KappAhl

ANNUAL REPORT 2010

CONTENTS

WITH THE CUSTOMER IN FOCUS

VISION

"KappAhl is to be a significant fashion chain in Europe." This is the vision that drives KappAhl forward. All 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 task of the company 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.

MARKET

KappAhl operates in the fashion markets of Sweden, Norway, Finland, Poland and, since October 2009, also the Czech Republic. The company's single largest market is Sweden. The total value of KappAhl's market at the beginning of 2010 was SEK 196 billion.

DESIGN

All the goods in KappAhl's stores are created by the company's designers. A total of 10 000 articles are designed annually. The company has 35 designers and a large number of pattern constructors. Read more on page 19.

PURCHASING

KappAhl's 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.
Read more on page 20.

KEY RATIOS	**Sep 09 –Aug 10**	Sep 08 –Aug 09	Sep 07 –Aug 08	Sep 06 –Aug 07	Sep 05 –Aug 06
Net sales, SEK million	**5,111**	4,866	4,622	4,473	4,217
Operating profit, SEK million	**551**	526	651	618	530
Profit after tax, SEK million	**402**	315	436	659	302
Gross profit margin, %	**61.8**	61.1	62.4	61.1	60.2
Operating margin, %	**10.8**	10.8	14.1	13.8	12.6
Earnings per share, SEK	**5.36**	4.20	5.81	8.78	4.02
Number of stores	**345**	319	291	272	260

KEY RATIOS Q1	**2009 2010**	**2008 2009**
Net sales, SEK million	**1,344**	1,266
Operating profit, SEK million	**207**	176
Gross profit margin, %	**65.0%**	64.3%
Operating margin, %	**15.4%**	13.9%
Profit after tax, SEK million	**178**	113
which corresponds to SEK per share	**2.37**	1.51
Cash flow from operating activities, SEK million:	**133**	127

PRODUCTION

KappAhl's production is with carefully selected suppliers all over the world. Not owning the production side is a conscious choice. It gives flexibility that is a considerable success factor in the tough competition on the fashion market. Read more on page 20.

DISTRIBUTION

Timing is becoming increasingly important in the fashion industry. The goods must reach the store at exactly the right moment. KappAhl is one of the most effective companies in Europe in this regard. Read more on page 21.

SALES

KappAhl's marketing is coordinated in all channels, where the store is at the heart. Each year over 60 million garments are sold in the 345 stores, where visitors are inspired and assisted in their fashion choices. Read more on pages 22–24.

CUSTOMERS

KappAhl sells value-for-money fashion to women and men aged 30 to 50, and children. This is a target group that is stable, loyal and growing. Read more on pages 10–17.

KEY RATIOS Q2	2009 2010	2008 2009
Net sales, SEK million	**1,256**	1,168
Operating profit, SEK million	**76**	65
Gross profit margin, %	**57.7%**	58.0%
Operating margin, %	**6.1%**	5.6%
Profit after tax, SEK million	**34**	34
which corresponds to SEK per share	**0.45**	0.45
Cash flow from operating activities, SEK million:	**159**	133

KEY RATIOS Q3	2009 2010	2008 2009
Net sales, SEK million	**1,221**	1,206
Operating profit, SEK million	**112**	109
Gross profit margin, %	**64.6%**	60.4%
Operating margin, %	**9.2%**	9.0%
Profit after tax, SEK million	**65**	62
which corresponds to SEK per share	**0.87**	0.83
Cash flow from operating activities, SEK million:	**–7**	44

KEY RATIOS Q4	2009 2010	2008 2009
Net sales, SEK million	**1,290**	1,226
Operating profit, SEK million	**156**	176
Gross profit margin, %	**59.6%**	61.4%
Operating margin, %	**12.1%**	14.4%
Profit after tax, SEK million	**125**	106
which corresponds to SEK per share	**1.67**	1.41
Cash flow from operating activities, SEK million:	**222**	100

This year KappAhl has ...

... opened 26 stores, net.

... had over 300,000 visitors per day.

... sold 60 million garments.

... won an award for "Sweden's best workplace".

This has resulted in ...

... net sales of over SEK 5 billion for the first time.

... a 28 per cent post-tax profit increase, to SEK 402 million.

... a Board proposal for a dividend of SEK 3.25 per share. This can be compared with SEK 1.25 per share in the previous year.

CHRISTIAN W. JANSSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER ANSWERS QUESTIONS ON THE PAST YEAR:

''Increased profit, stronger finances and a new store every other week – despite the tough economy.''

MOST IMPORTANT EVENT THIS YEAR?
Stepping into the Czech Republic, a market that well suits KappAhl. That's why we are now opening more stores there. Altogether the net number of stores opened was 26 this year, which exceeds target. It's important to remember that expansion is taking place with good profitability.

WHAT ARE YOU MOST PLEASED ABOUT?
That our operating margin was as good as it was.

Our target is to have an operating margin of 12 per cent over an economic cycle and never under 10 per cent. We have succeeded in this, despite the worst recession in living memory.

This is due to two factors. In the first place, we are good at keeping up with our customers in their fashion development. In the second place we are capable of finding reasonable solutions that mean that we can offer good prices and still show a good profit.

HOW ARE SALES?
Sales continue to be stable. In 2009/2010 sales increased by 5 per cent. This is just under target and the result should be seen in light of the recession.

KappAhl is a safe company. We have no dramatic changes when the economy is booming, nor any dramatic slowdowns in growth in downturns. This is partly because we offer value-for-money fashion that sells well in all economic climates. Another reason for our stability is that we have few competitors aiming at the same target group; mature fashion-conscious people. Most other fashion companies want to reach the younger customers.

> ... suits KappAhl's concept well: attractive value-for-money fashion.

THE DIVIDEND IS INCREASING CONSIDERABLY – WILL THIS THREATEN EXPANSION?
No, we can do both, as we have shown year after year. At the same time the equity/assets ratio has strengthened considerably. The company is making a profit and the cash flow is as always very strong. This, in combination with the fact that in principle store expansion does not require any working capital, means that we can reduce our loans, distribute a considerable proportion of our profit to our shareholders – and nevertheless expand substantially.

BUT SURELY GROWTH MUST LEAD TO AN INCREASE IN SOME COSTS?
Seen as a whole the cost per unit sold falls when we open new stores, thanks to our economies of scale. This is important to remember.

But of course we, just like everyone else, have some threshold levels where further investments are required to be able to take the next step in growth. These may be, for example, organisational adjustments on the basis of the new conditions. Or volume adjustments in the distribution system. However, it's important to point out that we are not looking at any major investments in the distribution system in the foreseeable future. But when we reach our ceiling in the future we will most probably buy distribution capacity, primarily from external suppliers. Probably in Central Europe, where our main growth is expected. In that way we free up capital for investment in stores, which will bring in new revenue. This gives the best results.

WHAT WAS THE MOST IMPORTANT EVENT IN THE REST OF THE WORLD?
The economic turnaround has had a positive effect for us. The recovery was evident in all markets. We had predicted an increased margin of consumption, which was correct. But consumers increased their savings instead of consuming. Consequently we had relatively high inventory levels at the start of the summer – which we corrected through price reductions. It's extremely important to reduce large inventories as quickly as possible.

We have also seen rising purchasing costs. Both as regards raw materials and production. This affects all our competitors the same as it does us, and is a natural consequence of many years' substantially rising growth in Asia.

WHAT HAS GONE PARTICULARLY WELL?
We have launched several successful collections. In KappAhl Woman Vintage Stories has sold very well again this year. The underwear collection Shape Up, as well as our new Magic jeans drive, have resulted in good sales. In KappAhl Man, which is being repositioned, we have worked hard on launching Hampton Republic 27 – a preppy-inspired collection that has been very well received. The greatest successes of all can be found in KappAhl Child, where all collections have sold well.

Accessories is a product category that has developed very well during the year. This is an area where we can grow further and which suits KappAhl's concept well: Attractive value-for-money fashion. This leads to good sales.

> ... in principle store expansion does not require any working capital, means that we can reduce our loans, distribute a considerable proportion of our profit to our shareholders – and nevertheless expand substantially.

WHAT COULD HAVE BEEN DONE BETTER?

It would clearly have been better to open more stores at the same time in the Czech Republic. Many costs associated with entering into a new market are the same regardless of if you open one store or ten. We will not make that mistake again.

Another lesson is that we could have been even better at utilising our economies of scale. We are usually on the right track as regards "what" should be done - we have a long list of points for improvement on which we base our work. The development potential is more to do with "how" we are to achieve the improvements in the best way. One area where we have found good solutions is in distribution, where productivity has increased by more than 80 percent in the past ten years. I am convinced that our competent staff and our culture, which is characterised by common sense, will help us to continue finding new clever solutions that give us even more return on our economies of scale.

HOW WILL KAPPAHL LOOK IN FIVE YEARS?

At the present rate of growth we will have more than 500 stores, probably in eight to ten markets. The core of our operations will be the same: Value-for-money fashion with wide appeal.

CHALLENGES ON THE WAY?

Finding good store locations so that we can continue our expansion. It's an advantage that the major property owners are international. They know that we are successful in the Nordic area and that we are unique in our fashion initiatives for the more mature consumer. This is an advantage in Eastern Europe.

Another challenge is to manage increased purchasing costs. We can do this by changing supplier countries and individual suppliers. But also by more precise planning of the flow of goods. We can also adjust the price somewhat.

WHAT WILL HAVE PRIORITY IN 2011?

We will continue on the path we have staked out, with customer focus in everything we do. Here we have a great asset in all our skilled staff.

Store expansion is running according to plan; the major expansion in the future will be mainly in Eastern and Central Europe.

"We can grow securely thanks to a high gross margin and strong cash flows."

TARGETS AND TARGET FULFILMENT

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

	Outcome 2009/2010	Outcome 2008/2009	Outcome 2007/2008	Outcome 2006/2007	Outcome 2005/2006
Operative targets The number of stores is to increase by 20–25 per year	27 new stores opened and 1 closed	32 new stores opened and 4 closed	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	10,8%	10.8%	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** 2.4 times EBITDA	**As at 31 August** 2.8 times EBITDA	**As at 31 August** 2.3 times EBITDA	**As at 31 August** 1.7 times EBITDA	**As at 31 August** 2.3 times EBITDA
The interest coverage ratio is to exceed a multiple of five.	6.2 times	6.3 times	8.5 times	6.6 times	4.7 times
Dividend policy Dividend is to be 70–100 per cent of the profit after tax (in 2005/2006 the target was 50–70 per cent)	The Board's proposal to the Annual General Meeting means that 76 per cent of profit after paid tax will be distributed.	The dividend was equivalent to 29.7 per cent of the profit after paid tax.	The dividend was equivalent to 77.5 per cent of the profit after paid tax.	Redemption share equivalent to 125.3 per cent	The dividend was equivalent to 62.1 per cent of the profit after paid tax.

At the time of KappAhl's listing on the stock exchange in 2005/2006 the Board of Directors also set up the targets above. The company has lived up to them even throughout the extensive financial crisis. The main reasons for achieving the targets is KappAhl's ability to consistently follow the main strategic policies established, which you can study on the right.

KappAhl's strong brand is associated with many positive qualities – fashion, design, loyalty, credibility and value for money. 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.

GOOD MARKET CONDITIONS

KappAhl's main target group is women and men aged 30–50 with children. 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 greater purchasing power than younger customer categories.

Another advantage is that these customers are more loyal and less unpredictable than younger target groups. KappAhl's target group 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 most of its competitors.

GROWTH WITH A SOUND MARGIN

In recent years KappAhl has focused on increasing profitability by strengthening the gross margin. The strategy has been successful. The gross margin is among the highest in the industry and strengthened profitability creates a stable basis for continued growth. Other goals have been to strengthen profitability by more effective use of KappAhl's purchasing and logistics resources. This too has gone well.

GOOD CASH FLOW – SECURE GROWTH

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 good dividend to shareholders.

EXPANSION OF STORE NETWORK

Our focus on growth has also been clear in the 2009/2010 financial year. The growth strategy rests on two principles: Increased sales in existing stores and establishment of new stores.

KappAhl will continue to gain market share. The store network will continue to grow, increasing the company's market share. The expansion of new stores will be mainly in shopping malls and central store sites, We aim to increase the number of stores by 20–25 per year. The potential for establishing new stores in Poland and the Czech Republic is still regarded as good. In Sweden, Norway and Finland there are not as many unused locations, since KappAhl already has broad geographical coverage there.

INVESTMENTS IN THE STORE NETWORK

KappAhl invests on an ongoing basis in improvement and refurbishment of stores. Renovated and updated stores generally attract greater visitor flows, an increased 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.

STIMULATING STORE SALES

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. In addition there are regular sales competitions and training initiatives for employees.

UTILISING ECONOMIES OF SCALE

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.

”We have the world’s best target group: Loyal, stable and growing.”

KappAhl has stores in Sweden, Norway, Finland, Poland and the Czech Republic. Sweden is KappAhl’s single largest market. The total value of the company’s markets at the beginning of 2010 was SEK 196 billion.

The recession has been replaced by an incipient upswing. For example, for Poland and Sweden the forecast growth for the 2010 calendar year is about 3 per cent. Government finances in the countries where KappAhl operates are generally strong. But they may possibly be affected by retrenchment in other countries. Possible interest rate increases are another factor that could slow down the positive trend.

All in all, however, KappAhl is cautiously optimistic about market trends.

LOYAL AND GROWING CUSTOMER BASE

In general there is a clear correlation between GDP development and growth in retail fashion. 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, which targets in particular women and men between 30 and 50 with children.

Another advantage is that this target group is more predictable; in other words is more confident with its fashion style than younger consumers, for example. This gives KappAhl a comparatively stable and loyal customer base, which makes relatively frequent repeat purchases.

VALUE-FOR-MONEY FASHION SELLS IN ALL SITUATIONS

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

In general it is mainly more expensive durables and designer label clothing that people cut back on when GDP growth flags and the scope for consumption decreases. Value-for-money fashion, on the other hand, is something customers allow themselves in all economic situations, and consequently sales are not affected as much here.

HIGHEST SALES IN AUTUMN AND WINTER

The fashion industry follows a clear seasonal pattern. In terms of sales, 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 GIVES ECONOMIES OF SCALE

Today’s world of fashion is increasingly global and fashion more similar overall. This has benefited the major fashion chains that gain market share, mainly at the expense of local stores. In the global market examples of these chains are H&M, Inditex, Bestseller and Gap. At Nordic level KappAhl, Lindex and Dressmann are established players.

Many of these companies are known as fully integrated chains, with control of the entire business process from idea and design to store. This makes the chains 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.

CLEAR CONCEPT A STRENGTH

Clear concepts create stability in a trend-sensitive fashion world. 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.

STRENGTHENED POSITION

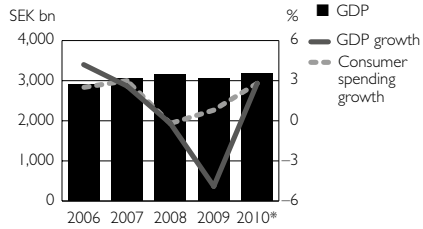
Competition is appreciable in today’s retail fashion industry. As regards consumer spending, clothes also compete with other products that make people feel good, such as makeup, shoes or perhaps an hour’s massage.

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 and the Czech Republic KappAhl also competes with Reserved.

Despite the tougher competitive situation KappAhl has continued to strengthen its position, with a 5.0 percent increase in sales for the 2009/2010 financial year.

SWEDEN

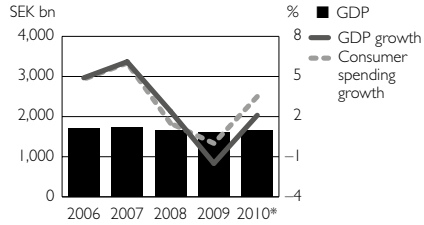
Population: 9.4 million
Consumer spending on clothing per capita including VATs: SEK 5,662 per year.



* Estimated for the full year 2010

NORWAY

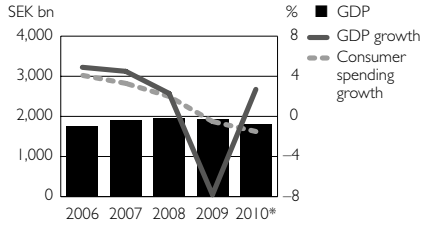
Population: 4.9 million
Consumer spending on clothing per capita including VATs: SEK 8,662 per year.



* Estimated for the full year 2010

FINLAND

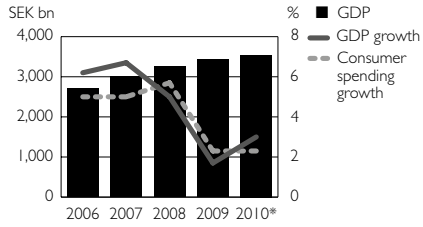
Population: 5.3 million
Consumer spending on clothing per capita including VATs: SEK 6,157 per year.



* Estimated for the full year 2010

POLAND

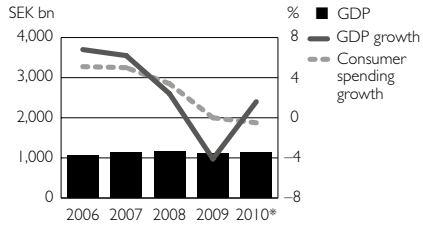
Population: 38 million
Consumer spending on clothing per capita including VATs: SEK 1,368 per year.



* Estimated for the full year 2010

THE CZECH REPUBLIC

Population: 10 million
Consumer spending on clothing per capita including VATs: SEK 1,500 per year.



* Estimated for the full year 2010

''The journey that takes us from idea to store sale success.''

At KappAhl almost 4,800 employees work at 360 workplaces on design, purchasing, production and sales of 60 million garments in our 345 stores every year. Here is a picture of the journey from idea to store.

NORWAY is KappAhl's next oldest market, with 95 stores on 31/8 2010. The first was opened in 1988.

FINLAND got its first KappAhl store in 1990. On 31/8 2010 the number reached 56.

SWEDEN is KappAhl's largest market with 153 stores on 31/8 2010. The first was opened in 1953.

POLAND had 40 KappAhl stores on 31/8 2010. The first opened in 1999.

THE CZECH REPUBLIC got its first KappAhl store in 2009. In autumn 2010 another two stores will open.

FUTURE EXPANSION In the past financial year KappAhl opened 26 stores net and on 31/8 the company had contracts for a further 55 store premises. Future expansion will for the most part be in Central Europe. In Poland and the Czech Republic (which KappAhl entered in 2009) alone, there are over 48 million inhabitants.

IDEAS AND PURCHASES: All the garments sold in KappAhl's stores are designed at KappAhl's main office in Mölndal, just outside Gothenburg in Sweden. This is over 10,000 articles every year. The purchasers analyse, plan, submit orders and follow up. Read more about the companys work in design and purchasing on pages 19–20.

STORE NETWORK: On 31/8 2010 KappAhl had 345 stores in five countries. The goal is to open 20–25 new stores every year. Read more about KappAhl's store sales on pages 22–24.

DISTRIBUTION TO STORES: Every year 60 million garments pass through the distribution centre in Mölndal, which is one of Northern Europe's most modern, to all the stores. Read more about KappAhl's distribution on page 21.

SUSTAINABILITY: KappAhl conducts active work on sustainability, based on the company's Code of Conduct and environmental policy. The company purchases carbon offsets for travel, which has meant investments in a UN certified wind power project for the textile industry in India. Read more about the companys work on sustainability on pages 25–27.

INTERNATIONAL PRODUCTION OFFICES: KappAhl has eight production offices in Bangladesh, India, China, Turkey and Lithuania. A total of about 150 employees work here, monitoring production and sustainability issues associated with suppliers.

PRODUCTION: Just under 250 suppliers take care of production. The main part of production is in Asia. Almost 70 per cent of the garments come from there. Read more about KappAhl's production on page 21.

TRANSPORTATION: Almost 75 per cent of shipments from the country of manufacture are by sea, for cost and environmental reasons. Read more about KappAhl's distribution on page 21.

We love our customers. Not just because they come to our stores and buy our fashion, but also because it's fun to make them satisfied with their appearance.

Each of our target groups has its unique behaviour, needs and wishes. What gets us going is the challenge of getting it just right for all three. We have succeeded in this for several decades, and intend to continue.

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

woman

KappAhl Woman offers a wide, varied range for every occasion – party, smart casual and leisure. The collections include complete wardrobes, from underwear to outdoor clothing and accessories.

SHARE OF KAPPAHL'S TOTAL NET SALES

WOMAN 58%

Important events during the year

- Launching of several successful collections. Including a Folklore Tale and a new version of Vintage Stories. Both sold out quickly and had a great media impact.
- Won the "Modediamanten" award for XLNT. This is the second year in a row we have won this award from the fashion blog portal Modette.se, but it is their readers who decide.
- In the growing area of accessories we have made a complete analysis. We have also concentrated hard on quality and fit during the year.

man

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

SHARE OF KAPPAHL'S TOTAL NET SALES

MAN 12%

Important events during the year

- Continued focus on moving positions forward for all of KappAhl Man. The work covers everything from design and purchasing to marketing and store exposure.
- Reduced number of articles to improve clarity in the whole range, so that it will be even simpler for our customers to quickly find the right combination.
- Major concentration on basic fashion, in the form of t-shirts, for example.

child

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

SHARE OF KAPPAHL'S TOTAL NET SALES

CHILD 30%

Important events during the year

- Launch of Kaxs Proxtec, a collection for small children, with functional clothes that are rain, mud, snow and wind proof and can be easily seen in the dark. It was received with open arms by the customers.
- A major drive on accessories started in spring 2010. This contributed to record sales. The drive will continue in the autumn.
- The Vintage Stories collections in autumn 2009 and spring 2010 were downright sales successes, just like KappAhl Woman. A new Vintage Stories collection will arrive in the stores for the autumn.

"Our view of design: So attractive that you get compliments. And so comfortable that you never want to take it off."

OUR CUSTOMERS

We target women between the ages of 30 and 50. They differ in many ways; Some live with a partner, some are single. Some have children, but many do not. Some live in big cities, others in small communities. But there is one common denominator. Our women are interested in fashion and want to be attractive. At the same time they often live in a stressful environment. It's difficult to keep up with all the new fashion trends and have time to collect children from day care, buy everything on the shopping list and put the finishing touches to a presentation for work. So our most important task is to help our customer find the right fashion quickly and simply. And at a good price. In that way we help her to feel attractive.

our offer

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.

SHAPE UP

A collection of well-fitting, high quality underwear that shapes the body by holding in and lifting up.

bodyzone®

Design by KappAhl

Underwear, nightwear, socks, tights and swimwear.

Creem® CLOSE TO YOU

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

XLNT

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

"We also released a new collection with a design language entirely of its own: A Folklore Tale. We have never had a collection that sold out so quickly."

Carina Ladow, design and purchasing manager KappAhl Woman

WHY CUSTOMERS CHOOSE US

We have had great sales successes in recent years. One of the reasons is that we are good at inspiring our customers. Already when we start designing clothes we go through how they are to be hung and matched in the stores, so that customers quickly see the most exquisite combinations. To make it simpler for customers to find the right garment and combination we have divided KappAhl Woman into four different styles: Classic, Romantic, Sporty and Contemporary, which targets the typically fashion-conscious girl.

THIS IS WHAT WE ARE SPECIALLY GOOD AT

We are good at inspiring and making women feel attractive, with garments that are easy to like, that fit well and comfortably and are simple to match. We call it being at the heart of fashion. We get there through hard work in design and pattern construction. Hidden design, making jeans so comfortable that you don't want to take them off, is what we put enormous effort into.

At KappAhl women find everything from the smallest little accessory and sock to outdoor wear. And they should be possible wear as an integrated whole, where we will be glad to help with inspiration for matching via our displays.

If you look individually at the different product categories we are very strong on jersey tops. New items are launched here almost every day. This has made us biggest in tops in Sweden. We are also biggest in our next largest area; trousers. Five years ago we decided to be good at jeans and trousers, with a very wide range of styles and fits. This succeeded well. We are also very good at blouses, which is our third largest product category.

One area that has great potential is accessories. Every third item sold in KappAhl is an accessory, in the form of shoes, a ring on your finger, a bag or perhaps a pair of pretty sunglasses to perch on the tip of your nose when the sun comes out at the open-air café.

We are also known for being amazingly good at party clothes that make you look like a "million dollar baby" for a surprisingly small amount of money. Likewise we are strong on soft packages of underwear, nightwear and cosy clothes, to put under the Christmas tree. The fact is we are the leader in Sweden as regards Christmas shopping. In underwear we should also mention our new approach to pantyhose in early 2010. It led to record sales. The dressing gown drive ahead of the Christmas shopping season was also an enormous success. The fact is that KappAhl is strong in underwear. This is shown not least by the success of the autumn "Shape Up" campaign.

We love women with curves and large sizes. There we have our XLNT brand, which has won the "Modediamanten" award from the fashion blog Modette.se, two years in a row. It makes us extra happy that it is the readers who judge this competition. We couldn't get a better testimonial.

NEW IN 2009/2010

This year we have worked extremely hard on quality and fit, on the premise "your shape, our mission". That is why we put so much time into the hidden design, so that your jeans fit perfectly and feel comfortable. It may take hundreds of hours to get the exact right look and form, as in the case of the successful Magic jeans. The work was worth it. We have strengthened our leading position in trousers and jeans in Sweden and are increasing sales in other countries.

At the beginning of August a new accessory project was launched, where we went through the entire range. Accessories mean that our women can make innovations for a small sum of money. All our 345 stores have been refurbished, emphasising the accessories more clearly, making it even simpler for customers to match with the right look.

We have launched a large number of collections this year, including a follow-up in the spring to last year's success with Vintage Stories. This time it was a 1950s feel. It was a big hit. The fashion press loved the clothes and thousands of words were written on the web. If you Google "KappAhl" and "Vintage Stories" you will get over 34 000 hits, in several different languages.

We also released a new collection with a design language entirely of its own: A Folklore Tale. We have never had a collection that sold out so quickly. It only took a few days. Folklore Tale will live on in more collections.

SALES TREND

KappAhl Woman had a turnover of SEK 2.9 (2.8) billion in 2009/2010, making us the largest in Sweden in that target group, with a market share of 7.7 (7.9) per cent (market research company GfK August 2010). We are strong on the other markets too. KappAhl Woman is the largest area of operations within the company. In 2009/2010 it accounted for 58 (58) per cent of Group sales.

WHAT'S PLANNED FOR NEXT YEAR?

Among other things we will launch a new Vintage Stories collection in the autumn. At about the same time Sentimental Journey will arrive in the stores. This is a coat collection inspired by our origins. In autumn 2010 we will also elaborate on the successful Magic trousers. We will then launch another model, Magic Gold, which is a technical miracle in terms of quality and fit.

"There is heavy demand for pretty and functional underwear. This is shown not least by the success of the 'Shape up' campaign."

Carina Johansson, design and purchasing manager for underwear at KappAhl

"Every day with us is a declaration of love to classic male fashion."

OUR CUSTOMERS

KappAhl Man targets men between 30 and 50. Our aim is to help them to dress well – be it for an ordinary day or a special occasion.

Studies show that many men say they don't even remember where they went shopping for clothes last time. This might be one of the reasons that make people believe that men are not that interested in dressing well. The fact is that men are just as conscious of how they dress as women are. The difference is rather that majority do not seem to find shopping as much fun, which means that they shop more seldom, perhaps only two or three times per season.

But this behaviour is changing, as a growing proportion of men are showing a great interest in fashion, and would like to renew their look more often. No matter the type of man who comes to us, we have made it our task to help him find what he's looking for, and we want it to be fun to shop in our stores. Statistics show that men on average choose between 2.8 stores when they go shopping for clothes. So to get on that list we must offer something extra.

WHY CUSTOMERS CHOOSE US

KappAhl Man is the second largest in its target group in Sweden. Customers find a large selection of clothes of good quality and price at KappAhl. Here it is also simple to find good combinations. This creates security for those who come here.

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

THIS IS WHAT WE ARE SPECIALLY GOOD AT

Our greatest strength is that we have a broad selection of garments that are simple to match. This means that our customers can buy a whole outfit from us and feel secure in it, and yet have money over for other things.

Just as in our other target groups, we are strong on trousers and jeans and what is generally designated basic fashion.

In addition we are good at jersey, shirts, outerwear and underwear, which is an important product group. Our customers want to have designed underwear, preferably with a lot of colour and pattern.

NEW IN 2009/2010

We have worked hard on sharpening our basic offers, mainly in jeans, shirts and jersey tops. T-shirts belong here, for example. In addition we have reduced the number of articles across the board, to increase clarity in our fashion.

We have also continued our work on positioning the whole of KappAhl Man further forward, an initiative that was started in 2009/2010. The aim is to make the offer a little more masculine. This affects our work all the way from idea and design to marketing and store exposure.

The aim is to get men to feel more at home and secure with us. We also believe that women who buy clothes for their men feel more comfortable with a more masculine image.

SALES TREND

KappAhl Man had a sales turnover of SEK 0.6 (0.7) billion in 2009/2010.

We are second largest in the Swedish market, with a 3.5 (5.6) per cent share (market research company GfK, August 2010) and the area has grown in the other geographical markets.

KappAhl Man's share of total Group sales is 12 (14) per cent.

WHAT'S PLANNED FOR NEXT YEAR?

We will continue our work on moving positions forward for KappAhl Man on a broad front.

At the start of the autumn Hampton Republic 27 was launched. It is a collection of timeless American preppy-inspired fashion with exciting matches aimed at the fashion-conscious man. The reception was very positive.

Hampton Republic 27 replaces U.S. Polo Association (USPA), which will no longer be part of KappAhl's range.

"At KappAhl men will find fashion to make them feel at home. The new brand Hampton Republic 27, is an example of this."

Niclas Andersson, design and purchasing manager, KappAhl Man

HAMPTON REPUBLIC

Classic, masculine American fashion with a modern twist: Outerwear, jackets, jeans, trousers, shirts, knitwear, jersey and accessories. The details are well considered and well made.

MADISON AVENUE
DESIGN BY KAPPAHL

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

Redwood®
OUTDOOR SPORTSWEAR
MILL VALLEY SAN FRAN. HERITAGE QUALITY WEAR REG. TRADE MARK DESIGN BY KAPPAHL

Casual concept where denim is in focus. Design with cut, colours and patterns that appeal to the fashion-conscious man. Ideal for both work and leisure.

BZ BODY ZONE
DESIGN BY KAPPAHL

Underwear, socks, nightwear and swimwear.

our offer

"It's been a fantastic year. All the collections were received with open arms."

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.

Lab INDUSTRIES®

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

WOXO 720°

Outerwear of high tech quality that belongs as much on the ski slopes as at school. The collection is for boys and girls aged 7 to 14.

BODYZONE®

Everything from underwear and socks to nightwear, dressing gowns and swimwear.

kaxs®

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

kaxs PROXTEC

Comfortable functional clothes that keep young children dry and confident in both rain and snow.

our offer

OUR CUSTOMERS

KappAhl Child offers a broad range of clothing for the newborn up to our beloved "tweens", who are at the age between children and teenagers. Everyone knows that children develop at a great rate, and so do their clothing needs.

Most purchases for small children are usually in response to a clear need for a certain type of garment. It may be a party dress for the seven-year-old's birthday party or clothes for a puddle-loving two-year-old to play in. Here it's extra important to have functional clothes of high quality in the season's colours and styles.

The slightly older boys and girls are more fashion-conscious and often decide for themselves which clothes end up in the KappAhl bag. Here the right design and comfort are just as important as function.

WHY CUSTOMERS CHOOSE US

Our designers devote thousands of hours every year to gaining inspiration from all the corners of the fashion world and to creating collections that are exactly right. At the same time we ensure that the garments function perfectly for what they are used for – regardless of whether it's school, skiing or a party on the agenda. Surveys show that a clear majority of our customers recommend a visit to our stores to their friends – which is proof that we have succeeded well in our work.

We design new garments every day. At the same time we are particular about details. Every little seam, button and shade have earned their place after careful consideration by our designers, purchasers and production technicians. Every week children of different ages, sizes and shapes come here to try on the clothes, so that we can be quite sure that they fit well and feel comfortable.

We also perform extremely rigorous quality and functionality tests. It is extra exciting that this is noticed by both customers and the media. Our clothes have been given top marks in several tests.

In recent years we have seen 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.

THIS IS WHAT WE ARE SPECIALLY GOOD AT

The fact is that during the year all our collections went like a train, both for small children and tweens. Even in accessories we have seen record sales. Here perhaps is our main strength, that we have a breadth that makes it possible to combine complete, functional and attractive outfits at KappAhl, easily and at a good price.

But if we are to highlight some special areas we can start with trousers and jeans, which pull people into the stores. We hold a very strong position here. The jeans brand Lab Industries is a terrific success. At the beginning of the school year we can sell hundreds of thousands of pairs of trousers and jeans in just a few weeks. Accessories is another area where we are extremely strong.

NEW IN 2009/2010

The launch of the outerwear collection Kaxs Proxtec, for the younger children, last autumn was received with open arms by our customers. This is a collection of attractively designed functional clothes of very high quality, which has been demonstrated in independent tests. In February a spring collection was launched that was equally appreciated. In autumn 2010 the collection is being extended further.

In the spring there was a big drive on accessories. The result was a sales success. In our accessories department customers can now find anything from pretty headbands, lipsmackers and jewellery to scarves, shoes and attractive schoolbags. The drive will continue in autumn 2010.

In underwear we have adapted the range, which together with last year's big new approach has contributed to a very strong improvement in sales. Just like KappAhl Woman, we had a sales success with the Vintage Stories collection in autumn 2009 and spring 2010.

In general we can note that our decision to concentrate our efforts on individual big sellers in each collection instead of having a bit of everything has proved to be wise. It has to a great extent contributed to the positive performance.

SALES TREND

KappAhl Child achieved a turnover of SEK 1.6 (1.4) billion in 2009/2010. KappAhl Child's market share was 13.0 (12.5) per cent in the largest market, Sweden (GfK August 2009). The trend was strong on the other markets as well. KappAhl Child currently accounts for 30 (28) per cent of KappAhl's total sales.

WHAT'S PLANNED FOR NEXT YEAR?

At the beginning of the autumn KappAhl's Newbie collection was launched, which targets the youngest family members. The collection includes bodysuits made of ecological cotton, which is soft and cosy against the body. HighFashion – "Here today, gone tomorrow", is being launched for the older girls; a trendy range where at regular intervals in the autumn we will show the very latest in the fashion scene.

In mid-September the first garments from the new WOXO 720° collection will reach the stores. It targets our tweens and consists of extremely attractive high tech garments.

In autumn 2010 a new Vintage Stories collection will also be launched together with KappAhl Woman.

"We create new garments every day. At the same time we are particular about details. Every little seam, button and shade has earned its place."

Anna Bredberg, design and purchasing manager, KappAhl Child

"Step by step, from the first idea to the thrill of purchase in 345 stores."

Attractive fashion at a reasonable price. This is what we want our customers to think of when they see our logo. To achieve that requires both inspiration and energy, but also a lot of knowledge and a systematic way of working. All the way from idea and design to store sales. On the following pages you can read about what we do at every step of the value chain.

STEP 1
IDEA AND DESIGN

STEP 2
PURCHASING

STEP 3
PRODUCTION

STEP 4
DISTRIBUTION

STEP 5
MARKETING
& STORE SALES

IDEA AND DESIGN

”10,000 x Design by KappAhl.”

Over 10,000 different articles are produced every year at KappAhl. Design plays a central role here – both as regards appearance, fit and quality.

“For us design is about creating fashion that the customer feels attractive in.

We call it Design by KappAhl”, says Mari Svensson, Vice President Purchasing at KappAhl.

Our great design know-how is one of the most important reasons for KappAhl’s successes, with almost 60 million garments sold and about 110 million visitors to the stores every year.

DESIGN SHAPED FOR THE CUSTOMER

“Perhaps the most important reason that we get to ’the heart of fashion’ is that we are good at linking trends to what our customers want. We have a strong focus on the customer during the entire design process. Another important success factor is that we are creative with a base of good planning”, says Mari Svensson.

The work of design takes place in what could be called KappAhl’s own fashion lab. The company has 35 designers and a large number of pattern constructors who develop new models every day. Altogether tens of thousands of hours are spent every year on designing garments that the customers love.

“We have our customer in mind all the way from the first idea to the finished garments and collections. We must be clear how she wants to dress, how she wants to match the garments and which accessories she wants,”, says Mari Svensson.

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

“Our job is to transform trends into goods that suit our particular customer, both as regards design and fit. The best marketing we can get is when our customers hear ’You look nice, where did you buy that?’,” notes Mari Svensson.

“GETTING IT RIGHT WITH OUR MODEL”

KappAhl’s working model is to a great extent about spurring each other on. It’s about teamwork between several roles, where everyone is important. The collection team is responsible for presenting future trends and discussing fashion themes that are expected to emerge in full force in eight to ten months.

“Our designers find inspiration in street fashion in the world’s fashion centres, in music videos, magazines and literature. But also at international textile fairs and fashion shows,” says Mari Svensson.

They also look in professional fashion databases and trade organisations. From the inspiration a number of ’fashion leitmotifs’ are created, which in turn form the basis of the collections.

“The garments are checked against each other so that we are sure they match our overall view of current fashion”, says Mari Svensson.

THE METHOD PAYS OFF

The structured working method, which keeps KappAhl right on target as regards fashion, sizes, qualities and price, leads to increased sales at full price – which ultimately gives higher profitability.

> “Perhaps the most important reason that we get to ’the heart of fashion’ is that we are good at linking trends to what our customers want.”

STEP 2: PURCHASING

"Buyer with sales expertise."

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. "The buyers are those who ultimately determine which garments are to be manufactured, in what volumes and when. The buyers also set the prices of each individual product", says Mari Svensson, Vice President Purchasing at KappAhl.

The purchasing department of KappAhl is recognised as being good at this. It is evident not least in the good margins the company manages to achieve.

RESPONSIBILITY THROUGHOUT THE PROCESS

Negotiating purchase prices is also the job of the buyer. This is done with the help of production offices in Bangladesh, India (2), China (3), Lithuania and Turkey.

The buyers are responsible for gross profit on sales of the garments purchased. 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

KappAhl's clothes must be safe from the point of view of health and the environment. 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. You can read more about this on pages 25–27.

STEP 3: PRODUCTION

"Secure and flexible model."

KappAhl's production is with carefully selected suppliers all over the world. Not owning the production side is a conscious choice. It gives flexibility, since that way KappAhl can always change to another supplier if necessary.

"The arrangement also means that we don't have to tie up capital in factories. We would rather invest the money in new shops, allowing us to reach even more customers," says Marie Askhede, head of production at KappAhl.

This way of doing things also contributes to KappAhl having the freedom to change production method, if fashion so requires. "This would be difficult if we ourselves had invested heavily in machinery that is restricted to one type of production, requiring a certain level of capacity utilisation to be profitable," notes Marie Askhede.

ALMOST 250 SUPPLIERS

KappAhl buys from nearly 250 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 produce in Europe. Purchases and deliveries are co-ordinated by KappAhl's head office, which cooperates closely with the company's purchasing offices in the countries of production.

PARTICULAR ABOUT QUALITY

KappAhl sets great store by quality assurance and consequently carries out frequent spot checks throughout the entire production process.

"It's worth it. The percentage of garments where production defects have arisen is now less than one per thousand", says Marie Askhede.

The production 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 deliveries and handle export administration. In other words, they are KappAhl's extended arm in important countries of purchase.

STEP 4: DISTRIBUTION

"Among the most effective in Europe."

Timing is becoming increasingly important in the fashion industry. The goods must reach the store at exactly the right moment, to avoid decreased sales and the need to reduce prices. So KappAhl has invested in a more effective flow of goods. Today the company is among the most effective in Europe on this point.

"Productivity at our distribution centre has increased by almost 80 per cent in ten years", says Gunnar Persson, head of KappAhl's distribution centre in Mölndal.

KappAhl's reputation for modern solutions has spread outside the company walls.

"We are often visited here by others who want to learn from our experiences", notes Gunnar Persson.

In 2010 KappAhl invested in its own returns system and in the manufacture of transport crates of recycled plastic, cutting costs by half and improving the environment.

60 MILLION ITEMS EVERY YEAR

KappAhl's distribution centre is in principle fully automated. Each year 60 million garments pass through the facility.

"We can handle 80 million items today. But the capacity can be further increased by means of minor additional investments," says Gunnar Persson.

The system is continually being refined as regards control of quantities, timing, sizes and colours. This contributes to increased sales and reduces the percentage of items that have to be sold at a discount.

FREQUENT DELIVERIES TO STORES

Storage space in KappAhl's stores is limited, since areas must preferably be used for selling. That is why the timing of distribution is important.

"The stores receive deliveries three to five times a week, or even more often if sales require it", says Gunnar Persson.

Almost 75 per cent of shipments from the country of manufacture are by sea, for environmental and cost reasons. Air transport is used if necessary for commercial reasons. In Sweden almost half the consignments from the distribution centre are sent to the stores by rail. In Norway the figure is 70 per cent.

We love IT: New platform, fitted for growth

KappAhl has a flexible IT system founded on simplicity, just like the rest of the operations. The main strategy is to keep all business critical competencies internal. KappAhl's IT department, which is responsible for all the IT at KappAhl, works closely with other parts of the operations.

"This means that we have good control and ensure that changes take place from the right perspective: That of the core business. For example we are always included in the important planning phase when there are changes," says Johanna Kjellberg, Vice President IT at KappAhl.

In 2009/2010 a transfer was started to a new client platform that is adapted to the growth met by KappAhl.

"The objective is that it will create higher efficiency and flexibility, while raising the level of security. All in all this will lead to better finances," says Johanna Kjellberg.

STEP 5: **MARKETING** & STORE SALE

"The main thread that runs through all we do."

KappAhl's mission, "Value-for-money fashion with wide appeal" and the concept "Design by KappAhl", characterise everything the company does, in all marketing channels. KappAhl's consistency of communication is one of the main reasons behind its strengthened market position in recent years.

Everyone at KappAhl is more or less involved in the company's marketing. Not least those who work in the stores. If you look at the marketing department separately it consists of three groups working with the store concept, advertising and production of graphic material and information material for stores. The marketing department handles everything from television commercials and advertisements to customer club activities, store fittings and goods display.

THE STORE IS THE MOST IMPORTANT CHANNEL

KappAhl's store network is absolutely the most important channel of communication.

"The store is our main arena in meetings with the customer. It is in the store that we are to create inspiration and help the customer find the right fashion. We put great focus on the work here," says Meta Ågren, Vice President Marketing at KappAhl.

Surveys show that this work brings positive results. A large percentage of visitors are converted into paying customers when they have actually stepped into the store. This is a figure that KappAhl is endeavouring to increase further.

ADVERTISING TO ATTRACT VISITORS

Strengthening KappAhl's image and attracting more visitors has a high priority in communications. The company uses a media mix covering everything from advertising in broad media to text messages directly to customers.

Surveys of the target group, carried out at the time of the advertising campaigns in spring and autumn 2010, indicate that advertising has a good effect. In the target group women aged between 30 and 50, 40 per cent were very positive after having seen the advertising and the intent to purchase was far above the industry average.

ONE OF THE LARGEST CLUBS IN THE NORDIC AREA

The company's loyalty programme, in the form of direct advertising and text messaging, is successfully established in all markets. They contribute substantially to sales.

"This is an important marketing channel, since card customers show greater loyalty and spend more than the average customer, says Meta Ågren.

INCREASE THE PRESSURE VIA FASHION PR

"PR is an area that is gaining increasing significance for our image and sales, says Meta Ågren.

In the last four years the number of press cuttings in the popular press has more than doubled. KappAhl is seen regularly in the established fashion press in the various markets.

SUBSTANTIAL INCREASE IN TRAFFIC TO THE WEBSITE

KappAhl's website, www.kappahl.com, is another important channel where customers can find their favourite garments before visiting the store. They can also get good clothing care tips here.

Traffic to the website has increased by over 60 per cent in the past year. There is great future potential here.

STEG 5: MARKETING & **STORE SALE**

"Over 300,000 sales opportunities every day."

Every day KappAhl has over 300,000 visitors to its stores.

"This is an opportunity we don't want to miss. After all, if they come to us we have all the chances in the world to show that it is possible to buy the latest fashion at reasonable prices", says Linda Hamberg, Vice President Sales at KappAhl.

How people are treated in the stores plays a central part for sales. The business depends on our customers being more satisfied with KappAhl than with others. Then they will come back, perhaps with a friend who also wants to find something pretty.

SIMPLE AND FUN TO SHOP

"It must be a bit more fun to come to our stores, where everything we do comes together to give our customers an inspiring experience", says Linda Hamberg.

For example, goods display must be well thought out, to make it easy and inspiring for customers to find and combine different items. We use manuals for this, which means that exposure of themes and concepts is co-ordinated 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," says Linda Hamberg.

STORE STAFF PLAY A KEY ROLE

Sales assistants play an important role in making it simple for customers in their choice of garment and how to combine it with others, perhaps by giving advice.

"But their own clothes are also of great importance. If we are running a jeans campaign and employees are wearing the jeans then we notice a clear effect on sales," says Linda Hamberg.

UPGRADED WITH A NEW CONCEPT

During the financial year several shops have been updated with a new store concept, in accordance with an established plan. The greatest advantage of the new concept is that it is more modern, flexible and environmentally adapted.

The concept also has better lighting, which apart from a more attractive setting, also contributes to almost 30 per cent lower energy consumption.

REGULAR IMPROVEMENTS

Every year a large number of adaptations and improvement projects are carried out 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," says Linda Hamberg.

The adaptations are intended to lead customers through the store at the right pace

and past the right offers. The efforts yield good results. Compared with the industry as a whole KappAhl has a high percentage of visitors who become paying customers.

In addition, the cash points are improved to make things easier both for customers and staff.

"The customer's impression at the cash point is extra important for creating loyalty. Both fittings and treatment of the customer must be right," says Linda Hamberg.

KappAhl also carries out minor maintenance, such as painting and flooring. The company's measurements show that customers become more positive towards the store after these improvements.

KNOWLEDGE FROM STORE TO STORE

KappAhl follows consistent procedures and has a system for exchange of experience between stores of the same size. New technology and technical aids also 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," says Linda Hamberg.

SALES COMPETITIONS WITH GOOD RESULTS

KappAhl conducts regular sales competitions in all markets.

"Apart from leading to increased sales, it creates a positive team spirit in the respective stores," says Linda Hamberg.

One example is the average purchase competition, which was won by the store in Värnamo.

"We are good at displaying items together and giving tips and ideas to our customers. And we are a good gang, who pep each other up to achieve good results, which is also important," says Maria Sjölin, store manager.

OPTIMAL STAFFING

To meet customers' service requirements while keeping costs under control staffing must be optimal. It follows the variation in demand on different days of the week and in different seasons. In 2009 a new scheduling programme was introduced, making it easier to improve staffing efficiency.

"Landlords like us."

KappAhl's goal is to open 20–25 new stores per year. KappAhl's strong brand is useful in the hunt for good locations.

"Our landlords like us. They know that we attract a lot of people to the area, which raises the value of other premises," says Hans Jepson, Vice President Store Establishment at KappAhl.

KappAhl's strategy is to establish stores in the best commercial locations and shopping malls. 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," notes Hans Jepson.

KappAhl also analyses factors such as competitors and consumption patterns. 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 it can go 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," says Hans Jepson.

In 2009/2010 KappAhl opened 27 stores and closed 1. On 31 August 2010 KappAhl had contracts for another 55.

MOVING CAN GIVE A CONSIDERABLE BOOST

Reviewing the store network has accelerated in recent years and many changes have been made. 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, after careful analysis, 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," says Hans Jepson.

"Our first eco-labelled garment came in 1993. Now we have 10 million of them."

"KappAhl's customers expect the right feeling for fashion, but also that we take responsibility for our operations from the point of view of sustainability. We take this very seriously and view it positively," says Ann-Marie Heinonen, KappAhl's environmental manager.

CODE IN PLACE SINCE 1997

Work on sustainability is systematic at every stage of our operations, from design and production to distribution and store sales. The work is based on two central documents: The environmental policy and the code of conduct. As early as in 1997 KappAhl drew up its first code of conduct for suppliers. The code has developed in pace with the company's other advances.

653 INSPECTIONS THIS YEAR

KappAhl has almost 250 suppliers. All production units are subject to the company's code of conduct, which covers areas such as safety at work, working hours, pay and freedom to join trade unions. The code is in line with each respective country's laws, which as a rule are based on the ILO Conventions.

All suppliers are covered by KappAhl's system of inspection and follow-up, which is implemented by twelve inspectors with special competence in the field. They are stationed at KappAhl's international production offices. Each production unit is ranked on the basis of a four-level system - from "not approved" to "satisfactory". The follow-up includes a large proportion of advisory services, aimed at generating improvements and through them a higher ranking. In 2009/2010 653 inspections and follow-up visits were carried out. This corresponds to almost 3 visits per working day.

MEMBER OF BSR 2010

In 2010 yet another step was taken in sustainability work in relation to suppliers, when KappAhl became a member of Business for Social Responsibility (BSR). This is a global, non-profit organisation that contributes competence and helps member companies to do business with respect for ethical values, individuals, society in general and the environment.

FIRST TO BE ENVIRONMENTALLY CERTIFIED

KappAhl was the first fashion chain in the world to be certified under the environmental management standard ISO 14001. This took place for the first time as early as in 1999.

"This is something we are proud of. Every year a new audit is conducted", says Ann-Marie Heinonen.

The ISO certification, which is done under the auspices of SP Technical Research Institute of Sweden, covers the entire supply chain from design via production, transport and distribution to stores, as well as operations at the head office, distribution centre and store operations in Sweden and Finland In Norway too stores are certified in accordance with nationally recognised standards. The ambition is to certify operations in all markets in the future.

10 MILLION "GREEN GARMENTS"

KappAhl was early to offer eco-labelled garments.

"Our customers could buy them from us as far back as in 1993. Today over 10 million, just over 18 per cent, of our garments have Öko-Tex, EU Flower or Organic Cotton labels", states Eva Kindgren, who is responsible for CSR related questions and quality in KappAhl's production.

All garments in KappAhl's stores meet strict quality requirements.

"We have detailed instructions and directions that the suppliers must follow. This is an area in which we have worked for many years", says Eva Kindgren, who points out that the directions include the requirements covering chemicals, both in the garments themselves and at the manufacturing stage.

The controls guarantee compliance with child safety and other physical requirements.

"No Risk" is a project that KappAhl has run for three years, in which different garments are tested regularly to ensure that they do not contain forbidden substances and that the chemical composition does not exceed established guide values.

In 2008 a pilot project was also carried out in water purification with four suppliers in Bangladesh. The project went well and since 2009 all suppliers using wet processes are obliged to meet the company's requirements. In 2010 KappAhl and about 20 other companies in the textile and leather industry established the Swedish Textile Water Initiative, STWI. The aim is to develop guidelines for sustainable water use in production.

SUBSTANTIAL REDUCTION IN ELECTRICITY CONSUMPTION

The sustainability perspective is included in all parts of KappAhl's operations. One example of this is that all consignments of folded garments are packed in crates of re-cycled plastic. And all our plastic bags are made of recycled plastic, which is seven times more environmentally efficient than using paper bags, thanks to the lower weight and energy consumption.

"We also work constantly to reduce electricity consumption in our operations.

For example we look at each store's potential for making its lighting more efficient, which can result in large savings", notes Ann-Marie Heinonen.

During the year a pilot project was implemented in two stores in Norway, which cut power consumption by half.

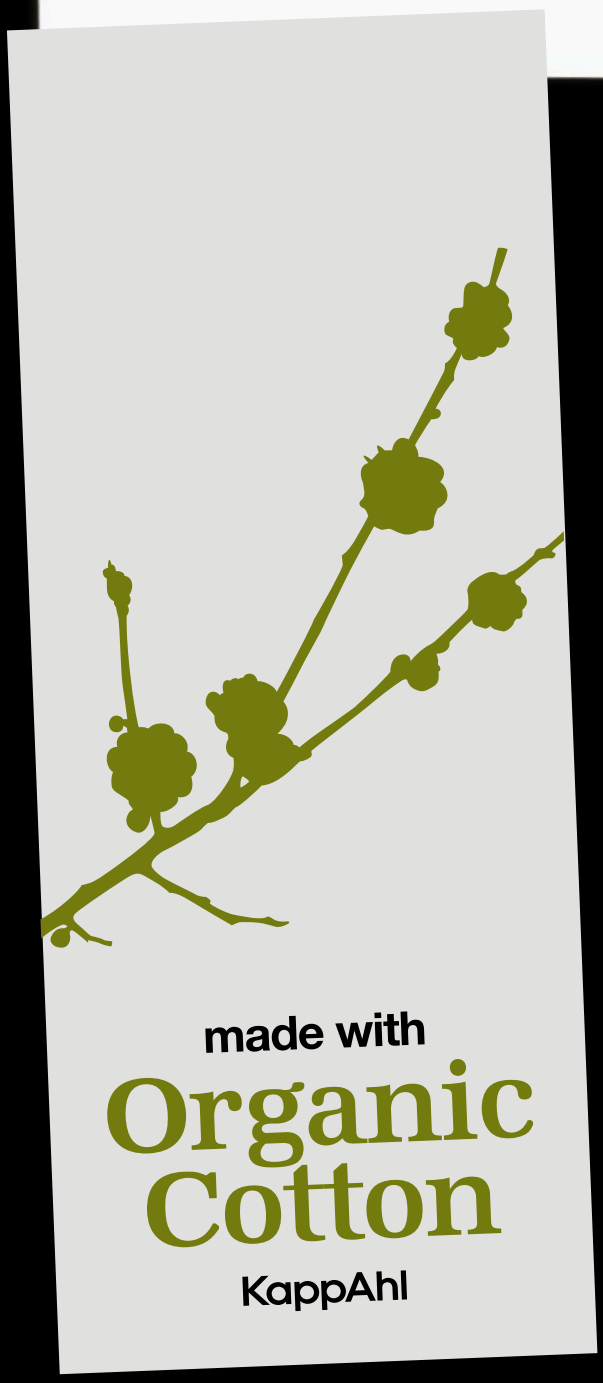
"And we use green electricity. We have done this everywhere possible from as far back as 1999", says Ann-Marie Heinonen.

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
ISO 14001 is an environmental management system standard. KappAhl's certificate covers the entire supply chain from design to store, as well as 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

ECOLOGICAL COTTON AND LINEN
Ecological cotton has been cultivated without the use of dangerous chemicals, chemical pesticides or synthetic fertilizer. Genetically modified crops are not allowed either. KappAhl's ecological cotton is purchased via the certification bodies that guarantee that the cotton purchased is ecological, in other words complies with the directives for ecological cultivation. Examples of these are GOTS, SKAL, IMO and Control Union (CU). KappAhl has been a member of the BCI (Better Cotton Initiative) since 2007. BCI works via training and information to teach farmers to use less water, fewer chemicals and less pesticide in conventional cotton cultivation. The aim is to achieve more environmentally adapted cotton cultivation and improve the social situation of the farmers. The first BCI cotton is expected to be in the stores in 2010. Ecological linen is cultivated without dangerous chemical additives, chemical pesticides or artificial fertilizer.



COOPERATION FOR REDUCED EMISSIONS

In goods transport KappAhl is working consciously to transfer goods to modes of transport that have less environmental impact, such as ships and trains, where possible. The company cooperates with Green Cargo here. Consolidated shipments and effective route planning are also applied.

Logistical problems in the Asian markets in the past year led to a greater need for air freight. This in turn contributed to an increase in carbon dioxide emissions from operations of 104 per cent in the past financial year, according to measurements carried out by an external party, Tricorona. In the three years before that emissions decreased by 41 per cent, as measured by Tricorona. This year's increase, which meant that 6 (4) per cent of shipments were by air, is estimated to be temporary.

In 2008 KappAhl joined the Clean Shipping Index, requiring reduced environmental impact from sea transport. KappAhl also uses the Swedish Transport Administration platform for sports and fashion companies as a basis for procurement of land transport.

In August 2010 a pilot project was started with the property company Steen & Ström to improve conditions for effective operation in stores, for example as regards use of energy, waste management and transportation.

CUSTOMERS GIVEN SUSTAINABILITY TIPS

KappAhl provides information to its customers on simple ways to contribute to sustainable development. for example through the "Wash right" brochure, which gives straightforward environmental tips.

In addition KappAhl has published a report, "Environment and social responsibility" (in Swedish) that describes KappAhl's work in this area. It is also available in pocket-size.

Buyers and management make most business trips at KappAhl, which was first in the industry to purchase carbon offsets for these trips. During the year KappAhl has bought carbon offsets for 889 tonnes of carbon dioxide. This means a provision of about a quarter of a million kronor. KappAhl has compensated for emissions of 2,504 tonnes of carbon dioxide since the start in 2007, which corresponds to an allocation of almost SEK 650,000.

"The money was invested in a UN-certified wind power project for the textile industry in India", says Ann-Marie Heinonen.

COOPERATION THAT INCREASES PRESSURE

KappAhl is positive towards working together with others on sustainability issues, since this gives access to expert help and puts more force behind the measures. Projects KappAhl is involved in include; the Ethical Trading Initiative, the Better Cotton Initiative (BCI), the Swedish Textile Water Initiative, STWI, the Swedish Standards Institute standardisation group SIS/TK 160 on safety in children's clothes and the Nordic Chemicals Group.

"The Better Cotton Initiative is an important project aimed at increasing the supply of sustainable cotton – produced with fewer pesticides, fertilizers and water. At the same time consideration is given to the social living standard of the growers," notes Eva Kindgren.

KappAhl is also one of the main sponsors behind the Sustainable Fashion Academy (SFA), a non-profit organisation aimed at strengthening the sustainability perspective as regards design and production. KappAhl also sponsors a number of selected organisations that do great good in society.

In addition, support projects are sponsored in the places where KappAhl has production offices, such as in Bangladesh where the company, together with our suppliers, has opened a training centre. It is intended for women between the ages of 18 and 40 who are from poor environments and who have no formal education.

APPROVED FOR INVESTMENT

One of many signs that KappAhl is living up to strict sustainability requirements is that after a thorough analysis, the company was approved as an investment for all Swedbank Robur ethical funds.

SOME MILESTONES IN OUR SUSTAINABILITY WORK

1993
- Environmental work intensified
- First collection of "eco clothes"

1997
- First code of conduct
- Environmental review performed
- Öko-Tex labelled garments

1998
- First environmental policy
- Inspections at suppliers

1999
- First fashion chain in the world to be eco certified under ISO 14001
- Green electricity for entire operations in Sweden

2004
- Garments EU-flower labelled
- Member of BSCI

2007
- New ecological cotton initiative
- Code of conduct made more effective
- Carbon offset of business travel by air for the first time.

2008
- Climate analysis of t-shirts and trousers

2009
- Sale of environmental bag, the surplus from which goes to the Swedish Society for Nature Conservation and wind power investments in India.
- All KappAhl's bags in stores are manufactured from recycled plastic.

2010
- Member of Business for Social Responsibility, BSR.
- KappAhl collected 50-öre coins for BRIS (Children's Rights in Society), Childhood and SOS Barnbyar in the "Vacuum Sweden" campaign.
- Collected over SEK 1.4 million for Go Red in Finland, Norway and Sweden.
- KappAhl takes care of surplus clothes and donates them to local charities, in all markets.

"Yes, we won – best workplace!"

In December 2009 KappAhl was nominated by the weekly magazine "Veckans Affärer" as "Sweden's Best Workplace". The nomination criteria are based on an analysis of gender distribution, percentage of female managers, gender equality goals and wage dispersion. A total of five companies receive the award. As the only fashion company, KappAhl qualified for a place in this winning group, with no internal ranking.

Other surveys in Sweden and in the company's other markets also show that KappAhl is a good place to work.

"All managers and employees contribute. We are good at sharing both successes and setbacks. This gives good long-term results," says Kajsa Räftegård, Vice President HR and Information at KappAhl.

360 WORKPLACES IN ELEVEN COUNTRIES

At KappAhl there are many different occupations and almost 4,800 employees, including everyone who lends a hand for short periods in the high season. They work on everything from design to store sales – with the support of an effective IT and logistics system.

"We must also remember that KappAhl is now an international company. We are represented in eleven countries, at 360 workplaces," says Kajsa Räftegård.

Together our employees sell hundreds of thousands of garments every day. To succeed in this, cooperation must be good between the different competencies.

"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. This creates security," says Kajsa Räftegård.

LEARNING IN EVERYDAY WORK

At KappAhl the idea is to learn while carrying out day-to-day work. The company is keen on identifying useful lessons in stores and offices and passing them on to other parts of the business. But additional training is also required. The company has therefore developed an extensive training programme, with courses for different skills requirements.

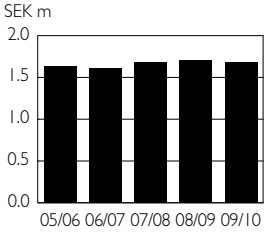
"We have leadership development programmes for our 400 managers at different levels in the company. These include the KappAhl Academy for Area Managers, intended for regional managers," says Kajsa Räftegård.

During the financial year the company's regional managers completed a training programme in collaboration with the MiL Institute in Lund. The programme was held in English and participants had the opportunity of coach meetings between sessions.

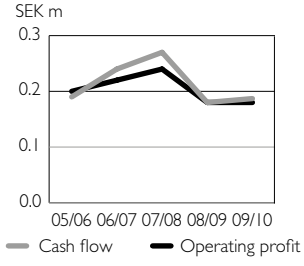
Apart from contributing to skills development at individual level the programme ensures that KappAhl's concept is consistent in all markets.

The company also offers the KappAhl Academy for Store Managers, which targets store managers, and the KappAhl Academy for Store Manager Trainees. Sales staff are

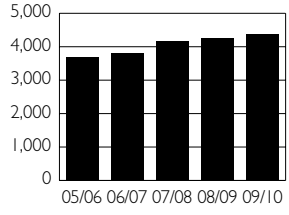
NET SALES PER FULL TIME POSITION



CASH FLOW AND OPERATING PROFIT PER FULL TIME POSITION



TOTAL NUMBER OF EMPLOYEES



also offered professional development opportunities. In 2009/2010, for example, there was a training drive relating to goods display for all the sales staff in Norway.

33,000 HOURS FOR TRAINING

There are several specialist training programmes in the Group. Visual merchandisers and buyer assistants 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.

Individual stores and departments can take their own initiatives. A considerable part of skills and employee development takes place locally. Managers play a key role here. They receive assistance from the Group office in the form of advice, guidelines and specific aids for employee development.

A total of 2 800 people took part in the company's training programmes in 2009/2010. This is more than double the number from the year before. Altogether 33,000 hours were spent on training. This can be compared with 18,000 hours in 2008/2009.

CULTURE A STEP AHEAD

The business culture contains the fundamental values for all professional development. They are based on the willingness to continue development, to find new solutions and thereby be a step ahead of the competition.

"This willingness characterises all we do, from recruitment and training to career and management development. In that way the employees can continue to grow, and the company too," says Kajsa Räftegård.

POSITIVE DEVELOPMENT VIA DIVERSITY

Variation contributes to new ideas and ways of working that are smarter than the old ones.

"That is why we need diversity of ages, gender, language, geographical and religious backgrounds," says Kajsa Räftegård.

Of the employees in Sweden, for example, as many as every third employee has one or both parents born outside Sweden. This is good because it means KappAhl's operations reflect the community and the customers.

"However, we would like to see more men in the company. Currently nine out of ten of our employees are women. Among the sales assistants the percentage is even higher," says Kajsa Räftegård.

Since KappAhl usually recruits internally for store manager jobs, candidates mainly consist of women.

KappAhl therefore tries to achieve a better balance when recruiting externally. Among other things by trying to have both sexes represented among the final candidates, provided the qualification requirements are fulfilled. At every leadership training initiative and at various managerial meetings we draw attention to the gender equality issue so that both KappAhl's current and future leaders can work towards more even gender distribution.

1,000 APPLICATIONS EVERY MONTH

A lot of people want to work at KappAhl. When the company advertises for sales assistants there are hundreds of applications. The situation is the same at the company's distribution centre. Spontaneous applications are received daily via KappAhl's website and the mail. Since measurements started in spring 2010 about 1,000 spontaneous job applications have come in via the website per month. The applicants are from all markets where KappAhl is represented.

KEY RATIOS, EMPLOYEES

	2009/2010
Job satisfaction (where 5 is the top score)	4.2
Total number of employees	4,386
Average number of full-time positions (restated)	3,040
Percentage of women	91.8
Average age	35.7

To facilitate the work of recruitment the selection process has been refined and further systematised. KappAhl uses a test as a complement to other parts of the process.

"We are careful when we recruit, for the sake of both parties. We want to attract employees who are happy, develop and do a good job," says Kajsa Räftegård.

SPREADING KNOWLEDGE TO OTHERS

Cooperation with schools and universities is also very important to KappAhl in identifying new ideas. The main focus is on education and research connected to trade and design.

KappAhl is one of the partner companies at the University of Gothenburg School of Business, Economics and Law, where the Centre for Retailing is based.

"We are also sought after as lecturers and participants at other higher education institutions, such as the Swedish School of Textiles in Borås and at Advanced Vocational Education courses, trade fairs and seminars," says Kajsa Räftegård.

KappAhl's representatives share the company's experiences on anything from the latest fashion trends and sustainable development to Human Resources and modern distribution systems.

KappAhl also takes 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.

WALKED 1,500 KILOMETRES IN NINE WEEKS

KappAhl encourages all employees to lead active lives, leading to good health. Consequently all employees are offered an exercise subsidy. The company also cooperates with fitness centres, where KappAhl's employees can exercise at a reduced price.

The company also rewards independent health initiatives at all levels of the company. It was therefore gratifying to see the pedometer competition initiated at KappAhl Norway in 2008/2009. The competition was a success and was repeated in 2009/2010. This time employees from the entire Group were welcome to take part. The objective was to walk a total of 630,000 steps per person in nine weeks.

This is equivalent to the 1,500 kilometres between KappAhl's distribution centre and the company's new market in the Czech Republic.

The 400 teams from Sweden, Norway, Finland, Poland, the Czech Republic, China, Bangladesh, India, Turkey and Lithuania who participated in the competition proved that this was possible.

KAPPAHL HOLDS A HEALTH DIPLOMA

The work environment is a strategic issue for KappAhl. This is evident in the company's work environment policy. 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. This determined work contributed to KappAhl receiving an environmental diploma at the beginning of 2010.

In 2007/2008 the company started increased cooperation with the occupational health services, focusing on employees in the distribution centre. In connection with this, days of sickness absence showed a marked decrease. Sickness absence in the Group as a whole was 5.6 (5.7) per cent in 2009/2010

EFFORTS BRING GOOD RESULTS AGAIN

KappAhl's method of operation evidently works well. Apart from the growth of the company, our employees are very satisfied.

"This is especially clear from our employee performance reviews and the annual KappAhl Attitude Survey," says Kajsa Räftegård.

The year's results indicate that KappAhl continues to score very highly as a workplace:

4.2 (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 97 (97) per cent of employees respond that they would recommend KappAhl as an employer.

From Mölndal to New Delhi

KappAhl offers great opportunities for people who want to develop in the fashion industry. Sanne Norström, aged 24, knows this. In the course of two years she has moved from being a trainee at KappAhl Woman to a merchandiser assistant in New Delhi, India.

"KappAhl is a major player in the fashion market with many different departments and there are great opportunities for development here," says Sanne Norström.

"Board of Directors proposes increased dividend."

The KappAhl share has been listed on the Nasdaq OMX Stockholm, Mid Cap list since 23 February 2006. The KappAhl share is included in the Nasdaq OMX Stockholm Consumer Discretionary Index. On 31 August 2010 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 2010 the value of the KappAhl share increased by 31.2 per cent. This can be compared with the Nasdaq OMX Stockholm All-Share Index, which rose by 15.2 per cent during the period. The Nasdaq OMX Stockholm Consumer Discretionary Index rose by 20.1 per cent in the same period.

The highest price paid was SEK 77.00 on 22 March 2010 and the lowest price paid was SEK 39.40 on 2 September 2009. At the close of the financial year KappAhl's market value was SEK 3,977 million and the P/E ratio calculated on profit for the year was 9.9.

Between 1 September 2009 and 31 August 2010 a total of 111.9 million KappAhl shares were traded at a value of SEK 6.83 billion, based on the average price. This means that each share was traded 1.49 times over the year, corresponding to an average of 428,717 shares traded per day.

OWNERSHIP STRUCTURE

On 31 August 2010 KappAhl had 15,733 shareholders. The largest shareholder was KappAhl's CEO Christian W. Jansson, who holds 16.28 per cent of the shares via a company, followed by Nordea Investment Funds with a holding of 5.86 per cent and Carlson Fonder AB with a holding of 4.64 per cent. Just over 15.1 per cent of the shareholders own more than 1,000 shares. Shareholdings registered with companies and institutions amounted to 45.4 per cent and shareholdings registered at non-Swedish addresses were 39.9 per cent.

DIVIDEND

The Board of Directors proposes to the 2010 Annual General Meeting a dividend of SEK 3.25 (1.25) per share for the 2009/2010 financial year.

KAPPAHL IS INCLUDED IN A SUSTAINABILITY INDEX

KappAhl has been included on the Nasdaq OMX GES Sustainability Index since 2010. It consists of the 30 highest ranking companies on the Nasdaq OMX Stockholm list as regards responsible investment.

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.

OMXSUSTAIN
NASDAQ OMX
OMX GES SUSTAINABILITY SWEDEN
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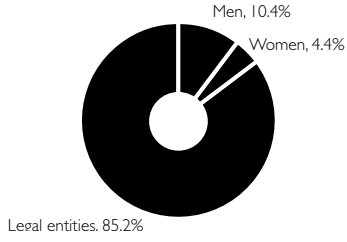
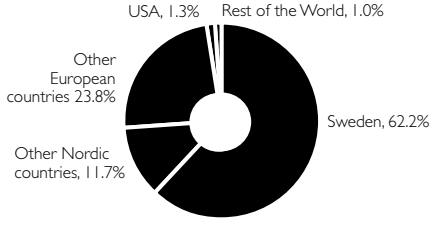
DISTRIBUTION OF OWNERSHIP, SHAREHOLDING

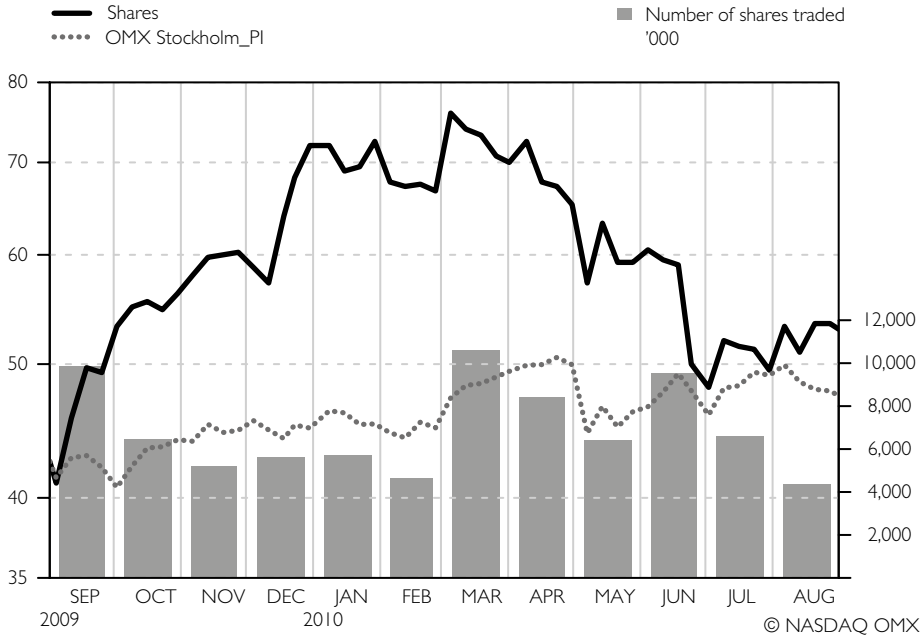


GEOGRAPHICAL DISTRIBUTION, SHAREHOLDING

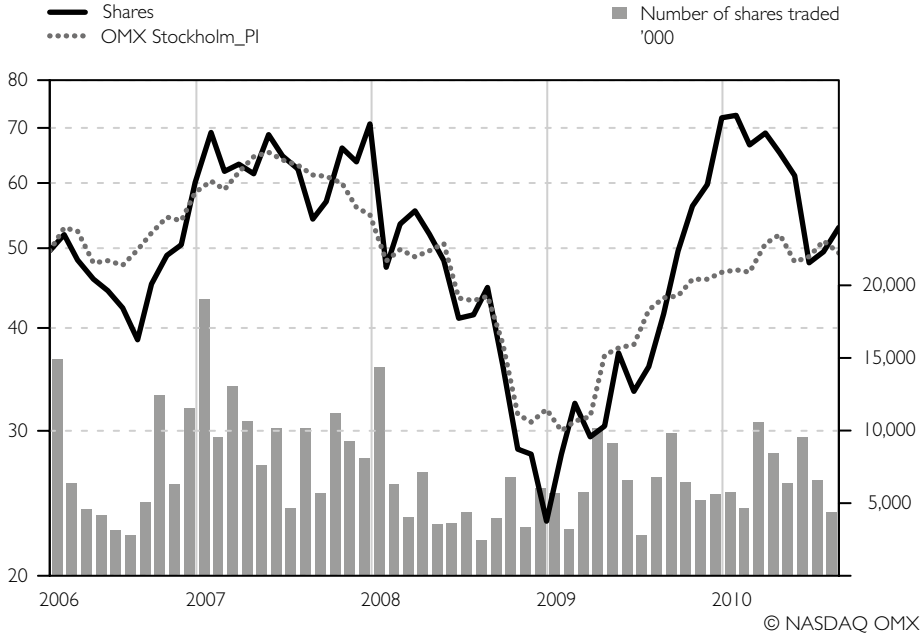


Shareholding (SEK thousand)	Number of shareholders	Number of shares	Share-holding (%)	Votes (%)
1–500	10,572	1,988,935	2.7%	2.7%
501–1,000	2,569	2,273,413	3.0%	3.0%
1,001–5,000	1,968	4,747,755	6.3%	6.3%
5,001–10,000	288	2,260,549	3.0%	3.0%
10,001–15,000	81	1,046,117	1.4%	1.4%
15,001–20,000	53	985,145	1.3%	1.3%
20,001–	242	61,738,086	82.3%	82.3%
Total	**15,773**	**75,040,000**	**100.0%**	**100.0%**

KAPPAHL SHARE PERFORMANCE,
1 SEPTEMBER 2009–31 AUGUST 2010



KAPPAHL SHARE PERFORMANCE,
MARCH 2006–31 AUGUST 2010



KEY RATIOS

	Sept–Aug 2009/2010	Sept–Aug 2008/2009	Sept–Aug 2007/2008	Sept–Aug 2006/2007	Sept–Aug 2005/2006
Sales growth, %	5.0%	5.3%	3.3%	6.1%	6.9%
Operating profit (EBIT)	551	526	651	618	530
Total depreciation/amortisation	234	234	221	200	177
Gross margin, %	61.8%	61.1%	62.4%	61.1%	60.2%
Operating margin, %	10.8%	10.8%	14.1%	13.8%	12.6%
Interest coverage ratio (multiple)	6.20	6.27	8.48	6.61	4.71
Net interest-bearing liabilities	1,866	2,100	1,979	1,387	1,605
Net interest-bearing liabilities/EBITDA (multiple)	2.38	2.76	2.27	1.70	2.27
Equity/assets ratio, %	22.1%	11.3%	16.4%	28.0%	14.3%
Equity per share, SEK	9.90	5.05	7.09	11.86	5.49
Equity per share after dilution, SEK	9.90	5.05	7.09	11.86	5.49
Cash flow from operating activities per share	6.77	6.71	9.73	8.89	6.31
Market price, SEK	53.00	41.60	44.80	64.75	49.70
Market value, SEK m	3,977	3,122	3,362	4,859	3,729
P/E ratio (multiple)		9.9	7.7	7.4	12.4
Dividend yield, %		3.0%	10.0%	17.0%	5.0%
Price/equity, %		824%	633%	546%	905%
Earnings per share, SEK	5.36	4.20	5.81	8.78	4.02
Dividend per share (proposed 2009/2010)	3.25	1.25	4.50	11.0[1]	2.50
Dividend payout ratio of earnings after tax paid, %	76.0%	29.7%	77.5%	125.3%	62.1%
Number of shares at close of period	75,040,000	75,040,000	75,040,000	75,040,000	75,040,000
Number of shares after dilution	75,040,000	75,040,000	75,040,000	75,040,000	75,040,000

[1] Referred to redemption of shares.

CONDENSED CONSOLIDATED INCOME STATEMENT (SEK M)

	Sept–Aug 2009/2010	Sept–Aug 2008/2009	Sept–Aug 2007/2008	Sept–Aug 2006/2007	Sept–Aug 2005/2006
Net sales	5,111	4,866	4,622	4,473	4,217
Cost of goods sold	–1,954	–1,893	–1,740	–1,738	–1,677
Gross profit	**3,157**	**2,973**	**2,882**	**2,735**	**2,540**
Selling expenses	–2,467	–2,315	–2,106	–1,985	–1,863
Administrative expenses	–139	–132	–136	–142	–147
Other operating income	–	–	11	16	–
Other operating expenses	–	–	–	–6	–
Operating profit	**551**	**526**	**651**	**618**	**530**
Financial income	1	1	27	23	2
Financial expenses	–89	–84	–80	–97	–113
Profit/loss after financial items	**463**	**443**	**598**	**544**	**419**
Tax	–61	–127	–162	115	–117
Profit after tax	**402**	**315**	**436**	**659**	**302**

QUARTERLY INCOME STATEMENTS (SEK M)

	Q4 09/10	Q3 09/10	Q2 09/10	Q1 09/10	Q4 08/09	Q3 08/09	Q2 08/09	Q1 08/09	Q4 07/08	Q3 07/08	Q2 07/08	Q1 07/08
Net sales	1,290	1,221	1,256	1,344	1,226	1,206	1,168	1,266	1,103	1,140	1,132	1,247
Cost of goods sold	–521	–432	–531	–470	–473	–478	–490	–452	–420	–413	–457	–450
Gross profit	**769**	**789**	**725**	**874**	**753**	**728**	**678**	**814**	**683**	**727**	**675**	**797**
Selling expenses	–583	–639	–615	–630	–549	–587	–574	–605	–480	–547	–521	–558
Administrative expenses	–30	–38	–34	–37	–28	–32	–39	–33	–32	–35	–36	–33
Other operating income	–	–	–	–	–	–	–	–	11	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–
Operating profit	**156**	**112**	**76**	**207**	**176**	**109**	**65**	**176**	**182**	**145**	**118**	**206**
Financial income	0	0	–	0	0	0	1	0	0	21	3	3
Financial expenses	–24	–24	–23	–18	–23	–23	–19	–19	–26	–18	–18	–18
Profit/loss after financial items	132	88	54	189	153	86	47	157	156	148	103	191
Tax	–7	–23	–20	–11	–47	–24	–13	–44	–43	–36	–29	–53
Profit after tax	**125**	**65**	**34**	**178**	**106**	**62**	**34**	**113**	**113**	**112**	**74**	**138**

	Q4 06/07	Q3 06/07	Q2 06/07	Q1 06/07	Q4 05/06	Q3 05/06	Q2 05/06	Q1 05/06
Net sales	1,090	1,106	1,088	1,189	1,010	1,029	1,026	1,152
Cost of goods sold	–412	–417	–460	–449	–371	–392	–437	–473
Gross profit	**678**	**689**	**628**	**740**	**639**	**637**	**589**	**676**
Selling expenses	–456	–528	–484	–517	–431	–477	–468	–487
Administrative expenses	–33	–32	–40	–37	–35	–40	–33	–39
Other operating income	–	3	13	–	–	–	–	–
Other operating expenses	–6	–	–	–	–	–	–	–
Operating profit	**183**	**132**	**117**	**186**	**173**	**120**	**88**	**150**
Financial income	0	11	10	2	0	0	2	1
Financial expenses	–16	–32	–33	–16	–12	–18	–64	–19
Profit/loss after financial items	**167**	**111**	**94**	**172**	**161**	**102**	**26**	**132**
Tax	–48	–32	244	–49	–45	–29	–7	–36
Profit after tax	**119**	**79**	**338**	**123**	**116**	**73**	**19**	**96**

Administration report

The Board of Directors and the President of KappAhl AB (publ), corporate identity number 556661-2312, with its registered office in Mölndal, hereby submit the annual report and consolidated accounts for the financial year 1 September 2009 to 31 August 2010.

GROUP

The Group operates in retail sales of clothes for women, children and men. In addition to the parent company, KappAhl AB, the Group includes the wholly owned companies KappAhl Sverige AB, KappAhl Fastigheter AB, the sales companies in Norway, Finland, Poland and the Czech Republic and a purchasing company in China. The Group also has production offices in Turkey, Lithuania, Ukraine, Bangladesh and India.

KappAhl Sverige AB and the sales companies in Norway, Finland, Poland and the Czech Republic are responsible for retail sales in their respective countries. A full list of Group companies is given in Note 26.

The company in China and the foreign production 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, such as Group management.

OWNERSHIP STRUCTURE

As at 31 August 2010 the ten largest shareholders of KappAhl AB (publ) were as follows:

	Number of shares	Percentage of shares and votes
Christian W. Jansson via company	12,214,700	16.28
Nordea Investments Funds	4,400,993	5.86
Carlson fonder AB	3,485,216	4.64
Swedbank Robur Fonder	2,772,791	3.70
Skandia fonder	2,571,814	3.43
Didner & Gerge Fonder Aktiebolag	2,570,266	3.43
SVENSKT NÄRINGSLIV (CONFEDERATION OF SWEDISH ENTERPRISE)	2,100,000	2.80
SVENSKA HANDELSBANKEN CLIENTS ACC:3	1,886,274	2.51
Länsförsäkringar fondförvaltning AB	1,715,442	2.29
SKANDINAVISKA ENSKILDA BANKEN	1,290,689	1.72
Other shareholders	40,031,815	53.34
Total	**75,040,000**	**100.00**

PERFORMANCE AND SIGNIFICANT EVENTS OF THE FINANCIAL YEAR

Group performance

Net sales and gross profit

KappAhl's net sales for the financial year (excluding VAT) were SEK 5,111 (4,866) million, an increase of 5.0 per cent compared with the previous financial year. The increase consists of: new and closed stores, 6.3 per cent; development of comparable stores, –0.7 per cent; and currency translation differences, –0.6 per cent. Apart from the currency effects, the overall sales trend is primarily due to new store openings during the year, increasing the number by 26.

Gross profit was SEK 3,157 (2,973) million, which corresponds to a gross margin of 61.8 (61.1) per cent. This shows that the gross margin has remained at a high level.

Operating profit

Selling and administrative expenses amounted to SEK 2,606 (2,447) million, meaning that the 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 Group's operating profit for the financial year is SEK 551 (526) million, an increase of 4.8 per cent. The operating margin is 10.8 (10.8) per cent.

Taxes

Taxes for the year reported in the income statement amount to about 13.2 per cent, while tax paid amounts to about 30.7 per cent. The difference is mainly due to revenue from recognition of acquired loss carry-forwards.

Store network and expansion

During the financial year, 27 new stores were opened: ten in Poland, ten in Sweden, three in Finland, three in Norway and one in the Czech Republic. One store in Sweden was closed in the same period. At the end of the financial year the total number of stores was 345 (319); 153 in Sweden, 95 in Norway, 56 in Finland, 40 in Poland and one in the Czech Republic.

The work of finding new store sites is proceeding according to plan. Apart from the 345 (319) stores in operation on 31 August this year, there are at present contracts for 55 new stores. Of the new contracts, 16 stores will be opened in the first quarter of 2010/2011. The long-term goal – an increase in the number of stores by 20 to 25 per year remains. There will probably be an increase of more than 25 stores in the next business year.

NUMBER OF STORES PER COUNTRY

	31/8/ 2010	31/8/ 2009	31/8/ 2008	31/8/ 2007	31/8/ 2006	31/8/ 2005	31/12/ 2004	31/8/ 2004
Sweden	153	144	138	131	130	125	124	122
Norway	95	92	87	84	81	74	72	72
Finland	56	53	46	42	36	32	30	30
Poland	40	30	20	15	13	11	9	9
Czech Republic	1							
Total	**345**	**319**	**291**	**272**	**260**	**242**	**235**	**233**

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The aim of the Group's currency policy is to reduce 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, including future goods flows, which are hedged 3–-9 months forward 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 21.

FINANCING

In all essentials financing and investing of funds is via KappAhl AB (publ). On 31 August 2010 cash and cash equivalents in the Group were SEK 26 million, compared with SEK 21 million on 31 August 2009. The Group also has assurances of credit totalling SEK 2,650 (2,650) million, of which SEK 1,849 (2,056) million had been utilised on 31 August 2010.

The company's financing is primarily in the form of bank loans and overdraft facilities. Further information is available in Note 21.

PARENT COMPANY PERFORMANCE

The parent company's sales for the period amounted to SEK 18 (20) million and profit after financial items was SEK 166 (323) million. The difference in earnings is explained by lower dividends of SEK 172 million from subsidiaries.

SIGNIFICANT EVENTS

Market

During the year a new sales market was opened in the Czech Republic with the first store in Brno. After the year-end a second store was also opened. Next spring another two stores will be opened. A rate of store openings in the Czech Republic of 4–5 stores per year is regarded as reasonable.

Investments

Group

Net investments for the year amount to SEK 202 (261) million and consist mainly of investments in existing and newly opened stores. In view of the financial crisis a reduced level of investment was decided for the past year. A good reinvestment rate in existing stores is necessary for long-term profitability. To ensure this, investments for the coming year are expected to be about SEK 250–300 million.

Parent company

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

FUTURE EXPECTATIONS

The recession has been replaced by an incipient upswing. Government finances in the countries in which we operate are generally strong, but the Group may possibly be affected by retrenchment in other countries. Future interest rate increases may slow things down. All in all, the company is nevertheless cautiously optimistic about market trends.

The Group's target of opening 20–25 new stores per year remains. The overall assessment is that conditions are good for continuing positive development in Group earnings.

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 21. Risk management is also described in the corporate governance report, page 72, under the heading "Internal control regarding financial reporting".

A brief description is given below of the most important identified areas of risk and uncertainty and how KappAhl works with each area of risk.

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 good store locations and favourable rental terms.

Both Nordic and international competitors can 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 adapt to constantly shifting fashion trends and customer requirements and its 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. These risks are offset by recruiting talented designers and buyers who work constantly to spot and predict trends. Moreover the company has a customer-oriented business model where customer purchase patterns and behaviour are constantly analysed.

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 in an intensive phase with extensive expansion of the store network in all five 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. 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 2010 there were contracts for 55 new stores.

Trademarks

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.

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. The Group's work also includes developing plans and systems for dealing with disruptions and interruptions.

The economy

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.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

There were no events outside ordinary operations.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

Senior executives must be offered a fixed salary that is market related and based on the person's responsibility and conduct. The maximum bonus payable is 50 per cent of the fixed salary and must be primarily based on the Group's operating profit. The full text can be found on the company's website under corporate governance. It is proposed that the current policy also apply for the next financial year.

CORPORATE GOVERNANCE

Information is provided in a separate Corporate Governance report. (See page 69)

PROPOSED APPROPRIATION OF THE COMPANY'S PROFITS

The Board of Directors and President propose that the profits at the disposal of the Annual General Meeting, SEK 890,449,469, be appropriated as follows:

Dividend (75,040,000 x SEK 3.25)	SEK 243,880,000
To be brought forward	SEK 646,569,469
Total	**SEK 890,449,469**

The proposal is within the framework of the current dividend policy of 70–100 per cent of the profit after tax paid.

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

Consolidated income statement

Amounts in SEK m	Note	1/9/2009 31/8/2010	1/9/2008 31/8/2009
Net sales	2, 3, 4	5,110.7	4,866.4
Cost of goods sold		–1,953.8	–1,893.0
Gross profit	7	**3,156.9**	**2,973.4**
Selling expenses	7	–2,466.4	–2,314.8
Administrative expenses	7	–139.3	–132.3
Operating profit	3, 5, 6, 7, 17, 22	**551.2**	**526.3**
Financial income	27	1.1	1.0
Financial expenses	27	–89.1	–84.4
Net financial items	8	**–88.0**	**–83.4**
Profit before tax		**463.2**	**442.9**
Tax	9	–61.2	–127.4
Profit for the year		**402.0**	**315.5**
Other comprehensive income			
Translation differences for the year		–7.7	0.9
Actuarial gains/losses incl social security contributions		30.1	–14.1
Cash flow hedges - unrealised value changes		55.0	–147.6
Tax attributable to items in other comprehensive income		–22.4	42.5
Other comprehensive income for the year		**55.0**	**–118.3**
Total comprehensive income		**457.0**	**197.2**
Earnings per share			
before dilution (SEK)		5.36	4.20
after dilution (SEK)		5.36	4.20

Comments on the consolidated income statement

Net sales
Net sales amounted to SEK 5,111 (4,866) million, an increase of 5.0 per cent.

The increase consists of new and closed stores, 6.3 per cent, development of stores that are comparable between years, –0.7 per cent, and translation differences in foreign currency, mainly NOK and EUR, of –0.6 per cent.

Gross profit
Gross profit is SEK 3,157 million, an increase of SEK 184 million. The gross margin is 61.8 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.

Operating profit
The operating profit is SEK 551 million, an increase of 4.7 per cent. The operating margin is 10.8 per cent, the same as the previous 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.

Profit before tax
Profit before tax is SEK 463 million, which is an improvement compared with last year of SEK 20 million. Net financial items amount to SEK –88 million, which is a deterioration compared with last year of SEK 5 million.

Tax
Taxes for the year reported in the income statement amount to about 13.2 per cent, while tax paid amounts to about 30.7 per cent, The difference is mainly due to revenue from recognition of deferred tax assets related to acquired loss carry-forwards.

Consolidated balance sheet

Amount in SEK m	Note	31/8/2010	31/8/2009
ASSETS	24		
Non-current assets			
Intangible assets	10	1,329.0	1,340.3
Property, plant and equipment	11	1,006.4	1,060.1
Long-term receivables	13	0.2	0.2
Deferred tax assets	9	156.1	87.0
Total non-current assets		**2,491.7**	**2,487.6**
Current assets			
Inventories	14	702.9	735.8
Trade receivables	21	4.2	3.0
Prepaid expenses and accrued income	15	95.8	90.0
Other receivables	13	38.3	16.2
Cash and cash equivalents	21	26.5	20.8
Total current assets		**867.7**	**865.8**
Total assets		**3,359.4**	**3,353.5**
EQUITY AND LIABILITIES			
Equity			
Share capital		10.7	10.7
Other contributed capital		205.1	205.1
Other reserves		–24.4	–57.2
Retained earnings		551.3	220.9
Total equity		**742.7**	**379.5**
Liabilities			
Long-term liabilities			
Long-term interest-bearing liabilities	16, 21	1,835.4	2,055.7
Provisions for pensions and similar obligations	17	42.4	65.1
Deferred tax liabilities	9	18.1	6.5
Total long-term liabilities		**1,895.9**	**2,127.3**
Current liabilities			
Trade payables		217.1	231.4
Current tax liabilities		56.4	66.2
Other liabilities	19	190.5	242.3
Accrued expenses and deferred income	20	243.0	306.8
Bank overdraft facilities	16	13.8	–
Total current liabilities		**720.8**	**846.7**
Total liabilities		**2,616.7**	**2,974.0**
Total equity and liabilities		**3,359.4**	**3,353.5**

For information on the Group's pledged assets and contingent liabilities, please see Note 24.

Comments on the consolidated balance sheet

Non-current assets

Intangible assets

Intangible assets consist mainly of goodwill, SEK 696 million, and trademarks, 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

The net deferred tax asset has increased by SEK 69 million between the years, which is due to acquired loss carry-forwards.

Current assets

Inventories

Inventories are recorded at the lower of cost or net realisable value. Inventories decreased by SEK 33 million between the years. Inventories are well-balanced in terms of composition and size.

Equity

The change in equity is SEK 363 million and, apart from the net income for the year of SEK 402 million, mainly consists of dividends to shareholders during the year totalling SEK –94 million and changes in unrealised value of cash flow hedges totalling SEK +41 million.

Current liabilities

Accrued expenses and deferred income

The balance sheet item decreased by SEK 64 million and mainly consists of staff-related liabilities. The decrease is due to payment of a temporary extra tax credit.

Consolidated statement of changes in equity

	Equity attributable to the parent company's shareholders					
			Other reserves			
Amount in SEK m	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total equity
Opening equity, 1 September 2008	**10.7**	**205.1**	**34.5**	**16.2**	**253.5**	**520.0**
Profit for the year	–	–	–	–	315.5	315.5
Other comprehensive income						
Cash flow hedges – unrealised value changes	–	–	108.8	–	–	–108.8
Translation differences for the year	–	–	–	0.9	–	0.9
Actuarial gains/losses incl social security contribution	–	–	–	–	–10.4	–10.4
Total other comprehensive income	**–**	**–**	**108.8**	**0.9**	**–10.4**	**–118.3**
Transactions with shareholders						
Dividend	–	–	–	–	–337.7	–337.7
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–337.7**	**–337.7**
Closing equity, 31 August 2009	**10.7**	**205.1**	**–74.3**	**17.1**	**220.9**	**379.5**

	Equity attributable to the parent company's shareholders					
			Other reserves			
Amount in SEK m	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total equity
Opening equity, 1 September 2009	**10.7**	**205.1**	**–74.3**	**17.1**	**220.9**	**379.5**
Profit for the year	–	–	–	–	402.0	402.0
Other comprehensive income						
Cash flow hedges – unrealised value changes	–	–	40.5	–	–	40.5
Translation differences for the year	–	–	–	–7.7	–	–7.7
Actuarial gains/losses incl social security contribution	–	–	–	–	22.2	22.2
Total other comprehensive income	**–**	**–**	**40.5**	**–7.7**	**22.2**	**55.0**
Transactions with shareholders						
Dividend	–	–	–	–	–93.8	–93.8
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–93.8**	**–93.8**
Closing equity, 31 August 2010	**10.7**	**205.1**	**–33.8**	**9.4**	**551.3**	**742.7**

Consolidated cash flow statement

Amount in SEK m	Note	1/9/2009 31/8/2010	1/9/2008 31/8/2009
Cash flow from operating activities	27		
Profit before tax		463.2	443.0
Adjustment for non-cash items		248.3	242.8
Income tax paid	9	–142.2	–94.3
Cash flow from operating activities before changes in working capital		**569.3**	**591.5**
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in inventories		32.9	–113.6
Decrease (+)/Increase (–) in operating receivables		–5.5	–1.4
Decrease (–)/Increase (+) in operating liabilities		–89.4	27.3
Cash flow from operating activities		**507.3**	**503.8**
Investing activities			
Acquisition of property, plant and equipment		–171.1	–249.5
Acquisition of subsidiaries, impact on net proceeds	27, 28	–23.6	–
Acquisition of intangible assets		–6.7	–11.9
Cash flow from investing activities		**–201.4**	**–261.4**
Financing activities			
Dividend paid		–93.8	–337.7
Decrease (–)/Increase (+) in bank overdraft facilities		–206.4	83.9
Cash flow from financing activities		**–300.2**	**–253.8**
Cash flow for the year		**5.7**	**–11.4**
Cash and cash equivalents at the start of the year		20.8	32.2
Exchange rate differences in cash and cash equivalents		0.0	0.0
Cash and cash equivalents at the close of the year		**26.5**	**20.8**

Comments on the consolidated cash flow statement

Cash flow from operating activities before changes in working capital
On the line 'Adjustment for non cash items' the largest item refers to depreciation, SEK 234 (233) million.

Cash flow from changes in working capital
The cash flow from the changes in working capital give a net impact on cash flow of SEK –62 million (–88), which is mainly explained by the payment of a temporary tax credit.

Cash flow from investing activities
Cash flow from investing activities has resulted in payments totalling SEK 202 (261) million. Investments for the year refer mainly to new stores and existing store conversions.

Cash flow from financing activities
Cash flow from financing activities is SEK –300 (–254) million. This includes share dividend of SEK –94 (–338) million. The remaining change corresponds to decreased borrowing totalling SEK 206 (–84) million.

Parent company income statement

Amount in SEK m	Note	1/9/2009 31/8/2010	1/9/2008 31/8/2009
Net sales		18.1	19.6
Cost of goods sold		–	–
Gross profit		**18.1**	**19.6**
Other operating expenses		–27.1	–29.5
Operating profit	5, 6	**–9.0**	**–9.9**
Profit from financial items	8		
Profit from participations in subsidiaries	27	253.9	426.1
Other interest income and similar profit/loss items		–	4.9
Interest expense and similar profit/loss items	27	–78.7	–98.1
Profit/loss after financial items		**166.2**	**323.0**
Appropriations		–	–8.0
Profit before tax		**166.2**	**315.0**
Tax	9	23.0	31.1
Profit for the year		**189.2**	**346.1**
Other comprehensive income			
Cash flow hedges – unrealised value change		2.2	–90.3
Tax attributable to items in other comprehensive income		–0.6	23.8
Other comprehensive income for the year		**1.6**	**–66.5**
Total comprehensive income		**190.8**	**279.6**

Parent company balance sheet

Amount in SEK m	Note	31/8/2010	31/8/2009
ASSETS			
Non-current assets			
Financial assets			
Participations in Group companies	26	3,143.8	3,143.8
Deferred tax assets	9	16.7	17.4
Total financial assets		**3,160.5**	**3,161.2**
Total non-current assets		**3,160.5**	**3,161.2**
Current assets			
Current receivables			
Receivables from Group companies	12	112.0	429.6
Prepaid expenses and accrued income	15	3.9	8.4
Total current receivables		**115.9**	**438.0**
Total current assets		**115.9**	**438.0**
Total assets		**3,276.4**	**3,599.2**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (75 040 000 shares at SEK 0.14)		10.7	10.7
Statutory reserve		205.1	205.1
Total restricted equity		**215.8**	**215.8**
Non-restricted equity			
Retained earnings		701.2	382.7
Profit for the year		189.2	346.1
Total non-restricted equity		**890.4**	**728.8**
Total equity		**1,106.2**	**944.6**
Untaxed reserves		**8.0**	**8.0**
Long-term liabilities			
Liabilities to credit institutions	16	2,083.1	2,559.4
Total long-term liabilities		**2,083.1**	**2,559.4**
Current liabilities			
Current tax liability		7.1	7.2
Other liabilities	19	65.6	68.2
Accrued expenses and deferred income	20	6.4	11.8
Total current liabilities		**79.1**	**87.2**
Total equity and liabilities		**3,276.4**	**3,599.2**

Pledged assets and contingent liabilities for the parent company

SEK m	Note	31/8/2010	31/8/2009
Pledged assets	24	None	None
Contingent liabilities	24	None	None

Parent company statement of changes in equity

SEK m	Restricted equity		Non-restricted equity		
	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total equity
Opening equity, 1 September 2008	**10.7**	**205.1**	**17.9**	**668.2**	**901.9**
Profit for the year	–	–	–	346.1	346.1
Other comprehensive income					
Cash flow hedges – unrealised value changes	–	–	–66.5	–	–66.5
Total other comprehensive income	**–**	**–**	**–66.5**	**–**	**–66.5**
Transactions with shareholders					
Dividend	–	–	–	–337.7	–337.7
Group contributions				140.0	140.0
Tax on group contributions	–	–	–	–39.2	–39.2
Total transactions with shareholders	**–**	**–**	**–**	**–236.9**	**–236.9**
Closing equity, 31 August 2009	**10.7**	**205.1**	**–48.6**	**777.4**	**944.6**

SEK m	Restricted equity		Non-restricted equity		
	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total equity
Opening equity, 1 September 2009	**10.7**	**205.1**	**–48.6**	**777.4**	**944.6**
Profit for the year	–	–	–	189.2	189.2
Other comprehensive income					
Cash flow hedges – unrealised value changes	–	–	1.6	–	1.6
Total other comprehensive income	**–**	**–**	**1.6**	**–**	**1.6**
Transactions with shareholders					
Dividend	–	–	–	–93.8	–93.8
Group contributions	–	–	–	87.6	87.6
Tax on group contributions	–	–	–	–23.0	–23.0
Total transactions with shareholders	**–**	**–**	**–**	**–29.2**	**–29.2**
Closing equity, 31 August 2010	**10.7**	**205.1**	**–46.9**	**937.3**	**1 106.2**

HISTORY OF NUMBER OF SHARES AND SHARE CAPITAL

	Number of shares	Carrying amount
1 January 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	–
Split 2:1 February 2008	75,040,000	–
Redemption 1:2 February 2008	–75,040,000	–
Closing amount, 31 August 2010	**75,040,000**	**10,720,000**

Parent company cash flow statement

Amount in SEK m	Note	1/9/2009 31/8/2010	1/9/2008 31/8/2009
Operating activities	27		
Profit/loss before tax		166.2	323.0
Adjustment for non-cash items		1.6	–0.3
Cash flow from operating activities before changes in working capital		**167.8**	**322.7**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		410.0	–36.0
Increase (+)/Decrease (–) in operating liabilities		–7.7	6.0
Cash flow from operating activities		**570.1**	**292.7**
Investing activities			
Cash flow from investing activities		**–**	**–**
Financing activities			
Dividend paid		–93.8	–337.7
Loans raised		–	45.0
Decrease (–)/Increase (+) in bank overdraft facilities		–476.3	–
Cash flow from financing activities		**–570.1**	**–292.7**
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 1.3 "Supplementary accounting rules for groups" has also been taken into account.

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 Obligations 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 2.3 "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 one decimal place 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, such as interest swaps, currency forwards and currency swaps.

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 change impacts 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 29.

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.

- IAS 1 Presentation of financial statements. Amendment concerning presentation of revenues and expenditure previously recognised directly in equity. Application as of the 2009/2010 financial year. The amendment mainly entails changes in formats.
- IFRS 7 Financial instruments: Disclosures (amendment)
  According to the amendment, enhanced disclosures must be made about fair value measurement and liquidity risk. Application as of the 2009/2010 financial year.

- IFRS 8 Operating segments. The Standard is applied as of the 2009/2010 financial year. As far as KappAhl is concerned, application has meant that the Group's reportable segments have been changed where, after aggregation of identified operating segments under IFRS 8, paragraph 12, the Group as a whole constitutes an operating segment. The assessment is based on the assumption that the Group's management team constitutes the "chief operating decision-maker" and that there is only one business activity in the form of selling fashion and that the management group is functionally organised.
- IFRS 3 Business combinations and IAS 27 Consolidated and separate financial statements (reworked)
  The amendment means that the rules for how business combinations are to be treated will be changed. Transaction costs must be recognised in the income statement as they arise; they may not be capitalised as part of the acquisition. It is also possible to measure and report the minority interest at fair value, a method that entails recognition of "full goodwill". Changes in the value of supplementary purchase considerations must henceforth be recognised in the income statement, it is no longer possible to make any adjustment in relation to goodwill. This will impact accounting to the extent KappAhl acquires companies. Application of the revised IFRS 3 as of the 2009/2010 financial year.

In other respects the Group's accounting policies are unchanged.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS PUBLISHED BUT NOT YET EFFECTIVE

KappAhl has estimated that there are no new standards, interpretations or amendments that will have any material impact on KappAhl's accounting.

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 AB (publ) 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.

The consolidated cost of acquisition (transferred consideration) is not included in transaction costs, which are recognised directly in the income statement.

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

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 environments in which the companies of the Group operate. The companies of the Group are the parent company and subsidiaries. The parent company's functional currency and 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 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 short-term liabilities.

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 below.

The classification depends on the intention of the acquirer of the financial instrument. KappAhl has the following categories:

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

Trade payables
Trade payables are classified as other financial liabilities. The expected life of trade payables 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 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 21.

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 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 the interest swap 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.

Borrowing costs
As of 1 September 2009 IAS 23 (revised) will be applied, which means that borrowing costs for acquisition of qualifying non-current assets will be 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 KappAhl are recorded at cost of acquisition minus accumulated depreciation and impairment.

Trademarks
Trademarks acquired by KappAhl are recorded at cost of acquisition minus accumulated impairment. The KappAhl brand has existed for over 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 and trademarks 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.

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 was 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 in 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. As of 2009/2010 a discount rate based on the corporate bond market is used for KappAhl Sverige AB and a discount rate based on the government borrowing rate is used for KappAhl AS. A qualified actuary performs the calculation using the projected unit credit method.

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 when calculating the Group's obligations to different plans, these are recognised in their entirety in 'Other comprehensive income'. 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.

Closure of stores

Provisions are made for restructuring measures, which mainly consist of expenses in connection with the closure of stores.

Sale-or-return

Provisions are made for returned goods or complaints in connection with sale-or-return. The provision is based on sales statistics and an assessment of future complaints and returns, and is made in the same period as the sale.

SEGMENT REPORTING

IFRS 8 (Operating Segments) and the amendments to IAS 1 (Presentation of Financial Statements), which came into force for financial years commencing after 1 January 2009, will be applied as of the 2009/2010 financial year. As far as KappAhl is concerned, application of IFRS 8 has meant that the Group's reportable segments have been changed where, after aggregation of identified operating segments under IFRS 8, paragraph 12, the Group as a whole constitutes an operating segment.

The assessment is based on the assumption that the Group's management team constitutes the "chief operating decision-maker". The company's business activities consist entirely of selling fashion in by and large similar geographical markets. The operations have a group wide integrated purchasing and logistics function. The financial reporting is based on a group-wide functional organisation and management structure.

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. Adjustment of tax referring to earlier periods is also included here.

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 2.3 "Accounting for Legal Entities". According to RFR 2.3, 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 certain financial instruments to be recognised at their fair value, instead of applying IAS 39. In the case of the parent company this refers to interest swaps.

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
KappAhl 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.

NOTE 3 GEOGRAPHICAL REPORT

Geographical areas
The note is divided into two geographical areas: Nordic countries and Other countries, as well as Groupwide functions. The Nordic countries are Sweden, Norway and Finland. "Other countries" refers to Poland and the Czech Republic. The same type of activities are conducted in the other geographical areas, i.e. selling value-for-money fashion with wide appeal.

	Nordic countries		Other countries		Groupwide items		Eliminations		Group	
Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Sales	**4,773.2**	**4,592.8**	**337.5**	**273.6**	**–**	**–**	**–**	**–**	**5,110.7**	**4,866.4**
Operating profit per area	**755.4**	**688.8**	**–32.1**	**0.2**	**–172.1**	**–162.6**	**–**	**–**	**551.2**	**526.4**
Assets	1,690.8	1,793.9	206.7	166.7	–	–	–	–	1,897.5	1,960.6
Unallocated assets		–	–	–	–	–	1,461.9	1,392.8	1,461.9	1,392.8
Total assets	**1,690.8**	**1,793.9**	**206.7**	**166.7**	**–**	**–**	**1461.9**	**1,392.8**	**3,359.4**	**3,353.4**
Liabilities	720.9	888.9	28.5	22.9	–	–	–	–	749.4	911.8
Unallocated liabilities	–	–	–	–	–	–	1,867.3	2,062.2	1,867.3	2,062.2
Total liabilities	**720.9**	**888.9**	**28.5**	**22.9**	**–**	**–**	**1,867.3**	**2,062.2**	**2,616.7**	**2,974.0**
Investments	132.3	193.3	45.5	68.1	–	–	–	–	177.8	261.4
Unallocated investments	–	–	–	–	–	–	–	–1.0	–	–1.0
Total investments	**132.3**	**193.3**	**45.5**	**68.1**	**–**	**–**	**–**	**–1.0**	**177.8**	**260.4**

NOTE 4 NET SALES

Net sales by geographical market

GroupSEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Sweden	2,695.6	2,571.6
Norway	1,419.5	1,356.9
Finland	658.1	664.3
Poland	330.9	273.6
Czech Republic	6.6	–
Total	**5,110.7**	**4,866.4**

NOTE 5 EMPLOYEES AND STAFF COSTS

Average number of employees

	01/9/2009 31/8/2010	Of whom men	01/9/2008 31/8/2009	Of whom men
Parent Company				
Sweden	8	37.5 %	8	37.5 %
Total parent company	**8**	**37.5 %**	**8**	**37.5 %**
Subsidiaries				
Sweden	1,585	13.4 %	1,565	12.4 %
Norway	634	3.1 %	603	4.7 %
Finland	352	2.3 %	337	2.3 %
Poland	290	9.0 %	229	6.8 %
Czech Republic.	13	15.4 %	–	–
Asia	158	43.0 %	145	45.1 %
Total, subsidiaries	**3,032**	**11.1 %**	**2,879**	**10.6 %**
Group total	**3,040**	**11.2 %**	**2,887**	**10.7 %**

Gender breakdown of company management

	31/8/2010 Percentage of women	31/8/2009 Percentage of women
Parent Company		
Board of Directors	66.7 %	66.7 %
Other senior executives	62.5 %	62.5 %
Group total		
Board of Directors	66.7 %	66.7 %
Other senior executives	62.5 %	62.5 %

Note 5 cont.

Salaries, other remuneration and social security costs

	01/9/2009–31/8/2010		01/9/2008–31/8/2009	
SEK m	Salaries and remuneration	Social security costs	Salaries and remuneration	Social security costs
Parent Company	**15.8**	**8.8**	**15.7**	**8.7**
(of which pension costs)		1.9		2.0*
Subsidiaries	**867.6**	**210.4**	**813.5**	**244.8**
(of which pension costs)		44.2		46.4
Group total	**883.4**	**219.2**	**829.2**	**253.5**
(of which pension costs)		46.1		48.4*

* The Group's pension costs include SEK 1.5 (1.3) 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 Management Team, please see below.

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

	01/9/2009–31/8/2010		01/9/2008–31/8/2009	
SEK m	Board and CEO	Other employees	Board and CEO	Other employees
Parent company				
Sweden	6.0	9.8	5.7	10.0
(of which bonus etc.)	–	–	–	–
Parent company total	**6.0**	**9.8**	**5.7**	**10.0**
(of which bonus etc.)	–	–	–	–
Subsidiaries in Sweden	0.4	487.1	0.1	460.3
(of which bonus etc.)	–	2.9	–	1.1
Foreign subsidiaries				
Norway	2.5	235.7	1.9	217.5
(of which bonus etc.)	–	–	–	–
Finland	1.8	87.6	1.9	89.5
(of which bonus etc.)	–	–	–	–
Poland	0.8	27.5	0.7	22.6
(of which bonus etc.)	–	–	–	–
Czech Republic	0.5	0.6	–	–
(of which bonus etc.)	–	–	–	–
Asia	1.9	21.2	2.0	17.0
(of which bonus etc.)	–	–	–	–
Subsidiaries total	**7.9**	**859.7**	**6.6**	**806.9**
(of which bonus etc.)	–	2.9	–	1.1
Group total	**13.9**	**869.5**	**12.3**	**816.9**
(of which bonus etc.)	–	2.9	–	1.1

Of the salaries and remuneration paid to other employees in the Group, SEK 10 (10) 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, senior executives have contracts that guarantee them the right to retain full salary 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.

Sickness absence at KappAhl AB (publ)
The parent company, KappAhl AB, had an average of 8 employees during the period. There was no sickness absence from the company during the financial year. The parent company had 8 employees in the previous financial year.

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

Note 5 cont.

Benefits for senior executives
Remuneration and other benefits during the year

	1/9/2009–31/8/2010				1/9/2008–31/8/2009			
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	0.5	–	0.1	0.6	0.4	–	–	0.4
Board member Jan Samuelson	0.3	–	–	0.3	0.3	–	–	0.3
Board member Pernilla Ström	0.3	–	–	0.3	0.3	–	–	0.3
Other (5 board members)	0.1	–	–	0.1	0.1	–	–	0.1
CEO	4.1	–	1.4	5.5	3.9	–	1.3	5.2
Management Team (7 people)	9.8	–	2.3	12.1	10.0	–	2.2	12.2
Total	**15.8**	**–**	**3.8**	**19.6**	**15.7**	**–**	**3.5**	**19.2**

NOTE 6 FEES AND REMUNERATION TO AUDITORS

	Group		Parent company	
SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009
PricewaterhouseCoopers AB				
Audit assignments	1.3	1.8	0.4	0.3
Tax consultancy	0.9	0.8	–	0.1
Other services	0.5	0.6	–	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. By tax consultancy is meant advisory services related to taxes, VAT and employee withholding taxes. Everything else is "Other assignments".

NOTE 7 OPERATING EXPENSES

Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Raw materials and supplies	1,922.7	1,874.3
Personnel costs	1,120.4	1,075.5
Depreciation	234.0	233.7
Other operating expenses	1,282.4	1,156.6
Total	**4,559.5**	**4,340.1**

NOTE 8 NET FINANCIAL ITEMS

Group

SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Interest income	1.1	1.0
Financial income	**1.1**	**1.0**
Interest expense	–89.1	–84.4
Financial expenses	**–89.1**	**–84.4**
Net financial items	**–88.0**	**–83.4**

Parent company

SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Dividend from subsidiaries	253.9	426.1
Profit from participations in subsidiaries	**253.9**	**426.1**
Interest income	–	4.9
Interest income	**–**	**4.9**
Interest expense	–78.7	–98.1
Interest expense and similar profit/loss items	**–78.7**	**–98.1**
Net financial items	**175.2**	**332.9**

NOTE 9 TAXES

Reported in the income statement

Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Current tax expense (–)		
Tax expense for the period	–111.6	–103.4
Adjustment of tax relating to previous years	–6.9	1.4
Deferred tax expense (–) /tax credit (+)		
Change in deferred tax due to changed tax rate	–	–3.7
Deferred tax relating to temporary differences	–25.1	–21.2
Deferred tax in change in loss carry-forwards	82.4	–0.5
Total reported tax in the Group	**–61.2**	**–127.4**
Tax reported in other comprehensive income		
Cash flow hedges – unrealised value change	–14.5	38.8
Actuarial gains/losses incl social security contributions	–7.9	3.7
Total tax reported in other comprehensive income	**–22.4**	**42.5**

Parent company SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Current tax credit (+)		
Tax credit for the period	23.0	32.0
Deferred tax expense (–) /tax credit (+)		
Deferred tax due to capitalised tax value in loss carry-forwards during the year	–	–0.9
Total reported tax in the parent company	**23.0**	**31.1**

Reconciliation of effective tax

Group SEK m	01/9/2009 31/8/2010 (%)	01/9/2009 31/8/2010	01/9/2008 31/8/2009 (%)	01/9/2008 31/8/2009
Profit before tax		463.2		442.9
Tax at effective tax rate for parent company	–26.3	–121.8	–28.0	–124.0
Effect of other tax rates for foreign subsidiaries	–1.6	–7.3	–0.8	–3.7
Non-deductible expenses	–1.5	–7.1	–1.2	–5.5
Non-taxable income	–	–	2.0	9.0
Recognition of acquired loss carry-forwards	18.3	84.9	–	–
Losses for which no loss carry-forwards have been recognized	–0.6	–3.0	–	–
Adjustment of current tax for previous periods	–1.5	–6.9	–	–
Effect of changed tax rate in Sweden	–	–	–0.8	–3.7
Other	–	–	0.1	0.5
Reported effective tax	**–13.2**	**–61.2**	**–28.7**	**–127.4**

Parent company SEK m	01/9/2009 31/8/2010 (%)	01/9/2009 31/8/2010	01/9/2008 31/8/2009 (%)	01/9/2008 31/8/2009
Profit before tax		166.2		315.0
Tax at effective tax rate for parent company	–26.3	–43.7	–28.0	–88.2
Share dividend, non-taxable	40.1	66.7	37.9	119.3
Effective tax	**13.8**	**23.0**	**9.9**	**31.1**

Note 9 cont.

Reported in the balance sheet
Deferred tax assets and liabilities

Group	Netto	
SEK m	31/8/2010	31/8/2009
Accelerated depreciation on property, plant and equipment	–21.4	–24.9
Untaxed reserves	–96.2	–80.7
Trademarks	–160.2	–158.6
Provisions	–9.6	–9.8
Other taxable temporary differences	–18.0	–6.3
Deferred tax liability	**305.4**	**–280.3**
Market value of derivatives	16.7	17.4
Provisions	–	2.7
Carry-forward of unused tax losses	364.3	278.0
Other tax-deductible temporary differences	62.4	62.8
Deferred tax assets	**443.4**	**360.9**

The major part of the tax loss carry-forwards of SEK 364 million reported in the balance sheet in 2006/2007 arose in connection with the acquisition of two companies with tax losses. Consequently tax losses totalling SEK 287 million are blocked for group contributions and cannot be utilised until the 2012/2013 financial year. The tax loss carry-forwards will be possible to apply fully against estimated future tax surpluses generated, which justifies the valuation of loss carry-forwards in the balance sheet.

Parent company	Deferred tax assets		Deferred tax liabilities		Net	
SEK m	31/8/2010	31/8/2009	31/8/2010	31/8/2009	31/8/2010	31/8/2009
Derivatives for hedge accounting	16.7	17.4	–	–	16.7	17.4
Deferred tax asset/deferred tax liability	**16.7**	**17.4**	**–**	**–**	**16.7**	**17.4**
Offset	–	–	–	–	–	–
Tax assets/liabilities, net	**16.7**	**17.4**	**–**	**–**	**16.7**	**17.4**

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

NOTE 10 INTANGIBLE ASSETS

Group SEK m	Programvara	Varumärke	Hyresrätter	Goodwill	Totalt
Cost of acquisition					
Opening balance, 1 September 2008	111.9	610.1	46.2	695.8	1,464.0
Other investments	9.0	0.3	2.6	–	11.9
Disposals	–3.2	–	–	–	–3.2
Closing balance, 31 August 2009	**117.7**	**610.4**	**48.8**	**695.8**	**1,472.7**
Opening balance, 1 September 2009	117.7	610.4	48.8	695.8	1,472.7
Other investments	0.6	0.2	-	–	0.4
Disposals	–6.4	–0.4	–	–	–6.7
Closing balance, 31 August 2010	**111.7**	**610.2**	**48.8**	**695.8**	**1,466.4**
Depreciation and impairment losses					
Opening balance, 1 September 2008	–89.4	–	–30.9	–	–120.3
Amortisation for the year	–10.3	–	–5.0	–	–15.3
Disposals	3.2	–	–	–	3.2
Closing balance, 31 August 2009	**–96.5**	**–**	**–35.9**	**–**	**–132.4**
Opening balance, 1 September 2009	–96.5	–	–35.9	–	–132.4
Amortisation for the year	–6.8	–	–4.9	–	–11.5
Disposals	6.5	–	–	–	6.4
Closing balance, 31 August 2010	**–96.7**	**–**	**–40.8**	**–**	**–137.5**
Carrying amounts					
As at 31 August 2009	**21.2**	**610.4**	**12.9**	**695.8**	**1,340.3**
As at 31 August 2010	**15.0**	**610.2**	**8.0**	**695.8**	**1,329.0**

Depreciation

Depreciation/amortisation is included in the following lines of the income statement

	Group		Parent company	
SEK m	2010	2009	2010	2009
Cost of goods sold	–1.3	–1.5	–	–
Administrative expenses	–10.2	–13.8	–	–
Total	**–11.5**	**–15.3**	**–**	**–**

Impairment testing for cash-generating units with goodwill and trademarks

Impairment testing has been carried out for the Group, which is considered to be the cash generating unit.

The Group's carrying amounts for goodwill and trademarks are considerable – see above – 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 were 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 were discounted to their present value using a discount rate of 5.6 per cent after tax. Material assumptions in the impairment testing are described in the list below.

Note 10 cont.

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. The fact that the company is opening new stores is included as a natural part of the company's goodwill and brand value. 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 trademarks 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.

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 2008	462.0	1,787.3	2,249.3
Year's acquisitions	–	249.5	249.5
Acquisition	–	–	–
Disposals	–	–66.8	–66.8
Translation differences	–	–2.7	–2.7
Closing balance, 31 August 2009	**462.0**	**1,967.3**	**2,429.3**
Opening balance, 1 September 2009	462.0	1,967.3	2,429.3
Year's acquisitions	4.0	173.3	177.3
Disposals	–	–47.2	–47.2
Translation differences	–	–28.7	–28.7
Closing balance, 31 August 2010	**466.0**	**2,064.7**	**2,530.7**
Depreciation and impairment losses			
Opening balance, 1 September 2009	–1.9	–1,215.6	–1,217.5
Depreciation for the year	–7.4	–210.7	–218.1
Disposals	–	66.1	66.1
Translation differences	–	0.3	0.3
Closing balance, 31 August 2009	**–9.3**	**–1,359.9**	**–1,369.2**
Opening balance, 1 September 2009	–9.3	–1,359.9	–1,369.2
Depreciation for the year	–8.2	–214.3	–222.5
Disposals	–	46.8	46.8
Translation differences	–	20.6	20.6
Closing balance, 31 August 2010	**–17.5**	**–1,506.8**	**–1,524.3**
Carrying amounts			
As at 31 August 2009	**452.7**	**607.4**	**1,060.1**
As at 31 August 2010	**448.5**	**557.9**	**1,006.4**

Carrying amounts	31/8/2010	31/8/2009
Buildings	359.0	363.2
Land	89.5	89.5
Total	**448.5**	**452.7**

Tax assessment values

Kusken 5 Assessed value of land: SEK 4 million Assessed value of building: 0
Tax assessment value: SEK 4 million
Hästägaren 3 Assessed value of land: SEK 24 million Assessed value of building: SEK 131 million
Tax assessment value: SEK 155 million

Depreciation

Depreciation/amortisation is included in the following lines of the income statement

	Group		Parent company	
SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Cost of goods sold	–11.6	–16.0	–	–
Administrative expenses	–7.9	–2.4	–	–
Selling expenses	–203.0	–199.7	–	–
Total	**–222.5**	**–218.1**	**–**	**–**

NOTE 12 RECEIVABLES FROM GROUP COMPANIES

Parent company	Receivables from Group companies	
SEK m	31/8/2010	31/8/2009
Accumulated cost of acquisition		
At beginning of year	429.6	258.9
Group contributions	87.6	140.0
Dividend received	253.9	426.1
Settlement of balance	–659.1	–395.4
Closing balance	**112.0**	**429.6**

NOTE 13 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

Group

SEK m	31/8/2010	31/8/2009
Long-term receivables that are non-current assets		
Other receivables	0.2	0.2
Total	**0.2**	**0.2**
Other receivables that are current assets		
Currency derivatives	26.2	3.4
Other	12.1	12.8
Total	**38.3**	**16.2**

NOTE 14 INVENTORIES

Group

SEK m	31/8/2010	31/8/2009
Finished goods and goods for resale	702.9	735.8
Total	**702.9**	**735.8**

Inventories are reported according to the principles in Note 1.

NOTE 15 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent company	
SEK m	31/8/2010	31/8/2009	31/8/2010	31/8/2009
Prepaid rental costs	59.2	55.6	–	–
Prepaid banking costs	0.1	0.1	–	–
Other	36.5	34.3	3.9	8.4
Total	**95.8**	**90.0**	**3.9**	**8.4**

NOTE 16 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 21.

Group

SEK m	31/8/2010	31/8/2009
Long-term liabilities		
Provisions	42.4	65.1
Bank loans	1,500.0	1,500.0
Bank overdraft facilities	335.4	555.7
Total	**1,877.8**	**2,120.8**
Current liabilities		
Bank overdraft facilities	13.8	–
Total	**13.8**	**–**
Total	**1,891.6**	**2,120.8**

Parent company

SEK m	31/8/2010	31/8/2009
Long-term liabilities		
Bank loans	1,500.0	1,500.0
Bank overdraft facilities	583.1	1,059.4
Total	**2,083.1**	**2,559.4**
Current liabilities		
Bank overdraft facilities	–	–
Total	**–**	**–**
Total	**2,083.1**	**2,559.4**

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

TERMS AND CONDITIONS AND REPAYMENT PERIODS

Regarding repayment periods, please refer to Note 21 and pledged assets/terms and conditions, Note 24.

NOTE 17 EMPLOYEE BENEFITS

Pensions and other post-employment benefits
Defined benefit plans

Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Present value of fully or partially funded obligations	179.8	191.1
Fair value of plan assets	–137.4	–126.0
Net of fully or partially funded obligations	42.4	65.1
Present value of net obligation	42.4	65.1
Net obligation for defined benefit plans	**42.4**	**65.1**

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

Provisions for pensions	42.4	65.1

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.

A change in accounting policy under IAS 1 'Presentation of Financial Statements' has meant that actuarial gains and losses are reported in their entirety in other comprehensive income. These were previously recognised in their entirety directly in equity.

Obligations for old-age pension and family pension for officers in Sweden are safeguarded through insurance with Alecta. According to a statement by the Swedish Financial Reporting Board, UFR 3, this is a defined benefit plan covering several employers. For the 2009/2010 financial year the Group has not had access to information that makes it possible to report this plan as a defined benefit plan. The pension plan under ITP which is safeguarded through insurance with Alecta is consequently reported as a defined contribution plan. Alecta's surplus can be distributed to the policy-holders and/or the insured. As at 30 June 2010 Alecta's surplus in the form of the collective consolidation level was 134 per cent.

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

Group

SEK m	31/8/2010	31/8/2009
Net obligation for defined benefit plans as at 1 September	65.1	54.9
Benefits paid out	–5.0	–5.1
Contributions received	–3.1	–2.8
Revenue (– sign)/cost reported in the income statement	2.3	4.1
Actuarial gains/losses	–17.8	14.1
Other	1.1	–
Translation differences	–0.2	–0.1
Net obligation for defined benefit plans as at 31 August	**42.4**	**65.1**

Cost reported in the income statement for defined benefit plans

Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Costs relating to service in current period	1.0	1.9
Interest expense relating to obligation	7.2	7.6
Expected yield on plan assets	–5.0	–5.4
Effects of reductions and adjustments	–0.9	–
Total net cost in the income statement	**2.3**	**4.1**

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

Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Cost of goods sold	–	0.8
Selling expenses	–	1.0
Financial income/expenses	2.3	2.3
	2.3	**4.1**
Actual yield on plan assets	9.6	–4.8

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	2010	2009	2010	2009
Discount rate as at 31 August	4.0 %	3.92 %	2.5–3.2 %	3.5–4.1 %
Future salary increases	n/a	n/a	4.5 %	4.0 %
Future pension increases	1.5 %	2.0 %	1.5–4.25 %	1.5–3.75 %
Inflation	1.5 %	2.0 %	–	–
Expected yield	4.0 %	3.92 %	4.4–5.7 %	5.1 %

NOTE 18 OTHER PROVISIONS

Group

Changes during the year

SEK m	31/8/2010	31/8/2009
Carrying amount at beginning of period	**–**	**7.7**
Unutilised amounts reversed during the period	–	–7.7
Carrying amount at close of period	**–**	**–**

NOTE 19 OTHER LIABILITIES

Group

SEK m	31/8/2010	31/8/2009
Current		
Value added tax	56.0	53.5
Liabilities to staff	35.2	55.8
Gift vouchers	21.9	19.2
Interest rate derivatives	63.7	66.0
Currency derivatives	8.3	46.5
Other	5.4	1.3
Total	**190.5**	**242.3**

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	31/8/2010	31/8/2009
Current		
Interest rate derivatives	63,7	66,0
Other	1,9	2,2
Total	**65,6**	**68,2**

NOTE 20 ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent company	
SEK m	31/8/2010	31/8/2009	31/8/2010	31/8/2009
Liabilities to staff	155.4	183.4	4.7	6.0
Financial expenses	1.4	5.1	1.1	4.9
Other	86.2	118.3	0.6	0.9
Total	**243.0**	**306.8**	**6.4**	**11.8**

NOTE 21 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, whose responsibilities include overseeing the formulation of and compliance with the financial policy and, if necessary, proposing changes 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.

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.

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 unforeseen 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 2010 was SEK 1,849 (2,056) million In addition to this, there are overdraft facilities in multiple currencies equivalent to SEK 350 (350) million, of which SEK 14 (0) million had been utilised as at 31 August 2010. The bank overdraft facilities are reported as current since the contracts are renewed annually. The terms and conditions of the loans are linked with a number of agreed covenants.

Interest rate risk

Interest rate risk may consist of changes in fair value, price risk, changes in cash flow and cash flow risk. A 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 swaps.

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 swaps, are used to manage interest rate risk. The company uses hedge accounting when there is an effective connection between secured loans and interest swaps, (see also Note 1 Accounting Policies).

As at 31 August 2010, the company had interest swaps with a contractual value of SEK 1,600 (1,600) million.

The net fair value of the swaps on 31 August 2010 was SEK –64 (–66) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 64 (66) million.

Total interest expense, including interest swaps, amounted to about SEK 89 (84) million for the financial year, which corresponds to around 1.9 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 21 million.

Interest-bearing liabilities

KappAhl has assurances of credit totalling SEK 2 650 million, of which SEK 1,849 million had been utilised at the close of the financial year.

Loan maturity structure

YEAR	Contracted credit	Of which utilised
2011	350	14
2012	–	–
2013	2,300	1,835
2014	–	–
2015 and later	–	–
Total	**2,650**	**1,849**

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 specifies that only internationally reputable banks may be used.

Credit risk associated with trade receivables

Since the Group is engaged essentially in cash sales with its customers, the credit risk associated with trade receivables 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:

	01/9/2009–31/8/2010		01/9/2008–31/8/2009	
Currency	Outward	Inward	Outward	Inward
USD m	168	–	160	–
EUR m	33	37	29	30
NOK m	–	563	–	567
PLN m	–	51	–	29

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 18 (–43) million as at 31 August 2010. Assets amounted to SEK 26 (3) million and liabilities to SEK 8 (46) million, which are recorded in the balance sheet.

Translation exposure

KappAhl uses Swedish kronor for its income statement and balance sheet. Parts of the Group use currencies other than Swedish kronor 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.

Note 21 cont.

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

Group	31/8/2010	31/8/2009
Currency	Amounts in SEK m	Amounts in SEK m
NOK	102	101
EUR	40	5
PLN	41	22
CZK	8	–
HKD	5	3

Liabilities in the balance sheet	31/8/2010	31/8/2009
Long-term interest-bearing liabilities	1,835.4	2,055.7
Short-term interest-bearing liabilities	13.8	–
Trade payables	217.1	231.4
Other current liabilities;		
– Interest rate derivatives	63.7	66.0
– Currency derivatives	8.3	46.5
Total	**2,138.3**	**2,399.6**

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	31/8/2010	31/8/2009
Trade receivables	4.2	3.0
Other current receivables.		
Currency derivatives	26.2	3.4
Cash and cash equivalents	26.5	20.8
Total	**56.9**	**27.2**

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

	Carrying amount	Within one year	From one to two years	From two to three years	From three to four years	Up to five years	Total contracted cash flow
Bank loans and bank overdraft facilities*	1,849	88	74	1,909	–	–	2,071
Trade payables	217	217	–	–	–	–	217
Forward interest rate agreements*	64	–	–	–	–	–	–
Forward exchange contracts, net	8	8	–	–	–	–	8
Total	**2,138**	**313**	**74**	**1,909**	**–**	**–**	**2,296**

* 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 22 OPERATING LEASES

Leases where the company is lessee

Non-cancellable lease payments amount to:

	Group		Parent company	
SEK m	31/8/2010	31/8/2009	31/8/2010	31/8/2009
Within one year	1.4	2.0	–	–
Between one and five years	1.4	1.7	–	–
Total	**2.8**	**3.7**	**–**	**–**

Apart from the above operating leases the Group has signed tenancy agreements for store premises, entered into on normal, commercial terms and conditions. Rents under agreed lease contracts in the Group (excluding any turnover-based rent) amount to SEK m:

Within one year	88.9
From one to five years	1,343.4
More than five years	703.7

The operating profit has been charged with SEK 634 (577) million referring to costs of rented store premises. The rental charges are based on fixed rent and/or turnover-based rent.

NOTE 23 CAPITAL COMMITMENTS

Group

In 2010 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 a higher level than the outcome for the financial year ending 31 August 2010. The commitments are expected to be settled over the course of the next financial year.

NOTE 24 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent company	
SEK m	31/8/2010	31/8/2009	31/8/2010	31/8/2009
Contingent liabilities				
Guarantee commitments, FPG/PRI	0.4	0.5	Inga	Inga
Purchase guarantee	0.2	0.2	Inga	Inga
Total contingent liabilities	**0.6**	**0.7**	**Inga**	**Inga**

Instead of pledged assets KappAhl uses covenants/loan terms and conditions.

See Note 30 for a description and assessment of a dispute concerning customs duty in Norway.

NOTE 25 RELATED PARTIES

There were no transactions with related parties.
The company has no outstanding warrants or convertible debt instruments.

NOTE 26 PARTICIPATIONS IN GROUP COMPANIES

Parent company

SEK m	31/8/2010	31/8/2009
Accumulated cost of acquisition		
At beginning of year	3,143.8	3,143.8
Closing balance	**3,143.8**	**3,143.8**

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

			31/8/2010	31/8/2009
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	1,269.1
KappAhl OY, 07585064, Finland	200	100.0	300.0	300.0
KappAhl Fastigheter AB, 556750-5481, Sweden	1,000	100.0	303.6	303.6
Indirectly owned via KappAhl OY				
KappAhl Åland AB, 1737564-2, Mariehamn	100	100.0	–	–
Indirectly owned via KappAhl Sverige AB				
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	–	–
KappAhl i Mölndal AB, 556714-1444, Sweden	1,000	100.0	–	–
KappAhl Mode Holding AB, 556545-0037, Sweden	186,872,155	100.0	–	–
KappAhl Fashion Holding AB, 556714-1444, Sweden	10,000	100.0	–	–
			3,143.8	**3,143.8**

NOTE 27 CASH FLOW STATEMENT

The cash flow statement was prepared using the indirect method.

Interest paid and dividend received

	Group		Parent company	
SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Dividend received from participations in subsidiaries	–	–	253.9	426.1
Interest received	1.1	1.0	–	4.9
Interest paid and other financial items	–89.1	–84.4	–78.7	–98.1
Total	**–88.0**	**–83.4**	**175.2**	**332.9**

Adjustments for non-cash items

	Group		Parent company	
SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Depreciation	234.0	233.4	–	–
Provisions for pensions	–4.3	–4.0	–	–
Other adjustments	18.9	13.4		–0.3
Total	**248.6**	**242.8**		**–0.3**

Acquisition of subsidiaries

Group SEK m	01/9/2009 31/8/2010	01/9/2008 31/8/2009
Purchase price:	273.0	303.6
Of which real property	–	462.0
Of which loans	–	–158.4
Less: Cash and cash equivalents in the acquired operation	–249.4	–0.2
Net effect on cash and cash equivalents	**23.6**	**303.4**

NOTE 28 ACQUISITION OF SUBSIDIARIES

The following subsidiaries were acquired by KappAhl Sverige AB during the financial year:

Company	Date of acquisition	Percentage of equity and votes
KappAhl Mode Holding AB 556545-0037	8 September 2009	100
KappAhl Fashion Holding AB, 556541-5980	11 June 2010	100

KappAhl acquired Atnevoen AB, now KappAhl Mode Holding AB, for a cash purchase price of SEK 160 million, thereby obtaining unused tax losses. The loss carry-forwards amount to SEK 188 million and it is estimated that these can be used as of the 2014/2015 financial year.

KappAhl acquired Credit Suisse Målrakan Sweden AB, now KappAhl Fashion Holding AB, for a cash purchase price of SEK 113 million, thereby obtaining unused tax losses. The loss carry-forwards amount to SEK 225 million and it is estimated that these can be used as of the 2015/2016 financial year. The acquired companies are not currently in operation.

Acquired assets consist of tax assets of SEK 23 million. After the acquisition a revaluation of tax assets was made, resulting in tax credit of SEK 84 million. Transaction costs of SEK 3 million were recognised in income.

NOTE 29 CRITICAL ESTIMATES AND ASSUMPTIONS

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
The acquisition of tax loss carry-forwards is valued as described in Note 9.

Pension provision
Ahead of the 2009/2010 year-end closing KappAhl reviewed the issue of choice of discount rate when calculating pension provision. In the opinion of KappAhl there is reason to regard the market for corporate bonds, primarily housing bonds, as having the breadth and depth to justify seeking support for the discount rate in this market. Consequently KappAhl has based its interest rate assumption on housing bonds with comparable maturities but basically considers that the discount rate should be based on corporate bonds from non-housing companies, which better reflects the interest rate market which companies of KappAhl's type encounter.

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, continued claims have been put forward by the customs authorities, which are in contravention of the judgment 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 30 PARENT COMPANY DETAILS

KappAhl 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, SE 431 24 Mölndal.

The consolidated accounts for 2009/2010 consist of the parent company and its subsidiaries, collectively 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. The financial statements were approved for publication by the parent company's Board of Directors on 22 October 2010. The income statements and balance sheets will be presented to the Annual General Meeting on 23 November 2010.

Mölndal 22 October 2010

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 22 October 2010
PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

Audit report

To the annual meeting of the shareholders of

KappAhl 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 managing director of KappAhl AB (publ) for the year 1 September 2009 – 31 August 2010. The company's annual accounts and the consolidated accounts are included in the printed version on pages 35 – 67. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. 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 of 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 managing director and significant estimates made by the board of directors and the managing director 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 managing director. We also examined whether any board member or the managing director 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 and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Gothenburg, 22 October 2010

PricewaterhouseCoopers AB

Bror Frid
Authorized Public Accountant

Corporate governance report

KappAhl AB (publ) is a public Swedish company listed on Nasdaq OMX Stockholm. Corporate governance of KappAhl 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") and

Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2009/2010 financial year. The auditor has stated that the corporate governance report has been prepared and that disclosures under Chapter 6, Section 6, second paragraph, points 2-6 of the Annual Accounts Act (for example the most important elements of the company's internal control and risk management systems in connection with financial reporting) are consistent with the other parts of the annual report.

KappAhl's Articles of Association and other information concerning KappAhl's corporate governance is available on the website 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.

SHARES AND SHAREHOLDERS ETC.

On 31 August 2010 the share capital of KappAhl AB (publ) was SEK 10,720,000 divided between 75,040,000 shares. According to Euroclear's share register KappAhl had about 15,800 shareholders on 31 August 2010. The ten largest shareholders, as at 31 August 2010, are specified in the Administration Report on page 35. More information on major shareholders is available on KappAhl's website.

ANNUAL GENERAL MEETING

KappAhl's highest decision-making body is the Annual General Meeting, which 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 Annual General Meeting held was the Annual General Meeting of 25 November 2009 in Mölndal. The minutes of the Annual General Meeting can be found on KappAhl's website.

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 23 November 2010 at 10.00 at Idrottsvägen 14 in Mölndal. A shareholder wishing to have a matter brought before the Annual General Meeting can send a written request to: KappAhl AB, Attention: Chairman of the Board, 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.

NOMINATIONS COMMITTEE

Election of the Board of Directors

The Annual General Meeting set out instructions and a formal work plan for the Nominations Committee, which will comprise three ordinary members who will represent the three largest shareholders in the company as at 30 April. The Chairman of the Board of Directors will then contact the three largest shareholders and be co-opted to the committee. On 21 May 2010 it was announced that the Nominations Committee ahead of the Annual General Meeting on 23 November 2010 consists of Kristian Lundius (Dutot Ltd.), Thomas Ehlin (Nordea fonder) and Henrik Didner (Didner & Gerge Fonder Aktiebolag), with Finn Johnsson, Chairman of the Board as co-opted member. At the close of the third quarter the Nominations Committee represented about 25 per cent of shareholders' votes.

The Nominations Committee held its inaugural meeting on 5 July 2010, 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 who wish to submit proposals to the Nominations Committee are referred to our website.

In the event of a material 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.

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 that is well-suited in relation to the phase and market situation 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 2010 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 the previous year). The result has been presented to the Nominations Committee.

The Nominations Committee has made the assessment that the Board of Directors functioned well in performing its duties, that it is well composed and balanced, and that its members have sound knowledge and experience of various areas and complement each other well. The Nominations Committee has made the assessment that no members of the Board other than Paul Frankenius are dependent in relation to the company.

Ahead of the Annual General Meeting in 23 November 2010 the Nominations Committee will make its proposals for the chairman of the Meeting, number of Board members, Chairman of the Board, other AGM elected members and instructions for the next year's Nominations Committee. 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 2008 Annual General Meeting appointed PricewaterhouseCoopers AB as auditors, with Authorised Public Accountant Bror Frid as the auditor-in-charge for the period up to the Annual General Meeting held in the fourth year after the election of auditors. 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 standard charges and the principle of a fixed account, during the financial year PricewaterhouseCoopers AB has sold services to the company for around SEK 1.4 million, of which most relates to tax consultations, consultations in connection with acquisitions 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 November 2009. 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 25 November up to 31 August 2010 the Board of Directors held five meetings, all of which were minuted. One meeting was an inaugural Board meeting, three meetings were ordinary meetings and there was one extraordinary meeting. Members' attendance at the respective meetings appears in the table below:

The CEO, CFO and in some cases other members of the management made presentations at the Board meetings. Remuneration and other benefits to the Board of Directors of KappAhl are presented in Note 5 on page 55. Board members' shareholdings in KappAhl are presented on page 76–77.

After 31 August 2010 the Board held further meetings on 27 September and 22 October 2010.

	Inaugural Board meeting No. 2009:7 25 Nov 2009	Ordinary Board meeting No 2009:8 17 Dec 2009	Ordinary Board meeting No. 2010:1 22 March 2010	Extra Board meeting No. 2010:2 28 May 2010	Ordinary Board meeting No. 2010:3 22 June 2010
Finn Johnsson	Yes	Yes	Yes	Yes	Yes
Amelia Adamo		Yes	Yes	Yes	Yes
Paul Frankenius	Yes	Yes			
Jan Samuelsson	Yes	Yes	Yes	Yes	Yes
Pernilla Ström	Yes	Yes	Yes	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	Yes		Yes
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes
Helena Blixt	Yes	Yes	Yes	Yes	Yes
Bodil Gummesson	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes
Håkan Westin	Yes	Yes	Yes		Yes

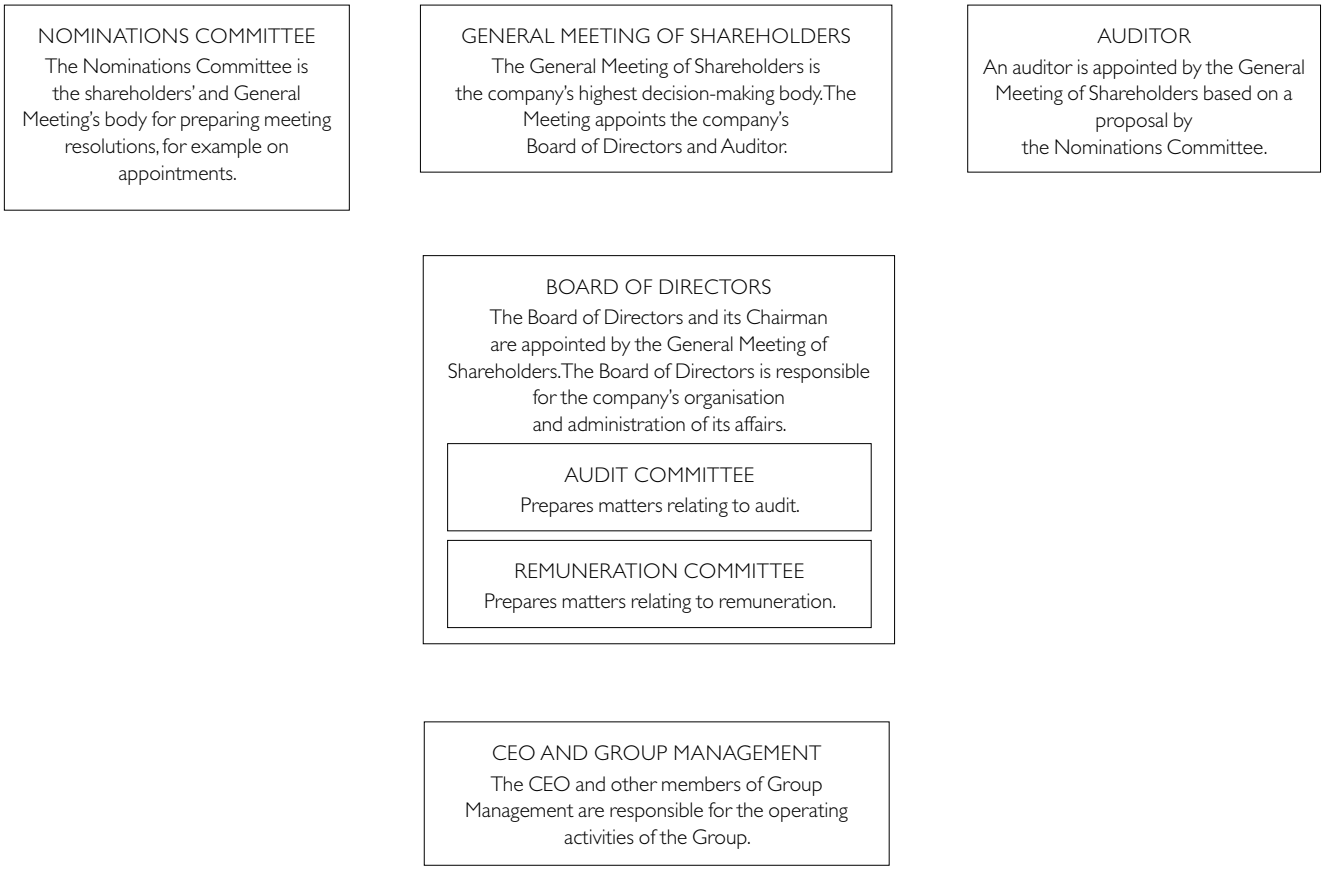
WORK OF THE BOARD OF DIRECTORS

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 as provided by the Board's and the Committees' rules of procedure. These rules of procedure were established at the inaugural Board meeting on 25 November 2009 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 also receive reports from the Audit Committee and Remuneration Committee, a report from senior executives and decisions are made on establishments and investments. Among the most important items dealt with by the Board during the year were discussions on future new establishments and expansion in a new geographical market. 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 the auditor. In connection with the presentation of the audit report, the Board of Directors met the auditor.

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 76–77 includes a list of other assignments and relevant shareholdings. More information on the Board is available on KappAhl's website.



REMUNERATION COMMITTEE ETC.

The Remuneration Committee was appointed by the Board of Directors at its inaugural meeting. Until the Annual General Meeting on 23 November 2010 the Committee will comprise Finn Johnsson (chairman) and Amelia Adamo. The Committee prepares questions about the remuneration and other terms and conditions of employment for senior executives and about bonus outcome for management and any share-based bonus programmes. In the opinion of the Board of Directors, which is shared by the Nominations Committee, 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, among other things, bonus outcome. The Committee works according to written rules of procedure stipulated by the Board of Directors. Apart from reporting to each Board meeting, the Committee must also submit a written report to the Board of Directors at least once a year. This was done on 15 September 2010. The Committee does not have the authority to make decisions, other than as part of the remuneration policy for senior executives adopted by the Annual General Meeting on 25 November 2009. The adopted policy means, among other things, that senior executives must 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 inaugural meeting the Board of Directors shall also appoint the Audit Committee. Until the Annual General Meeting on 23 November 2010 the Committee comprises Jan Samuelson (chairman) and Pernilla Ström. In the opinion of the Board of Directors, which is shared by the Nominations Committee, both members of the Audit Committee are independent in relation to the company and its senior executives and meet the necessary qualification requirements in accounting and auditing. The Audit Committee must, without affecting the Board of Director's responsibilities and tasks in other respects, monitor the financial reporting by the company and the effectiveness of the company's internal control with regard to financial reporting. 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 2010 Committee work included preparing issues concerning interim reports, financing, foreign currency issues and internal financial control. Since the Annual General Meeting on 25 November 2009 up to 31 August 2010 the Committee held three meetings, all of which were minuted. The Committee subsequently held one other meeting. The Board's secretary is also the secretary of the Audit Committee. The Committee works according to written rules of procedure stipulated by the Board of Directors. The Committee minutes are distributed to the Board of Directors and reporting is at each Board meeting.

MANAGEMENT TEAM

KappAhl's Management Team and its shareholdings are presented on pages 74–75 and on KappAhl's website.

REPORT ON INTERNAL CONTROLS

Responsibility for internal control is regulated in the Swedish Companies Act and the Swedish Code of Corporate Governance.

CONTROL ENVIRONMENT

The control environment is the foundation of internal control. KappAhl's control environment includes organisational structure, instructions, policies, guidelines, reporting and defined areas of responsibility.

The Board of Directors has the overall responsibility for internal control in relation to financial reporting. The Board of Directors has adopted written rules of procedure that clarify the responsibility of the Board of Directors and regulates the Board and its committees' internal division of duties. The Board of Directors has appointed an Audit Committee with the principal task of ensuring compliance with principles established for financial reporting and internal control and maintaining appropriate relations with the company's auditor. The Board of Directors has also drawn up instructions for the Chief Executive Officer and for financial reporting to the Board of KappAhl.

The Group's Chief Financial Officer reports the results of his or her work on internal control to the Audit Committee. The result of the Audit Committee's work in the form of observations, recommendations and proposed decisions and measures are reported regularly to the Board.

INTERNAL CONTROL RELATING TO FINANCIAL REPORTING

Internal control relating to financial reporting is part of total internal control in KappAhl, whose process proceeds from the business model. Internal control relating to financial reporting aims at providing reasonable assurance concerning the reliability of the external financial reporting in the form of interim reports, annual reports and year-end bulletins and ensuring that the external financial reporting is prepared in accordance with law, applicable accounting standards and other requirements of listed companies.

RISK ASSESSMENT

KappAhl's risk assessment relating to financial reporting aims to identify and evaluate the most significant risks that affect internal control referring to financial reporting in the Group's companies, business areas and processes. The most significant risks identified in the Group's work on internal control relating to financial reporting

are managed through internal control structures that are essentially based on exception reporting from established objectives or norms, for example for hedging or inventory valuation.

INFORMATION AND COMMUNICATION

Internal information and communication is about creating awareness among the Group's employees about external and internal policy instruments, including authorisation and responsibility. Information and communication on internal policy instruments for financial reporting are available to all employees concerned. Important tools for this are KappAhl's intranet and training.

ACTIVITIES 2009/2010

During the year focus has been on IT security and valuation of material assets.

INTERNAL AUDIT

To date, KappAhl has not considered it necessary to establish a specific internal audit function. The reason is that in the opinion of the Audit Committee the existing control environment is sufficient to achieve the equivalent objective.

Mölndal 22 October 2010

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

Audit opinion concerning the corporate governance report

in accordance with Chapter 6, Section 9 of the Annual Accounts Act (1995:1554)

To the Annual General Meeting of Shareholders of
KappAhl AB (publ)
Corporate identity number 556661-2312

ASSIGNMENT AND DIVISION OF RESPONSIBILITY

We have reviewed the corporate governance report for KappAhl AB (publ) for the financial year 1 September 2009–31 August 2010. The company's corporate governance report is presented on pages 69–73 in the printed version of this document.

The Board of Directors and the Chief Executive Officer are responsible for the corporate governance report and for its preparation in accordance with the Annual Accounts Act.

Our responsibility is to review the corporate governance report so that we can make a written statement in accordance with Chapter 6, Section 9 of the Annual Accounts Act.

OPINION

We consider that the corporate governance report has been prepared in accordance with the Annual Accounts Act and that it is consistent with the rest of the annual report and consolidated accounts.

Gothenburg, 22 October 2010
PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

THE MANAGEMENT

Christian W. Jansson
President and Chief Executive Officer
Christian W. Jansson (born 1949) has been President and Chief Executive Officer of KappAhl since 2002. He is the Chairman of the Board of Apoteket AB and member of the Boards of Bong AB and BRIS (Children's Rights in Society). Christian W. Jansson holds an honorary doctorate in economics and a B.Sc. in Business Administration from the University of Lund.
Shareholding: 12,214,700 shares through company

Linda Hamberg
Vice President, Sales
Linda Hamberg (born 1951) has been Vice President, Sales at KappAhl since 2004 and with the company since 1981. She is a member of the Board of AMF Fastigheter. 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

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: 152,000 shares

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: 2,700 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: 212,000 shares

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

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

Håkan Westin
Chief Financial Officer
Håkan Westin (born 1959) has been Chief Financial Officer at KappAhl since 2001 and with the company since 1989. He is a member of the board of NetOnNet. 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: 350,000 shares

Shareholdings as at 31 August 2010.

THE BOARD

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. Rose-Marie Zell-Lindström has participated in a training programme for board members held by Nasdaq OMX 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: 2,000 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 board of Bonnier Tidskrifter AB, Expressen 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: 50,000 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 AB, Sweco AB and Sydsvenska Dagbladet AB. Pernilla Ström has studied economics at the Stockholm School of Economics and comparative literature etc. at the University of Stockholm.
Shareholding: 90,000 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 Nasdaq OMX Stockholm..
Shareholding: 0 shares.

Paul Frankenius
(born 1958). Paul Frankenius is a member of the board of KappAhl. Paul Frankenius was deputy President 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: 0 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 Nasdaq OMX Stockholm.
Shareholding: 100 shares.

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 Nasdaq OMX Stockholm.
Shareholding: 0 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, Scandic Hotels AB and Jetpak AB. Jan Samuelson has a B.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 0 shares.

Shareholdings as at 31 August 2010.

Financial calendar

Annual General Meeting	23 November 2010
First quarter (1 Sep–30 Nov)	22 December 2010
Second quarter (1 Dec–28 Feb)	30 March 2011
Third quarter (1 March–31 May)	22 June 2011
Fourth quarter (1 June–31 Aug)	29 September 2011
Annual Report 2010/2011	October/November 2011
Annual General Meeting 2010/2011	November 2011

KappAhl's annual report in Swedish and English will be sent to shareholders and other stakeholders who so request. They can also be ordered via www.kappahl.com/ir under the heading "Order printed information".

Annual General Meeting

The Annual General Meeting of KappAhl AB (publ) will be held on Tuesday 23 November 2010 at 10.00 at KappAhl's head office, Idrottsvägen 14 in Mölndal.

RIGHT TO PARTICIPATE

Shareholders wishing to participate in the meeting must be registered in the share register kept by Euroclear Sweden AB (formerly VPC) no later than Wednesday 17 November 2010, and have given notice of their attendance and that of any advisers by 12 noon on the same date via email to stamma@kappahl.com. Notification of participation can also be given by telephone on +46 31 771 55 00, by fax on +46 31 771 58 15, or by post to KappAhl AB, Annual General Meeting, Box 303, SE 431 24 Mölndal, Sweden.

The notification must state the name, address, telephone number, corporate or personal identity number and registered shareholding. Any powers of attorney must be in writing and be submitted no later than, but preferably before, the Annual General Meeting. A natural person representing a legal person shall also submit a certified copy of the certificate of registration. Powers of attorney and certificate of registration must be no older than one year. Shareholders whose shares are registered in the name of a nominee through a bank's trust department or a private securities dealer must temporarily register the shares in their own name to be entitled to participate in the Meeting. This temporary registration of ownership must be effected no later than Wednesday 17 November 2010. This means that the shareholder must notify the nominee of this well in advance of that date.

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

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

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

Dividend yield Dividend divided by the share price.

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.

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.

Equity/assets ratio Equity divided by balance sheet total.

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

Gross Margin Gross profit divided by net sales.

Interest coverage ratio (multiple) EBITDA divided by net interest income excluding non-recurring items, 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.

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.

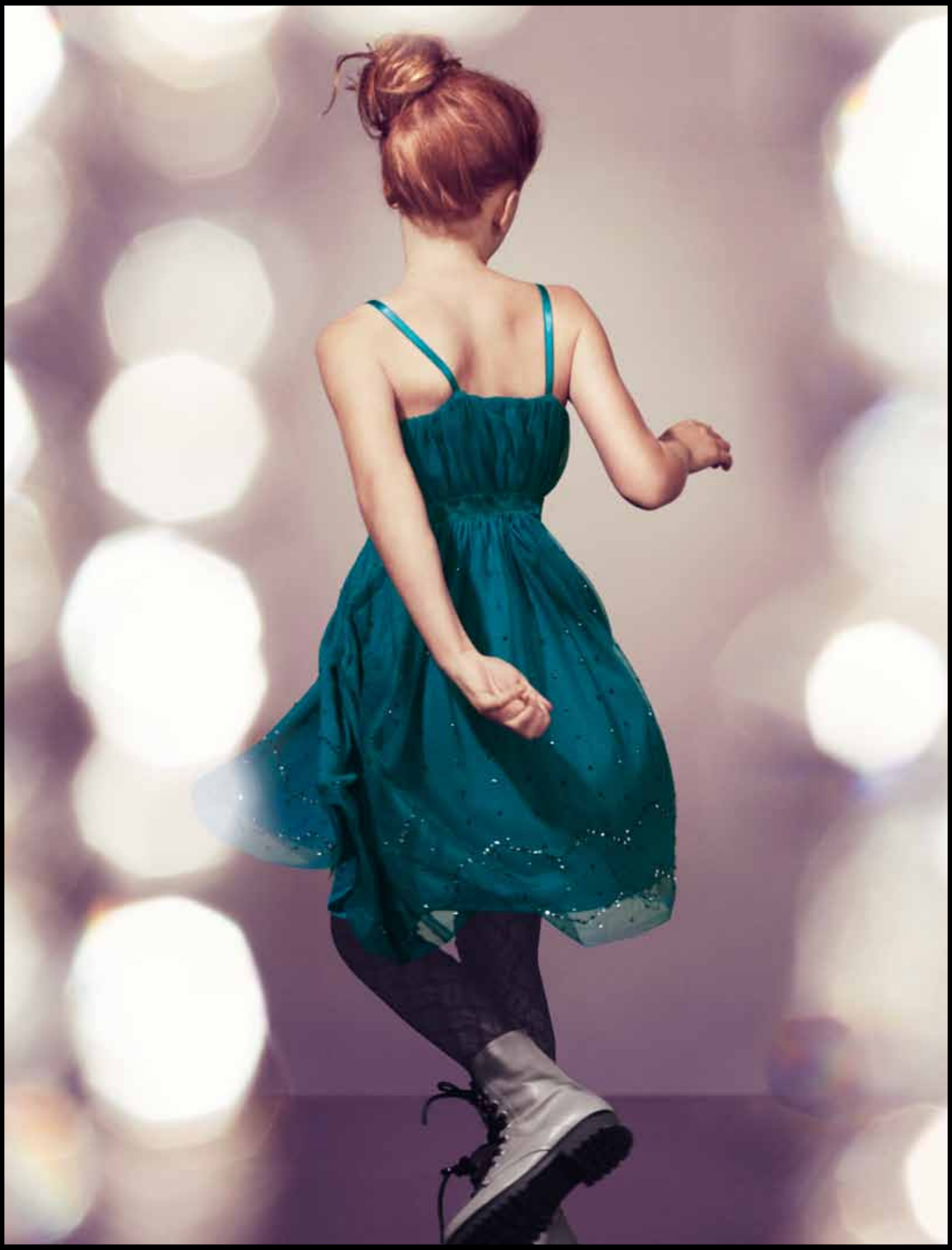
Operating margin Operating profit divided by net sales.

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

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

This English Annual Report document is a translation from the original Swedish Annual Report 2009/2010 document.

KappAhl considers that no glossary is required for other terms used in this publication. The reason is that industry and company-specific concepts that are used, for example design, fashion and fit, are considered to be well established in everyday language.



Notes

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