. Some of the most important matters addressed by the Board of Directors during the year were the decision to start projects to establish in a new country and to submit an offer to acquire all shares in AB Lindex (publ). After significant events, or in connection with longer intervals between Board meetings, the CEO sends memoranda to members that describe business and market conditions. The purpose is to keep the Board of Directors informed about the development of the business so that the Board of Directors can make well-informed decisions. Once a year the Board of Directors makes an assessment of the work of the CEO. No senior executives are present at this assessment.

The Board of Directors assures the quality of financial reporting through its own work, through the preparatory work of the audit committee and through contacts with auditors. In connection with the presentation of the audit report, the Board of Directors met with auditors.

Members of the Board of Directors

KappAhl's Board of Directors comprises seven members, including the chairman, employee representatives and two deputies. The presentation of the Board members on pages 68–69 includes a list of other assignments and relevant shareholdings. More information is available at: www.kappahl.com/ir.

Remuneration committee, etc.

The remuneration committee was appointed by the Board of Directors at its first meeting after election. Until the AGM on 17 December 2007 the committee will comprise of Finn Johnsson (chairman) and Amelia Adamo. After the AGM on 21 December 2006 and up until 31 August 2007 the committee held two meetings.

The committee prepares questions about the remuneration and other employment terms for for senior executives and about bonus and reward schemes within the Group. All members of the remuneration committee are independent of KappAhl's senior management team. The chairman of the Board of Directors leads the committee. The committee works according to written procedures set by the Board of Directors. In addition to reporting at each Board meeting,

the committee shall submit a written report at least once a year. The committee does not have the authority to make decisions, other than those decisions taken as a result of implementing the remuneration policy set by the AGM on 21 December 2006 for senior executives. The set policy means, among other things, that senior executives shall be offered a fixed salary that is market-related and based on responsibility and performance. Salaries shall be set for the calendar year, and a senior executive may, from time to time, be offered a bonus that can be a maximum of 50% of fixed salary. Any bonuses shall primarily be based on the operating profits of the KappAhl Group. Senior executives and the company must both observe a period of six months' notice of dismissal. There is no severance pay and neither are there any reward schemes based on share performance.

The remuneration policy is reviewed annually and is presented to the annual general meeting for approval.

Audit committee

The Board of Directors at its first meeting also appointed the audit committee after election. Until the AGM on 17 December 2007 the committee comprises Jan Samuelson (chairman) and Pernilla Ström. The nominating committee considers that both meet the criteria of being independent in relation to the company and senior executives. The audit committee provides support to the Board of Directors concerning internal and external audits, financial reporting and controls. The committee communicates with the company's auditors about issues that fall within the committee's remit. The committee has, in conjunction with the report being submitted, met with the auditor without the CEO or other senior executive being present. In 2007 committee work included preparing issues concerning interim reports and internal financial control. After the GM on 3 January and up to 31 August 2007 the committee had three meetings, for which all were minuted. All of which minutes were kept. All committee members attended all meetings. The Board's secretary is also the secretary of the audit committee. The work of the audit committee follows written procedures set by the Board of Directors, and in addition to making reports at each Board meeting, the committee submits a written report to the Board of Directors at least once a year. Minutes of committee meetings are read by the Board of Directors. The committee is a preparatory body that is not authorised to make decisions.

Management team

KappAhl's management team and its shareholding are presented on pages 66–67.

Report on internal controls

The aim of the internal control is to create an effective decision-making process in which demands, aims and frameworks are clearly defined. It's main aim is to protect the company's assets and thereby the shareholders' investments. The Board of Directors is responsible for the company's internal control and as part of this duty has drawn up a report about internal control concerning the financial reporting for the financial year. The report has been drawn up in accordance with the Code and its instructions for implementation and is therefore limited to a description of how the internal control concerning the financial reporting is organised. Neither the report nor the summary below has been subject to scrutiny by the company's auditors.

Control environment

The control environment is the bedrock of internal control. The control environment mainly consists of ethical values, integrity, competencies, management philosophies, organisational structure, responsibilities and authorisation. KappAhl's internal work procedures, instructions, policies, guidelines and manuals are important in this context because they guide the employees.

KappAhl has set a distinct division of roles and responsibility for the effective management of business risks, including through the Board of Directors's and committee's work procedures and through instructions for the CEO. The latter, and the audit committee, regularly report to the Board of Directors. All current activities are the responsibility of the CEO, including the internal control systems required for creating a control environment for significant risks.

KappAhl also has a set of guidelines and policies concerning financial controls and follow-up, communication issues and business ethics. Credit and currency management, financial control and follow-up frameworks have been set through sets of financial, reporting and investment policies.

KappAhl also has a communication policy whose main aim is to treat all interested parties equally, to submit significant information at the right time and to correctly meet applicable regulations and good working practices concerning the publication of information in listed companies in Sweden.

KappAhl has also adopted a Code of Conduct for the entire Group. The Code is based on a series of internationally accepted conventions and expresses the values and guidelines applicable within the Group with regard to business ethics, freedoms and rights.

All companies in the Group are principally the same structurally with similar finance systems and accounting systems.

The Board of Directors considers there to be a good understanding among employees for the need of good controls concerning financial reporting.

In summary, KappAhl's internal control structure is based on the division of labour between the company bodies, reporting to the Board of Directors, set policies and guidelines and that employees follow policies and guidelines ensuring a good control of financial reporting can be kept.

Risk assessment and control activities

KappAhl constantly works with risk analyses in order to identify potential sources of fault in financial reporting.

Processes in which risks for significant faults in the financial reporting can be considered relatively higher than in other processes have been identified, which are a result of the complexity of the business processes or as a result of the high amount or transaction volumes. KappAhl has outlined the vulnerability of certain IT systems that generate the foundation for the financial reports, risks for incorrect valuing of inventory and slow-moving products. The outlining and subsequent risk assessment has resulted in a number of countermeasures and control activities. Some IT systems have been upgraded and new routines for security copies introduced. A thorough job has also been done of documenting certain financial and business processes. Normal control activities include checking accounts and support controls. The aim of all the countermeasures and control activities is to prevent, discover and correct possible faults or inaccuracies in the financial reporting.

The aim over the next financial year is to continue following up control activities.

Follow-up

The Board of Directors continually evaluates the information received by the senior executives and Audit Committee. The committee's work in following up the efficiency of the management group's work with internal control is of significant importance for the Board of Directors. The work includes safeguarding that measures are taken concerning the faults and proposals for measures that might have occurred when performing external audits.

Information and communication

The dissemination of accurate information for both internal and external consumption requires all parts of the business to communicate and share key information with each other. To achieve this, KappAhl has established policies and guidelines for managing information in the financial process, which are communicated between management and staff. For communication with external partners there is also a policy that stipulates guidelines for how such communication should be carried out and when, for example, a logbook should be used. The main aim of this policy is to safeguard legal requirements and listing regulations are followed.

Internal audit revision

To date, KappAhl has not considered it necessary to establish a specific internal audit staffing function. The reason is that the internal control work has meant that awareness of the internal control in the Group has risen and. that other control activities have been initiated. The issue of a specific internal audit staffing function will be reviewed annually.

Management

Linda Hamberg (born 1951) is Vice President, Sales at KappAhl since 2004 and has been with the company since 1981. Linda Hamberg has a B.Sc. in Business Administration from School of Business, Economics and Law at Göteborg University.
Shareholding: 252,000 shares

Gudrun Fahlback (born 1948) is Vice President, Marketing at KappAhl since 2006 and has been with the Group management since the employment 2003. Gudrun Fahlback has a B.Sc. in Business Administration from School of Business, Economics and Law at Göteborg University.
Shareholding: 132,000 shares including family members

Mari Svensson (born 1963) is Vice President, Purchasing at KappAhl since 2004 and has been with the company since 2000. Mari Svensson has a B.Sc. in Business Administration from School of Business, Economics and Law at Göteborg University.
Shareholding: 252,000 shares

Håkan Westin (born 1959) is Chief Financial Officer at KappAhl since 2001 and has been with the company since 1989. Håkan Westin has a B.Sc. in Business Administration from School of Business, Economics and Law at Göteborg University and an MBA from the London Business School.
Shareholding: 412,600 shares

Kajsa Räftegård (born 1965) is Vice President, Human Resources and Public Relations at KappAhl since 2002 and has been with the company since 1995. Kajsa Räftegård has a B.Sc. in Sociology from Göteborg University.
Shareholding: 252,000 shares

Christian W. Jansson (born 1949) is President and CEO at KappAhl since 2002. Christian W. Jansson is also a board member of Bong Ljungdahl AB. Christian W. Jansson has a B.Sc. in Business Administration from Lund University.
Shareholding: 11,255,500 shares through company

Board of Directors

Paul Frankenius
(b. 1958). Paul Frankenius is a board member of KappAhl. Paul Frankenius was Deputy CEO of KappAhl from 2002 to January 2006. Prior to starting at KappAhl Paul Frankenius was Purchasing Director and Deputy CEO of Jeans & Clothes Sweden AB. Paul Frankenius is also Chairman of the Board of Swedbank Sjuhärad AB and Bockasjö AB and board member of Scorett Foot Wear AB.
Shareholding: 11,255,500 shares through company

Pernilla Ström
(b. 1962). Pernilla Ström is a board member of KappAhl. Pernilla Ström is also a board member of Bonnier AB, SalusAnsvar AB, Uniflex AB, Hagströmer & Qviberg AB, Q-Med AB and AcadeMedia AB. Pernilla Ström studied economics at the Stockholm School of Economics and literary studies etc. at Stockholm University.
Shareholding: 70,000 shares

Eva Larsson
(b. 1950). Eva Larsson is a deputy board member, and an employee representative, of KappAhl. Eva Larsson works as a sales representative at KappAhl and has completed business management training organised by Sweden's Commercial Employees' Union.
Shareholding: 1,000 shares

Melinda Hedström
(b. 1966). Melinda Hedström is a deputy board member, and an employee representative, of KappAhl. Melinda Hedström works as a sales representative at KappAhl and has completed business management training organised by Sweden's Commercial Employees' Union.
Shareholding: 0 shares

Jan Samuelson
(b. 1963). Jan Samuelson is a board member of KappAhl. Jan Samuelson is employed by Accent Equity Partners AB and is also a board member of Accent Equity Partners AB, AB Annas Pepparkakor and Scandic Hotels AB. Jan Samuelson has a B.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 0 shares

Amelia Adamo
(b. 1947). Amelia Adamo is a board member of KappAhl. Amelia Adamo is a publisher and responsible for the Amelia Publishing Group (the magazines Amelia, Tara and M-magasin). Amelia Adamo is also board member of Bonnier Tidskrifter AB, Bonnier Mediauniversitet AB, Sveriges Tidskrifter AB, Söders Media och Pr Konsult AB and SSRS Holding AB. Amelia Adamo was the former editor in chief of Amelia magazine and has worked for Vecko-Revyn and been features editor at Aftonbladet. Amelia Adamo has a B.Sc. in Social Siences from Stockholm University.
Shareholding: 100,000 shares

Finn Johnsson
(b. 1946). Finn Johnsson is Chairman of the board of KappAhl. Finn Johnsson is also Chairman of the Board of AB Volvo, Luvata Oy, Thomas Concrete Group AB, Unomedical A/S, City Airline and EFG European Furniture Group AB and board member of Skanska AB and AB Industrivärlden. Finn Johnsson has a B.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 200,000 shares

Rose-Marie Zell-Lindström
(b. 1947). Rose-Marie Zell-Lindström is a board member, and an employee representative, of KappAhl. Rose-Marie Zell-Lindström is a KappAhl store manager.
Shareholding: 0 shares

Bodil Agneta Nilsson
(b. 1948). Bodil Agneta Nilsson is a board member, and an employee representative, of KappAhl. Bodil Agneta Nilsson works as a sales representative at KappAhl and has completed business management training organised by Sweden's Commercial Employees' Union.
Shareholding: 200 shares

Financial information

Q1 (1 Sep–30 Nov)	17 December 2007
Q2 (1 Dec–28 Feb)	1 April 2008
Q3 (1 Mar–31 May)	27 June 2008
Q4 (1 Jun–31 Aug)	30 September 2008

Definitions

Average number of employees
Average number of employees restated as full-time employees

EBITA
Earnings before amortisation of intangible assets

EBITDA
Earnings before amortisation

Earnings per share
Earnings after tax/average number of shares

Earnings per share after dilution
Earnings after tax/average number of shares after full dilution

Equity/assets ratio
Equity/balance sheet total

Equity per share
Equity/average number of shares

Interest coverage ratio (times)
EBITDA/net interest excluding one-off items for the most recent 12-month period

Net interest-bearing liabilities
Interest-bearing liabilities less liquid funds

Net interest-bearing liabilities/EBITDA (times)
Net interest-bearing liabilities/EBITDA for the most recent 12-month period

Share price/Equity
Share price per share/equity per share, both at the closing day rate

Annual General Meeting

The Annual General Meeting of KappAhl Holding AB (publ) will be held at 2 p.m. on Monday, 17 December at KappAhl's head office, Idrottsvägen 14 in Mölndal, Sweden.

Right to participate
Shareholders who wish to participate in the Annual General Meeting must be registered in VPC AB's (the Swedish Central Securities Depository) share register no later than Tuesday 11 December 2007, and have sent notification of participation at the Annual General Meeting no later than 12 noon on Tuesday 11 December 2007. Shareholders who have chosen to register in the names of nominees must temporarily re-register the shares in their own names if they want to exercise their right to participate in the Annual General Meeting. Shareholders who wish to use this form of registration must inform the nominees of their intention in good time before 11 December 2007.

Notification
Notification of participation in the Annual General Meeting should be by:
- email: gm@kappahl.com
- telephone: +46 31 771 55 00
- fax: +46 31 771 58 15
- mail: KappAhl Holding AB (publ), Box 303, 431 24 Mölndal, Sweden

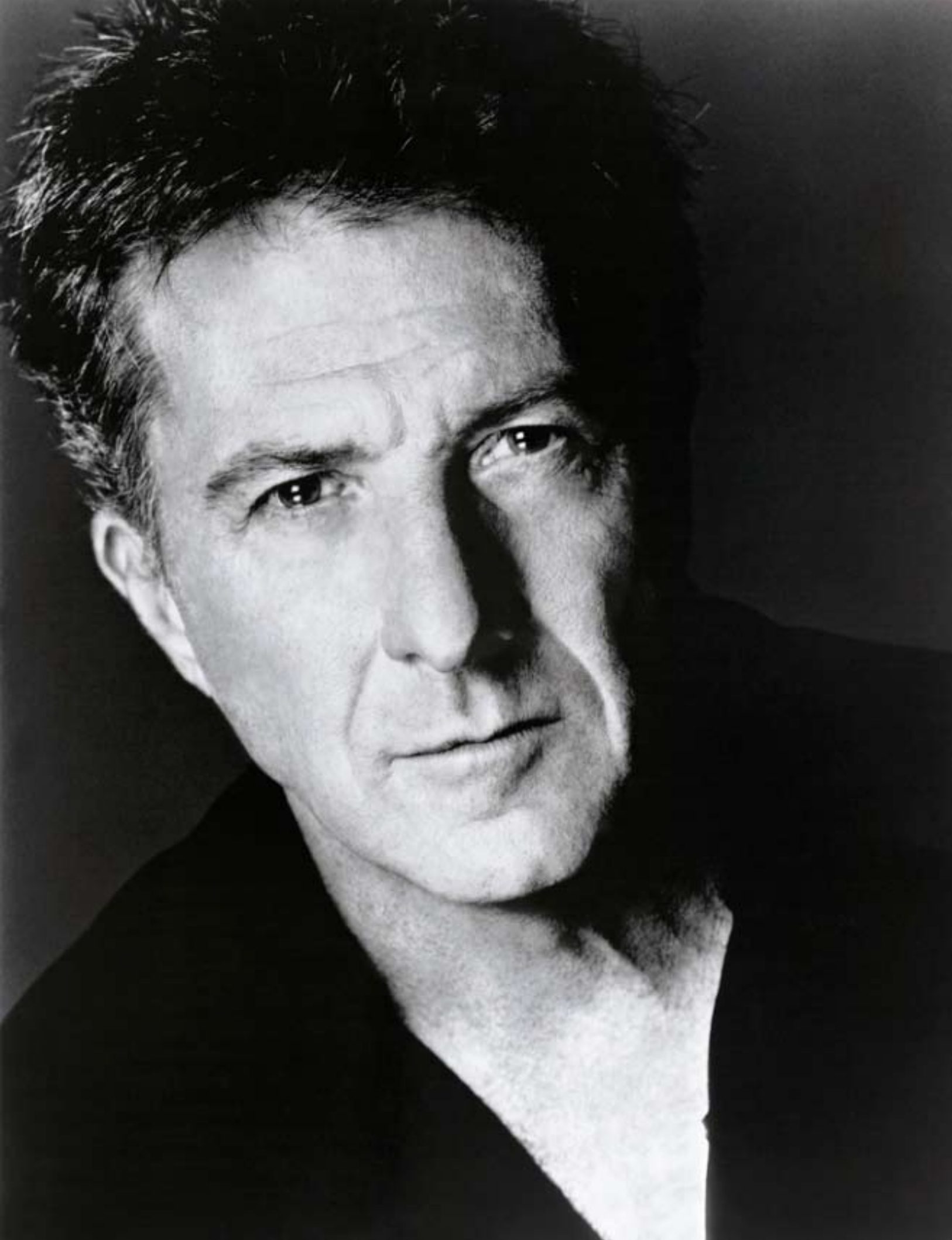
The notification should include the shareholder's name, address, telephone number, civic registration number and shareholding. Notification of participation at the Annual General Meeting and information regarding nominees and deputies are registered in order to draw up a voting list. Any authorisation should be in writing and submitted by no later than at the Annual General Meeting.

Complete notice to attend
A complete notice to attend the Annual General Meeting will be published separately in accordance to the provisions laid out in the Articles of Association.

Welcome!

We don't believe in selling a lifestyle.
You have one already.
We don't believe in expensive collections
for an exclusive few.
We believe in fashion that suits you.
We don't believe in eternal youth,
however we believe that people mature,
grow wiser and even more beautiful.
Take it as a compliment.

You look great!



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