

Report for the first quarter of the financial year 2009/2010

Brilliant profit

First quarter (September-November 2009)

- KappAhl's net sales (excluding VAT) for the period amounted to SEK 1,344 (1,266) million, an increase of 6.2 per cent.
- The operating profit was SEK 207 (176) million, which is equivalent to an increase of 17.6 per cent.
- The gross margin was 65.0 (64.3) per cent and the operating margin was 15.4 (13.9) per cent.
- Profit after tax was SEK 178 (113) million, which is equivalent to SEK 2.37 (1.51) per share.
- Cash flow from operating activities was SEK 133 (127) million.

CEO's comments



This quarter was characterised by a very strong gross profit margin, good cost control and consequently a strong operating profit. Despite sales in comparable stores not really living up to our ambitions, the increase in net sales shows how strong our concept is. By means of effective purchasing of attractive fashion coupled with sound growth we can nevertheless deliver good gross profit.

We are also looking forward with confidence to developments in the Czech Republic, where we opened our first store in the first quarter.

Christian W. Jansson, President and Chief Executive Officer

For further information, please contact

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KappAhl is a leading fashion chain with almost 350 stores and 4 300 employees in Sweden, Norway, Finland, Poland and the Czech Republic. KappAhl sells value-for-money fashion with a wide appeal – to women, men and children – and focuses in particular on women aged 30-50. All clothes are from our own designers. In the twelve-month period ending 31 August 2009 KappAhl's net sales were about SEK 5 billion and operating profit was SEK 525 million. KappAhl is a listed company. In 1999 KappAhl was the first fashion chain to be environmentally certified. Further information is available at www.kappahl.com and financial information at www.kappahl.com/ir.

KappAhl AB (publ) discloses the information provided here pursuant to the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication at 07.30 on 18 December 2009.

Comments on the first quarter

Market

The poor economy has made consumers careful with the money they actually have, leading to an increase in savings in the economy. This primarily affects more expensive capital goods, but retail fashion is also affected. There are now some positive signs in the economy, which may make consumers somewhat more optimistic but at the same time unemployment will continue to rise, which will have a restraining effect on the economy.

Net sales and results

KappAhl's net sales (excluding VAT) for the quarter amounted to SEK 1,344 (1,266) million, an increase of 6.2 per cent. The growth is explained by: the effect of new and closed stores, +6,3 per cent; change in comparable stores, -1,4 per cent and translation differences (mainly NOK and EUR) totalling +1.3 per cent.

Growth from new stores is sound, while sales trends in comparable stores is less than desirable. In Poland we have seen a positive trend in comparable stores, confirming an earlier pattern that there it takes about three years for a store to become fully established.

Gross profit for the quarter was SEK 874 (814) million, which corresponds to a gross margin of 65.0 (64.3) per cent. The gross margin was negatively affected by a weak exchange rate for the Swedish krona. At the same time purchase prices have fallen thanks to better agreements with our suppliers. The gross margin was also positively affected by fewer sales at reduced prices. Thus the basic business is functioning well, even in a worse economic climate.

Selling and administrative expenses for the quarter totalled SEK 667 (638) million. Through savings and strict cost control the cost share has decreased.

The operating profit was SEK 207 (176) million, which is equivalent to an operating margin of 15.4 (13.9) per cent. The operating profit is up by 17.6 per cent.

Depreciation according to plan was SEK 60 (57) million.

Net financial income was SEK -18 (-19) million for the quarter. Profit after financial items was SEK 189 (157) million and the profit after estimated tax was SEK 178 (113) million. Earnings per share for the quarter were SEK 2.37 (1.51).

Store network

During the quarter we opened 18 new stores, six in Sweden, six in Poland, three in Norway, two in Finland and one in the Czech Republic. At the end of the period the total number of stores was 337 (306); 150 in Sweden, 95 in Norway, 55 in Finland, 36 in Poland and one in the Czech Republic.

Cash flow

KappAhl's cash flow from operating activities amounted to SEK 133 (127) million in the quarter and cash flow after investments amounted to SEK 53 (23) million. Net interest-bearing liabilities decreased during the period by SEK 52 million, mainly due to operating earnings.

Financing and liquidity

Interest-bearing net debt at the end of the period was SEK 2,048 million, compared with SEK 2,100 million as at 31 August 2009. Net interest-bearing debt/EBITDA was 2.6 at the end of the period as compared with 2.8 as at 31 August.

Cash and cash equivalents amounted to SEK 18 million as at 30 November 2009. At the period close there were unutilised credit facilities of about SEK 600 million.

Expansion

The work of finding new store sites is proceeding according to plan. Apart from the 337 (306) stores in operation on 30 November this year, there are at present contracts for 35 new stores, of which 14 in Poland. Of the new contracts, 9 new stores will open in the third quarter (February-March). A total of 18 stores were opened during the 2009/2010 financial year. The long-term goal to increase the number of stores by 20 to 25 per year remains.

Inventories

At the close of the period inventories amounted to SEK 713 million, an increase of SEK 117 million compared with the previous year. Half of the increase is due to new stores. The rest of the increase in inventories mainly consists of goods in transit and a small increase in inventories per store. Overall, both the size and composition of inventories are deemed to be satisfactory.

Investments

Investments of SEK 80 (104) million were made during the year, mainly in existing and newly opened stores.

Related party transactions

There were no transactions with related parties.

Company acquisition

KappAhl acquired one company, consequently acquiring unused tax losses. It is estimated that these will be possible to use as of the 2014/2015 financial year. The acquisition had a positive net effect on the tax cost for the quarter and thereby on equity of about SEK 39 million. The acquired company is not currently in operation.

Taxes

The tax cost for the financial year has been calculated in accordance with each country's tax rate. For the Group this is equivalent to about 26 per cent. The positive tax effect of SEK 39 million resulting from the company acquisition described above is additional.

Risks and uncertainties

The economic situation naturally increases focus on the risks associated with market trends. Important areas are demand and patterns of consumption, interest rates, exchange rates etc. These in turn may impact several areas and the risk areas are monitored on a continuous basis in the Group.

In other respects the most important strategic and operative risks that affect KappAhl's operations and industry are described in detail in the annual report for 2008/2009. They consist of such factors as competition in the fashion industry, changes in the economy, fashion trends, store locations and store expansion. The company's risk management is also described in the corporate governance report in the same annual report, under the section "Report on internal controls". The same applies to the Group's management of financial risks, which are described in the annual report for 2008/2009, note 22. The reported risks are otherwise deemed to be unchanged in all essentials.

Parent Company

The Parent Company's net sales for the quarter were SEK 5 (0) million and profit after financial items was SEK 235 (-25) million. Financial items for the current year include dividend received from subsidiaries totalling SEK 254 million. The Parent Company did not make any investments during the year.

Events after the close of the reporting period

Dividend of SEK 1.25 per share, corresponding to a total of SEK 93.8 million was paid out in early December.

The Annual General Meeting was held on 25 November.

Upcoming reports

Second quarter (1 December–28 February)	23 March 2010
Third quarter (1 March–31 May)	23 June 2010
Fourth quarter (1 June – 31 August)	28 September 2010

This report has not been audited by the company's auditor.

Presentation

A telephone conference for analysts, media and investors will be held on 18 December at 11.00. For telephone numbers etc, please visit www.kappahl.com/ir, Latest news.

Mölnadal, 18 December 2009
KappAhl AB (publ)

Christian W. Jansson
Chief Executive Officer

Group income statement - Summary (SEK million)	Sept-Nov 2009/10	Sept-Nov 2008/09	Latest 12 months Dec-Nov
Net sales	1 344	1 266	4 944
Cost of goods sold	-470	-452	-1 911
Gross profit	874	814	3 033
Selling expenses	-630	-605	-2 340
Administrative expenses	-37	-33	-136
Operating profit	207	176	557
Financial income	0	0	1
Financial expenses	-18	-19	-83
Profit after financial items	189	157	475
Tax	-11	-44	-95
Net profit	178	113	380
Profit attributable to parent company shareholders	178	113	380
Earnings per share before and after dilution, SEK	2,37	1,51	5,06
Consolidated statements of comprehensive income			
Net Profit	178	113	380
Translation differences for the period	5	1	5
Change in fair value reserves	15	87	-181
Actuarial losses	-	-	-10
Total comprehensive income attributable to parent company shareholders	198	201	194

Group Balance Sheet - Summary (SEK million)	30 Nov 09	30 Nov 08	31 Aug 09
Tangible assets	1 086	1 082	1 060
Intangible assets*	1 334	1 340	1 340
Deferred tax assets	132	68	87
Inventories	713	596	736
Other operating receivables	127	288	109
Cash and cash equivalents	18	24	21
Total assets	3 410	3 398	3 353
Equity	577	732	379
Interest-bearing long-term liabilities	2 062	1 174	2 121
Non-interest-bearing long-term liabilities	7	39	7
Interest-bearing current liabilities	4	815	0
Non-interest-bearing current liabilities	760	638	846
Total equity and liabilities	3 410	3 398	3 353
*of which goodwill	696	696	696
*of which trademarks	610	610	610

Group cash flow statement - Summary (SEK million)	Sept-Nov 2009/10	Sept-Nov 2008/09
Cash flow from operating activities before changes in working capital	224	194
Changes in working capital	-91	-67
Cash flow from operating activities	133	127
Cash flow from investing activities	-80	-104
Cash flow after investments	53	23
Change in bank overdraft facility	-56	-31
Cash flow from financing activities	-56	-31
Cash flow for the period	-3	-8
Cash and cash equivalents at beginning of the period	21	32
Cash and cash equivalents at the end of the period	18	24

Specification of changes in the Group's equity	Sept-Nov 2009/10	Sept-Nov 2008/09
Opening equity	379	531
Total comprehensive income	198	201
Closing equity	577	732

Number of stores per country	30 Nov 08	28 Feb 09	31 May 09	31 Aug 09	30 Nov 09
Sweden	141	140	145	144	150
Norway	89	88	91	92	95
Finland	50	51	53	53	55
Poland	26	26	29	30	36
Czech Republic	-	-	-	-	1
Total	306	305	318	319	337

Sales per country	Sept-Nov 2009/10	Sept-Nov 2008/09	Change SEK local currency %	Change local currency %
Sweden	717	700	2,4%	2,4%
Norway	376	340	10,6%	5,2%
Finland	166	153	8,5%	3,6%
Poland	84	73	15,1%	29,9%
Czech Republic	2	-	-	-
Total	1 344	1 266	7,2%	

Geografic reporting	Net sales Sept-Nov 2009/10	Net sales Sept-Nov 2008/09	Operating income Sept-Nov 2009/10	Operating income Sept-Nov 2009/10
Nordic countries	1 259	1193	252	216
Other	86	73	0	3
Intercompany expenses*	-	-	-45	-43
Total	1 344	1 266	207	176

Quarterly income statement (SEK million)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	Dec-Feb 2005/06	March-May 2005/06	June-Aug 2005/06	Sept-Nov 2006/07	Dec-Feb 2006/07	March-May 2006/07	June-Aug 2006/07	Sept-Nov 2007/08
Net sales	1 026	1 029	1 010	1 189	1 088	1 106	1 090	1 247
Cost of goods sold	-437	-392	-371	-449	-460	-417	-412	-450
Gross profit	589	637	639	740	628	689	678	797
Selling expenses	-468	-477	-431	-517	-484	-528	-456	-558
Administrative expenses	1) -33	-40	-35	-37	-40	-32	-33	-33
Other operating income	2) -	-	-	-	13	3	-	-
Other operating expenses	-	-	-	-	-	-	-6	-
Operating profit	88	120	173	186	117	132	183	206
Financial income	2	0	0	2	10	11	0	3
Financial expenses	-64	-18	-12	-16	-33	-32	-16	-18
Profit after financial items	26	102	161	172	94	111	167	191
Tax	3) -7	-29	-45	-49	244	-32	-48	-53
Net profit	19	73	116	123	338	79	119	138
Operating margin	8,6%	11,7%	17,1%	15,6%	10,8%	11,9%	16,8%	16,5%
Earnings per share, SEK	0,25	0,97	1,54	1,64	4,50	1,05	1,59	1,84

1) Reclassification of SEK 4 million between Selling expenses and Administrative expenses.

2) compensation for vacating a store site in Q2 och Q3 2006/07

3) Deferred tax credit referring to loss carry forwards in acquired companies, period Dec-Feb 2006/07

Quarterly income statement (SEK million)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	Dec-Feb 2007/08	March-May 2007/08	June-Aug 2007/08	Sept-Nov 2008/09	Dec-Feb 2008/09	March-May 2008/09	Juni-Aug 2008/09	Sep-Nov 2009/10
Net sales	1 132	1 140	1 103	1 266	1 168	1 206	1 226	1 344
Cost of goods sold	-457	-413	-420	-452	-490	-478	-473	-470
Gross profit	675	727	683	814	678	728	753	874
Selling expenses 4)	-521	-547	-480	-605	-574	-587	-549	-630
Administrative expenses	-36	-35	-32	-33	-39	-32	-28	-37
Other operating income 5)	-	-	11	-	-	-	-	-
Other operating expenses	-	-	-	-	-	-	-	-
Operating profit	118	145	182	176	65	109	176	207
Financial income 6)	3	21	0	0	1	0	0	0
Financial expenses	-18	-18	-26	-19	-19	-23	-23	-18
Profit after financial items	103	148	156	157	47	86	153	189
Tax	-29	-36	-43	-44	-13	-24	-47	-11
Net profit	74	112	113	113	34	62	106	178
Operating margin	10,4%	12,7%	16,5%	13,9%	5,6%	9,0%	14,4%	15,4%
Earnings per share, SEK	0,99	1,49	1,51	1,51	0,45	0,83	1,41	2,37

4) Change in pension solution for employees in Q4 2007/08

5) Compensation for vacating a store site in Q4 2007/08

6) After acquired the properties in which the distribution centre and head office are located a finance lease was terminated and gave a positive effect on financial income in Q3 2007/08

Yearly income statement (SEK million)	Sept-Aug 2005/06	Sept-Aug 2006/07	Sept-Aug 2007/08	Sept-Aug 2008/09
Net sales	4 217	4 473	4 622	4 866
Cost of goods sold	-1 677	-1 738	-1 740	-1 893
Gross profit	2 540	2 735	2 882	2 973
Selling expenses	4) -1 863	-1 985	-2 106	-2 315
Administrative expenses	1) -147	-142	-136	-132
Other operating income	2, 5) -	16	11	-
Other operating expenses	-	-6	-	-
Operating profit	530	618	651	526
Financial income	6) 2	23	27	1
Financial expenses	-113	-97	-80	-84
Profit after financial items	419	544	598	443
Tax	3) -117	115	-162	-128
Net profit	302	659	436	315
Operating margin	12,6%	13,8%	14,1%	10,8%
Earnings per share, SEK	4,02	8,78	5,81	4,20

1-6) See above

Parent company income statement - Summary (SEK million)	Sept-Nov 2009/10	Sept-Nov 2008/09	Latest 12 months Dec-Nov
Net sales	5	0	25
Cost of goods sold	-	-	-
Gross profit	5	0	25
Selling expenses	-	-	-
Administrative expenses	-7	-6	-31
Other operating income	-	-	-
Operating profit	-2	-6	-6
Result from participations in group companies	254	-	680
Financial income	0	3	2
Financial expenses	-17	-22	-93
Profit after financial items	235	-25	583
Appropriations	0	-	-8
Resultat after appropriations	235	-25	575
Tax	0	-	31
Net profit	235	-25	606

Parent company Balance Sheet - Summary (SEK million)	30 Nov 09	30 Nov 08	31 Aug 09
Tangible assets	-	-	-
Financial assets	3 144	3 144	3 284
Deferred tax assets	15	-	17
Inventories	-	-	-
Other operating receivables	284	315	298
Cash and cash equivalents	-	-	-
Total assets	3 443	3 459	3 599
Equity	1 185	894	945
Untaxed reserves	8	-	8
Interest-bearing long-term liabilities	2 172	1 742	2 559
Deferred tax liabilities	-	13	-
Interest-bearing current liabilities	-	799	-
Non-interest-bearing current liabilities	78	11	87
Total equity and liabilities	3 443	3 459	3 599

Key ratios	Sept-Nov	Sept-Nov	Latest
	2009/10	2008/09	12 months Dec-Nov
Growth in sales	6,2%	1,5%	5,4%
Earnings per share, SEK	2,37	1,51	5,06
Total depreciation/amortisation	60	57	237
Operating result (EBIT)	207	176	557
Gross margin	65,0%	64,3%	61,3%
Operating margin	15,4%	13,9%	11,3%
Interest coverage ratio	-	-	6,7
Net interest-bearing liabilities	2 048	1 965	2 048
Net interest-bearing liabilities/EBITDA	2,6	-	2,6
Equity/assets ratio	16,9%	21,5%	16,9%
Equity per share, SEK	7,69	9,75	7,69
Equity per share after dilution, SEK	7,69	9,75	7,69
Return on equity	-	-	58,1%
Return on capital employed	-	-	20,8%
Number of shares after dilution	75 040 000	75 040 000	75 040 000

Definitions

Earnings per share	Income after tax divided by average number of shares
Earnings per share after dilution	Profit after tax / average number of shares after full dilution
Interest coverage ratio	EBITDA / Net interest income excluding one-off items, for the previous twelve-month period
Net interest-bearing liabilities	Interest-bearing liabilities less liquid funds
Net interest-bearing liabilities/EBITDA	Net interest-bearing liabilities / EBITDA for the previous twelve-month period
EBITDA	Operating profit before depreciation / amortisation
Equity/assets ratio	Equity divided by balance sheet total
Equity per share	Equity / average number of shares
Return on equity	Net result in per centage of equity
Return on capital employed	Operating profit/loss plus financial income in percentage of capital
Capital employed	Balance sheet total less non interest bearing deferred tax liability.

KappAhl's 20 largest shareholders, 30 Nov 2009	Number of shares	Percentage of shares and votes	Change compared with 31 Aug 2009
Christian W. Jansson	12 214 700	16,28	0
Paul Frankenius	12 167 000	16,21	0
Swedbank Robur fonder	3 725 974	4,97	362 512
5865-2 SEC LEND SUPPORT	2 164 723	2,88	2 058 275
JP MORGAN CHASE BANK, W9	2 017 838	2,69	1 269 940
SVENSKA HANDELSBANKEN CLIENTS ACC:3	1 657 400	2,21	0
Skandia fonder	1 469 031	1,96	1 201 831
NORDEA BANK NORGE NOMINEE	1 189 678	1,59	-378 096
SEB Investment Management	1 035 210	1,38	-342 490
NORDEA SVERIGEFONDEN	1 032 158	1,38	351 368
CANADIAN PENSION FUNDS LENDING	1 000 000	1,33	1 000 000
Handelsbanken fonder inkl XACT	946 999	1,26	-321 100
NORTHERN TRUST COMPANY, THE, W9	933 628	1,24	933 628
DIDNER & GERGE AKTIEFOND	850 000	1,13	0
AVANZA PENSION	790 952	1,05	107 644
NORDEA ALLEMANSFOND ALFA	690 890	0,92	115 830
SWEDBANK ROBUR FÖRBUNDSFOND	584 300	0,78	0
OMNIBUS ACCOUNT W FD: OM80	535 979	0,71	262 409
Andra AP-fonden	508 718	0,68	310 000
NORDEA ALLEMANSFOND BETA	487 920	0,65	73 520
Other	29 036 902	38,70	-7 005 271
Total	75 040 000	100,00	-

Accounting policies

The Group applies International Financial Reporting Standards, IFRS, adopted by the European Commission. The accounting policies are unchanged in comparison with the latest annual accounts as at 31 August.

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 amendment to IAS 1 has meant a change in how financial statements are to be drawn up. KappAhl has opted to present the Group's comprehensive income divided up into two reports; an income statement and a report of other comprehensive income

This report has been prepared in accordance with IAS 34. For the Parent Company the report is presented in accordance with the Swedish Annual Accounts Act and recommendation RFR 2.1 of the Swedish Financial Reporting Board.

The company has no outstanding convertible loans or warrants.