

Interim report for the Third Quarter of financial year 2006/2007

## Significant increase in sales and new dividend policy

### Third Quarter (March – May 2007)

- KappAhl's net sales for the period amounted to MSEK 1,106 (1,029), an increase of 7.5 percent.
- Operating profit amounted to MSEK 132 (120), an increase of 10.0 percent. This has been positively affected by non-recurring items of MSEK 3.
- The gross margin was 62.3 (61.9) percent and the operating margin was 11.9 (11.7) percent.
- Profit after taxes amounted to MSEK 79 (73), which is equivalent to SEK 1.05 (0.97) per share.
- Cash flow from continuing operations totalled MSEK 136 (83).

### CEO comments on KappAhl's third quarter results

*We have now experienced yet another quarter affirming KappAhl's position as leading Nordic fashion chain.*

*Sales increased in comparable stores by 6 percent and, in total, by 7.5 percent during the quarter. One contributing factor to these strong sales has been our investment in marketing our fashions, among other things through various campaigns focused around the concept "You look great!" This will continue in the autumn, as yet another very well-known person will be featured in advertising films for KappAhl.*

*After a decline in the number of new stores opened in the spring, we are now starting to pick up the pace. From now on, our aim is to increase the total number of stores by 20-25 per year. This strategy also includes starting to plan for the opening of stores in one further country.*

*It is also pleasing to be able to report that KappAhl's financial position is so stable that the Board of Directors has decided that the Company will increase the dividend goal to 70-100 percent of the profit after paid taxes, starting with this financial year.*

*Christian W. Jansson  
President and CEO*

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**KappAhl** is a leading Nordic fashion chain with approximately 270 stores in Sweden, Norway, Finland and Poland. We design, market and sell clothes for the entire family, but focus in particular on women between 30 and 50 years of age, shopping for the whole family. KappAhl's head office and distribution centre, which handles the distribution of goods to all stores, is located in Mölndal, just outside Gothenburg. KappAhl employs approximately 3,700 individuals, more than 90 percent of whom are women. During the financial year 2005/2006, KappAhl had sales of SEK 4.2 billion, with an operating profit of MSEK 530. KappAhl shares are listed on the Stockholm Stock Exchange. Further information about the company is available on [www.kappahl.com](http://www.kappahl.com) and financial information is available on [www.kappahl.com/ir](http://www.kappahl.com/ir).

**Nine months (September 2006 – May 2007)**

- KappAhl's net sales for the period amounted to MSEK 3,383 (3,207), an increase of 5.5 percent.
- Operating profit amounted to MSEK 435 (357), an increase of 21.8 percent. This has been positively affected by non-recurring items of MSEK 16.
- The gross margin was 60.8 (59.3) percent and the operating margin was 12.9 (11.1) percent.
- Profit after taxes amounted to MSEK 540 (187), which is equivalent to SEK 7.20 (2.49) per share. This has been positively affected by a tax income of MSEK 270.
- Cash flow from continuing operations totalled MSEK 449 (364).
- 15 new stores have been opened and three have closed. In total, there were 272 stores at the end of the period.

**Comments on the third quarter***Net sales and results*

KappAhl's net sales for the period amounted to MSEK 1,106 (1,029), an increase of 7.5 percent. This increase is comprised of exchange rate differences (primarily against NOK) -1.5 percent, new and closed stores 3.0 percent and the development of sales in comparable stores 6.0 percent.

We have, for the current year, increased our focus on sales by strengthening marketing, among other things. We are now seeing the effects of this work in the very strong development of comparable units. The increase in sales is also attributable to the fact that we have had 13 more stores open during the period compared with the previous year. This has been mitigated by exchange rate fluctuations, which have affected net sales negatively when recalculated into SEK.

Gross profit for the period totalled MSEK 689 (637), which is equivalent to a gross margin of 62.3 percent. Currency effects have contributed positively to the gross margin at the same time as frequent customer offers have had the opposite effect.

Sales and administrative expenses amounted to MSEK 560 (517) for the period. Costs increased slightly faster than sales, predominantly due to the increased marketing efforts.

Operating income was MSEK 132 (120), which is equivalent to an operating margin of 11.9 percent. Selling the premises of one closed-down store has positively affected the result by MSEK 3.

Depreciation according to plan amounted to MSEK 50 (46).

Net financial items for the period were MSEK -21(-18) and profit after financial items MSEK 111 (102). Net financial items for the quarter were negatively affected by MSEK 4 by the company acquisition that was made during the second quarter. Profit after estimated tax was MSEK 79 (73). Earnings per share after tax were SEK 1.05 (0.97) for the period.

*Cash flow*

KappAhl's cash flow from continuing operations amounted to MSEK 136 (83) for the third quarter and cash flow after investments amounted to MSEK 73 (28).

*Financing and liquidity*

Net debt at the end of the period amounted to MSEK 1,479 (1,643) and the equity/assets ratio was 23.9 (9.8) percent. The net interest-bearing liabilities/EBITDA ratio was 1.8 at the end of the period.

Cash and cash equivalents totalled MSEK 128 (109) on 31 May 2007. In addition, there were unutilised credit facilities amounting to approximately MSEK 500.

**Comments on the first nine months***Market*

The Nordic countries have a strong development of GNP compared to the rest of Europe. This is leading to the strong development of private consumption and also for the strong development of the demand for clothing. Tax decreases in Sweden have also contributed to the increase in consumption.

The group has a strong position within the Nordic market. KappAhl is market leader in clothing store sales in Sweden and third largest in Norway, according to independent statistics from GfK. The group also holds a significant position in Finland.

*Net sales*

KappAhl's net sales for the period amounted to MSEK 3,383 (3,207), an increase of 5.5 percent. This increase is comprised of exchange rate differences (primarily against NOK) -1.7 percent, new and closed stores 3.9 percent and the development of comparable stores 3.3 percent.

The sale of cosmetics, which last year amounted to MSEK 41, has been phased out, affecting sales in comparable stores by 1.3 percent. Consequently, sales of clothing in comparable stores have increased by 4.6 percent.

*Store network*

KappAhl has opened 15 stores during the period. Four stores were opened in Sweden and in Norway, five in Finland and two in Poland. At the end of the period, the total number of stores was 272 (259). Of these, 132 were in Sweden, 84 in Norway, 41 in Finland and 15 in Poland. Two stores in Sweden and one in Norway closed during the period.

*Expansion*

After a decline in the number of new stores opened in the spring, we are now starting to pick up the pace. From now on, our aim is to increase the total number of stores by 20-25 per year. This strategy also includes starting to plan for the opening of stores in one further country.

In addition to the 272 stores that were in operation by 31 May 2007, there are contracts for an additional 31 new stores, two which will open in the fourth quarter.

*Inventory*

At the end of the period, KappAhl's inventory amounted to MSEK 535 (482). This increase is due to the fact that, during the previous year, we had undesirably low inventory levels for the season and that we now have 13 more stores open. The inventory is well-balanced regarding both size and composition.

*Investments*

A total of MSEK 210 (181) has been invested since the beginning of the financial year, the majority in stores. The investments are directed towards efforts to enhance customer experience in our stores. MSEK 55 of the investments refers to the corporate acquisition in the second quarter.

*Cash flow*

KappAhl's cash flow from operating activities amounted to MSEK 449 (364) during the first nine months and cash flow after investments amounted to MSEK 239 (183).

*Taxes*

The tax rate for the whole year has been calculated at approximately 28 percent. In addition, there is a positive non-recurring effect of MSEK 270 from the corporate acquisition.

**New dividend policy**

On 27 June 2007, the Board of Directors decided to change its dividend policy from 50-70 percent of profit after paid taxes to 70-100 percent, as of the financial year 2006/2007. This increase followed the evaluation that the Company's financial position is strong. Considering that the expansion will not require further operating capital, cash flow can be considered to be very satisfactory.

**Parent Company**

The Parent Company's net sales during the second quarter were MSEK 2 and profits after financial items amounted to MSEK -24. For the six month period, the profit after financial items amounted to MSEK -34. The Parent Company did not make any investments during the period.

**Events following the end of the reporting period**

No essential events have taken place following the end of the report period.

**Upcoming financial reports**

Fourth quarter (1 June – 31 Aug)	3 October 2007
First quarter (1 Sept – 30 Nov) and Annual General Meeting	17 December 2007

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

Möln dal, 28 June 2007  
KappAhl Holding AB (publ)

*The Board of Directors*

Consolidated income statement - Summary (SEK million)	Q3 2006/07	Q3 2005/06	Sept-May 2006/07	Sept-May 2005/06 1)	Last 12 months June-May
Net sales	1 106	1 029	3 383	3 207	4 393
Cost of goods sold	Note 1 -417	-392	-1 326	-1 306	-1 697
<b>Gross profit</b>	<b>689</b>	<b>637</b>	<b>2 057</b>	<b>1 901</b>	<b>2 696</b>
Selling expenses	-528	-477	-1 529	-1 432	-1 960
Administrative expenses	-32	-40	-109	-112	-144
Other operating income	Note 2 3	0	16	0	16
<b>Operating profit</b>	<b>132</b>	<b>120</b>	<b>435</b>	<b>357</b>	<b>608</b>
Financial income	11	0	23	3	23
Financial expenses	Note 3 -32	-18	-81	-101	-93
<b>Profit after financial items</b>	<b>111</b>	<b>102</b>	<b>377</b>	<b>259</b>	<b>538</b>
Tax	Note 4 -32	-29	163	-72	118
<b>Net profit</b>	<b>79</b>	<b>73</b>	<b>540</b>	<b>187</b>	<b>656</b>
Earnings per share, SEK	1,05	0,97	7,20	2,49	8,74
Earnings per share after dilution, SEK	1,05	0,97	7,20	2,49	8,74

1) Reclassification of 4 between selling expenses and administrative expenses.

Consolidated Balance Sheet - Summary (SEK million)	31-May-07	31-May-06	31-Aug-06
Tangible fixed assets	674	660	662
Intangible fixed assets*	1 345	1 357	1 349
Deferred tax assets	415	182	122
Inventories	535	482	558
Other operating receivables	96	91	105
Cash and cash equivalents	128	109	83
<b>Total assets</b>	<b>3 193</b>	<b>2 881</b>	<b>2 879</b>
Equity	762	283	412
Interest-bearing long-term liabilities	1 304	1 391	1 370
Non-interest-bearing long-term liabilities	266	251	236
Interest-bearing current liabilities	303	361	297
Non-interest-bearing current liabilities	558	595	564
<b>Total equity and liabilities</b>	<b>3 193</b>	<b>2 881</b>	<b>2 879</b>
*of which goodwill	696	704	696
*of which trademarks	610	610	610

Consolidated cash flow statement - Summary (SEK million)	Q3 2006/07	Q3 2005/06	Sept-May 2006/07	Sept-May 2005/06
<b>Cash flow from continuing operations before changes in working capital</b>	<b>133</b>	<b>88</b>	<b>464</b>	<b>294</b>
Changes in working capital	3	-5	-15	70
<b>Cash flow from continuing operations</b>	<b>136</b>	<b>83</b>	<b>449</b>	<b>364</b>
Cash flow from investment activities	-63	-55	-210	-181
<b>Cash flow after investments</b>	<b>73</b>	<b>28</b>	<b>239</b>	<b>183</b>
Change bank overdraft facility	1	215	60	84
Dividend	0	-169	-188	-169
Other from financial activities	Note 5 -1 622	-18	-66	-72
<b>Cash flow from financial activities</b>	<b>-1 621</b>	<b>28</b>	<b>-194</b>	<b>-157</b>
<b>Cash flow for the period</b>	<b>-1 548</b>	<b>56</b>	<b>45</b>	<b>26</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>1 676</b>	<b>53</b>	<b>83</b>	<b>83</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>128</b>	<b>109</b>	<b>128</b>	<b>109</b>

Specification of changes in the Group's equity	Sept-May 2006/07	Sept-May 2005/06
Opening equity	412	284
Translation differences for the period	-2	0
Change in fair value reserves	0	-19
Dividend	-188	-169
New share issue	0	0
Profit for the period	540	187
<b>Closing equity</b>	<b>762</b>	<b>283</b>

Number of stores per country	31-May-07	27-Feb-07	30-Nov-06	31-Aug-06	31-May-06
Sweden	132	131	133	130	129
Norway	84	84	85	81	80
Finland	41	40	40	36	36
Poland	15	13	13	13	14
<b>Total</b>	<b>272</b>	<b>268</b>	<b>271</b>	<b>260</b>	<b>259</b>

Sales per country	Q3 2006/07	Q3 2005/06	Change SEK %	local currency	Change %
Sweden	634	580	9,3%		9,3%
Norway	298	291	2,4%		6,3%
Finland	128	120	6,6%		9,0%
Poland	46	38	21,1%		18,7%
<b>Total</b>	<b>1 106</b>	<b>1 029</b>	<b>7,5%</b>		

Sales per country	Sept-May 2006/07	Sept-May 2005/06	Change SEK %	local currency	Change %
Sweden	1 931	1 803	7,1%		7,1%
Norway	938	939	-0,1%		5,8%
Finland	383	355	8,5%		10,4%
Poland	131	110	18,1%		20,9%
<b>Total</b>	<b>3 383</b>	<b>3 207</b>	<b>5,5%</b>		

Segment reporting	Net sales Sept-May 2006/07	Net sales Sept-May 2005/06	Operating income Sept-May 2006/07	Operating income Sept-May 2005/06
Nordic countries	3 252	3 097	425	351
Poland	131	110	10	6
<b>Total</b>	<b>3 383</b>	<b>3 207</b>	<b>435</b>	<b>357</b>

Quarterly income statement (SEK million)	Q3 March-May 06/07	Q2 Dec-Feb 06/07	Q1 Sept-Nov 2006	Q4 June-Aug 2006	Q3 March-May 2006	Q2 Dec-Feb 2005/06 1)	Q1 Sept-Nov 2005	Q4 June-Aug 2005
Net sales	1 106	1 088	1 189	1 010	1 029	1 026	1 152	987
Cost of goods sold	-417	-460	-449	-371	-392	-437	-477	-390
<b>Gross profit</b>	<b>689</b>	<b>628</b>	<b>740</b>	<b>639</b>	<b>637</b>	<b>589</b>	<b>675</b>	<b>597</b>
Selling expenses	-528	-488	-513	-431	-477	-468	-487	-447
Administrative expenses	-32	-36	-41	-35	-40	-33	-39	-31
Other operating income	3	13						
<b>Operating profit</b>	<b>132</b>	<b>117</b>	<b>186</b>	<b>173</b>	<b>120</b>	<b>88</b>	<b>149</b>	<b>119</b>
Financial income	11	10	2	0	0	2	1	3
Financial expenses	-32	-33	-16	-12	-18	-64	-19	-48
<b>Profit after financial items</b>	<b>111</b>	<b>94</b>	<b>172</b>	<b>161</b>	<b>102</b>	<b>26</b>	<b>131</b>	<b>74</b>
Tax	-32	244	-49	-45	-29	-7	-36	-11
<b>Net profit</b>	<b>79</b>	<b>338</b>	<b>123</b>	<b>116</b>	<b>73</b>	<b>19</b>	<b>95</b>	<b>63</b>

1) Reclassification of 4 between selling expenses and administrative expenses.

Key ratios	Q3 2006/07	Q3 2005/06	Sept-May 2006/07	Sept-May 2005/06	Last 12 months June-May
Growth in sales	7,5%	7,7%	5,5%	9,3%	4,7%
Earnings per share, SEK	1,05	0,97	7,20	2,49	8,74
Total depreciation/amortisation	50	46	147	127	197
EBITA	132	120	435	357	608
Gross margin	62,3%	61,9%	60,8%	59,3%	61,4%
Operating margin	11,9%	11,7%	12,9%	11,1%	13,8%
EBITA margin	11,9%	11,7%	12,9%	11,1%	13,8%
Interest coverage ratio	-	-	-	-	6,78
Net interest-bearing liabilities	1 479	1 643	1 479	1 643	1 479
Net interest-bearing liabilities/EBITDA	-	-	-	-	1,8
Equity/assets ratio	23,9%	9,8%	23,9%	9,8%	23,9%
Equity per share, SEK	10,15	3,77	10,15	3,77	10,15
Equity per share after dilution, SEK	10,15	3,77	10,15	3,77	10,15
Number of shares at the end of the period	75 040 000	75 040 000	75 040 000	75 040 000	75 040 000
Number of shares after dilution	75 040 000	75 040 000	75 040 000	75 040 000	75 040 000

#### Definitions

Equity/assets ratio	Equity divided by balance sheet total
Earnings per share	Income after tax divided by average number of shares
Earnings per share after dilution	Profit after tax / average number of shares after full dilution
Equity per share	Equity / average number of shares
EBITA	Operating profit before amortisation of intangible fixed assets
EBITDA	Operating profit before depreciation / amortisation
Average number of employees	Average number of employees converted to full-time employees
Interest coverage ratio	EBITDA / Net interest income excluding one-off items, for the previous twelve-month period
Net interest-bearing liabilities	Interest-bearing liabilities less liquid funds
Net interest-bearing liabilities/EBITDA	Net interest-bearing liabilities / EBITDA for the previous twelve-month period

KappAhl's 20 largest shareholders, 31 May 2007	Number of shares	Percent of shares and votes	Change compared to 28 February 2007
PEGATRO LIMITED	22 511 000	30,0	0
MORGAN STANLEY & CO INC, W9	5 768 817	7,7	-797 550
FORTIS BANQUE LUXEMBOURG S.A.	2 282 522	3,0	384 250
SSB CL OMNIBUS AC OM07 (15 PCT)	2 159 163	2,9	-593 007
OKOBANK OY	1 768 800	2,4	99 800
US RESIDENTS OMNIBUS LENDING A/C	1 719 790	2,3	1 719 790
JP MORGAN CHASE BANK, W9	1 463 810	2,0	-2 388 705
SKANDIA LIV	1 419 150	1,9	0
CBNY-UBS TAMARACK INTL FUND LLC	1 344 713	1,8	1 344 713
CATELLA REAVINSTFOND	1 213 300	1,6	613 300
BT PENSION SCHEME	1 177 700	1,6	490 000
SWEDBANK ROBUR SMÅBOLAGSFOND SVERIGE	809 000	1,1	90 000
NORTHERN TRUST COMPANY, THE, W9	747 599	1,0	405 536
NORDEA SVERIGEFONDEN, NORDEA KAPITALFÖRV SVERIGE	746 588	1,0	245 149
FJÄRDE AP-FONDEN	706 900	0,9	-17 700
LAZARD INTL SMALL CAP	706 155	0,9	145 841
SEB STIFTELSEFOND SVERIGE	699 000	0,9	90 000
SWEDBANK ROBUR SMÅBOLAGSFOND NORDEN	598 000	0,8	0
CATELLA INSTITUTIONELL - RELATIV	530 900	0,7	154 000
FORWARD INTL SMALL COMPANIES FUND	530 248	0,7	199 548
Övriga ägare (7 966 st)	26 136 845	34,8	-2 184 965
<b>Total</b>	<b>75 040 000</b>	<b>100,0</b>	<b>0</b>

## Accounting principles

The Group applies the International Financial Reporting Standards, IFRS, adopted by the European Commission. The accounting principles remain unchanged in comparison with those applied in the annual accounts for the financial year ending 31 August 2006.

This report has been prepared in accordance with IAS 34: Interim Reporting. For the parent company, the report is presented in accordance with the Swedish Annual Accounts Act and Financial Accounting Standards Council recommendation RR32.

The Company has no outstanding convertible loans or warrants.

### *Note 1*

In the income statement, the figures in the column entitled "Last 12 months" report financial expenses including a non-recurring revenue stemming from the successful outcome for the company of a dispute in Norway concerning customs duties. A reserve amounting to MSEK 21 has thereby been released.

### *Note 2*

Refers to the selling of the premises of a store.

### *Note 3*

In the income statement, the figures in the column entitled "Sept-May 2005/06" report financial expenses including a non-recurring expense totalling MSEK 40 (MSEK 20 for the listing of the company and costs for restructuring the Group's finances of MSEK 20).

### *Note 4*

During the period "Sept-May 2006/07" a revenue of MSEK 270 attributable to a deduction for loss in an acquired company has been reported.

### *Note 5*

An amount of MSEK -1,620 is included in this item, referring to borrowing in connection with the acquisition of a company.

## *Acquisition of companies*

In December 2006, KappAhl acquired 100 percent of the shares in two companies for a total purchase price of MSEK 1,671. The fair value of the acquired assets and liabilities amounted to MSEK 1,671 net including a deferred tax asset of MSEK 49. In addition, a fiscal deficit of MSEK 1,140 was received. This is deemed to be available for utilisation as from the financial year 2012/2013. The acquired companies have no operations. The acquisition has brought a positive net effect on the reported tax and equity for the period of MSEK 270, due to the revaluation of existing loss carry forward in the semi-annual financial statement.

During the last quarter the two companies have been merged in the acquired company and the acquisition loan has been redeemed.