Annual Report 2008

Contents

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Year in summary

- Net sales up by 3.3 per cent.
- Operating profit up by 5.3 per cent.
- Gross margin increased to 62.4 (61.1) per cent and the operating margin to 14.1 (13.8) per cent.
- Cash flow from operating activities increased by 9.4 per cent to SEK 730 (667) million.
- 22 new stores opened and 3 closed.
- Proposed dividend of SEK 4.50 per share.

After year-end

- Another 16 stores opened in September, October and November 2008.
- The principal shareholders increased their holdings.

Key ratios

	Sep 07 –Aug 08	Sep 06 –Aug 07	Sep 05 –Aug 06
Net sales, SEK m	4,622	4,473	4,217
Operating profit, SEK m	651	618	530
Profit after tax, SEK m	436	659	302
Gross profit margin, %	62.4	61.1	60.2
Operating margin, %	14.1	13.8	12.6
Earnings per share, SEK	5.81	8.78	4.02
Number of stores	291	272	260

1950

1953
Per-Olof Ahl opens his first store, Kappaffären, on Omvägen in Gothenburg. The mission is "High quality at a low price". Business booms and Per-Olof from time to time fills his bus with coats and tours around the country selling them.
1956
Opening of the first store in Stockholm, on Hornsgatan.
1959
Per-Olof opens a store in Gothenburg exclusively for men. It is called Herrman and is on Korsvägen.

1960

Per-Olof Ahl's business idea begins to become established among ordinary people. The stores are successful and Swedish women are increasingly well-dressed.
1963
KappAhl is established in 25 locations throughout Sweden with sales of about SEK 50 million.

1970

In the 1970s the concept is revitalised and new groups are targeted.
1972
KappAhl has 53 stores and the company passes the SEK 100 million mark in sales.
1978
KappAhl's first children's department opens.

Vision

"KappAhl is to be the leading and most profitable fashion chain in the Nordic area for the customer group aged 30–50." This is the vision that drives KappAhl forward. It says where we are heading and what we are striving for together. All our day-to-day activities are to lead ultimately towards the vision. Each initiative, each change, each decision.

Mission

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

Strategy

KappAhl's strategy is aimed at earnings growth and improved profitability. The strategy consists of:

- expanding the store network,
- continually upgrading stores,
- increasing sales in existing stores,
- using economies of scale in the business model.

Read more on pages 4–5.

Market

KappAhl sells clothes in the fashion markets of Sweden, Norway, Finland and Poland. The company's single largest market is Sweden. The total value of KappAhl's market at the beginning of 2008 was SEK 158 billion after several years of good growth.

Read more on pages 6–7.

Customers

KappAhl sells fashion for the whole family, but the main target group is women aged 30 to 50 who buy for all members of the family. KappAhl devotes considerable resources to understanding customers and their circumstances. KappAhl monitors fashion trends and adapts them to products that meet customers' needs. This customer focus is an important reason why KappAhl is one of the largest womenswear retailers in the Nordic region and why the company is also forging ahead in childrenswear and menswear.

Read more on pages 8–15.

Did you know … … we were first to be eco-certified?

Read more on pages 22–23.

Target groups

Share of KappAhl's net sales

Woman 58% Child 27% Man 15%

Woman

KappAhl Woman 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.

Read more on pages 10–11.

Child

KappAhl Child has a broad target group. It covers babies to "tweens" – a rapidly growing group of children who are midway between children and teenagers.

Read more on pages 12–13.

Man

KappAhl Man offers a varied range of clothes – party, smart casual and leisure. The collections contain a coordinated range from underwear to outdoor clothing.

Read more on pages 14–15.

1980

KappAhl's major expansion phase begins. New stores, volume and growth are priorities.

1980
KappAhl's young people's department "Intact" attracts Swedish teenagers to the stores.

1982
KappAhl has 57 stores and sales reach SEK 500 million for the first time.

1985
Stores now number 69 and sales reach SEK 1 billion.

1986
The company's founder Per-Olof Ahl retires as CEO.

1988
First KappAhl store opens in Norway.

1990

1990
KappAhl opens in Finland. Sales reach SEK 2 billion. KF buys KappAhl.

1999
KappAhl opens its first store in Poland and buys Norwegian Adelsten.

2000

2002
New management for KappAhl

2003
KappAhl in profit.

2004
KF sells KappAhl to a private equity company.

2006
KappAhl listed on the Stockholm Stock Exchange.

2006/2007
KappAhl reports a highly successful year.

2007/2008
Intensified expansion. KappAhl has 291 stores and contracts for a further 57, of which 24 in Poland.

Christian W. Jansson, President and Chief Executive Officer:

"One foot in history, the other in the future and our customers at heart"

What were the three most important events in KappAhl in 2007/2008?
A lot of important things have happened. But if I can only choose three, then they are from different parts of our operations.

The first is at management level, where we have recruited highly qualified people experienced in marketing, IT and store establishment – areas that are crucial to our continued marketing operations and expansion.

The second is from our fashion offer, the launch of Number One. This collection – part of KappAhl Woman – is specifically adapted to the target group and has sold extremely well.

The third is at store level: we launched a new store design. The result is better displays that inspire and make it easier for customers to find the right combination of clothes.

What were the most important events in the business environment?
We have seen a slight change in consumer behaviour in the fashion market over the past six months due to the economic slowdown. It is difficult to predict future developments. But logically, value-for-money fashion with wide appeal should nevertheless hold its own. With us it's possible to be well-dressed and look attractive at a reasonable price.

What are you most pleased about with the year?
That we are continuing to follow the path we laid out: strong customer focus and continued expansion. This may sound simple, but it means that we have to constantly seek ways to improve every part of the operations.

Competition is stiff. We have to win our customers' confidence every day so that they come back. This has helped us sell to millions of customers every year, and has increased earnings for the sixth consecutive year.

Underwear is one area we have put a lot of effort into during the year. And it has yielded very good results. Of course there are many more examples I could mention. It is important to point out here that everyone has contributed to this success. We all depend on each other for success. Collective expertise and a common approach are needed to give us the confidence to do that little extra to win.

> **"...we sell to millions of customers every year, and have increased earnings for the sixth consecutive year."**

We ourselves have set the framework for attracting and retaining skilled employees. One thing is certain: a lot of people want to work here. When there is an article in the local paper about a store opening, we receive several hundred applications without any advertising on our part. I think we should be proud of this.

What is KappAhl's position compared with five years ago?
The great difference is that we have concentrated much more on customers' needs. We always ask ourselves what products the customers want to buy. We must stay in step with customers so that designs don't get too far ahead. This is a constant challenge, requiring the right knowledge and attitude. We must keep one foot in history, the other in the future and our customers at heart.

Our designers must be good at finding trends that will be popular and adapt them to our customers. At the same time we must

be inspired to experiment and accept that not all garments will be a success. They might be the wrong colour, wrong price, or arrive two months too early.

What's most important is to quickly adapt and learn from our mistakes, which I think we are good at. If there is one thing we have reason to be proud of it's the purchasing department's ability to constantly maintain balanced stocks.

Another major difference compared with five years ago is that we have a clear focus on profitability. Our gross margin requirements are high, among the best in the industry. This is because we are good at producing fashion that cost-conscious customers want to buy.

This is a cost-conscious company with no excesses. At the same time we must be watchful. Companies that do very well over a long period of time are at risk of incurring a lot of costs for things that "may come in useful." This must not happen.

The fact is that our capital requirement in operating activities is close to zero. Profitability and our good cash flow mean that we can expand safely and still distribute profits to shareholders and manage our credit.

Our plan to open 20–25 new stores per year remains unchanged. There were 19 this year because we had to close a few stores that did not meet the right criteria. But next year we will open about 30 stores.

What will your priorities be in 2008/2009?

First and foremost, retaining our customer focus. It is important to keep communicating this internally, especially because new employees are constantly joining us. We need to make them understand quickly how we work.

Then we must continue to adapt to the faster pace of life. Customers make rapid decisions, which means that we don't get many chances to show what we can do. So we must arouse a desire by having a wide and varied range. At the same time we need to make decisions easy for them, for example by clearly showing combinations – that the skirt or the trousers they are thinking of buying goes perfectly with "this top" or "this shirt here". If we succeed in this we are doing the customers a great favour and they'll come back.

> **"Profitability and our good cash flow mean that we can expand safely ..."**

The second challenge is to expand without compromising quality. There are still many places in Finland, Norway and Sweden that need a new KappAhl store. But the locations must be good and the stores big enough. When we find these we act fast.

In Poland, which will be a very important market for us in future, we have contracts for 24 new stores in the coming years.

Our ambition is also to enter a new, fifth market and we have already identified a handful of possible countries. But we are examining them thoroughly.

The market conditions must be right, but on top of this we must be able to open a satisfactory number of stores at the same time, so that we quickly achieve the right volume.

All in all, the prospects for our continued success are bright.

Strategy for continued growth and strong dividends

KappAhl's strong brand is associated with many positive qualities – loyalty, credibility, value-for-money and attractive fashion. The company's strategic market position is based on a broad range of fashionable and good-value clothes and accessories for women, children and men.

Growing target group

KappAhl's main target group is women aged 30–50 with families. The age group is large and growing in relation to the population as a whole in all the countries where KappAhl is established. It also has better purchasing power than younger customer categories.

Another advantage is that these customers are more loyal and less unpredictable than younger target groups. They might not spend most money on clothes, but they don't just buy for themselves – they often shop for the whole family. They like fashion and rely on KappAhl being able to offer it.

Many of our customers may not be among those who benefit most from business booms, but nor are they particularly adversely affected by downturns. This makes it easier for KappAhl to plan its operations and the company is also less sensitive to business cycles than many of its competitors.

Growth in new and existing stores

In recent years KappAhl has focused on increasing profitability by strengthening the gross margin. This strategy has been successful. Our gross margin is among the highest in the industry and stronger profitability has provided a stable base for continued growth. Another goal has been to improve profitability by more effective use of KappAhl's purchasing and logistics resources. This too has gone well.

Expansion of store network

Our focus on growth has also been clear in the 2007/2008 financial year. The growth strategy is based on two principles: increased sales via existing stores and establishment of new stores. KappAhl will continue to gain market shares. The store network will continue to grow, increasing the company's market shares.

New stores will mainly be opened in shopping malls and small and medium-sized towns, because historically KappAhl has been most profitable in these locations. We aim to increase the number of stores by 20–25 per year. The potential for establishing new stores in the Nordic countries and Poland is still regarded as good. KappAhl is also planning to expand operations to a fifth country in Eastern Europe.

Strong cash flow secures growth and good dividends

KappAhl's operations generate a strong cash flow. This is partly due to a very low capital requirement in the business.

One of the main advantages of this is that expansion via investment in new stores can take place without tying up large amounts of capital. Consequently, KappAhl can continue to invest in growth at the desired rate while distributing dividends to shareholders in accordance with its policy.

Continued investment in stores

KappAhl has invested extensively in improvement and refurbishment of stores. Renovated and refurbished stores generally attract greater visitor flows, an increased

KappAhl's gross margin is among the highest in the industry. Sound profitability and strong cash flows create a stable foundation for continued growth in combination with good dividends to shareholders.

percentage of paying customers and improved sales per square metre.

Plans for the future include refurbishment of KappAhl's stores on average every fifth to seventh year. Stores in the very best locations are renovated more frequently to retain competitiveness.

Sales increase

It is important to KappAhl to increase sales in existing stores. Activities that help to boost sales include upgrading stores, marketing, improving store layout, in-store displays and product mix development.

Economies of scale improve profitability

When the store network is expanded, KappAhl benefits from economies of scale in the existing structure.

The company's central functions are dimensioned to cope with such expansion. This means that the costs of running the store network do not increase at the same rate as sales.

Targets and target fulfilment

KappAhl's Board of Directors has set up the following operational and financial targets for the Group.

	Outcome 2007/2008	Outcome 2006/2007	Outcome 2005/2006
Operative targets			
The number of stores is to increase in future by 20–25 per year	22 new stores opened and 3 closed	17 new stores opened and 5 closed	20 new stores opened and 2 closed
The operating margin is to be 12 per cent over a business cycle and no lower than 10 per cent	14,1%	13,8%	12,6%
Financial targets			
Interest-bearing net debt is not to exceed, other than temporarily, three times the EBITDA	As at 31 August 2008 the interest-bearing net debt was 2.3 times EBITDA	As at 31 August 2007 the interest-bearing net debt was 1.7 times EBITDA	As at 31 August 2006 the interest-bearing net debt was 2.3 times EBITDA
The interest coverage ratio is to exceed a multiple of five	As at 31 August 2008 the interest coverage ratio was 8.5 times	As at 31 August 2007 the interest coverage ratio was 6.6 times	As at 31 August 2006 the interest coverage ratio was 4.7 times
Dividend policy			
Dividend is to be 70–100 per cent of profit after tax (for 2005/2006 the target was 50–70 per cent)	The Board's proposal to the Annual General Meeting means that 77.5 per cent of profit after tax will be distributed	In this financial year there was a redemption of shares instead of a dividend, equivalent to SEK 11 per share	The dividend was 62.1 per cent of the profit after tax.

Stable and growing target group

KappAhl sells clothes in the fashion markets of Sweden, Norway, Finland and Poland. The company's single largest market is Sweden. The total value of KappAhl's markets at the beginning of 2008 was SEK 158 billion after several years of good growth.

The markets also continued to grow in autumn 2007. In the three first quarters of 2008, however, we saw a weakening of overall economic activity (GDP). This contributed to slightly weaker demand in the fashion market, particularly in the spring and summer. At the same time we note that the forecast for private consumption looks better in the countries where KappAhl operates than for Europe on average.

More being spent on fashion

The GDP trend affects growth in the fashion business generally. In the same way, private consumption, which has been increasingly focused on clothes, has contributed to growth in KappAhl's markets.

Changes in population trends are also slowly but surely affecting patterns of consumption and behaviour. In most Western European countries the percentage of the population over the age of 30 is increasing. This benefits KappAhl, where the main target group is women aged between 30 and 50. Another advantage is that this target group is less unpredictable than, for example, younger consumers. This gives KappAhl a comparatively stable customer base, which makes relatively frequent repeat purchases.

In hard times people allow themselves good value fashion

Normally financial market developments have a relatively low impact on KappAhl's customers, since they have a fairly low percentage of loans and investments in shares. Sharply increasing energy and food prices may, however, have an effect.

Generally though, it is mainly consumer discretionary purchases, expensive durables and designer label clothing that people cut back on when GDP growth flags and the scope for consumption decreases, while they continue to allow themselves good value fashion.

Sales follow the seasons

The fashion industry follows a clear seasonal pattern. In terms of volume, autumn and winter are the major seasons. The reason is that customers buy a greater proportion of more expensive items. A warm autumn can somewhat delay demand for these garments.

Seen over a longer period of time, however, the weather does not affect sales to any great extent.

Size is an advantage

Today's world of fashion is increasingly global and fashion more similar overall. This has

KappAhl's s main target group, women aged 30–50, is growing as a percentage of the population. It is a stable target group, which is more predictable than younger consumers. They also make relatively frequent repeat

benefited the major fashion chains, which are gaining market shares, mainly at the expense of local stores. In the global market, chains such as H&M, Inditex, Bestseller and Gap are strengthening their positions; in the Nordic area it is KappAhl, Lindex and Dressmann.

Many of these companies are known as fully integrated chains with control of the entire business process from design to store. This makes them faster and more responsive to meeting new trends, purchasing patterns and shifting customer requirements.

Another trend is that shopping malls, which are often out of town, account for an increasing share of the Nordic fashion industry.

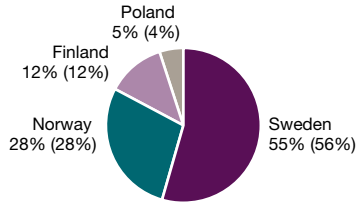
Having a clear range is important

Regardless of geographical market, clear concepts and a well-defined market position are important. There are more trends now than ever before and they shift faster. Consumers more often mix different styles of clothing, levels of fashion, quality and price. KappAhl's target group is well defined and the message is clear: value-for-money fashion with wide appeal.

Tough competition

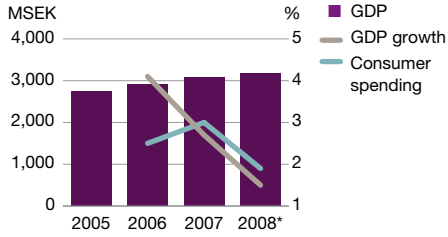
Competition in today's fashion industry is tough. Despite this, KappAhl continues to strengthen its positions. As regards consumer spending, clothes also compete with other products. KappAhl competes with other international chains, local chains, independent stores, clothing departments in department stores and with supermarkets and sporting goods stores. Competitors include H&M, Lindex and MQ (Sweden), Cubus and Dressmann (Norway) and Seppälä (Finland). In Poland KappAhl also competes with Reserved and Royal Collection.

KappAhl's net sales by market



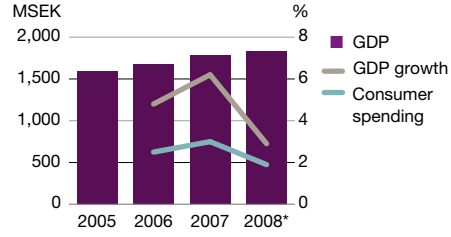
Sweden

Population: 9,1 million
Consumer spending on clothing
per capita including VAT: SEK 5 521 per year.



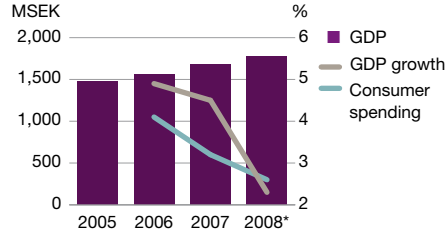
Norway

Population: 4,8 million
Consumer spending on clothing
per capita including VAT: SEK 8 369 per year.



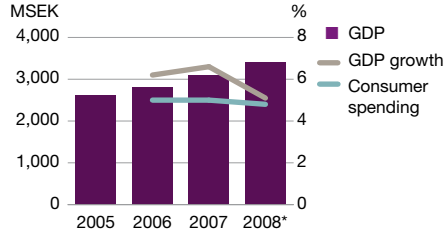
Finland

Population: 5,3 million
Consumer spending on clothing
per capita including VAT: SEK 5 475 per year.



Poland

Population: 38,2 million
Consumer spending on clothing
per capita including VAT: SEK 1 034 per year.



* Estimated for the full year 2008.

Women are at the heart of our concept

Man

Men shop infrequently, but when they do, they do it properly, often buying several items at a time. So it is important that we have a well-coordinated range that makes it easy to choose.

It is often said that the woman is the hub of the family, that she is the one who makes sure everything works. We know this is true, at least when it comes to buying clothes.

The fact is that only half the men's clothes in our stores are bought by a man. Women buy the rest, as well as most of their children's clothes.

For this reason, women aged between 30 and 50 with a family are our most important customers. Through them, we can supply the whole family with attractive fashion suitable for all occasions.

On the next few pages you can read more about each customer group and how we work to create the right fashion for everyone.

Woman

Women buy not only for themselves, they also often think of their husbands and children when in the store. They are interested in fashion and would prefer something smart with a good fit to something that is too bold. It is our task to ensure that they always find something for themselves and their families in our stores.

Child

Sales of children's clothes have risen steeply in recent years. Here we have a strong position right the way up to teenage. We offer everything from everyday to party wear. Mothers usually buy for the younger children. Among slightly older children, our beloved "tweens", the boys and girls themselves decide – but mum or dad pays.

Courage to design what lots of people like

Who do we target and why?
We target women between 30 and 50 with a family – or if you prefer, women in the prime of life.

They would rather look smart than bold and want to be surprised and tempted when they walk into a store. At the same time their days are fully booked with everything from meetings to dropping off and picking up children.

So our most important task is to quickly help them find what they are looking for and help to make them feel attractive. Because we believe they are entitled to this, from the time they put on underwear in the morning to when they get into their flannel pyjamas in the evening. This applies to all days and occasions – regardless of whether it is a well-dressed ordinary day, a party or leisure time that is on the agenda.

How do we become the customers' first choice?
Our designers must see the woman, the garment and possible combinations, right from the idea stage. When we sketch new trousers we always ask ourselves what would go with them; which shoes, which socks? Will the top be tucked in or worn over them? There are a thousand questions for each garment. Our task is to find suitable answers to all of them.

There are four styles for KappAhl Woman: Classical, Romantic, Sporty and Contemporary, which is the latest fashion. Contemporary is the largest and can often include several sub-styles.

What are we especially good at?
We are good at trousers and jeans. KappAhl sells about 5 million pairs every year. Most of them are sold as part of KappAhl Woman. This makes us the biggest trousers store in Sweden. All those customers can't be wrong.

We are going to get even better at trousers. Our goal is always to have "trousers for every body" in our stores.

KappAhl is also market leader for tops in Sweden. Variation is important here, so new items arrive at our stores every day.

We are also leaders in party wear and "soft presents". Surveys show that KappAhl is the store customers think of when they have presents or party clothes to buy. This can be seen clearly in the Christmas trade, when underwear, nightwear and "cosy clothes" account for a significant share of sales.

What was new in 2008?
In spring 2008 we launched a new clothing label, Number One. It has a classic modern style with a preppy feel and It was well received in the stores.

In the spring we also started selling attractively designed reading glasses which give our customers yet another way to show off their personality. The price is reasonable, which means that they can buy two pairs to match their clothes of the day. This initiative was also very successful.

How are sales?
Sales are going well. KappAhl Woman had a sales turnover of SEK 2.7 (2.6) billion in 2007/2008. KappAhl Woman is the largest in Sweden in its target group, with a market share of 8.0 (8.0) per cent (market research company GfK, August 2008). We are strong on the other markets too, where we are also seeing growth. This makes KappAhl Woman the largest area of operations within the company. In 2007/2008 it accounted for 58 (57) per cent of Group sales.*

What's planned for next year?
During the year we started a focused trousers project to strengthen our leading position. We are reviewing everything from design, fit, model ranges and sizes to labelling, exposure and delivery methods.

We are also continuing to develop our accessories range. Our customers should always find something to surprise them when they come into our stores. Another advantage to accessories, as with the shoes we sold successfully last year, is that they strengthen the fashion feel in what we offer.

* The Group's segment reporting is based on geographical markets. For information about development in the different segments please see pages 48–49.

Range

KappAhl®

Most womenswear is sold under the KappAhl brand. The range is divided into well-dressed and casually dressed.

number One

Number One is a new collection in a classic modern style with a preppy feel.

creem® CLOSE TO YOU

The Creem bra collection consists of models to fit many female shapes and requirements. Extra special care goes into everything from materials to models.

bodyzone®

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

soft.

Soft, comfortable clothes that allow you to be well-dressed even on cosy, relaxed occasions.

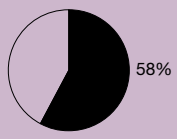
XLNT

XLNT consists of well-cut and designed garments for the curvy woman. The collection is available in sizes 44–56.

Important events during the year

- In spring 2008 we launched a new clothing label, Number One. It was well received by our customers.
- We continued to concentrate on accessories, including exquisitely designed reading glasses. Here too we achieved sales successes.
- In 2008 we focused on trousers to strengthen our position in the area.

Share of KappAhl's total net sales



Design that grows from baby to "tween"

Who do we target and why?
KappAhl Child offers a broad range of clothing for the youngest children and up to "tweens", who are children usually between eight and twelve years old. Our goal is to be first choice for both everyday and party clothes, all year round.

Everyone knows that kids grow fast, and so do their clothing needs. New-born babies and two-year olds splashing happily in puddles need certain types of clothes. Tree-climbing five-year olds need other types.

Most purchases for younger children are usually in response to a clear need for a certain type of garment, such as a dress for a birthday party or an extra set of rainclothes for nursery school. Here it is extra important to have good functional clothes in the season's colours and styles.

It is a different story for older girls and boys. The "tweens" are more updated and know what they want. They are more fashion-conscious and to a great extent decide on their own clothes. The right fashion feel and comfort are important here.

How do we become the customers' first choice?
The differences in ages and needs impose heavy demands on our ability to find the right design. This is a challenge we love. Our designers at KappAhl Child spend thousands of hours creating highly fashionable and functional clothes.

New garments are created every day. At the same time we are particular about the details. Every week child models of different ages, sizes and shapes come here to try on the clothes, so that we can be quite sure that they fit well, function best and feel comfortable.

We see a growing demand for eco-labelled products. For this reason all basic garments in the baby range are eco-labelled – as are most of the basic garments for older children.

What are we especially good at?
The response from our customers shows unequivocally that we are good at offering the right clothes to older girls and boys. The success of our Lab Industries jeans label is one of many confirmations of this.

We hold a strong position in trousers. At the beginning of the school year we sold hundreds of thousands of pairs of trousers and jeans in just a few weeks. We have also strengthened our position with parents of small children, thanks to a wider range. We are also strong in underwear. Our designer boy's underpants campaign was a success, as was the pyjamas campaign for small children.

What was new in 2008?
KAXS was relaunched in the spring as a collection for small children, in sizes 50–128 centilong. The profile is playful and very colourful everyday clothes. Many of the garments have a unisex feel. At the same time Comp was launched, in sizes 122–170 centilong. Here we offer everyday clothes with a sporty feel. Both launches went very well.

To make it simpler for our customers we changed the store categories to kids and tweens instead of boys and girls.

How are sales?
Sales are going well. The year's bestsellers included jeans, hooded jumpers and shorts.

This contributed to an increase in KappAhl Child's sales to SEK 1.3 (1.2 billion in 2007/2008. KappAhl Child had a market share of 12.0 (12.3) per cent in the largest market, Sweden (market research company GfK, August 2008). In the other markets, such as Poland, growth is very strong. KappAhl Child currently accounts for 27 (27) per cent of KappAhl's total sales.*

What's planned for next year?
We will continue to develop our range of trousers. We are already very strong here, with good prospects of strengthening our position further. The same applies to basic garments and our eco-friendly clothes.

Parents of small children are an important target group. They are often short of time. To make the store experience fun and simple, we will develop our website so that they can look through our selection at home, before coming to us.

* The Group's segment reporting is based on geographical markets. For information about development in the different segments please see pages 48–49.

Range

KappAhl®

Baby sizes 50–86 centilong
Soft and comfortable fashion for the youngest.

KappAhl sizes 86–128
Playful and hard-wearing fashion for girls and boys.

KappAhl sizes 122–170
Stylish and convenient fashion for girls and boys.

kaxs®

KAXS 50–128 centilong.
Fun and colourful everyday clothes of high quality for both girls and boys.

Important events during the year

- KAXS was relaunched in the spring as a collection for small children, in sizes 50–128 centilong.
- Comp was launched, in sizes 122–170 centilong, offering everyday clothes with a sporty feel.
- To make it simpler for our customers we changed the store categories to kids and tweens instead of boys and girls.

Lab INDUSTRIES®

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

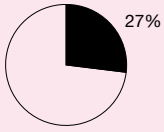
Comp.

122–170 centilong
Sporty everyday fashion for girls and boys.

bodyzone®

Everything from underwear and socks to nightwear and dressing gowns.

Share of KappAhl's total net sales



Here you can co-ordinate to suit every occasion

Who do we target and why?
KappAhl Man targets men between 30 and 50. Our aim is to help them to dress well – regardless of whether it is for an ordinary day or a special occasion.

We have probably all heard the saying "behind every successful man is a woman". We don't know if it's true. But one thing is for certain: beside many well-dressed men stand women with good taste. About every other item of menswear in our shops is bought by a woman.

This can be interpreted as men's lack of interest in dressing well. This is wrong; studies show that men are as vain as women. The difference is rather that as a general rule men think shopping is boring. We have made it our task to change this. It should be simple for men to shop in our stores. And it must be fun.

Among younger men we are starting to see different behaviour. They like spending more time shopping and often take a friend to give them advice. They have high expectations of design and like to be surprised by something special. We will be seeing more of this.

How do we become the customers' first choice?
We envisage our customers already right from the idea and design stage, what different personalities want, and we try to think of every little detail: from socks to collar and how everything can be co-ordinated.

Since men in general want to spend less time in the store we make it simple for them, for example by dividing the clothes into clear styles: "Jeans/Casual", which has a relaxed, leisure feel and "Semi-formal/ Formal" where knitwear, jackets, ties and suits can be found that feel right for the office or a party.

In the store we make it simpler by showing possible co-ordinations in pictures, on mannequins, displays and tables. This gives customers inspiration and helps them feel secure about their choices. We also give clear information about the garments by using clear labels. This is more important for men than for women.

What are we especially good at?
Just as in our other departments, we are good at designing trousers and jeans. The proof of this can be found in sales statistics. To be quite sure of getting it right both in terms of appearance and fit, we always test our styles on "living mannequins".

We are also good at underwear. Our customers want designed underwear that stands for "the unexpected". Jackets are another product group we are known to be good at.

What was new in 2008?
The greatest change was to revamp our formal collection, Madison. It was previously limited to suits, shirts and ties. Now it also includes knitwear and jersey, which gives more semi-formal combination alternatives.

We have also boosted the external brand U.S. Polo Association, which has gone well.

In addition we have developed our range of jeans and increased the number of possible combinations in the collections – for example between trousers, jumpers and shirts.

How are sales?
KappAhl Man had a sales turnover of SEK 0.7 (0.7) billion in 2007/2008. Among the year's bestsellers were jackets, shorts and t-shirts.

KappAhl Man is the second largest in the Swedish market, with a 5.9 (6.5) per cent share (market research company GfK, August 2008) and the area has grown in the other geographical markets.

The area's share of the Group's total sales is about 15 (16) per cent.*

What's planned for next year?
We will continue developing "Semiformal/ Formal", for example by increasing our selection of suits, formal shirts and ties. We will also follow up our efforts in trousers, where we already have a strong position.

* The Group's segment reporting is based on geographical markets. For information about development in the different segments please see pages 48–49.

Range

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 of colour and design in fashion.

REDWOOD
OUTDOOR SPORTSWEAR

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

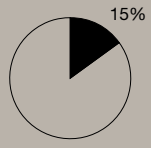
BZ BODY ZONE

Underwear, socks, nightwear and swimwear.

Important events during the year

- Our formal collection, Madison, was broadened during the year, leading to more combination alternatives for customers.
- In 2008 we also developed our range of jeans and increased the number of possible combinations in the collections – for example between trousers, jumpers and shirts.

Share of KappAhl's total net sales



Value chain

Value-for-money fashion. That's what we want our customers to think of when they hear someone say "KappAhl". That doesn't happen by fluke. We must earn customer satisfaction and loyalty every day – often through hard work never seen by the customer. Consequently our customer-oriented business model marks every step in the value chain, from idea and design to the store sale. In the following pages you can read about how we work at each stage.

Idea and design

Our design is customer-focused rather than product-oriented. That is one of the main reasons for our success in recent years.

Design that puts us at the centre of fashion

You could say that design is the be-all and end-all for us, but that's not quite right. Our customers are. And this influences the way we design. We have our customers in mind all the way from the first idea to the finished garment and collection. We must be clear about how the customer wants to match garments, which shoes she has and how she wants to wear her clothes.

This makes heavy demands on our ability to see beyond the product and to what good design is really about: looking good on the customer.

Tens of thousands of design hours each year

You may well think that the way we work is time-consuming. It is. We have more than 35 designers. They spend tens of thousands of hours designing garments that our customers love. New designs are produced every day. And every week "living mannequins" visit the design department to try on the clothes so that we can be sure to find the perfect fit for our customers. This means that we get it right much more often than if we just concentrated exclusively on the garment. We care a lot about this. Because the best marketing we can have is when our customers hear "You look nice, where did you buy that?"

Customer focus builds success

The design emphasis, which is customer-focused rather than product-focused, is important in understanding KappAhl's successes in recent years. Over the past five years we have increased our annual sales to a total of 60 million garments.

Not only that. Our way of working means that we hit the mark in terms of fashion, sizes, quality and price. This provides a higher percentage of sales at full price and thereby higher profitability. This is how we intend to continue, by constantly reviewing and refining our working methods.

External inspiration

Our working method is to a great extent about spurring each other on, for example in our "Trend & Tendency" meetings. At these meetings our design teams present future trends and discuss hot fashion themes that are expected to surge over us in eight to ten months.

To get it right we must have our feelers out, beyond our four walls. This means we travel quite a lot. Our designers find inspiration in street fashion in the world's fashion centres, in music videos, sports events, literature and elsewhere. But also at international textile fairs and fashion shows. They also look in professional fashion databases and trade organisations. When our designers find a strong fashion trend, they look for the right material and then adapt their impressions to clothes that appeal to our customers.

All collections are checked against each other so that we can be sure that the fashion statement is in line with KappAhl's overall view of the current fashion.

Purchasing

The buyers decide which garments are to be manufactured, when and in what volumes. They also set the price of each individual garment. It works. KappAhl has been recognised as one of the best value-for-money stores by Market magazine.

Purchases for fast sales

Buyers, just like KappAhl's designers, have a great responsibility for ensuring that what ends up on the mannequins, hangers and shelves in the stores has the right saleability. A buyer with us could equally well be called a "sell-buyer".

The buyers are those who ultimately determine which garments are to be manufactured, in what volumes and when. The buyers also set the price of each individual product. We are known to be good at this. KappAhl has been recognised as one of the best value-for-money stores by the Swedish Market magazine.

Seven purchasing offices help

The buyer also negotiates purchase prices with the help of purchasing offices in Bangladesh, India, China (2), Lithuania, Turkey and Ukraine. They can also make changes in the design of certain garments, for example to facilitate manufacture.

The buyers are responsible for the gross profit on sales of the garments the team purchases. They follow up every individual garment from initial design and production right to the store. They are also responsible for deciding whether, and in that case when, the price of a product must be reduced.

Safe fashion – naturally

KappAhl's clothes must be safe from the health and environment perspective, and free of harmful substances. To contribute to cleaner production KappAhl requires that suppliers follow current environmental laws and that they also meet KappAhl's own requirements, which are tougher than Nordic legislation. The company also follows research and development in the chemicals area closely.

Manufacturing

We sew it all together with a steady hand

Our manufacturing is undertaken by subcontractors. This gives high flexibility, since we can easily change to a better solution.

All our production is with external companies. This means that we are not dependent on any single supplier. It gives great flexibility, since we can easily change to another supplier of the same kind, but better.

In addition the arrangement means that we are not tying up a lot of capital in factories. We would rather invest the money in new stores so that we can reach more customers.

The procedure also means that we can easily change production methods if our garments should so require. This would be difficult if we ourselves had invested heavily in machinery that is restricted to one type of production, requiring a certain capacity utilisation to be profitable.

Large selection of suppliers

We buy from nearly 200 suppliers. About 30 producers supply about 60 per cent of the total volume. Most purchases are made in Asia. Almost 70 per cent of the garments come from there. The rest is bought in Europe. Purchases and deliveries are coordinated by KappAhl's supply and production department, which cooperates closely with the company's purchasing offices throughout Asia and Europe. The purchasing offices follow up quality, price and code of conduct.

Particular about quality

We attach great importance to quality assurance, with clear directives and frequent spot checks throughout the production process. It's worth it. The percentage of garments where faults have arisen in production is now negligible, not even one per thousand.

The purchasing offices also check that the suppliers comply with KappAhl's code of conduct and follow up their environmental work.

They also look for new suppliers, monitor timely and correct deliveries of goods and handle export administration. In short, they are KappAhl's extended arm in important countries of purchase.

Distribution

World class distribution from factory to store

Having the right garment in the right quantity in the right place at the right time is not only good. It's necessary. With today's tough competition and high fashion tempo the goods cannot come too early, or too late, otherwise we risk losing sales and being forced to reduce prices.

So we have made major investments in streamlining the supply chain, which means our distribution is among the best in the business, in terms of effectiveness.

Top class facility

Our distribution centre is located close to the head office in Mölndal, outside Gothenburg. It is the most modern in Northern Europe and more or less completely automated. Each year about 60 million garments pass through the facility. But with minor supplementary investments capacity can be increased to about 100 million garments.

Goods allocation for all markets is directed from here. The distribution system is constantly being refined as regards handling of quantities, timing, sizes and colours, as well as adaptation for the climate in the regions where the stores are located. This contributes to increased sales and reduces the proportion of goods sold at reduced prices – which is, of course, good for profitability.

Frequent deliveries to stores

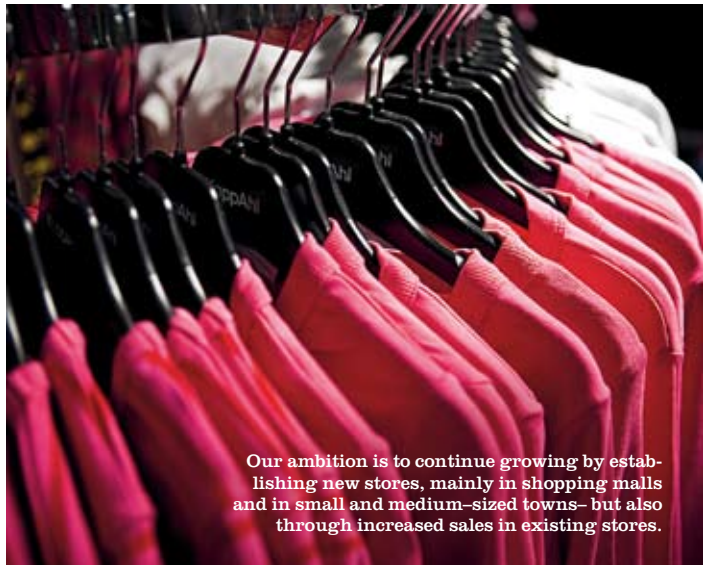
Most goods go directly to the stores. The deliveries are labelled with bar codes in accordance with electronic packing lists already at the place of manufacture.

Storage space in our stores is limited, since store areas must primarily be used for selling. This means that timing of distribution is important. Our stores receive deliveries three to four times a week or more often if sales require.

Most shipments from the country of manufacture are by sea for cost and environmental reasons. Air transport is only used in exceptional cases if necessary for commercial reasons.

Storage space in the stores is limited, since store areas must be used primarily for selling. This means timing is important in the distribution – each store receives deliveries several times a week.

Store sales – 150,000,000 visitors can't be wrong



Our ambition is to continue growing by establishing new stores, mainly in shopping malls and in small and medium–sized towns– but also through increased sales in existing stores.

Behind KappAhl's sales successes in recent years is a strong conviction: our business depends on our customers being more satisfied with us than with others. Then they return to our stores, perhaps with a friend who also wants to find something nice for herself or her family. It's that simple – at least on paper.

In actual fact a great deal of effort lies behind these successes, all the way from idea and design to marketing, display and customer service. At every step of the chain we envisage the customers, so that they will always be able to find what they want, and what they didn't know they wanted but are pleasantly surprised to find that they do. The work that is done in the stores plays a central role here.

Simple and enjoyable to shop

Our ambition is always to try and add that little extra in the stores, to combine everything in our operation into an enjoyable experience for our customers. One area where we try to give new angles of approach is in displaying goods, so that it is easier for customers to find and match different garments. We use clear manuals for this, which means that exposure of themes and concepts is coordinated in all stores. Goods display also works together with the advertising campaigns we run in the media, via the internet and in direct advertising to homes and mobile phones. This way customers quickly feel at home and find the latest items.

We want to surprise

We like surprises in our displays. Apart from giving our customers new ideas they should also, if possible, be fun. That's how we are. Like when all our staff went around in pyjamas and cosy slippers for a day in our store in Askim, Norway. This not only led to happy customers and increased sales. It was also noticed by the media.

We continually review our stores and adapt fitting rooms, cash points, working areas, lighting and positioning of clothes in the premises. The aim is to make the stores more attractive, clear and inspiring – so that it is simpler for the customer to find the combinations she or he wants. This works well. Our customers buy on average 2.2 items at a time. Adaptations are also to lead customers through the store at the right pace and past the right offers.

Routines and the right technique

So as not to reinvent the wheel we work according to standard routines and have an experience exchange system between stores in the same size category.

New technology and technical aids contribute to increased flexibility. For example, we have an effective stock system that helps us maintain the appropriate level of goods. Sales and stock turnover can be followed in real time. This, in combination with well-planned campaigns, means that as great a share as possible of the goods can be sold at full price.

Stores

Every year over 150 million visitors pass through the doors of our stores in Sweden, Norway, Finland and Poland. At the close of the 2007/2008 financial year we had a total of 291 stores. This is 19 more than in 2006/2007.

Welcomed by landlords

Our long–term strategy is to open 20–25 new stores per year. Before establishing a new store, extensive analysis is carried out of the location concerned. Attractive locations with good customer flows are a must if we are to establish a store. We also look at factors such as competitors and consumption patterns.

In 2007/2008 we opened 22 stores. Our landlords like us. They know that we attract a lot of people to the area, which raises the value of other premises. This is why we have contracts for a further 57 stores as at 31 August.

Many new establishments take a long time to plan, for example if the store is to be in a new shopping mall that is still on the drawing board. Sometimes they can be really fast. If the right premises, in an existing shopping mall, are suddenly available a new establishment can be managed in a matter of months, sometimes even faster.

Moving to a better location

Moving a store can mean a boost for the entire operation. The reason may be that the existing store is too small, that a new shopping mall is being built or that another area in a certain town is thought to have more interesting potential. Results show that relocations to date have led to increased profitability.

We can also decide to completely close down stores that do not live up to the long-term goals if there are no alternative premises in the area. Here too, analysis is extensive. Reviewing the store network has accelerated in recent years and many changes have been made.

Regular renovation

On average about 30 major improvement projects are carried out per year in the store network. This may involve putting up new walls, replacing stairs with escalators or installing new lighting that heightens the impression of displays. In addition, the cash points are extended to make things easier both for customers and staff. We also carry out minor maintenance, such as painting and flooring. Our measurements show that customers become more positive towards the store after these improvements.

This means that the store environment is always top class, feels light, spacious and pleasant, but is also practical to move around in.

Correct staffing is important

To maintain the best possible customer service, staffing must be optimal, so that we can meet the customer's expectations of good service while keeping costs under control. Staffing follows the variation in demand on different days of the week and in different seasons. At present about 75 per cent of our store staff work part time and the others full time.

We follow the main thread

We are value-for-money fashion with wide appeal, both in what we say and do. Our way of thinking, which puts the customer in focus in all perspectives, is the main thread that runs through all our market communications. This contributes to a clear profile – we are perceived to be an inspiring and humane fashion company that cares about and understands our customers.

Here, in our customer-oriented identity and profile, lies one of the most important reasons for our strong market position and the sales successes of recent years.

More personal offers

Our stores are our most important channel of communication. Here customers should find inspiration and be helped to find the right fashion. But to attract visitors we use a media mix covering everything from advertising in broad media to in-store communication. Our CRM activities, in the form of direct advertising, are based on customer-related information gathered via our loyalty programmes. Text messages and email are being used more often to send personal offers to customers.

Success via cards

Our popular customer clubs and cards continue to be a success. They are an important marketing channel, since card customers show greater loyalty and spend more than the average customer.

Our loyalty schemes exist on all markets. In Sweden the Medmerakortet, the Swedish Cooperative Union's membership card, is part of the scheme. In Norway KappAhl works with the Coop NKL card, while the KappAhl Club is used in Finland and Poland.

Our customer focus, leading to value-for-money fashion with wide appeal, is the main thread that runs through all our market communications.

We were first to be eco-certified

Now we are taking the fight for sustainable development a step further…

Systematic work produces results
Today's and tomorrow's customers want more from us than value-for-money fashion and good service. They also have demands concerning our attitude to the external world. We regard this positively and take it very seriously.

So we are working systematically to contribute to sustainable development and manage impact throughout the flow: from design, production and transport to warehouse and store. The work is based on two central documents: the code of conduct and the environment policy.

We helped draw up the BSCI code
Since 2004 the work has been based on the BSCI (Business Social Compliance Initiative) code of conduct, which we helped to draw up. It is based on UN and ILO conventions.

All 200 or so main suppliers have signed to certify that they and their sub-contractors will follow the code, which covers areas such as work environment, health and safety, child labour, wages and working hours. Every year at least 30 per cent of KappAhl's suppliers are audited within the framework of the BSCI by external audit companies.

We conduct our own ongoing inspections in parallel with the external audits. They are carried out by many of our own inspectors with special training and occupational experience, who are placed in our production offices. They make an annual review of how each supplier follows the code. In practice this means several visits per year. Where necessary the supplier is given an action plan, which is followed up at the next visit. This helps suppliers to continually improve.

Our rules for sustainable products
For us it goes without saying that the fashion we offer is produced on the basis of a clear idea of sustainability. This is not a new idea for us. We have used eco and health labelling on our clothes since 1993. Today as many as 6 million of our garments have Öko-Tex Standard 100, EU Flower, Organic Cotton or Organic Linen labels.

We use our "Test and Manufacturing Guide" that our suppliers must comply with. This is an area in which we have worked for many years.

The Guide covers, for example, prohibited chemicals, physical requirements and child safety for garments. The “No Risk” project, started in spring 2008, is one of the initiatives to avoid prohibited chemicals.

We are proactive

In an operation such as ours it is important to identify the sustainability risks that exist and then take action where necessary.

The areas that are particularly important in our operations are linked to manufacturing, which is mainly in China, Bangladesh and India.

First in the world with ISO certification

We are and must be perceived to be one of the industry’s most environmentally aware companies. In 1999 we were the first fashion chain in the world to be certified under environmental management standard ISO 14001. The ISO certificate covers the entire supply chain from design via manufacture, transport and distribution to stores, as well as operations at the head office, distribution centre and store operations in Sweden and Finland. The ambition is to extend the work to cover store operations in all geographical markets.

In the past ten years we have continually raised requirements regarding production of yarn, fabrics and transport. In 2008 we carried out a pilot project in water purification with four suppliers in Bangladesh, which will ultimately lead to reduced discharges by all suppliers using wet processes.

Saves both environment and money

On the goods transport side we are working consciously to transfer goods to modes of transport with less environmental impact, such as boats and trains. Consolidated shipments and effective route planning are also used to save the environment and money.

In 2008 we joined the Clean Shipping Index, requiring shipping companies to reduce their environmental impact. We already impose these requirements in our procurements.

In KappAhl, buyers and management make most business trips. As the first company in the industry we purchase carbon offsets for these trips. In 2007 about SEK 200,000 was earmarked for a UN certified wind power project for the textile industry in India.

One of several confirmations of our right action

One sign that we are living up to strict sustainability requirements is that we were approved as an investment for all Swedbank Robur ethical funds, after sound analysis.

Many joint projects and commitments

We are positive towards working together with others on sustainability issues, since this gives access to expert help and puts more force behind the measures. Some of the initiatives we are involved in are: the Business Social Compliance Initiative, BSCI, the Ethical Trading Initiative, the Better Cotton Initiative, Amnesty Business Group, the Swedish Standards Institute (SIS) standardisation group SIS/TK 160 on safety in children’s clothes and the Nordic Chemicals Group.

We also sponsor the 1.6 Million Club and Go Red (heart and lung disease), BRIS (children’s rights in society), the Hunger project, Erikshjälpen and the Mayflower Charity Foundation for Children. In addition we sponsor support projects in the places where our production offices are located, such as children’s homes in Lithuania and support to schools for street children in Bangladesh.

Öko-Tex

Öko-Tex Standard 100 is the leading label for textiles tested for harmful substances.

Detailed information on Öko-Tex can be found at: www.oeko-tex.com.

ISO 14001

The international environmental management standard ISO 14001 covers the entire supply chain from design to store and operations at the head office, distribution centre and store operations in Sweden and Finland.

The EU Flower

The EU Flower is a European eco-label 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 for all its ethical funds, including the spearhead Ethical and Environmental Fund.

The will to win

It is 55 years since KappAhl was established. At that time it was a small company in a cellar in Gothenburg.

There is no doubt that we have done quite a few things right in past years. Because we have grown substantially. We now have almost 4,500 employees in stores and offices in several countries and sales have increased several thousandfold.

For sales to show stable growth, year after year, employees must have the chance to grow too. That is our simple philosophy. And that is why we lay great emphasis on creating a workplace that encourages further development and independent initiatives – while clearly staking out the goals and direction to get there, which creates security.

Many training opportunities

We want our employees to learn while carrying out their day-to-day work. We are keen on identifying useful lessons in our stores and offices and passing them on to other parts of the business.

But dedicated training is also required. We have therefore developed a sound training programme, with different courses for different skills requirements. For example, we have leadership development programmes for employees in new roles. These include the KappAhl Academy for Store Managers, which targets store managers and the KappAhl Academy for Store Managers Trainees.

The Group provides several different specialist courses. Visual merchandisers and buyers are offered special programmes. Most courses use KappAhl's own specialists as well as external teachers and supervisors. When required, personal, customised training programmes can be offered to selected key employees.

A considerable part of skills and employee development takes place locally. Store managers play a key role here. They receive assistance from the Group office in the form of advice, guidelines and concrete aids for employee development.

Altogether, 1,200 people took part in the training, which amounted to more than 23,000 hours.

Winning business culture

The business culture contains the fundamental values for all skills development. It is summarised by the will to win, simplicity, clarity and speed and is made visible in the organisation via internal communication channels and Group-wide training.

We want to stay one step ahead of our competitors. To succeed in this we must dare and want to win. This is achieved through simplicity in everyday work, but also via clarity, with clear and comprehensible objectives. Speed is also necessary for decisions and measures to bring rapid results.

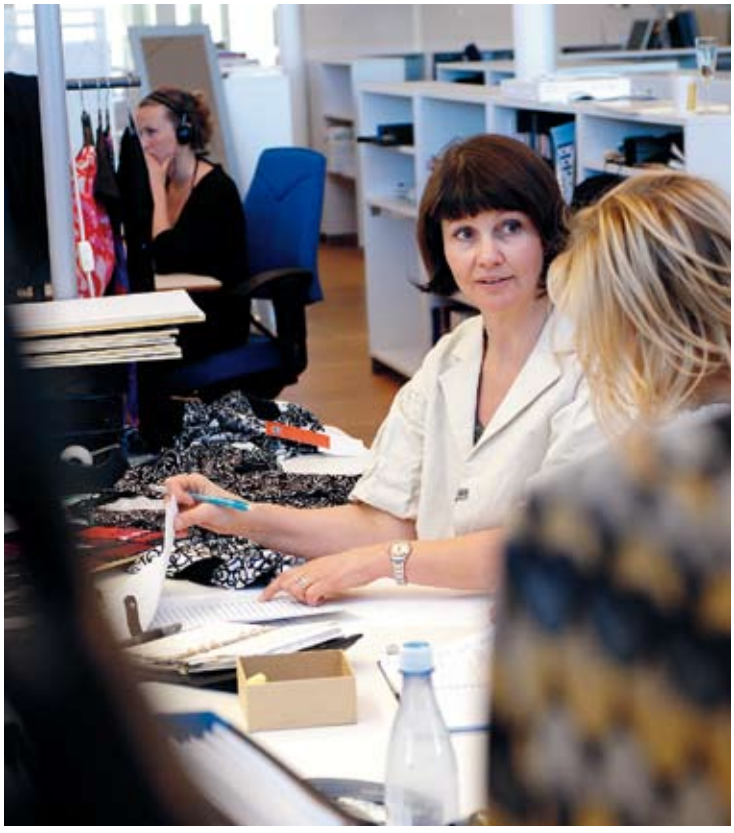
As part of the personnel work KappAhl has also formulated five factors for success.

- Attract employees
- Create enthusiasm
- Develop skills
- Lead effectively
- Improve–Renew

These five factors characterise activities in areas such as recruitment, training and career and management development, enabling employees – and the company – to continue to grow.

Always promote diversity

The opposite of diversity is uniformity. It is obvious which alternative we choose. Variation inspires and contributes to new ideas and working methods that are wiser than



We have a multitude of different occupations. Our 4,500 employees work on everything from design, display and store sales to purchasing, quality control and distribution – with the support of an effective IT and logistics system. Together we sell hundreds of thousands of garments every day. To succeed in this, there must be good cooperation between all the different competencies, all the way from idea to customer service. There are two clear signs of our success.

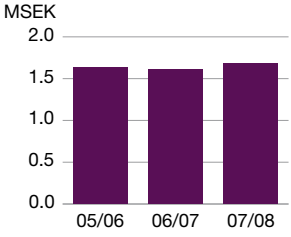
One is the sales and earnings increase of recent years. The other is our employees' satisfaction with their workplace. In the annual attitude survey KappAhl gets top marks, an average of 4.1 out of 5. In addition, 96.4 per cent of employees would recommend KappAhl as a good workplace. We take this as a positive sign of continued good development, both for the company and our employees.

Employees

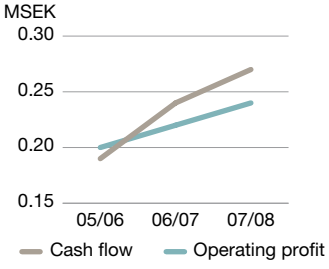
Key ratios, employees

	2007/2008
Job satisfaction (where 5 is the top score)	4.09
Total number of employees	4,160
Average number of full-time positions (restated)	2,744
Percentage of women	91.5
Average age	33.6

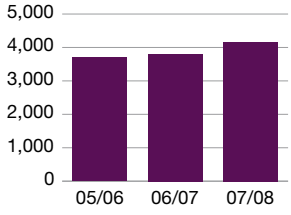
Net sales per full time position



Cash flow and operating profit per full time position



Total number of employees



the old ones, both in fashion and human relations.

That is why we need diversity of ages, gender, language, geographical and religious backgrounds. Take for example our Kista Galleria store, just north of Stockholm, where the employees represent 15 nationalities and can speak 13 languages. This mixture is important because it means our operation reflects the community and the customers.

Cooperation with schools and universities is very important for us in identifying new ideas. The main focus is on education and research connected to trade and design. In 2008, for example, the Centre for Retailing opened at the School of Business, Economics and Law at the University of Gothenburg, where KappAhl is one of the partner companies.

We also take on a large number of trainees every year. This helps us to profile the company as a workplace, but also means that our own organisation can be influenced by new, young ideas, big and small.

Healthy initiatives

We encourage all employees to lead active lives, leading to good health. We offer all of them an exercise subsidy and cooperate with fitness centres, where our employees can exercise at a reduced price.

The work environment is a strategic issue for us, which is evident in our work environment policy, for example. The aim is to create a physically, mentally and socially sound and fulfilling workplace for all employees, where preventive measures are taken against the risk of occupational injury and work-related ill health.

During the year the company has increased cooperation with the occupational health services, focusing on employees in the distribution facility. In connection with this, days of sickness absence showed a marked decrease. The average number of days of sick leave in the Group was 5.7 in 2007/2008.

Top marks to the workplace

Our method of operation evidently works well. In addition to continued sales growth, our employees are very satisfied. This is especially clear from our employee performance reviews and the annual KappAhl Attitude Survey.

The year's results indicate that KappAhl continues to score very highly as a workplace: 4.1 (4.1) out of 5 on average. This is better than the average for the industry, according to statistics from Mercuri International, which manages the survey. One reason that is often cited is the clear direction, in which goals, strategies and policies provide a good foundation for managers to take rapid and well-founded decisions, while employees are given considerable responsibility. The survey also shows that employees feel pride in working for the company. As many as 96.4 per cent of employees respond that they would recommend KappAhl as a good employer.

The KappAhl share

The KappAhl share has been listed on the OMX Nordic Exchange Stockholm, Medium-sized companies, since 23 February 2006. A round lot consists of 100 shares. The KappAhl share is included in the OMX Stockholm Consumer Discretionary index.

On 31 August 2008 KappAhl's share capital 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 in KappAhl's assets and profits.

Price performance and trading

From the start of the financial year to 31 August 2008 the price of a KappAhl share fell by 16.7 per cent (the financial year's opening market price is adjusted for redemption of shares by SEK 11). This can be compared with the OMX Stockholm All-Share index, which fell by 29.2 per cent during the period. The OMX Stockholm Consumer Discretionary Index fell by 26.6 per cent in the same period. The highest price paid was SEK 71.80 on 6 November 2008 and the lowest price paid was SEK 37.70 on 21 July 2008. At the close of the financial year KappAhl's market value was SEK 3,362 million and the P/E ratio estimated on profit for the year was 7.7.

Between 1 September 2007 and 31 August 2008 a total of 82,028,667 million KappAhl shares were traded at a value of SEK 4.9 billion. This means that each share was traded 1.1 times over the year, corresponding to an average of 328,115 shares traded per day.

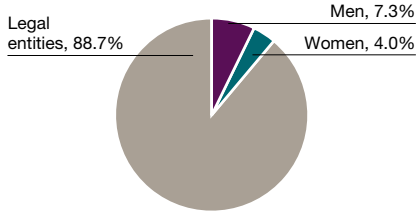
Ownership structure

On 31 August 2008 KappAhl had 11,071 shareholders. The largest shareholder was Pegatro Limited, with a 30.0 per cent ownership, shared equally by KappAhl's President Christian W. Jansson and board

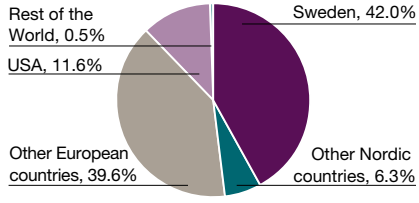
Distribution by size of shareholding

Shareholding (SEK thousand)	Number of shareholders	Number of shares	Share-holding (%)	Votes (%)
1–500	7,598	1,447,443	1.9%	1.9%
501–1,000	1,638	1,475,708	2.0%	2.0%
1,001–5,000	1,318	3,190,264	4.2%	4.2%
5,001–10,000	208	1,599,053	2.1%	2.1%
10,001–15,000	56	710,371	0.9%	0.9%
15,001–20,000	40	738,514	1.0%	1.0%
20,001–	199	65,878,647	87.8%	87.8%
Total	**11,057**	**75,040,000**	**100.0%**	**100.0%**

Distribution of ownership, shareholding



Geographical distribution, shareholding



member Paul Frankenius. Just over 96 per cent of shareholders own more than 1,000 shares. Shareholdings registered with companies and institutions amounted to just under 89 per cent and shareholdings registered at non-Swedish addresses 58 per cent.

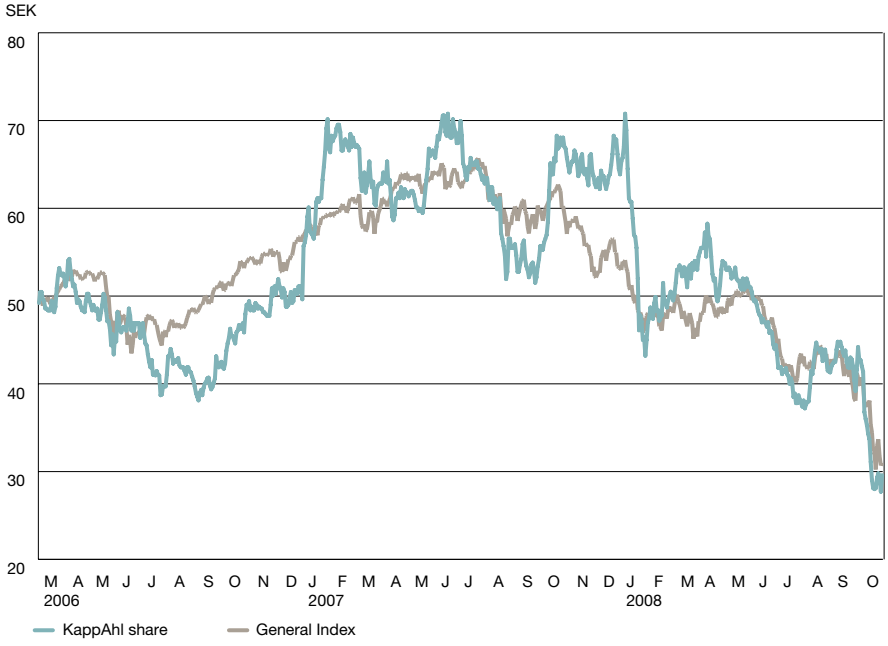
Dividend

The Board of Directors proposes to the 2008 Annual General Meeting a dividend of SEK 4.50 per share for the 2007/2008 financial year.

Stock market information

KappAhl's information to the stock market and shareholders is to be characterised by correctness, relevance, transparency and speed. KappAhl's press releases, quarterly reports and annual reports are available at www.kappahl.com/ir. Here you will also find additional information about the company, financial performance and the KappAhl share and how to subscribe to information from KappAhl.

KappAhl share performance, March 2006–17 October 2008



The price graph is adjusted for share redemption of SEK 11 at the beginning of 2008.

KappAhl share performance, 1 September 2007–31 August 2008

The price graph is adjusted for share redemption of SEK 11 at the beginning of 2008.

Multi-year and quarterly review

Key ratios

	Sept–Aug 2007/2008	Sept–Aug 2006/2007	Sept–Aug 2005/2006	Sept–Aug 2004/2005[1]
Sales growth, %	3.3%	6.1%	6.9%	–
Operating profit (EBIT)	651	618	530	403
Total depreciation/amortisation	221	200	177	152
Gross profit margin, %	62.4%	61.1%	60.2%	58.6%
Operating margin, %	14.1%	13.8%	12.6%	10.2%
Interest coverage ratio (multiple)	8.48	6.61	4.71	3.75
Net interest-bearing liabilities	1 979	1 387	1 605	1 685
Net interest-bearing liabilities/EBITDA (multiple)	2.27	1.70	2.27	3.04
Equity/assets ratio, %	16.4%	28.0%	14.3%	9.7%
Equity per share, SEK	7.09	11.86	5.49	3.78
Equity per share after dilution, SEK	7.09	11.86	5.49	3.78
Cash flow from operating activities per share	9.73	8.89	6.31	10.19
Market price, SEK	44.80	64.75	49.70	–
Market value, SEK m	3,362	4,859	3,729	–
P/E ratio (multiple)	7.7	7.4	12.4	–
Dividend yield, %	10.0%	17.0%	5.0%	–
Price/equity, %	633%	546%	905%	–
Earnings per share, SEK	5.81	8.78	4.02	3.52
Dividend per share (proposed 2007/2008)	4.50	11.0 [2]	2.50	2.25[3]
Dividend payout ratio, %	77.5%	–	62.1%	64.0%[3]
Number of shares at close of period	75 040 000	75 040 000	75 040 000	10,366,000
Number of shares after dilution	75 040 000	75 040 000	75 040 000	10,366,000

[1] The figures for the period September 2004–August 2005 are proforma and consequently not audited. The Group KappAhl Holding AB (publ) was established in December 2004 and the first financial year for the Group consisted of the eight months January–August 2005. Consequently the multi-year reviews above do not contain more years for comparison.
[2] Referred to redemption of shares.
[3] Dividend based on the number of shares at the time of listing; 75,040,000. Dividend payout ratio is calculated as a percentage of 12-month profit for September 2004–August 2005.

Multi-year and quarterly review

Condensed consolidated income statement (SEK m)

	Sept–Aug 2007/2008	Sept–Aug 2006/2007	Sept–Aug 2005/2006	Sept–Aug 2004/2005[1]
Net sales	4,622	4,473	4,217	3,945
Cost of goods sold	–1,740	–1,738	–1,677	–1,635
Gross profit	**2,882**	**2,735**	**2,540**	**2,310**
Selling expenses	–2,106	–1,985	–1,863	–1,781
Administrative expenses	–136	–142	–147	–126
Other operating income	11	16	–	–
Other operating expenses	–	–6	–	–
Operating profit	**651**	**618**	**530**	**403**
Financial income	27	23	2	6
Financial expenses	–80	–97	–113	–109
Profit after financial items	**598**	**544**	**419**	**300**
Tax	–162	115	–117	–36
Profit after tax	**436**	**659**	**302**	**264**

[1] The figures for the period September 2004–August 2005 are proforma and consequently not audited. The Group KappAhl Holding AB (publ) was established in December 2004 and the first financial year for the Group consisted of the eight months January–August 2005. Consequently the multi-year reviews above do not contain more years for comparison.

Quarterly income statements (SEK m)

	Q4 07/08	Q3 07/08	Q2 07/08	Q1 07/08	Q4 06/07	Q3 06/07	Q2 06/07	Q1 06/07	Q4 05/06	Q3 05/06	Q2 05/06	Q1 05/06	Q4 04/05	Q3 04/05	Q2 04/05[1]	Q1 04/05[1]
Net sales	1,103	1,140	1,132	1,247	1,090	1,106	1,088	1,189	1,010	1,029	1,026	1,152	987	966	953	1,039
Cost of goods sold	–420	–413	–457	–450	–412	–417	–460	–449	–371	–392	–437	–477	–390	–370	–435	–440
Gross profit	**683**	**727**	**675**	**797**	**678**	**689**	**628**	**740**	**639**	**637**	**589**	**675**	**597**	**596**	**518**	**599**
Selling expenses	–480	–547	–521	–558	–456	–528	–484	–517	–431	–477	–468	–487	–447	–448	–421	–465
Administrative expenses	–32	–35	–36	–33	–33	–32	–40	–37	–35	–40	–33	–39	–31	–34	–36	–25
Other operating income	11	–	–	–	–	3	13	–	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–6	–	–	–	–	–	–	–	–	–	–	–
Operating profit	**182**	**145**	**118**	**206**	**183**	**132**	**117**	**186**	**173**	**120**	**88**	**149**	**119**	**114**	**61**	**109**
Financial income	0	21	3	3	0	11	10	2	0	0	1	1	3	1	1	1
Financial expenses	–26	–18	–18	–18	–16	–32	–33	–16	–12	–18	–64	–19	–48	–33	–23	–5
Profit after financial items	**156**	**148**	**103**	**191**	**167**	**111**	**94**	**172**	**161**	**102**	**25**	**131**	**74**	**82**	**39**	**105**
Tax	–44	–36	–29	–53	–48	–32	244	–49	–45	–29	–7	–36	–11	–24	5	–6
Profit after tax	**112**	**112**	**74**	**138**	**119**	**79**	**338**	**123**	**116**	**73**	**18**	**95**	**63**	**58**	**44**	**99**

[1] The figures for the period September 2004–August 2005 are proforma and consequently not audited. The Group KappAhl Holding AB (publ) was established in December 2004 and the first financial year for the Group consisted of the eight months January–August 2005. Consequently the multi-year reviews above do not contain more years for comparison.

Administration report

The Board of Directors and the President of KappAhl Holding AB (publ), corporate identity number 556661–2312, with its registered office in Mölndal, hereby submit the annual accounts and consolidated accounts for the financial year 1 September 2007 to 31 August 2008.

Group

The Group operates in retail sales of clothes for women, children and men. In addition to the parent company, KappAhl Holding AB, the Group includes the wholly-owned companies KappAhl Sverige AB, KappAhl Fastigheter AB, Fastighets AB Betesängen and KappAhl Mölndal AB, the sales companies in Norway, Finland and Poland and a purchasing company in China. The Group also has purchasing offices in Turkey, Lithuania, 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. A full list of Group companies is given in Note 27.

The company in China and the foreign purchasing offices are responsible for making contact with new suppliers, quality control and overseeing production and delivery in the markets close to them.

Parent company

The parent company provides certain group-wide services.

Ownership structure

As at 31 August 2008 KappAhl Holding AB's ten largest shareholders were as indicated in the table below:

	Number of shares	Percentage of shares and votes
Pegatro Ltd*	22,511,000	30,0
Catella Fondförvaltning	3,883,700	5,2
Swedbank Robur Fonder	3,279,021	4,4
Morgan Stanley & Co Inc, W9	3,207,410	4,3
State Street Bank	2,133,802	2,8
SEB Investment Management	2,057,010	2,7
Svenska Handelsbanken Clients ACC:3	2,005,000	2,7
AKTIA SPARBANK	1,410,000	1,9
JP MORGAN CHASEBANK, W9	1,390,524	1,8
Handelsbanken funds incl. XACT	1,040,928	1,4
Other shareholders	32,121,605	42,8
Total	**75,040,000**	**100,0**

* See Note 26

Performance and significant events of the financial year

Group performance

Net sales and gross profit

KappAhl's net sales for the period (excluding VAT) were SEK 4,622 (4,473) million, an increase of 3.3 per cent compared with the previous financial year. The increase consists of translation differences in foreign currency (mainly NOK) of 1.8 per cent, new and closed stores, 1.9 per cent, and development of comparable stores, –0.4 per cent. The sales trend was affected, mainly in the second half of the year, by the clear slowdown in the economy. Despite the considerably worse external conditions earnings increased.

Apart from favourable currency effects, the overall sales trend is primarily due to new store openings during the year, increasing the number by 19.

The gross profit amounted to SEK 2,882 (2,735) million, giving a gross margin of 62.4 (61.1) per cent, and shows that the gross margin has continued at a stable level.

Operating profit

Selling and administrative expenses amounted to SEK 2,243 (2,126) million, meaning that costs are slightly higher than in the previous year. The increase in costs is primarily attributable to the increase in the number of stores and to normal inflation. The year's selling and administrative expenses include a positive non-recurrent item of SEK 20 million, due to a reduction in the accounts of pension commitments in connection with the change in pension plan for employees in the Swedish operations.

Other operating income of SEK 11.0 million refers to compensation for vacating a store site.

The Group's operating profit for the financial year is SEK 651 (618) million, an increase of 5.3 per cent. The operating margin was 14.1 (13.8) per cent.

Taxes

The taxes for the year reported in the income statement amount to about 27 per cent, while tax paid amounts to only about 15 per cent, mainly due to loss carry forwards being used.

Store network and expansion

During the financial year, 22 new stores were opened: seven in Sweden, six in Finland, five in Norway and four in Poland. Two stores in Norway and one in Poland were closed in the same period. The total

number of stores was 291 (272) at the end of the financial year. Of these, 138 are in Sweden, 87 in Norway, 46 in Finland and 20 in Poland.

The work of finding new store sites is proceeding according to plan. Apart from the 291 (272) stores in operation on 31 August this year, there are at present contracts for 57 new stores, of which 24 in Poland. Of the new contracts, 15 stores will open in the first quarter and about 30 in the full year 2008/2009. Two to four stores will be closed during the year. The long-term goal to increase the number of stores by 20 to 25 per year remains.

Number of stores per country

	31 Aug 2008	31 Aug 2007	31 Aug 2006	31 Aug 2005	31 Dec 2004	31 Aug 2004
Sweden	138	131	130	125	124	122
Norway	87	84	81	74	72	72
Finland	46	42	36	32	30	30
Poland	20	15	13	11	9	9
Total	**291**	**272**	**260**	**242**	**235**	**233**

Financial instruments and risk management

The aim of the Group's currency policy is to minimise the risk of negative effects on earnings and to increase the predictability of future earnings. This is achieved by hedging the subsidiaries' revenues. The Group's goods purchases are also hedged, by hedging future goods flows 3–9 months using futures and options. A substantial portion of the Group's goods purchases are in USD, which makes the business sensitive to changes in the dollar exchange rate. Further information is available in Note 22.

Financing

All financing and investing of funds is via KappAhl Holding AB. Cash and cash equivalents in the KappAhl Holding Group on 31 August 2008 amounted to SEK 32 million compared with SEK 60 million on 31 August 2007. The Group also has assurances of credit totalling SEK 3,150 (1,801) million, of which SEK 1,971 (1,248) million had been utilised on 31 August 2008.

The company's financing is primarily in the form of bank loans and overdraft facilities. Further information is available in Note 22.

Parent company performance

The parent company's sales for the period amounted to SEK 7 (7) million and profit after financial items was SEK 45 (67) million.

Significant events

Market

A clear slowdown in the economy was felt in the spring and summer, which also affected the fashion business. At the same time it can be noted that the forecast for private consumption looks better in the countries where KappAhl operates than for Europe in general. KappAhl's customers are normally only affected to a limited extent by developments in the financial markets, since they have relatively few loans or investments in shares. Substantial increases in energy and food prices are disquieting as regards scope for consumption, but KappAhl is well positioned to meet a weaker economy.

KappAhl's success builds on the ability to sell value-for-money fashion with wide appeal. KappAhl's offer focuses on women aged 30–50 with husbands and children. The most loyal customers have been found in this category for many years. In the past year, work has been continuing to adapt the range to this primary customer group. The You Look Great marketing campaign continues to contribute to strong sales.

The continual work on purchasing prices has proceeded during the financial year. This is necessary both to give customers good offers and to ensure strong long-term finances in the Group.

Capital expenditure

KappAhl Holding AB Group

The year's net capital expenditure amounted to SEK 692 (276) million. SEK 462 million of this refers to the investment in the property where the head office and distribution centre operate. These properties were rented via a finance lease and acquired via two limited companies. Most of the remainder 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 and repeat visits. Capital expenditure in store maintenance is an important factor in ensuring the Group's long-term earning capacity.

Parent company

Apart from company acquisitions described under the heading Capital expenditure, KappAhl Holding AB Group above, no other investments were made in KappAhl Holding AB. The cost of the company acquisitions amounts to SEK 304 million.

Future expectations

Consumer spending is an important factor for KappAhl, as it is for the retail trade as a whole. It is expected to continue to increase but at a slower rate. This means it will be difficult to assess trends, while it may be positive for a company such as KappAhl, which offers good value for money.

The Group has also set a target of opening 20–25 new stores per year. All in all, the Group seems set to continue its good performance.

Material risks and uncertainties

KappAhl is exposed to a number of risks, relating both to its own operations and to the industry as a whole. Most risk areas can be managed through internal procedures and controls, while some are governed more by external factors. The risks can be divided into business-related or operational risks and financial risks.

The financial risks and their management are described in more detail in Note 22. Risk management is also described in the corporate governance report, page 68, under the heading ”Report on internal controls”.

The major areas of identified risks and uncertainties are described in brief below, together with how KappAhl addresses each of these risk areas.

Competition

The fashion industry is characterised by intense competition, in terms of both product range and markets. The main competitors are other chains, department stores, mail order companies and internet shopping, for the sale of clothes to women, men and children and of accessories. There is also competition for the best store locations and best rental terms. Both Nordic and international competitors may have greater financial, marketing or other resources. Consequently they may be better equipped to adapt to customer demand, to devote more resources to marketing and design of products and stores or achieve better brand awareness. Strong competition can lead to price pressure and falling market share. KappAhl focuses on clear concepts and market positioning through a well-defined target group, combined with a clear message. This is considered to be a significant competitive advantage.

Fashion

KappAhl’s success is due to its ability to identify and constantly adapt to shifting fashion trends and customer requirements and timely introduction of new and attractive products. The products must also attract a broad range of customers, whose perception of fashion cannot be predicted with certainty. If consumer trends and collections are misread it can lead to a surplus of certain stock, price cuts and lost sales opportunities. The brand could be damaged if customers believe that KappAhl is unable to offer them products they perceive as fashionable. Talented designers and buyers who constantly work to spot and predict trends are recruited. This coupled with the company’s customer-oriented business model where customer purchase patterns and behaviour are constantly analysed, gives the highest awareness of this central area of risk.

Trade restrictions

Just over two thirds of KappAhl’s products are bought in Asia and the rest from Europe. Trade restrictions, including customs tariffs, protective measures or quotas for clothes and accessories may have an impact on the cost or availability of products and mean that purchasing routines must be changed. It is impossible to predict if any of the countries in which clothes and accessories are manufactured, currently or in the future, will be subject to further trade restrictions and, if so, what the effects will be.

Expansion

KappAhl is currently in a strategically intensive phase with extensive expansion of the store network in all four geographical markets. At the same time, existing stores are continually being upgraded and extended, which requires considerable investment and management resources. There is never any guarantee that investments will generate sufficient return.

The ability to open new stores and to upgrade and extend existing stores is dependent on several factors, some of which are outside the company’s control. This applies above all to access to new sites on selected markets, sites close to existing stores and terms of tenancy agreements. If new stores are note opened or if extensions and upgrades of existing stores do note keep pace, this may have a negative impact on the company’s ability to increase market shares and sales. Although tenancy agreements for stores are normally long-term, some may expire and be impossible to renew on acceptable terms or at all. Relocation or expansion and upgrading can also entail periods of weaker sales. All these factors can significantly affect strategy and business. Long-term and focused work is taking

place continuously on expanding and reviewing stores to ensure that expansion targets are realistic and achievable. As at 31 August this year there were contracts for 57 new stores.

Brand

It is KappAhl's policy to register and protect its brand and name. There are, however, no guarantees that these measures are sufficient to protect the brand and property. Moreover, unauthorised use of the brand on pirate copies or imitation of KappAhl's stores damage the company's image and reputation.

Fashion designers tend to follow the same trends and designs may resemble the creations of other designers and stores. The situation may arise where a designer, store or third party claims that KappAhl's products infringe on their intellectual property rights. Even though KappAhl is not currently involved in any legal proceedings, there are no guarantees that such claims will not be directed against the company in the future.

These factors can entail substantial expense and risk damaging the company's reputation.

Information systems and information security

KappAhl relies on information systems to manage the supply chain from purchase to in store sales as well as to compile operative and statistical information. The risks include appropriateness of existing systems and safeguarding business-sensitive information. Every long stoppage or lack of functionality in the information systems can mean the loss of important information or delays, especially if problems occur in the peak season, for example during the Christmas trade.

Existing systems structures are therefore evaluated on a continuous basis to ensure that the information systems meet business requirements. There is also a sharp focus on information security assurance in all important parts of the Group.

Changes in the business cycle

The industry in which KappAhl operates is affected by changes in the economy that impact total demand and consequently the level of consumption. Consumer patterns are affected by a number of general factors beyond the control of the company, including general business conditions, interest rates, exchange rates, inflation and deflation levels, taxes, access to credit, stock market trends, unemployment levels, uncertainty about the economic outlook for the future and shifts in consumer patterns from durables to other goods and services. Recent unrest on financial markets has had a dampening effect on consumption. For KappAhl, however, this may be a business opportunity, as the customer offer gives a lot of value for money.

Events after the close of the financial year

The Government has proposed a corporation tax cut in Sweden from 28 per cent to 26.3 per cent. This will affect KappAhl's tax expense in Sweden from 1 September 2009. The change in the tax rate will not, however, have any material net effect on the company's valuation of deferred tax assets and liabilities.

Corporate governance

Information is provided in a separate Corporate Governance report. (see page 65).

Proposed appropriation of the company's profits

The Board of Directors and CEO propose that the profits at the disposal of the Annual General Meeting, SEK 686,073,465, be appropriated as follows:

Dividend (75,040,000 x SEK 4.50)	SEK 337,680,000
To be brought forward	SEK 348,393,465
Total	**SEK 686,073,465**

The financial statements were approved for publication by the parent company's Board of Directors on 26 October 2008.

For information about the company's earnings and financial position in other respects, please refer to the income statements, balance sheets and accompanying notes set out below.

Group income statement

Amounts in SEK m	Note	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Net sales	2, 3, 4	4,622.3	4,473.5
Cost of goods sold		–1,739.7	–1,738.3
Gross profit	7	**2,882.6**	**2,735.2**
Selling expenses		–2,106.4	–1,984.6
Administrative expenses		–136.4	–141.8
Other operating income	2, 7	11.0	15.9
Other operating expenses	7	–	–6.5
Operating profit	3, 5, 6, 7, 18, 23	**650.8**	**618.2**
Financial income		26.8	22.6
Financial expenses		–79.8	–96.9
Net financial items	8	**–53.0**	**–74.3**
Profit before tax		**597.8**	**543.9**
Tax	9	–162.0	114.9
Profit for the year		**435.8**	**658.8**
Earnings per share			
before dilution (SEK)		5.81	8.78
after dilution (SEK)		5.81	8.78

Comments on the Group income statement

Net sales
Net sales amounted to SEK 4,622 (4,474) million, an increase of 3.3 per cent.

The increase consists of translation differences in foreign currency, mainly Norwegian kronor, of 1.8 per cent, new and closed stores 1.9 per cent and development of stores that are comparable between years, –0.4 per cent.

Gross profit
Gross profit was SEK 2,882 million, an increase of SEK 147 million. The gross margin is 62.4 per cent, compared with 61.1 per cent last year. A strong range adapted to the target group is the basis of this sound margin. In addition, the dollar exchange rate was favourable, which was partly offset by the strengthening of several Asian currencies against USD.

Operating profit
Operating profit was SEK 651 million, an increase of SEK 33 million compared with last year. The operating margin is 14.1 per cent, compared with 13.8 per cent last year. The increase in selling and administrative expenses is partly attributable to the Group having more stores than last year, and partly to exchange rate effects in the Group consolidation (mainly NOK). The year's selling and administrative expenses include a positive non-recurrent item of SEK 20 million, due to a reduction of pension commitments in connection with a change in the pension plan in Sweden.

Among other operating income, the operating profit includes compensation for vacating a store site of SEK 11 million. The same item in the previous year included the proceeds of the sale of two rental properties, totalling SEK 15.9 million. The costs of the offer to acquire shares in AB Lindex, of SEK 6.5 million, were included among other operating expenses in the previous year.

Profit before tax
Profit before tax is SEK 598 million, which is an improvement compared with last year of SEK 54 million. Net financial items amounted to SEK 53 million, which is an improvement compared with last year of SEK 21 million. Net financial items includes an item of SEK 23 million, representing the effect on earnings in the accounts of prior redemption of loans for finance leases previously in existence for the property in which the distribution centre and head office are located.

Tax
The taxes for the financial year reported in the income statement amount to about 27 per cent, while tax paid amounts to only about 15 percent, mainly due to loss carry forwards being used.

Group balance sheet

Amounts in SEK m	Note	31 Aug 2008	31 Aug 2007
ASSETS	24		
Non-current assets			
Intangible assets	10	1,343.7	1,354.3
Property, plant and equipment	11	1,031.8	685.3
Long-term receivables	13	0.2	1.6
Deferred tax assets	9	69.4	407.7
Total non-current assets		**2,445.1**	**2,448.9**
Current assets			
Inventories	14	622.2	605.9
Accounts receivable		3.4	1.4
Prepaid expenses and accrued income	15	90.3	71.3
Other receivables	13	55.8	24.9
Cash and cash equivalents	16	32.2	59.9
Total current assets		**803.9**	**763.4**
Total assets		**3,249.0**	**3,212.3**
EQUITY AND LIABILITIES			
Equity			
Share capital		10.7	10.7
Other contributed capital		205.1	205.1
Other reserves		50.7	19.6
Retained earnings		264.6	654.1
Total equity		**531.1**	**889.5**
Liabilities			
Long-term liabilities			
Finance lease loans	11	–	151.1
Long-term interest-bearing liabilities	17, 22	1,189.4	1,049.0
Provisions for pensions and similar obligations	18	39.8	61.3
Other provisions	19	7.7	7.4
Deferred tax liabilities	9	9.3	258.9
Total long-term liabilities		**1,246.2**	**1,527.7**
Current liabilities			
Finance lease loans	11	–	22.3
Short-term interest-bearing liabilities	17	–	56.0
Accounts payable		233.1	239.8
Current tax liabilities	9	44.3	34.4
Other liabilities	20	141.7	102.5
Accrued expenses and deferred income	21	270.2	232.8
Bank overdraft facilities	17	782.4	107.3
Total current liabilities		**1,471.7**	**795.1**
Total liabilities		**2,717.9**	**2,322.8**
Total equity and liabilities		**3,249.0**	**3,212.3**

For information on the Group's pledged assets and contingent liabilities, please see Note 25.

Comments on the Group balance sheet

Non-current assets
Intangible assets
Intangible assets consist mainly of goodwill, SEK 696 million, and trademark, SEK 610 million. Impairment tests are carried out annually, or more often if warranted. No risk of impairment loss is considered to exist and there has been no change in value between the financial years.

Deferred tax assets/tax liabilities
Deferred tax assets have decreased by SEK 338 million between the years. This is mainly due to offset of SEK 275 million between tax assets and liabilities. During the financial year loss carry forwards of SEK 48 million were utilised.

Current assets
Inventories
Inventories are recorded at the lower of cost or net realisable value. Inventories increased by SEK 16 million between the years. This is mainly due to the fact that KappAhl had increased the number of stores from 272 to 291 at the close of the financial year. Inventories are well-balanced in terms of composition and size.

Equity
Changes in equity were SEK –358 million and, apart from the net income for the year of SEK 436 million, mainly consisted of payment during the year to shareholders via a share redemption procedure, amounting to SEK 825 million.

Long-term liabilities
Finance lease loans
Loans for finance leases have ceased in that the properties in which the distribution centre and head office are located were acquired during the year. The change has had the corresponding effect on the balance sheet item 'Finance lease loans' under 'Current liabilities'.

Current liabilities
Accrued expenses and deferred income
The balance sheet item increased by SEK 37 million and mainly consists of staff-related liabilities.

Bank overdraft facilities
The Group's bank overdraft facilities increased substantially compared with last year. This is principally due to rescheduling the Group's loan structure. This is described in more detail in Note 22.

Group statement of changes in equity

	Equity attributable to the parent company's shareholders					
			Other reserves			
Amounts in SEK m	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total equity
Opening equity, 1 September 2006	**10.7**	**205.1**	**12.4**	**1.1**	**182.9**	**412.2**
Dividend	–	–	–	–	–187.6	**–187.6**
Cash flow hedging, after tax *	–	–	–3.4	–	–	**–3.4**
Year's translation differences	–	–	–	9.5	–	**9.5**
Profit for the year	–	–	–	–	658.8	**658.8**
Closing equity, 31 August 2007	**10.7**	**205.1**	**9.0**	**10.6**	**654.1**	**889.5**

	Equity attributable to the parent company's shareholders					
			Other reserves			
Amounts in SEK m	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total equity
Opening equity, 1 September 2007	10.7	205.1	9.0	10.6	654.1	**889.5**
Redemption of shares	–	–	–	–	–825.4	**–825.4**
Cash flow hedging, after tax *	–	–	25.5	–	–	**25.5**
Year's translation differences	–	–	–	5.6	–	**5.6**
Profit for the year	–	–	–	–	435.9	**435.9**
Closing equity, 31 August 2008	**10.7**	**205.1**	**34.5**	**16.2**	**264.6**	**531.1**

* See Note 1 for accounting effects under IAS 39.

Group cash flow statement

Amounts in SEK m	Note	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Operating activities	28		
Profit before tax		597.8	543.9
Adjustment for non-cash items		186.0	197.0
Income tax paid	9	–97.0	–49.0
Cash flow from operating activities before changes in working capital		**686.8**	**691.9**
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in inventories		–16.3	–48.2
Decrease (+)/Increase (–) in operating receivables		–19.1	14.8
Decrease (–)/Increase (+) in operating liabilities		78.4	8.8
Cash flow from operating activities		**729.8**	**667.3**
Investing activities			
Acquisition of equipment		–222.4	–200.4
Acquisition of real property via subsidiaries	28, 29	–462.0	–
Acquisition of intangible assets		–9.2	–21.0
Acquisition of subsidiaries	29	–	–54.4
Sale of financial assets		1.4	–0.2
Cash flow from investing activities		**–692.2**	**–276.0**
Financing activities			
Redemption of shares		–825.4	–
Dividend paid		–	–187.6
Raised loans and bank overdraft facilities		759.5	–
Repayment of loans and bank overdrafts		–	–217.8
Cash flow from financing activities		**–65.9**	**–405.4**
Cash flow for the year		**–28.3**	**–14.1**
Cash and cash equivalents at the start of the year		59.9	72.3
Exchange rate differences		0.6	1.7
Cash and cash equivalents at the end of the year	16	**32.2**	**59.9**

Comments on the Group cash flow statement

Cash flow from operating activities before changes in working capital
The line Adjustment for non-cash items this year includes an adjustment for a non-recurrent item in the income statement of SEK 21 million referring to a change in the pension provision. Tax paid has increased by SEK 49 million.

Cash flow from changes in working capital
Cash flow from changes in working capital gives a net impact on cash flow of SEK 43 (–25) million, which is mainly due to the increased capital tied up related to expanding operations.

Cash flow from investing activities
Cash flow from investing activities has resulted in payments totalling SEK 692 (276) million. The major part refers to acquisition of real property, as described in comments on the balance sheet, of SEK 462 million. Apart from this most of the investments are in new stores and store conversions.

Cash flow from financing activities
Cash flow from financing activities was SEK –66 (–405) million. This includes redemption of shares of SEK 825 million (the corresponding dividend in the previous year was SEK 188 million). The remainder of the change is due to increased borrowing of SEK 760 million during the year and repayments of loans in the previous year (SEK 218 million).

Parent company income statement

Amounts in SEK m	Note	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Net sales		7.2	7.2
Cost of goods sold		–	–
Gross profit		**7.2**	**7.2**
Other operating expenses		–8.0	–12.3
Operating profit	5, 6, 7	**–0.8**	**–5.1**
Profit from financial items	8		
Profit from participations in subsidiaries	28	139.2	590.4
Other interest income and similar profit items		5.2	1.8
Interest expense and similar profit items		–98.5	–62.0
Profit after financial items		**45.1**	**525.1**
Profit before tax		**45.1**	**525.1**
Tax	9	26.3	18.3
Profit for the year		**71.4**	**543.4**

Parent company balance sheet

Amounts in SEK m	Note	31 Aug 2008	31 Aug 2007
ASSETS	25		
Non-current assets			
Financial assets			
Participations in Group companies	27	3,143.8	2,882.4
Total financial assets		**3,143.8**	**2,882.4**
Total non-current assets		**3,143.8**	**2,882.4**
Current assets			
Current receivables			
Receivables from Group companies	12	258.9	736.8
Other receivables	13	26.5	13.3
Prepaid expenses and accrued income	15	3.1	2.4
Total current receivables		**288.5**	**752.5**
Cash and cash equivalents		0.0	0.0
Total current assets		**288.5**	**752.5**
Total assets		**3,432.3**	**3,634.9**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (10,720,000 shares at SEK 1 par value, prev. year 10,720,000 shares at SEK 1 par value)		10.7	10.7
Statutory reserve		205.1	205.1
Non-restricted equity			
Retained earnings		614.7	816.1
Profit for the year		71.4	543.4
Total equity		**901.9**	**1,575.3**
Liabilities			
Long-term liabilities			
Liabilities to credit institutions	17	1,726.3	1,049.0
Deferred tax liabilities	9	6.0	1.0
Total long-term liabilities		**1,732.3**	**1,050.0**
Current liabilities			
Liabilities to credit institutions	17	0.1	56.0
Liabilities to Group companies		–	838.3
Other liabilities	20	2.0	0.7
Accrued expenses and deferred income	21	7.4	7.3
Bank overdraft facilities	16	788.6	107.3
Total current liabilities		**798.1**	**1,009.6**
Total equity and liabilities		**3,432.3**	**3,634.9**

Pledged assets and contingent liabilities for the parent company

SEK m	Note	31 Aug 2008	31 Aug 2007
Pledged assets	25	1,574.7	1,271.1
Contingent liabilities	25	Inga	Inga

Parent company statement of changes in equity

	Restricted equity			Non-restricted equity			
SEK m	Share capital	Statutory reserve	Share premium reserve	Hedging reserve	Retained earnings	Profit/loss for the year	Total equity
Opening equity, 1 September 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 loss	–	–	–	–	–76.5	76.5	**0.0**
Cash flow hedging, after tax	–	–	–	2.6	–	–	**2.6**
Profit 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 August 2007	**10.7**	**205.1**	**0.0**	**9.3**	**806.8**	**543.4**	**1,575.3**

	Restricted equity			Non-restricted equity			
SEK m	Share capital	Statutory reserve	Share premium reserve	Hedging reserve	Retained earnings	Profit/loss for the year	Total equity
Opening equity, 1 September 2007	**10.7**	**205.1**	**0.0**	**9.3**	**806.8**	**543.4**	**1,575.3**
Redemption of shares	–	–	–	–	–825.4	–	**–825.4**
Restatement of previous year's profit	–	–	–	–	543.4	–543.4	**0.0**
Cash flow hedging, after tax	–	–	–	8.6	–	–	**8.6**
Profit for the year	–	–	–	–	–	71.4	**71.4**
Group contributions received	–	–	–	–	100.0	–	**100**
Tax on Group contributions received	–	–	–	–	–28.0	–	**–28.0**
Closing equity, 31 August 2008	**10.7**	**205.1**	**0.0**	**17.9**	**596.8**	**71.4**	**901.9**

History of number of shares and share capital

	Number of shares	Carrying amount
1 Jan 2005	10,000,000	10,000,000
New share issue, January 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 August 2008	**75,040,000**	**10,720,000**

Parent company cash flow statement

Amounts in SEK m	Note	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Operating activities	28		
Profit after financial items		45.1	525.1
Adjustment for non-cash items		41.5	–370.6
Cash flow from operating activities before changes in working capital		**86.6**	**154.5**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		–22.0	–14.1
Increase (+)/Decrease (–) in operating liabilities		1.4	–2.5
Cash flow from operating activities		**66.0**	**137.9**
Investing activities			
Acquisition of subsidiaries	27	–303.6	–
Cash flow from investing activities		**–303.6**	**–**
Financing activities			
Dividend paid		–825.4	–187.6
Loans raised		303.7	160.8
Payments received from subsidiaries		759.3	–
Repayment of credit		–	–111.1
Cash flow from financing activities		**237.6**	**–137.9**
Cash flow for the year		**0.0**	**0.0**
Cash and cash equivalents at the start of the year		0.0	0.0
Cash and cash equivalents at the close of the year		**0.0**	**0.0**

Notes to the financial statements

Contents

NOTE 1 ACCOUNTING POLICIES

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. Additional information in accordance with the Swedish Financial Reporting Board recommendation RFR 1 ”Supplementary accounting rules for groups” has also been observed.

The parent company applies the same accounting policies as the Group, except in the cases indicated below under the heading ”Parent company’s accounting policies”. The deviations between the parent company’s and the group’s accounting policies are due to restrictions imposed by the Annual Accounts Act and the Act on Safeguarding Pension Commitments affecting the parent company’s ability to apply IFRS, and in some cases for tax reasons. In addition the Swedish Financial Reporting Board recommendation RFR 2 ”Accounting for legal entities” has been applied.

Basis for the preparation of the parent company and group 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 cost of acquisition, 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, cash and cash equivalents, 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 management to make assessments, estimates and assumptions that affect the application of the accounting policies and the stated amounts of assets, liabilities, income and expenses. These estimates 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 estimates 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 estimates and assessments.

The estimates and assumptions are reviewed on a regular basis. Changes in estimates 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 the company management in connection with the application of IFRS that have a significant impact on the financial statements and estimates made that may cause significant adjustments to the financial statements of the following year, are described in more detail in Note 31.

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

New and amended accounting policies

As of the current financial year KappAhl applies the following standards, interpretations and amendments, which have not had any material impact on the Group’s earnings and financial position.

- IFRS 7 Financial instruments: Disclosures. This standard came into force for financial years starting on 1 January 2007 and is being applied for the first time in the 2007/08 financial year. The standard requires additional information about the significance of financial instruments to financial position and earnings and about the nature and extent of risks arising from financial instruments to which the Group is exposed and how these risks are managed. However, the standard has not resulted in any change in valuation or presentation of financial instruments.

- IAS 1 Presentation of financial statements. A change has been made regarding disclosure requirements concerning objectives, policies and methods for managing capital.

New standards, interpretations and amendments published but not yet effective

A brief list is provided below of the standards, interpretations and amendments expected to be relevant to KappAhl's operations and a preliminary assessment of their impact. They have not yet been applied by the Group.

- IAS 1 Presentation of financial statements. Amendment concerning presentation of revenues and expenditure previously recognised directly in equity. This will be applied from 1 January 2009, which means the 2009/2010 financial year for KappAhl. No assessment of the possible impact has been made yet.
- IFRS 8 Operating segments. The standard is effective from 1 January 2009 and will consequently be applicable to KappAhl from the 2009/2010 financial year. The standard covers the division into operating segments, which should be on the same basis as the company's internal structure and follow-up when determining segments for reporting. It has not yet been established how the standard will impact KappAhl's financial statements.
- IFRIC 13 Customer Loyalty Programmes. Applies to financial years starting on 1 July 2008 onwards. The statement concerns sales to customers who participate in some form of customer loyalty programme and means that a certain component of the sale transaction is identified, corresponding to the customer's loyalty award, and the fair value deferred. The impact of the interpretation on KappAhl's operations has not been definitely established, but is not expected to have any material impact on the consolidated accounts initially.

Classification etc.

The non-current assets and long-term liabilities of the parent company and the group essentially consist only of the amounts expected to be recovered or paid after 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 expected to be recovered or paid within twelve months 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 is used to account for 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 cost of acquisition is established through an acquisition analysis in connection with the business combination. This analysis establishes both the cost of acquisition of the shares or business, and the fair value of the identifiable acquired assets and assumed liabilities and contingent liabilities. The difference between the cost of acquisition of the subsidiary's shares and the fair value of the acquired assets, assumed liabilities and contingent liabilities is recorded as goodwill.

Where the conditions for accounting for a business combination are not present, the transaction is accounted for instead as an asset acquisition, applying IFRS paragraphs 3 and 4 and IAS 12, paragraph 15.

Acquisition of real property during the year was not regarded as constituting a business combination and has therefore been accounted for as an asset acquisition, in which the acquisition price and book value are accounted for in their entirety as real property divided into building and land.

The subsidiaries' financial statements are included in the consolidated accounts from the date of their acquisition to the date on which the controlling influence ceases.

Foreign currency

Transactions in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated to the functional currency using the exchange rate prevailing on the balance sheet date. 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 cost, are translated at the exchange rate on the transaction date. 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 Swedish kronor. The functional currency of the subsidiaries is the local currency in the respective country.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and other consolidated surpluses 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 on the respective transaction dates. The translation differences that arise in connection with translation of foreign operations are recognised directly in 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

Sale of goods

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

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 operating leases

Payments relating to operating leases 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 finance leases

Minimum lease payments 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 the 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 in accordance with IAS 39.

Financial instruments recorded in the balance sheet include, on the assets side, trade receivables, cash and cash equivalents and derivatives reported as long term receivables and other receivables. Liabilities and equity include trade payables, loan liabilities (interest-bearing liabilities and finance lease loans on the balance sheet) and derivatives reported as other long term and short-term liabilities respectively.

Financial instruments are initially recognised at cost of acquisition corresponding to the fair value of the instrument. Transaction costs are added to this 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 intention of the acquirer of the financial instrument. KappAhl has the following categories:

Accounts receivable
Accounts receivable are classified in a separate category. Accounts receivable are recognised in the amounts expected to be received after deduction for bad debts, which are individually assessed. The expected life of accounts receivable is short, consequently they are recorded at nominal amounts without discount. Impairment losses in accounts receivable are recorded in operating expenses.

Interest-bearing liabilities
Financial liabilities that are not held for trading are recorded at amortised cost. Amortised cost is determined on the basis of the effective interest calculated when the liability was recognised. This means that premiums and discounts 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
Derivatives used for hedge accounting are reported in the balance sheet under the appropriate headings. All derivatives are stated at fair value in the balance sheet. For fair value hedging, value changes are recognised in equity. For cash flow hedging value changes are recorded in special components of equity until the hedged item is recognised in the income statement. Hedge accounting is described in more detail below.

Accounts payable
Account payable are classified as other financial liabilities. The expected life of accounts payable is short, consequently they are recorded at nominal amounts without discount.

Derivatives and hedge accounting

Derivatives are currency forwards, currency options, currency swaps and interest rate swaps that are used to handle the risk of exchange rate fluctuation and exposure to interest risk. The Group's financial gains and risk management are described in Note 22.

Transaction exposure – cash flow hedging
Foreign currency exposure relating to future forecast cash flows is 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 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 cost of acquisition of 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 recognised in the income statement.

Hedging the Group's fixed interest – cash flow hedging
Interest rate swaps are used to hedge interest 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 hedge accounting and efficiency criteria are met.

Property, plant and equipment

Owned assets
Property, plant and equipment are recognised as assets in the balance sheet if it is likely that the company will receive future economic benefits and the cost of acquisition of the asset can be reliably measured.

Property, plant and equipment are recognised in the consolidated accounts at cost of acquisition deducting accumulated depreciation and any impairment loss. The cost of acquisition includes the purchase price and costs directly relating to the asset to put it in place in a condition enabling it to be used for the purpose for which it was acquired.

Leased assets
In the consolidated accounts leases are classified either as finance leases or operating leases. A lease is a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee, otherwise it is an operating lease.

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

For an operating lease the lease payment is expensed over the lease term on the basis of use, which may differ from the de facto amount of lease payments made during the course of the year.

Borrowing costs
Borrowing costs for acquisition of non-current 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 and head office	50 years
– equipment, tools, fixtures and fittings	3–10 years

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

Intangible assets

Goodwill
Goodwill represents the difference between cost of acquisition of the business combination and the fair value of acquired assets and liabilities and contingent liabilities.

Goodwill is recognised at the cost of acquisition 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 cost of acquisition minus accumulated depreciation and impairment.

Brands
Brands acquired by the company are recorded at cost of acquisition 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 cost of acquisition with an estimated useful life 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, trademarks 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

Inventories
Inventories are recorded at the lower of cost of acquisition and net realisable value. The net realisable value is the estimated selling price in current operations, after deduction for the estimated cost of completion and for achieving a sale.

The cost of acquisition of inventories 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 exposed 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 recoverable value of goodwill, trademarks 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 impairment testing is carried out, 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 carrying amount exceeds the recoverable value. Impairment losses are recognised in the income statement. Impairment losses referring to assets included in a cash-generating unit are primarily allocated to goodwill. A pro rata write-down of other assets in the unit is then made. Impairment testing of goodwill were based on the Group's segments, which are considered to be the lowest cash-generating units.

Goodwill, trademarks 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 benefit the employees will have earned from their employment for both current and previous periods; this benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate is the rate of interest on the balance sheet date of first-class corporate bonds with a maturity that corresponds to the Group's pension obligations. When there is no active market for such corporate bonds, the market interest rate on government bonds with the same maturity is used. A qualified actuary using the projected unit credit method performs the calculation.

When plan benefits 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 benefits become fully vested. If the benefit is fully vested, a cost is recognised directly in the income statement because the subsidiary group's pension obligations 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 higher of the obligations' present value and the plan assets' fair value is recognised in the income statement over the average expected 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 costs 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 constructive 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 of material significance, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects current 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, which are calculated by KF on the basis of sales statistics.

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 purchase on approval. The provision is based on sales statistics and an assessment of future complaints and returns.

Taxes

Income taxes consist 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 substantively in effect as at the balance sheet date.

Deferred tax is calculated using the balance sheet method based on temporary differences between the carrying amount and tax base value of assets and liabilities. The following temporary differences are not taken into account: temporary differences that have arisen upon initial recognition of goodwill; initial recognition of assets and liabilities that are not business combinations 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 substantively in effect as at the balance sheet date.

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

Parent company accounting policies

The parent company presents its annual accounts in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for Legal Entities". According to RFR 2, in the annual accounts for the 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 the Act on Safeguarding Pension Commitments, 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 policies are outlined below.

Taking into account the connection between accounting and taxation, the company has applied Chapter 4. Section 14 a–e of the Annual Accounts Act, which permits financial instruments to be recognised at their fair value, instead of applying IAS 39.

The accounting policies 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 Reporting Board, UFR 2. Group contributions are reported according to their financial significance. This means that group contributions made in order to minimise the Group's overall tax burden are entered directly against retained earnings after a deduction for the current tax effect.

NOTE 2 DISTRIBUTION OF REVENUE

Net sales in the Group consist entirely of the sale of goods.
Other operating income refers to compensation for vacating a store site.

NOTE 3 SEGMENT REPORTING

Segment reporting is prepared for the Group's geographical areas. The Group's internal reporting system is based on returns from activities in different geographical areas and consequently geographical areas are the primary basis of division.

Transfer prices between the Group's different segments are determined using the "arm's length" principle, i.e. a transaction between knowledgeable, willing parties, each acting independently.

The segment results, assets and liabilities include directly attributable items and items that can reasonably and reliably be allocated to segments. Assets and liabilities not allocated to segments are trademarks, goodwill, interest-bearing long-term and current liabilities, deferred tax assets and deferred tax liabilities and other financial liabilities.

The segments' investments property, plant, equipment and intangible assets include all investments except investment in short-term equipment and equipment of low value.

Geographical areas

The Group's segments are divided into the following two geographical areas: Nordic countries and Other. The Nordic countries are Sweden, Norway and Finland. "Other" refers to Poland. The same type of activity is carried on in the different geographical areas, i.e. sales of clothes to woman, child and man.

Information concerning the segments' assets and investments during the period in property, plant, equipment and intangible assets is based on geographical areas grouped according to where the assets are located.

cont. Note 3

Segment

Group SEK m	Nordic countries 1 Sept 2007 31 Aug 2008	Nordic countries 1 Sept 2006 31 Aug 2007	Other 1 Sept 2007 31 Aug 2008	Other 1 Sept 2006 31 Aug 2007	Eliminations 1 Sept 2007 31 Aug 2008	Eliminations 1 Sept 2006 31 Aug 2007	Group 1 Sept 2007 31 Aug 2008	Group 1 Sept 2006 31 Aug 2007
Sales	4,392.8	4,304.1	229.5	169.4	–	–	4,622.3	4,473.5
Operating profit per segment	639.7	608.0	11.1	10.2	–	–	650.8	618.2
Operating profit	**639.7**	**608.0**	**11.1**	**10.2**	**–**	**–**	**650.8**	**618.2**
Assets	1 752.7	1 427.4	121.1	71.4	–	–	1,873.8	1 498.8
Unallocated assets		–		–	1,375.2	1,713.5	1,375.2	1,713.5
Total assets	**1,752.7**	**1 427.4**	**121.1**	**71.4**	**1,375.2**	**1,713.5**	**3,249.0**	**3,212.3**

Group SEK m	Nordic countries 1 Sept 2007 31 Aug 2008	Nordic countries 1 Sept 2006 31 Aug 2007	Other 1 Sept 2007 31 Aug 2008	Other 1 Sept 2006 31 Aug 2007	Eliminations 1 Sept 2007 31 Aug 2008	Eliminations 1 Sept 2006 31 Aug 2007	Group 1 Sept 2007 31 Aug 2008	Group 1 Sept 2006 31 Aug 2007
Liabilities	665.6	635.3	71.4	54.1		–	737.0	689.4
Unallocated liabilities		–	–	–	1,981.1	1,633.4	1 981.1	1,633.4
Total liabilities	**665.6**	**635.3**	**71.4**	**54.1**	**1,981.1**	**1,633.4**	**2 718.1**	**2,322.8**
Investments	352.0	199.0	39.7	23.9	301.8	–	693.5	222.9
Unallocated investments	–	–	–	–	–1.3	53.9	–1.3	53.9
Total investments	**352.0**	**199.0**	**39.7**	**23.9**	**300.5**	**53.9**	**692.2**	**276.8**

NOTE 4 NET SALES

Net sales by geographical market

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Sweden	2,520.3	2,514.5
Norway	1,313.6	1,269.7
Finland	558.9	519.9
Poland	229.5	169.4
Total	**4,622.3**	**4,473.5**

NOTE 5 EMPLOYEES AND STAFF COSTS

Average number of employees

	1 Sept 2007 31 Aug 2008	Of whom men	1 Sept 2006 31 Aug 2007	Of whom men
Parent company				
Sweden	3	100 %	2	100 %
Total parent company	**3**	**100 %**	**2**	**100 %**
Subsidiaries				
Sweden	1,661	10.8 %	1,507	12.6 %
Norway	603	6.3 %	611	5.9 %
Finland	409	1.5 %	382	1.6 %
Poland	171	9.4 %	167	9.6 %
Asia	129	45.7 %	120	45.0 %
Total, subsidiaries	**2,973**	**10.0 %**	**2,787**	**10.5 %**
Group total	**2,976**	**10.0 %**	**2,789**	**10.6 %**

Gender breakdown of senior executives

	31 Aug 2008 Percentage of women	31 Aug 2007 Percentage of women
Parent company		
Board of Directors	66.7 %	66.7 %
Other senior executives	0 %	0 %
Group total		
Board of Directors	66.7 %	66.7 %
Other senior executives	62.5 %	66.7 %

cont. Note 5

Salaries, other remuneration and social security costs

SEK m	1 Sept 2007–31 Aug 2008 Salaries and remuneration	1 Sept 2007–31 Aug 2008 Social security costs	1 Sept 2006–31 Aug 2007 Salaries and remuneration	1 Sept 2006–31 Aug 2007 Social security costs
Parent company	**3.1**	**1.2**	**2.5**	**0.8**
(of which pension costs)		0.2	–	0.1
Subsidiaries	**771.6**	**243.9**	**723.4**	**199.1**
(of which pension costs)		47.8*	–	38.3*
Group total	**774.7**	**245.1**	**725.9**	**199.9**
(of which pension costs)		48.0*	–	38.4*

* The Group's pension costs include SEK 1.2 (1.2) million for the Board of Directors and the CEO. For a complete summary of remuneration and other benefits to the Board of Directors. CEO and other senior executives, please see Note 18

Salaries and other remuneration by country and between board members etc and other employees

SEK m	1 Sept 2007–31 Aug 2008 Board and CEO	1 Sept 2007–31 Aug 2008 Other employees	1 Sept 2006–31 Aug 2007 Board and CEO	1 Sept 2006–31 Aug 2007 Other employees
Parent company				
Sweden	1.8	1.3	1.8	0.7
(of which bonus etc.)	–	–	–	–
Total parent company	**1.8**	**1.3**	**1.8**	**0.7**
(of which bonus etc.)	–	–	–	–
Subsidiaries in Sweden	3.9	454.1	3.7	435.1
(of which bonus etc.)	0.6	6.2	0.6	3.0
Foreign subsidiaries				
Norway	1.8	207.2	1.7	191.3
(of which bonus etc.)	–	1.3	–	2.4
Finland	1.9	68.6	1.7	60.1
(of which bonus etc.)	–	–	–	0.2
Poland	1.0	18.0	1.2	14.3
(of which bonus etc.)	–	–	–	-
Asia	1.6	13.5	3.1	10.2
(of which bonus etc.)	–	–	–	–
Total, subsidiaries	**10.2**	**761.4**	**11.4**	**711.0**
(of which bonus etc.)	0.6	7.5	0.6	5.6
Group total	**12.0**	**762.7**	**13.2**	**711.7**
(of which bonus etc.)	0.6	7.5	0.6	5.6

Of the salaries and remuneration paid to other employees in the Group, SEK 11.4 (8.9) million is for senior executives other than the Board of Directors and CEO.

Severance pay
In the event of notice of termination from the employer, some senior executives have contracts that guarantee them the right to retain their salaries in full for 6 months. Retirement benefits are based on a general pension plan from 65 years of age.

CEO's conditions of employment
In the event of notice of termination from the employer, the CEO has a contract guaranteeing the right to retain full salary for 6 months. Retirement benefits are based on a general pension plan from 60 years of age.

Absence due to sickness at KappAhl Holding AB
The parent company, KappAhl Holding AB, had an average of 3 employees during the period. There was no absence due to sickness from the company during the financial year. The parent company had 2 employees in the previous financial year.

Other information
For information on post-employment employee benefits and equity compensation benefits, please see Note 18.

NOTE 6 FEES AND REMUNERATION TO AUDITORS

SEK m	Group 07-09-01 08-08-31	Group 06-09-01 07-08-31	Parent company 07-09-01 08-08-31	Parent company 06-09-01 07-08-31
PricewaterhouseCoopers				
Audit assignments	1.5	2.4	0.2	0.2
Other assignments	1.6	0.7	0.5	0.1

Audit assignments refers to audit 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 the audit assignments or while performing tasks of a similar nature. Everything else is "Other assignments".

NOTE 7 OPERATING EXPENSES

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Raw materials and supplies	1,687.7	1,689.7
Change in inventories of finished goods and products in progress	–	2.0
Staff costs	1,031.4	1,019.4
Depreciation/amortisation	221.4	194.9
Other operating expenses	1,031.0	949.3
	3,971.5	**3,855.3**

Other operating expenses include SEK 11 million as compensation for vacating a store site. The costs of the offer to acquire shares in AB Lindex (publ), of SEK 6.5 million, were included among other operating expenses in the previous year.

NOTE 8 NET FINANCIAL ITEMS

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Interest income	26.8	22.6
Financial income	**26.8**	**22.6**
Cost of stock exchange listing	–	–0.8
Cost of restructuring financing	–1.7	–
Interest expense	–78.1	–96.1
Financial expenses	**–79.8**	**–96.9**
Net financial items	**–53.0**	**–74.3**

Parent company SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Dividend from subsidiaries	139.2	590.4
Profit from participations in subsidiaries	**139.2**	**590.4**
Interest income	5.2	1.8
Interest income	**5.2**	**1.8**
Cost of stock market listing	–	–0.8
Cost of restructuring financing	–1.7	–
Interest expense	–96.8	–61.2
Interest expense and similar loss items	**–98.5**	**–62.0**
Net financial items	**45.9**	**530.2**

NOTE 9 TAXES

Reported in the income statement

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Current tax expense (–)		
Tax expense for the period	–85.0	–83.2
Adjustment of tax relating to previous years	–	–0.1
Deferred tax expense (–) /tax credit (+)		
Deferred tax relating to temporary differences	–28.9	–28.1
Deferred tax in change in loss carry-forwards	–48.1	226.3
Total reported tax in the Group	**–162.0**	**114.9**

Parent company SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Current tax credit (+)		
Tax credit for the period	28.0	16.8
Deferred tax expense (–) /tax credit (+)		
Deferred tax due to capitalised tax value in loss carry-forwards during the year	–1.7	1.5
Total reported tax in the parent company	**26.3**	**18.3**

cont. Note 9

Reconciliation of effective tax

Group SEK m	31 Aug 2008 (%)	31 Aug 2008	31 Aug 2007 (%)	31 Aug 2007
Profit before tax		597.8		543.9
Tax at effective tax rate for parent company	–28.0	–167.4	28.0	152.3
Effect of other tax rates for foreign subsidiaries	0.3	1.9	0.1	0.4
Non-deductible expenses	–0.8	–4.6	0.5	2.8
Non-taxable income	1.3	8.0	–0.3	–1.6
Deficit referring to deferred tax asset in acquired company	–	–	–49.5	–269.2
Other	0.0	–0.1	0.1	0.4
Effective tax	**–27.1**	**–162.0**	**–21.1**	**–114.9**

Reconciliation of effective tax

Parent company SEK m	31 Aug 2008 (%)	31 Aug 2008	31 Aug 2007 (%)	31 Aug 2007
Profit before tax		45.1		525.1
Tax at effective tax rate for parent company	–28.0	–12.6	–28.0	–147.0
Share dividend	86.3	38.9	31.5	165.3
Effective tax	**58.3**	**26.3**	**3.5**	**18.3**

Reported in the balance sheet

Deferred tax assets and liabilities

Deferred tax assets and liabilities reported
Deferred tax assets and liabilities refer to the following:

Group	Deferred tax assets		Deferred tax liabilities		Net	
SEK m	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007
Non-current assets	60,2	74,1	–177,6	–170,8	–117,4	–96,7
Provisions	8.5	11.4	–4.4	–	4.1	11.4
Untaxed reserves	–	–	–91.9	–83.4	–91.9	–83.4
Loss carry-forwards	275.4	324.4	–	–	275.4	324.4
Current assets and liabilities	0.7	3.1	–10.8	–10.0	–10.1	–6.9
Deferred tax asset/deferred tax liability	**344.8**	**413.0**	**–284.7**	**–264.2**	**60.1**	**148.8**
Offset	–275.4	–5.3	275.4	5.3	–	–
Net deferred tax asset/tax liability	**69.4**	**407.7**	**–9.3**	**–258.9**	**60.1**	**148.8**

The major part of the tax loss carry-forwards of SEK 275.4 million reported in the balance sheet arose in connection with the acquisition of two companies with tax losses. Consequently tax losses totalling SEK 274 million are blocked and cannot be utilised until the 2012/2013 financial year. The tax loss carry-forwards will be possible to use fully against estimated future surpluses generated, which gives cause to value the loss carry-forwards in the balance sheet. See also information given in Note 31.

Deferred tax assets and liabilities reported
Deferred tax assets and liabilities refer to the following:

Parent company	Deferred tax assets		Deferred tax liabilities		Net	
SEK m	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007
Provisions and long-term liabilities	–	–	–7.0	–3.6	–7.0	–3.6
Loss carry-forwards	1.0	2.6	–	–	1.0	2.6
Deferred tax asset/deferred tax liability	**1.0**	**2.6**	**–7.0**	**–3.6**	**–6.0**	**–**
Offset	–1.0	–2.6	1.0	2.6	–	–
Tax assets/liabilities, net	**0**	**0**	**–6.0**	**–1.0**	**–6.0**	**–1.0**

The parent company's changes between the years have been reported as deferred tax expense/credit.

cont. Note 9

Dates of expiry of reported deferred tax assets

	Group		Parent company	
SEK m	**31 Aug 2008**	**31 Aug 2007**	**31 Aug 2008**	**31 Aug 2007**
Deferred tax assets to be recovered within one year	9.2	21.3	–	–
Deferred tax assets to be recovered after one year	60.2	386.4	–	–
	69.4	**407.7**	**–**	**–**

Dates of expiry of reported deferred tax liabilities

	Group		Parent company	
SEK m	**31 Aug 2008**	**31 Aug 2007**	**31 Aug 2008**	**31 Aug 2007**
Deferred tax liabilities due for payment within one year	–	–	6.0	1.0
Deferred tax liabilities due for payment after one year	9.3	258.9	–	–
	9.3	**258.9**	**6.0**	**1.0**

NOTE 10 INTANGIBLE ASSETS

Group **SEK m**	**Software**	**Software**	**Tenancy rights**	**Goodwill**	**Total**
Cost of acquisition					
Opening balance, 1 September 2006	100.8	610.1	37.2	695.8	1,443.9
Other investments	9.5	–	11.5	–	21.0
Closing balance, 31 August 2007	**110.3**	**610.1**	**48.7**	**695.8**	**1,464.9**
Opening balance, 1 September 2007	110.3	610.1	48.7	695.8	1,464.9
Other investments	6.7	–	2.5	–	9.2
Disposals	–5.1	–	–5.0	–	–10.1
Closing balance, 31 August 2008	**111.9**	**610.1**	**46.2**	**695.8**	**1,464.0**
Amortisation and impairment losses					
Opening balance, 1 September 2006	–65.5	–	–29.4	–	–94.9
Amortisation for the year	–13.6	–	–2.2	–	–15.8
Closing balance, 31 August 2007	**–79.1**	**–**	**–31.6**	**–**	**–110.7**
Opening balance, 1 September 2007	–79.1	–	–31.6	–	–110.7
Amortisation for the year	–15.4	–	–4.3	–	–19.7
Disposals	5.1	–	5.0	–	10.1
Closing balance, 31 August 2008	**–89.4**	**–**	**–30.9**	**–**	**–120.3**
Carrying amounts					
As at 1 September 2006	35.3	610.1	7.8	695.8	1,349.0
As at 31 August 2007	**31.2**	**610.1**	**17.1**	**695.8**	**1,354.2**
As at 1 September 2007	31.2	610.1	17.1	695.8	1,354.2
As at 31 August 2008	**22.5**	**610.1**	**15.3**	**695.8**	**1,343.7**

cont. Note 10

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

	Group		Parent company	
SEK m	**2008**	**2007**	**2008**	**2007**
Cost of goods sold	–1.6	–2.5	–	–
Administrative expenses	–18.1	–13.3	–	–
	–19.7	**–15.8**	**–**	**–**

Impairment testing for cash-generating units with goodwill and brands
The Group's segments, Nordic Countries and Other, which are considered to be cash-generating units, have been tested for impairment.

The Group's carrying amounts for goodwill and brands are considerable, see Note 10, and the two items' recoverable amounts are based on the same material assumptions.

Impairment testing was based on calculation of future value in use. The calculation is based on cash flows estimated for four years and thereafter on a constant flow since it is not possible to determine a finite useful life. The cash flow forecasts after the first four years have been based on an annual growth rate of 2 per cent, which corresponds to the long-term growth rate of the unit's markets. The forecast cash flows have been discounted to their present value using a discount rate of 5.0 per cent after tax. Material assumptions in the impairment testing are described in the list below.

Important variables	Method for estimating amounts
Market share and market growth	Demand for these mature products has historically followed the business cycle. Appropriate market share has been assumed for future periods for existing stores. Some increase in the number of stores has also been assumed. The forecast is in line with past experience and external sources of information.
Gross margins	For the sake of prudence the gross margin has been reduced somewhat compared with the present level, even though the intention is that this will not be the case. The forecast is in line with past experience.
Expenses	Expenses are expected to increase along with net sales, apart from certain common costs that are expected to rise with inflation. The forecast is in line with past experience

The company management believes that possible changes in assumed variables – although still important to the calculations – would not each separately have a sufficiently major impact to reduce the recoverable amount to less than the carrying amount.

In support of the impairment testing of goodwill and brands in the Group an overall analysis was made of the sensitivity of the variables used in the model. An assumed deterioration in annual growth, down to 0 per cent, in combination with an increase in discount rate by two percentage points still shows a very good margin between recoverable amount and carrying amount. Accordingly, there is no impairment loss on the assets.

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

Group SEK m	Land and buildings	Equipment, tools, fixtures and fittings	Total
Cost of acquisition			
Opening balance, 1 September 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 August 2007	**221.0**	**1,609.7**	**1,830.7**
Opening balance, 1 September 2007	221.0	1,609.7	1,830.7
Year's acquisitions	–	222.4	222.4
Acquisitions	462.0	–	462.0
Disposals	–221.0	–66.5	–287.5
Translation differences	–	21.7	21.7
Closing balance, 31 August 2008	**462.0**	**1,787.3**	**2,249.3**
Depreciation and impairment losses			
Opening balance, 1 September 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 August 2007	**–67.5**	**–1,077.9**	**–1,145.4**
Opening balance, 1 September 2007	–67.5	–1,077.9	–1,145.4
Depreciation for the year	–12.9	–188.8	–201.7
Disposals	78.5	64.5	143.0
Translation differences	–	–13.4	–13.4
Closing balance, 31 August 2008	**–1.9**	**–1,215.6**	**–1,217.5**
Carrying amounts			
As at 1 September 2006	168.2	493.8	662.0
As at 31 August 2007	**153.5**	**531.8**	**685.3**
As at 1 September 2007	153.5	531.8	685.3
As at 31 August 2008	**460.1**	**571.7**	**1031.8**

Residual value according to plan	31 Aug 2008	31 Aug 2007
Buildings	370.7	153.5
Land	89.4	–
	460.1	**153.5**

Tax assessment values are specified in Note 29.

Leases – distribution centre and head office

During the financial year the Group acquired the properties in which the Group's distribution centre and head office are located – previously rented via a finance lease.

Depreciation

Depreciation is included in the following lines of the income statement

	Group		Parent company	
SEK m	**07-09-01 08-08-31**	**06-09-01 07-08-31**	**07-09-01 08-08-31**	**06-09-01 07-08-31**
Cost of goods sold	–13.1	–10.1	–	–
Administrative expenses	–5.9	–9.0	–	–
Selling expenses	–182.7	–160.0	–	–
	–201.7	**–179.1**	**–**	**–**

NOTE 12 RECEIVABLES FROM GROUP COMPANIES

Parent company SEK m	Receivables from Group companies 31 Aug 2008	31 Aug 2007
Accumulated cost of acquisition		
At beginning of year	736.8	195.7
Group contributions	100.0	60.0
Dividend received	181.4	679.1
Settlement of balance	–759.3	–198.0
Closing balance	**258.9**	**736.8**

NOTE 13 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

Group SEK m	31 Aug 2008	31 Aug 2007
Long-term receivables that are non-current assets		
Other receivables	0.2	1.6
	0.2	**1.6**
Other receivables that are current assets		
Interest rate derivatives	26.5	13.3
Currency derivatives	18.3	4.6
Other	11.0	7.0
	55.8	**24.9**

Parent company SEK m	31 Aug 2008	31 Aug 2007
Other receivables that are current assets		
Interest rate derivatives	26.5	13.3

NOTE 14 INVENTORIES

Group SEK m	31 Aug 2008	31 Aug 2007
Finished goods and goods for resale	622.2	605.9
	622.2	**605.9**

Inventories are reported according to the principles in Note 1.

NOTE 15 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent company	
SEK m	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007
Prepaid rental costs	49.1	46.9	–	–
Prepaid banking costs	0.3	2.9	–	1.9
Other	40.9	21.5	3.1	0.5
	90.3	**71.3**	**3.1**	**2.4**

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

NOTE 16 CASH AND CASH EQUIVALENTS

Group SEK m	31 Aug 2008	31 Aug 2007
The following components are included in cash and cash equivalents:		
Cash	11.2	9.6
Bank balances	21.0	50.3
Total according to the balance sheet and cash flow statement	**32.2**	**59.9**

NOTE 17 INTEREST-BEARING LIABILITIES

Information concerning the company's contractual terms and conditions regarding interest-bearing liabilities and the company's interest rate risk exposure can be found in Note 22.

Group SEK m	31 Aug 2008	31 Aug 2007
Long-term liabilities		
Bank loans	1 000.0	1 049.0
Bank overdraft facilities	189.4	–
Finance lease loans	–	151.1
Total	**1 189.4**	**1 200.1**
Current liabilities		
Bank loans	–	56.0
Bank overdraft facilities	782.4	107.3
Finance lease loans	–	22.3
Total	**782.4**	**185.6**
Total	**1 971.8**	**1 385.7**

Parent company SEK m	31 Aug 2008	31 Aug 2007
Long-term liabilities		
Bank loans	1,000.0	1,049.0
Bank overdraft facilities	726.3	–
Total	**1,726.3**	**1,049.0**
Current liabilities		
Bank loans	–	56.0
Bank overdraft facilities	788.6	945.6
Total	**788.6**	**1,001.6**
Total	**2,514.9**	**2,050.6**

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

Terms and conditions and repayment periods
Security for the bank loans is in the form of shares in the Swedish subsidiaries.

NOTE 18 EMPLOYEE BENEFITS

Pensions and other post-employment benefits
Defined benefit plans

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Present value of fully or partially funded obligations	184.2	151.2
Fair value of plan assets	–129.3	–118.0
Net of fully or partially funded obligations	54.9	33.2
Present value of unfunded obligations	–	26.9
Present value of net obligation	54.9	60.1
Unrecognised actuarial gains (+) and losses (–)	–15.1	1.2
Net obligation for defined benefit plans	**39.8**	**61.3**

The net amount is reported in the following items on the balance sheet:

Provisions for pensions	39.8	61.3

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 of service. 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 fair 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 increase their right to future benefits. This calculation is performed annually by independent actuaries. The company's commitments are recognised 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' fair value is recognised in the income statement over employees' remaining period of service.

During the financial year a change has taken place in the Swedish operations, which means that the defined contribution plans have replaced the previous defined benefit plans. This means that since 1 April 2008 pension benefits no longer accrue within the defined benefit pension plans. In accordance with IAS 19 this has a one-off impact on the consolidated income statement in the form of a reduction, which has impacted operating expenses by SEK 20 million.

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

Group SEK m	31 Aug 2008	31 Aug 2007
Net obligation for defined benefit plans as at 1 September	61.3	64.4
Benefits paid out	–4.5	–3.8
Contributions received	–9.7	–8.7
Revenue (– sign)/cost reported in the income statement	–7.6	9.4
Translation differences	0.3	–
Net obligation for defined benefit plans as at 31 August	**39.8**	**61.3**

Cost reported in the income statement

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Costs relating to service in current period	3.5	5.9
Interest expense relating to obligation	7.4	7.3
Recognised actuarial gains (+) and losses (–)	2.5	0
Expected yield on plan assets	–5.0	–4.1
Effects of reductions and adjustments*	–16.0	0.3
Total net cost in the income statement	**–7.6**	**9.4**

* Includes a non-recurrent item in the form of income of SEK 20 million, arising in connection with change in pension solution in Sweden, see further the comment in the introductory text above in this note.

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

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Cost of goods sold	1.5	2.7
Selling expenses	–14.1	3.2
Administrative expenses	0.1	0.2
Financial expenses	4.9	3.3
	–7.6	**9.4**
Actual yield on plan assets	3.9	5.9

Assumptions for defined benefit obligations
The most significant actuarial assumptions as at the balance sheet date (expressed as weighted averages)

Sweden and Norway respectively	Sweden		Norway	
Per cent	2008	2007	2008	2007
Discount rate as at 31 August	4.1%	4.2%	4.5%	4.5%
Future salary increases	n/a	3.0%	4.5%	3.5%
Future pension increases	2.0%	2.0%	1.75%	2.0%
Staff turnover	n/a	5.0%	–	–
Inflation	2.0%	2.0%	–	–
Expected yield	4.1%	4.2%	5.5%	5.5%

	Group	
SEK m	2008	2007
Amount in the provision item expected to be paid after more than 12 months	39.8	61.3

cont. Note 18

Benefits for senior executives

Remuneration and other benefits during the year

	1 Sept 2007–31 Aug 2008				1 Sept 2006–31 Aug 2007			
SEK m	Base salary Board fee	Variable remuneration	Pension cost	Total	Base salary Board fee	Variable remuneration	Pension cost	Total
Chairman of the Board Finn Johnsson	0.5	–	–	0.5	0.5	–	–	0.5
Board member Amelia Adamo	0.2	–	–	0.2	0.2	–	–	0.2
Board member Paul Frankenius	0.2	–	–	0.2	0.1	–	0.1	0.2
Board member Jan Samuelson	0.3	–	–	0.3	0.3	–	–	0.3
Board member Pernilla Ström	0.2	–	–	0.2	0.2	–	–	0.2
Other (5 board members)	0.1	–	–	0.1	0.1	–	–	0.1
CEO	3.6	0.6	1.2	5.4	3.4	0.6	1.1	5.1
Other senior executives (7 people)	9.1	2.3	1.4	12.8	7.8	1.1	1.4	10.3
Total	**14.2**	**2.9**	**2.6**	**19.7**	**12.6**	**1.7**	**2.6**	**16.9**

NOTE 19 OTHER PROVISIONS

Group

SEK m	31 Aug 2008	31 Aug 2007
Provisions that are long-term liabilities		
Medmera loyalty cards	7.7	6.9
Discontinued operations	–	0.5
Total	**7.7**	**7.4**

Group
Changes during the year

SEK m	31 Aug 2008	31 Aug 2007
Carrying amount at beginning of period	**7.4**	**9.2**
Discontinued operations	–	–1.8
Unutilised amounts reversed during the period	0.3	–
Carrying amount at close of period	**7.7**	**7.4**

Payments

Group

SEK m	31 Aug 2008	31 Aug 2007
Amount of provision expected to be paid after more than twelve months.	–	0.5

NOTE 20 OTHER LIABILITIES

Group

SEK m	31 Aug 2008	31 Aug 2007
Current		
Value added tax	80.8	39.3
Liabilities to staff	33.2	32.2
Gift vouchers	17.6	15.6
Interest rate derivatives	1.6	–
Currency derivatives	2.8	12.8
Other	5.7	2.6
	141.7	**102.5**

Liabilities falling due for payment more than five years after 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 ten years.

Parent company

SEK m	31 Aug 2008	31 Aug 2007
Current		
Interest rate derivatives	1.6	0.6
Other	0.4	0.1
	2.0	**0.7**

NOTE 21 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent company	
SEK m	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007
Liabilities to staff	187.3	163.1	–	–
Financial expenses	6.9	0.7	7.0	0.7
Costs for proposed acquisition of AB Lindex (publ)	–	6.5	–	6.5
Other	76.0	62.5	0.4	0.1
	270.2	**232.8**	**7.4**	**7.3**

NOTE 22 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. This department applies the financial policy adopted by the Board of Directors. The Board of Directors has appointed an Audit Committee, which among other tasks, is responsible for overseeing the formulation of the financial policy and, if necessary, proposing changes in 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 responsibility applies to both the parent company and the Group as a whole. The finance department is also responsible for financial 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 financial policy, there should always be sufficient cash funds to cover unforeseeable expenses and investments. In addition, the maturity dates of the financial liabilities have been set in the longer term so as not to restrict liquidity.

The company's financial liability as at 31 August 2008 was SEK 1,189 (1,105) million In addition to this, there are overdraft facilities in multiple currencies equivalent to SEK 850 (696) million, of which SEK 782 (143) million had been utilised as at 31 August 2008. The bank overdraft facilities are reported as current since the contracts are renewed annually.

Interest rate risk

Interest rate risk may consist of changes in fair value, price risk, changes in cash flow and cash flow risk. IA significant factor that changes interest rate risk is the interest rate adjustment period. Long interest rate adjustment periods mainly affect the cash flow risk. Shorter adjustment periods affect the price risk.

Of the Group's debt, 80 per cent has been converted to fixed interest debt through interest rate swaps. The effective rate of interest on remaining loans amounted to 4.4 per cent as at 31 August 2008.

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.

Under the financial policy, approximately 75 per cent of the company's loans maturing 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 Policies).

As at 31 August 2008, the company had interest rate swaps with a contractual value of SEK 1,600 (1,000) million.

The net fair value of the swaps on 31 August 2008 was SEK 24 (13) million, consisting of assets of SEK 26 (13) million and liabilities of SEK 2 (0) million.

Total interest expense, including interest swaps, with the loan structure of 31 August 2008 amounted to around SEK 73 (56) million for the financial year, which corresponds to around 1.8 per cent of the Group's costs. A change in the interest rate level of one percentage point would have an impact on the annual interest expense of about SEK 19 million.

Interest-bearing liabilities

KappAhl has assurances of credit totalling SEK 3,150 million, of which SEK 1,971 million had been utilised at the close of the financial year.

Loan maturity structure

YEAR	Contracted credit	Of which utilised
2009	850	782
2010	–	–
2011	–	–
2012	1,800	1,189
2013 and later	500	–
Total	3,150	1,971

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 financial 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 risk

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 currencies. Thus KappAhl is exposed to exchange rate fluctuations. This risk is called transaction exposure and affects the Group's operating profit. The financial policy sets the parameters for managing this risk and this involves hedging the flows up to 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 currency flows in Sweden:

	1 Sept 2007–31 Aug 2008		1 Sept 2006–31 Aug 2007	
Currency	Outward	Inward	Outward	Inward
USD m	147	–	130	–
EUR m	29	31	36	27
NOK m	–	601	–	553
PLN m	–	29	–	25

The Group classifies forward contracts that are used to hedge forecast transactions as cash flow hedging. The fair value of forward contracts used to hedge forecast flows totalled a net amount of SEK 15 (–8) million as at 31 August 2008. Assets amounted to SEK 18 (5) million and liabilities to SEK 3 (13) million, which are recorded in the balance sheet.

On the closing date, underlying value of currency contracts amounted to USD 88 million, NOK –170 million and PLN –10 million. All outstanding contracts will mature in the coming financial year and will be recognised in the income statement as they mature. If other dynamic effects are disregarded, a SEK 0.10 change in the exchange rates would impact earnings by SEK 15 million in respect of USD and SEK 60 million in respect of NOK.

cont. Note 22

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

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

Group	31 Aug 2008	31 Aug 2007
Currency	Amounts in SEK m	Amounts in SEK m
NOK	91	131
EUR	59	74
PLN	43	33
HKD	4	3

Fair value
The carrying amount of financial assets and liabilities in the balance sheet is in line with fair value. The table below shows the items in the balance sheet in which the financial instrument accounting policies are applied.

Classification of financial assets and liabilities in the balance sheet as below.

Assets in the balance sheet	31 Aug 2008	31 Aug 2007
Accounts receivable	3.4	1.4
Other current receivables;		
– Interest rate derivatives	26.5	13.3
– Currency derivatives	18.3	4.6
Cash and cash equivalents	32.2	59.9
Total	**80.4**	**79.2**

Liabilities in the balance sheet	31 Aug 2008	31 Aug 2007
Long-term interest-bearing liabilities	1,189.4	1,049.0
Short-term interest-bearing liabilities	–	56.0
Trade payables	233.1	239.8
Other current liabilities;		
– Interest rate derivatives	1.6	0.3
– Currency derivatives	2.8	12.5
Bank overdraft facilities	782.4	107.3
Total	**2,209.3**	**1,464.9**

Capital structure
The company has a strong cash flow, partly due to positive earnings and working capital that by and large stays around zero. This means that the company's expansion has not required any increase in working capital. Moreover, the company's profile and emphasis also means that the company should be able to stay relatively stable. In view of this the Company's financing consists to a considerable extent of borrowed capital. The objective is that interest-bearing liabilities should not exceed 3 times the earnings before depreciation/amortisation. The guidelines are unchanged compared with the previous financial year.

Maturities of the Group's financial liabilities including estimated interest payments.

	Carrying amount	Within one year	Between one and two years	Between two and three years	Between three and four years	Up to five years	Total contracted cash flow
Bank loans and bank overdraft facilities*	1,971	881	60	60	60	1,250	2,311
Accounts payable	233	233	–	–	–	–	233
Forward interest rate agreements*	24	–	–	–	–	–	–
Forward exchange contracts, net	15	15	–	–	–	–	15
Total	**2,243**	**1,129**	**60**	**60**	**60**	**1,250**	**2,559**

* When calculating interest payments on loans and bank overdrafts the effect of forward interest rate agreements on interest has been taken into account on the basis of the situation at the year-end close.

NOTE 23 OPERATING LEASES

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

	Group		Parent company	
SEK m	31 Aug 2008	31 Aug 2007	31 Aug 2008	31 Aug 2007
Within one year	2.2	2.1	–	–
Between one to five years	2.0	1.5	–	–
	4.2	**3.6**	**–**	**–**

NOTE 24 CAPITAL COMMITMENTS

Group
In 2008 the Group signed a number of low value agreements to acquire property, plant and equipment, mainly for new stores. All agreements are within the Group's overall capital expenditure budget. For the coming financial year this is at about the same level as the outcome for the financial year ending 31 August 2008. The commitments are expected to be settled over the course of the next financial year.

NOTE 25 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent company	
SEK m	08-08-31	07-08-31	08-08-31	07-08-31
Pledged assets				
In the form of pledged assets for own liabilities and provisions				
Floating charges	43.3	43.1	–	–
Net assets in subsidiaries	1,268.1	873.7	–	–
Shares in subsidiaries	–	–	1,574.7	1,271.1
Total pledged assets	**1,311.4**	**916.8**	**1,574.7**	**1,271.1**
Contingent liabilities				
Guarantee commitments, FPG/PRI	0.5	0.4	Inga	Inga
Purchase guarantee	0.2	0.2	Inga	Inga
Total contingent liabilities	**0.7**	**0.6**	**Inga**	**Inga**

See note 31 for a description and assessment of a dispute concerning customs duty in Norway.

NOTE 26 RELATED PARTIES

Related party relationships
Net sales in the parent company refer entirely to Group companies.

Transactions with key personnel in senior positions
The company's CEO, Christian W. Jansson, and board member Paul Frankenius control 30.0 (30.0) per cent of the votes in the company via Pegatro Ltd. Other senior executives control 2.0 (1.7) per cent of the votes in the company. The total remuneration is included in "staff costs" (see Notes 5 and 18).

NOTE 27 PARTICIPATIONS IN GROUP COMPANIES

Parent company SEK m	31 Aug 2008	31 Aug 2007
Accumulated cost of acquisition		
At beginning of year	2,882.4	2,971.1
Impairment due to dividends *	–42.2	–88.7
Acquisition of KappAhl Fastighets AB and Fastighets AB Betesängen	303.6	–
Closing balance	**3,143.8**	**2,882.4**

* There was an impairment loss on shares in KappAhl AS due to dividends exceeding profits earned after acquisition.

Specification of the parent company's and the Group's holdings in Group companies			31 Aug 2008	31 Aug 2007
Subsidiary / Corporate identity number / Country	Number of shares	Percentage share	Carrying amount	Carrying amount
KappAhl Sverige AB, 556060-4158, Sweden	60,000	100.0	1,271.1	1,271.1
KappAhl AS, 947659138, Norway	41,749	100.0	1,269.1	1,311.3
KappAhl OY, 460.230, Finland	200	100.0	300.0	300.0
KappAhl Fastighets AB, 556750-5481, Sweden	1,000	100.0	294.0	–
Fastighets AB Betesängen, 556722-2244, Sweden	1,000	100.0	9.6	–
Indirectly owned				
KappAhl Åland AB, 1737564-2, Mariehamn	100	100.0	–	–
KappAhl Polska Sp.zo.o, 526-22-60-963, Poland	10,000	100.0	–	–
KappAhl Czech Republic s.r.o, 26447142, Czech Republic	10,000	100.0	–	–
KappAhl Far East Ltd, 438724, Hong Kong	10,000	100.0	–	–
Detaljhandel Logistik AB, 556636-2132, Sweden	1,000	100.0	–	–
KappAhl i Mölndal AB, 556714-1444, Sweden	1,000	100.0	–	–
			3,143.8	**2,882.4**

NOTE 28 CASH FLOW STATEMENT

The cash flow statement was prepared using the indirect method.

Interest paid and dividend received

SEK m	Group 1 Sept 2007 31 Aug 2008	Group 1 Sept 2006 31 Aug 2007	Parent company 1 Sept 2007 31 Aug 2008	Parent company 1 Sept 2006 31 Aug 2007
Dividend received from participations in subsidiaries	–	–	139.2	590.4
Interest received	26.8	22.6	5.2	1.8
Interest paid and other financial items	–79.8	–96.9	–98.5	–62.0
	–53.0	**–74.3**	**45.9**	**530.2**

Acquisition of subsidiaries

Group SEK m	1 Sept 2007 31 Aug 2008	1 Sept 2006 31 Aug 2007
Purchase price:	303.6	1,672.4
Of which real property	462.0	–
of which loans	–158.4	–
Less: Cash and cash equivalents in the acquired operation	–0.2	–1,618.0
Net effect on cash and cash equivalents	**303.4**	**54.4**

Adjustments for non-cash items

SEK m	Group 1 Sept 2007 31 Aug 2008	Group 1 Sept 2006 31 Aug 2007	Parent company 1 Sept 2007 31 Aug 2008	Parent company 1 Sept 2006 31 Aug 2007
Depreciation/ amortisation	221.4	194.9	–	–
Provisions for pensions	–21.5	–2.3	–	–
Anticipated dividend	–	–	–	–459.0
Impairment loss due to dividend in excess of equity	–	–	42.2	88.7
Other adjustments	–13.9	4.4	-0.7	–0.3
	186.0	**197.0**	**41.5**	**–370.6**

NOTE 29 ACQUISITION OF SUBSIDIARIES

During the year the following subsidiaries were acquired by KappAhl Mölndal AB:

Company	Business	Date of acquisition	Percentage of equity and votes
KappAhl Fastigheter AB 556750-5481	Property management	2008-05-28	100
Fastighets AB Betesängen 556722-2244	Property management	2008-03-13	100

On 28 May KappAhl Fastigheter AB was acquired, which includes the premises in Mölndal from which KappAhl's head office and distribution centre operate. The properties were previously managed via a finance lease, as an asset with associated financial liability in the balance sheet.

Furthermore, on 13 March an adjoining undeveloped property was acquired, via the company Fastighets AB Betesängen.

The companies were acquired in cash for a total purchase price of SEK 303 million, corresponding to the fair value of the acquired net of assets and liabilities. Of this, the fair value of the properties on acquisition totalled SEK 462 million.

Tax assessment values

Kusken 5 Assessed value of land: SEK 3 577 million
Assessed value of building: 0 Tax assessment value: SEK 3 577 million
Hästägaren 3 Assessed value of land: SEK 23 800 million
Assessed value of building: SEK 131 277 million
Tax assessment value: SEK 155 077 million

cont. Note 29

	Carrying amount	Fair value adjustments	Fair value in the Group
Property, plant and equipment	160,234	301,766	462,000
Operating receivables	11,785	–	11,785
Cash and cash equivalents	195	–	195
Loans	–160,369	–	–160,369
Operating liabilities	–10,008	–	–10,008
Total net assets	**1,837**	**301,766**	**303,603**

The adjustment item refers entirely to surplus value in properties.

NOTE 30 POST BALANCE SHEET EVENTS

The financial statements were approved for publication by the parent company's Board of Directors on 26 October 2008.

NOTE 31 CRITICAL ESTIMATES AND ASSESSMENTS

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

Impairment testing
Goodwill and trademarks are tested annually for impairment, which is described in Note 10.

Valuation of inventories
Inventories are stated at the lower of cost and net realisable value. The calculation of net realisable value includes such factors as estimates of future selling prices, which also take into account estimated price reductions. The actual future sales price may differ from the estimates.

Taxes
Deductible tax losses were taken over in connection with the acquisition of two companies. Their value is shown in Note 9.

Customs dispute in Norway
In the 2005/06 financial year a dispute with the customs authorities in Norway was settled in KappAhl's favour and the judgment became final and non-appealable in the 2006/2007 financial year. However, there have been further demands from the customs authorities, in contravention of the ruling handed down. Consequently, there is still uncertainty in the case, but the company and its advisers consider that the initial court ruling is correct.

NOTE 32 COMPANY DETAILS

KappAhl Holding AB is a Swedish limited company (corporate identity number 556661-2312) with its registered office in Mölndal. The address of the head office is Box 303, 431 24 Mölndal. The consolidated accounts for 2008 consist of the parent company and its subsidiaries, referred to as the Group.

The Board of Directors and Chief Executive Officer certify that the annual report has been prepared in accordance with generally accepted accounting principles, provides a true and fair view of the parent company's financial position and results of operations, and that the administration report provides a fair review of the development of the parent company's operations, financial position and results of operations and describes material risks and uncertainties facing the parent company. The Board of Directors and the Chief Executive Officer also certify that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, give a true and fair view of the Group's financial position and results of operations, and that the Group administration report provides a fair review of the development of the Group's operations, financial position and results of operations and also describes material risks and uncertainties facing the Group.

Mölndal, 26 October 2008

Finn Johnsson
Chairman

Amelia Adamo
Member of the Board

Paul Frankenius
Member of the Board

Marie Matthiessen
Employee representative

Jan Samuelson
Member of the Board

Pernilla Ström
Member of the Board

Rose-Marie Zell-Lindström
Employee representative

Christian W. Jansson
CEO

Our audit report was issued on 26 October 2008
PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

Audit report

To the annual general meeting of 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 Chief Executive Officer of KappAhl Holding AB for the financial year 1 September 2007—31 August 2008. The company's Annual Report is included on pages 31–63 of the printed version of this document. The Board of Directors and the Chief Executive Officer 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 Chief Executive Officer and significant estimates made by the Board of Directors and Chief Executive Officer 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 Chief Executive Officer. We also examined whether any board member or the Chief Executive Officer 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 annual accounts and consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statement and balance sheet of the parent company and 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 Chief Executive Officer be discharged from liability for the financial year.

Gothenburg, 26 October 2008

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, guidelines and good business practices. This corporate governance report has been drawn up in accordance with the Swedish Code of Corporate Governance (the "Code") for the financial year 2007/08. The report has not been audited 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 10.1 of the Code shall comprise of at least three board members, while KappAhl's Audit Committee comprises of two board members. The reason for this difference is that the Nominations Committee considers that the Audit Committee works effectively with two board members and fulfils its duties well in accordance with the instructions stipulated by the Board of Directors.

Shareholders etc.

According to the Swedish Central Securities Depository share register, KappAhl had just over 11,000 shareholders on 31 August 2008, with foreign investors owning around 50 per cent of the shares. The ten largest shareholders as at 31 August 2008 are listed in the Administration Report on page 31.

More information on the major shareholders can be found at www.kappahl.com/ir.

Shares

The share capital in KappAhl Holding AB (publ) on 31 August 2008, amounted to SEK 10,720,000, divided among 75,040,000 shares and trading takes place on the OMX Nordic Exchange Stockholm. KappAhl's market value as at 31 August 2008 was around SEK 3,339 million.

All shares are of the same class, entitling shareholders to the same rights in terms of the company's assets, profits and dividends. The dividend policy states that a dividend will be paid corresponding to 70 to100 per cent of the net profit after tax.

General Meetings of shareholders

KappAhl's highest decision-making body is the General Meeting of shareholders. The Annual General Meeting is held within six months of the close of the 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, which was the Annual General Meeting, was held on 17 December 2007 in Mölndal. At that time it was resolved, among other things, to re-elect a Board of Directors consisting of Finn Johnsson (chairman), Amelia Adamo, Jan Samuelson, Pernilla Ström and Paul Frankenius.

The next Annual General Meeting will be held on 17 December 2008 at 2 p.m. at Idrottsvägen 14 in Mölndal. Shareholders wishing to have an item addressed at the meeting should send a written request to KappAhl Holding AB, Attn: Chairman of the Board of Directors, P.O. Box 303, SE-431 24 Mölndal. The request must reach the Board of Directors at least seven weeks prior to the meeting, or in good time that the item, if necessary, can be included in the notice to attend the meeting. See also www.kappahl.com/ir.

Nominations committee

Election of the Board of Directors

The Annual General Meeting set out instructions and a formal work plan for the Nominations Committee. The latter will consist of three members who will represent the three largest shareholders of the company as at the start of the month before the company's Q3 report according to the ordinary calendar. The Chairman of the Board of Directors will then contact the three largest shareholders and be co-opted to the committee. On 16 June 2008 it was announced that the Nominations Committee before the Annual General Meeting on 17 December 2008 will consist of Kristian Lundius, Pegatro Ltd, Ulf Strömsten, Catella, K G Lindvall, Robur and Finn Johnsson, Chairman of the Board of Directors. The Nominations Committee held its inaugural meeting on 3 July 2008, at which time Kristian Lundius was elected as the committee's chairman. The committee will present its proposals in connection with the notice to attend the Annual General Meeting. Shareholders wishing to make proposals to the Nominations Committee can do so in accordance with the information provided at www.kappahl.com/ir.

In the event of a change of ownership, the Chairman of the Board will contact those of the three major shareholders who do not have a shareholder representative and request that such a representative be designated. When such a representative has been designated, this person shall be a member of the Nominations Committee and replace the former member who no longer represents one of the three largest shareholders. If any of the three largest shareholders waives the right to appoint a representative, or such a representative retires or withdraws before the assignment is completed, the chairman shall invite the next shareholder in order of size (i.e. first the fourth largest shareholder) to designate a shareholder representative. The procedure shall continue until the Nominations Committee consists of three ordinary members. Before the close of the financial year no change in ownership had taken place entailing any change in the composition of the Nominations Committee.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of 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.

In summer 2008 the Chairman of the Board, Finn Johnsson, commissioned an individual assessment of the work of the Board and its committees (a corresponding assessment was carried out in 2006/2007). On 3 July 2008 the results of the assessment were reported to the Nominations Committee. The Chairman of the Board presented his opinion that the Board functions well in fulfilling its duties and that the Board is well composed and balanced. The members have sound knowledge and experience of various areas and complement each other well. The assessment called for further training of employee representatives in certain subject areas.

The Nominations Committee has made the assessment that no members of the Board other than Paul Frankenius are dependent in relation to the company and its major shareholders.

Before the Annual General Meeting in December 2008 the Nominations Committee will make its proposals for the Chairman of the meeting, number of board members, Chairman of the Board and other AGM elected members. The Nominations Committee will also submit its proposals for fees and remuneration for Board work and work on Board committees.

No separate remuneration has been paid by the company to the members of the Nominations Committee for its work.

Election of auditors

The 2005 Annual General Meeting appointed PricewaterhouseCoopers AB as auditors with Authorised Public Accountant Bror Frid as the lead auditor for the period up to the Annual General Meeting held in the fourth year after the election of auditors. It is proposed that an election of auditors take place at this year's AGM on 17 December 2008.

The Nominations Committee made the judgement that PricewaterhouseCoopers AB has the necessary competence and experience for the assignment. Bror Frid has parallel auditing assignments at the following large companies: Broström, Geveko, Plastal, Finnveden and VBG. He has no assignments in companies related to KappAhl's major shareholders.

Bror Frid has reported his observations from the auditing assignment to the Audit Committee and the Board of Directors. Within the framework of the audit assignments mentioned, the annual accounts, the accounting records and the administration of the Chief Executive Officer were examined. In addition to 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 1.6 million, of which most relates to ongoing consultancy in connection with acquisition of property and various accountancy issues.

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 Annual General Meeting in December 2007. The Board of Directors also includes two trade union representative members, each with a personal deputy. Jonas Frii, member of the Swedish Bar Association, was the secretary to the Board of Directors. Since the Annual General Meeting on 17 December 2007 up to 31 August 2008 the Board of Directors held

three meetings, all of which were minuted. One meeting was a Board meeting after election and two meetings were ordinary meetings. Members' attendance at the respective meetings appears in the table below:

	17 December 2007 Meeting after election	1 April 2008	26 June 2008
Finn Johnsson	Yes	Yes	Yes
Amelia Adamo	Yes	Yes	Yes
Paul Frankenius	Yes	Yes	Yes
Jan Samuelsson	Yes	Yes	Yes
Pernilla Ström	Yes	Yes	Yes
Marie Matthiessen	No	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	Yes

The CEO and CFO made presentations at Board meetings. Remuneration and benefits to the Board of Directors of KappAhl are presented in Note 18 on page 57. Board members' shareholdings in KappAhl are presented on pages 72–73.

After 31 August 2008 the Board held a further three meetings, on 24 and 28 September and 26 October. The Board plans at least one further meeting before the Annual General Meeting on 17 December 2008.

Work of the Board of Directors

Between each Annual General Meeting the Board of Directors shall hold four to six ordinary meetings. These meetings normally take place in person at the head office in Mölndal. Extra meetings may also be arranged in the form of telephone conferences. 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 for information, discussion or decision. Decisions are made after 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 committees' rules of procedure. These rules of procedure were established at the first Board meeting after election on 17 December 2007 and are revised annually. They stipulate the division of assignments between Chairman, Board members and committees. The rules of procedure stipulate for example which matters must be dealt with at each ordinary meeting. At each ordinary meeting, directors receive reports from the audit committee, remuneration committee and senior executives and make decisions on establishments and investments. Among the most important items dealt with by the Board during the year were discussions on the future establishments. 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 company's business so that the Board of Directors can make well-informed decisions. Once a year the Board of Directors evaluates the work of the Chief Executive Officer. No senior executives are present at this evaluation. 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 the 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 72–73 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 Annual General Meeting on 17 December 2008 the committee will comprise of Finn Johnsson (chairman) and Amelia Adamo. The committee prepares questions about the remuneration and other employment terms for senior executives and about any bonus 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, which has met during the year to examine the terms and conditions for new senior executives and bonus outcome. The committee works according to written rules of procedure stipulated 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 to the Board of Directors. The committee does not have the authority to make decisions, other than those entailed by the remuneration policy adopted by the Annual General Meeting on 17 December 2007 for senior executives. The

adopted policy means, among other things, that senior executives shall be offered a fixed salary that is market-related and based on responsibility and conduct. Salaries shall be set for the calendar year, and a senior executive may, from time to time, be offered a bonus of 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 termination. There is no severance pay.
The remuneration policy is reviewed annually and is presented to the Annual General Meeting for approval.

Audit Committee

At its first meeting after election the Board of Directors shall also appoint the Audit Committee. Until the Annual General Meeting on 17 December 2008 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 on matters concerning internal and external audits, financial reporting and controls. The committee is a preparatory body with no decision-making powers. The committee communicates with the company's auditors about issues that fall within the committee's remit. The committee has, in conjunction with the submission of the audit report, met with the auditors without the CEO or other senior executive being present. In 2008 committee work included preparing issues concerning interim reports, property acquisition, foreign currency issues and internal financial control. Since the Annual General Meeting on 17 December 2007 up to 31 August 2008 the committee held three meetings, all of which were minuted. All committee members attended all meetings, apart from the meeting on 19 March, when Pernilla Ström was absent. The Board's secretary is also the secretary of the Audit Committee. The work of the Audit Committee follows written rules of procedure stipulated by the Board of Directors, and the committee must submit a written report to the Board of Directors at least once a year. Minutes of committee meetings are made available to the Board of Directors.

Management Team

KappAhl's management team and its shareholdings are presented on pages 70–71.

Report on internal controls

The aim of the internal financial controls in KappAhl is to create an effective decision-making process in which demands, aims and frameworks are clearly defined. Ultimately the controls are intended to protect the company's assets and thereby the shareholders' investment. The Board of Directors is responsible for the company's internal controls and as part of this duty has drawn up a report about internal control concerning the financial reporting for the financial year. The report is limited to a description of how the internal controls concerning financial reporting are organised. Neither the report nor the summary below has been examined by the company's auditors.

Control environment

The control environment is the foundation of internal control. KappAhl's control environment includes sound ethical values, integrity, competencies, management philosophies, organisational structure, responsibilities and authority. KappAhl's internal work procedures, instructions, policies, guidelines and manuals guide the employees.

KappAhl has assured a distinct division of roles and responsibility for the effective management of business risks, including through the Board of Directors' and committees' rules of procedure and through the terms of reference issued to the Chief Executive Officer. The latter, and the Audit Committee, regularly report to the Board of Directors. In day-to-day activities the system of internal controls required to create a control environment for material risks is the responsibility of the Chief Executive Officer.

KappAhl also has a set of guidelines and policies concerning financial management and follow-up, communication issues and business ethics. Credit and currency management, financial control and follow-up frameworks are set through adopted financial, accounting and investment policies. All companies in the Group in principle have the same structure and accounting systems with the same chart of accounts.

In summary, KappAhl's internal control structure is based on the division of duties between the company bodies, reporting to the Board, established policies and guidelines, and employee compliance with policies and guidelines. In view of proposed legislation expected to come into force next year, KappAhl has had reason to review the rules of procedure for the Board and the Audit Committee

as the division of responsibility for internal financial control may be changed. KappAhl's intention is to continue this review during the coming financial years.

Risk assessment and control activities

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

Traceability in the accounts has increased during the financial year through better documentation. Identification of processes in which risks of material error in financial reporting may be assumed to be relatively higher than in other processes has continued. The mapping and risk assessment have resulted in a number of countermeasures and control activities. Normal control activities include account reconciliation and support controls. The aim of all the countermeasures and control activities is to prevent, discover and correct possible errors or inaccuracies in the financial reporting.

The aim in the coming financial years is to continue to develop and follow up selected control activities.

Follow-up

The Board of Directors continually evaluates the information provided by the company management and Audit Committee. The committee's work in following up the effectiveness of internal controls is of particular importance to the Board of Directors. The work includes ensuring that measures are taken concerning the proposed measures that may have emerged from the external audit.

Information and communication

The dissemination of accurate information for both internal and external consumption requires all parts of the business to communicate and share relevant key information about operations. 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 effected and when, for example, a logbook should be kept. The ultimate aim of these policies is to ensure compliance with disclosure requirements in law and listing regulations and that our investors receive the right information in time.

Internal audit

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

Management

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

Johanna Kjellberg
Vice President, IT
Johanna Kjellberg (born 1958) has been Vice President, IT at KappAhl since 2008. Johanna Kjellberg has a Master's degree from Chalmers University of Technology in industrial organisation and production.
Shareholding: 50,000 options

Meta Ågren
Vice President, Marketing
Meta Ågren (born 1965) has been Vice President, Marketing at KappAhl since 2008. Meta Ågren has a B.Sc. in Business Administration from the University of Lund.
Shareholding: 100,000 options

Hans Jepson
Vice President, Store Establishment
Hans Jepson (born 1956) has been Vice President, Store Establishment, at KappAhl since 2008. Hans Jepson is a structural engineer.
Shareholding: 2,000 shares, 100,000 options

Mari Svensson
Vice President, Purchasing
Mari Svensson (born 1963) has been Vice President, Purchasing at KappAhl since 2004 and with the company since 2000. Member of the board of EFG (European Furniture Group AB). Mari Svensson has a B.Sc. in Business Administration from the School of Business, Economics and Law at the University of Gothenburg.
Shareholding: 252,000 shares

Håkan Westin
Chief Financial Officer
Håkan Westin (born 1959) has been Chief Financial Officer at KappAhl since 2001 and with the company since 1989. Member of the board of Net-on-Net. Håkan Westin has a B.Sc. in Business Administration from the School of Business, Economics and Law at the University of Gothenburg and a Master's degree from the London Business School.
Shareholding: 400,000 shares

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

Kajsa Räftegård
Vice President, Human Resources and Public Relations
Kajsa Räftegård (born 1965) has been Vice President, Human Resources and Public Relations at KappAhl since 2002 and with the company since 1995. Kajsa Räftegård has a B.Sc. in Social Work from the University of Gothenburg.
Shareholding: 202,000 shares

Board of Directors

Bodil Gummesson
(born 1955). Bodil Gummesson is a deputy board member and employee representative on the board of KappAhl. Bodil Gummesson is a KappAhl store manager. Bodil Gummesson has participated in a training programme for board members held by the OMX Nordic Exchange Stockholm.
Shareholding: 0 shares.

Finn Johnsson
(born 1946). Finn Johnsson is chairman of the board of KappAhl. Finn Johnsson is also chairman of the boards of AB Volvo, Luvata Oy, Thomas Concrete Group AB, City Airline and EFG (European Furniture Group AB) as well as member of the boards of Skanska AB and AB Industrivärden. Finn Johnsson has a B.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 200,000 shares.

Helena Blixt
(born 1967). Helena Blixt is a deputy board member and employee representative on the board of KappAhl. Helena Blixt works as a sales representative at KappAhl. Helena Blixt has participated in a training programme for board members held by the OMX Nordic Exchange Stockholm.
Shareholding: 100 shares.

Paul Frankenius
(born 1958). Paul Frankenius is a member of the board of KappAhl. Paul Frankenius was deputy CEO of KappAhl from 2002 to January 2006. Before Paul Frankenius came to KappAhl he was head of purchasing and deputy CEO of Jeans & Clothes Sweden AB. Paul Frankenius is also chairman of the board of Swedbank Sjuhärad AB and Bockasjö AB and member of the board of Scorett Foot Wear AB.
Shareholding: 11,255,500 shares through company.

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

Amelia Adamo
(born 1947). Amelia Adamo is a member of the board of KappAhl. Amelia Adamo is a publisher and responsible for the Amelia Publishing Group (magazines Amelia, Tara and M-magasin). Amelia Adamo is also a member of the boards of Bonnier Tidskrifter AB, Söders Media och Pr Konsult AB and SSRS Holding AB. Amelia Adamo, who has won the Swedish "Great Journalist Award" twice, was formerly the editor in chief of the magazines Amelia and Vecko-Revyn and acting chief editor of the evening daily Aftonbladet. Amelia Adamo has a B.A in social sciences from the University of Stockholm.
Shareholding: 100,000 shares.

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

Marie Matthiessen
(born 1965). Marie Matthiessen is a member of the board and employee representative on the board of KappAhl. Marie Matthiessen works as a sales representative at KappAhl. Marie Matthiessen has participated in a training programme for board members held by the OMX Nordic Exchange Stockholm.
Shareholding: 0 shares.

Pernilla Ström
(born 1962). Pernilla Ström is a member of the board of KappAhl. Pernilla Ström is also a member of the boards of Bonnier AB, Uniflex AB, HQ Bank AB, Q-Med AB, Sydsvenska Dagbladet AB and Academia AB. Pernilla Ström has studied economics at the Stockholm School of Economics and comparative literature etc. at the University of Stockholm.
Shareholding: 70,000 shares.

Financial calendar

First quarter (1 Sep–30 Nov)	17 December 2008
Second quarter (1 Dec–28 Feb)	1 April 2009
Third quarter (1 March–31 May)	25 June 2009
Fourth quarter (1 June–31 Aug)	30 September 2009

Annual General Meeting

The Annual General Meeting of KappAhl Holding AB (publ) will be held on Wednesday 17 December 2008 at 2 p.m. at KappAhl's head office, Idrottsvägen 14 in Mölndal, Sweden.

Right to participate
Shareholders wishing to participate in the Annual General Meeting must be registered in the share register kept by VPC AB (the Swedish Central Securities Depository) no later than Thursday, 11 December 2008, and have given notice of their participation in the Annual General Meeting no later than 12 noon on Thursday 11 December 2008. Shareholders whose shares are registered in the name of a nominee must temporarily re-register the shares in their own name in order to be entitled to participate in the Annual General Meeting. Shareholders requiring such re-registration must notify the nominee of this in good time before 11 December 2008.

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

The notification must include name, address, telephone number, personal identity number and shareholding. Notification of participation in the Annual General Meeting and information regarding representatives and advisers are registered in order to draw up a voting list. Any powers of attorney shall be in writing and be submitted 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 with the provisions of the Articles of Association.

We look forward to seeing you!

Definitions

Gross profit margin
Gross profit divided by net sales.

Dividend yield
Dividend divided by the share price.

EBIT
Operating profit, i.e. earnings before interest and taxes.

EBITDA
Operating profit before depreciation/amortisation.

Equity per share
Equity divided by the average number of shares.

GfK
Growth from Knowledge. GfK carries out market research using data collection, processing and analysis.

Price/equity
Market value divided by book value of equity.

Average number of employees
Average number of employees restated as full time positions.

Net interest-bearing liabilities
Interest-bearing liabilities minus cash and cash equivalents.

Net interest-bearing liabilities/ EBITDA (multiple)
Net interest bearing liabilities divided by EBITDA for the immediately preceding twelve month period.

Net assets
Assets excluding cash and cash equivalents and interest-bearing financial receivables less operating liabilities, non-interest-bearing provisions and tax liabilities.

P/E ratio
Share price divided by earnings per share.

Interest coverage ratio (multiple)
EBITDA divided by net interest income excluding non-recurring items, for the immediately preceding twelve-month period.

Operating margin
Operating profit divided by net sales.

Equity/assets ratio
Equity divided by balance sheet total.

Dividend payout ratio
Dividend divided by profit after tax. For the current year the calculation uses the proposed, not yet declared, dividend.

Earnings per share
Profits after tax divided by average number of shares.

Earnings per share after dilution
Profits after tax divided by average number of shares after full dilution.

This English Annual Report document is a translation from the original Swedish Annual Report 2007/2008 document.

Notes

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!

Annual Report 2008

KappAhl®

KappAhl Holding AB (publ)
Box 303 • Visiting address: Idrottsvägen 14
431 24 Mölndal • Sweden
Phone +46 (0)31-771 55 00 • Fax+46 (0)31-771 58 15
www.kappahl.com and www.kappahl.com/ir