ANNUAL REPORT 2011

KappAhl

CONTENTS

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" – women, men and children. The company focuses in particular on women aged 30–50.

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 can be found in Sweden, Norway, Finland, Poland and the Czech Republic. The company's single largest market is Sweden. The total value of KappAhl's market at the beginning of 2011 was almost SEK 190 billion.

EVENTS Q1

- 15 new stores were opened and one was closed.
- KappAhl was nominated as Sweden's best workplace by the magazine Veckans Affärer.
- Launch of the men's collection Hampton Republic 27.
- New Vice President of Marketing.
- Environmental project together with the shopping centre company Steen & Strøm.

KEY RATIOS Q1	2010 2011	2009 2010
Net sales, SEK million	1,341	1,344
Operating profit, SEK million	146	207
Gross profit margin, %	63.4%	65.0%
Operating margin, %	10.9%	15.4%
Profit after tax, SEK million	95	178
which corresponds to SEK per share	1.27	2.37
Cash flow from operating activities, SEK million:	60	133

EVENTS Q2

- No stores were opened or closed.
- KappAhl's strategic IT work won a CIO award.
- Vintage Stories Spring 2011 was launched.

KEY RATIOS Q2	2010 2011	2009 2010
Net sales, SEK million	1,188	1,256
Operating profit, SEK million	16	76
Gross profit margin, %	57.2%	57.7%
Operating margin, %	1.3%	6.1%
Profit after tax, SEK million	1	34
which corresponds to SEK per share	0.01	0.45
Cash flow from operating activities, SEK million:	–12	159

EVENTS Q3

- Eight new stores were opened and one was closed.
- Launch of new fashion club.
- Success at the opening of KappAhl's first store in Prague.

KEY RATIOS Q3	2010 2011	2009 2010
Net sales, SEK million	1,237	1,221
Operating profit, SEK million	57	112
Gross profit margin, %	60.1%	64.6%
Operating margin, %	4.6%	9.2%
Profit after tax, SEK million	26	65
which corresponds to SEK per share	0.35	0.87
Cash flow from operating activities, SEK million:	144	–7

EVENTS Q4

- Four new stores were opened and two were closed.
- Decision on establishment in Austria.
- Cooperation with Swedish fashion chains for sustainable cotton cultivation.

KEY RATIOS Q4	2010 2011	2009 2010
Net sales, SEK million	1,208	1,290
Operating profit, SEK million	3	156
Gross profit margin, %	54%	59.6%
Operating margin, %	0.2%	12.1%
Profit after tax, SEK million	–54	125
which corresponds to SEK per share	–0.72	1.67
Cash flow from operating activities, SEK million:	–97	222

This year KappAhl has ...

... opened *24 stores* net.

... launched the men's collection *Hampton Republic 27*, influenced by classic, masculine and American fashion.

... launched a new fashion club – *Life & Style by KappAhl*.

... won an award for *"Sweden's best workplace"* for the second year in a row.

After the year end ...

... we continued our preparations for *establishment in Austria*. The first store will open in autumn 2012. In the first year of business about 5–6 stores will be opened.

... we launched *Shop Online* at KappAhl.com in October 2011.

... the Board of Directors proposed a *rights issue of about SEK 600* million, with pre-emption right for shareholders. The Group's targets have been updated.

... the Board of Directors appointed *a new President and Chief Executive Officer*, who will take up his post at the beginning of 2012, and the Nominations Committee proposed Christian W. Jansson as *Chairman of the Board*.

KEY RATIOS	**Sept 10 –Aug 11**	Sept 09 –Aug 10	Sept 08 –Aug 09	Sept 07 –Aug 08	Sept 06 –Aug 07
Net sales, SEK million	4,974	5,111	4,866	4,622	4,473
Operating profit, SEK million	222	551	526	651	618
Profit after tax, SEK million	68	402	315	436	659
Gross profit margin, %	58.8	61.8	61.1	62.4	61.1
Operating margin, %	4.5	10.8	10.8,	14.1	13.8
Earnings per share, SEK	0.91	5.36	4.20	5.81	8.78
Number of stores	369	345	319	291	272

"WE ARE NOT PROUD OF THE PAST YEAR. BUT WE WILL GET BACK ON TRACK. KAPPAHL'S FOUNDATION STANDS FIRM: VALUE-FOR-MONEY FASHION WITH WIDE APPEAL."

HOW DO YOU SEE THE PAST YEAR?

We had a weak start and an even weaker continuation. This is nothing we are proud of. The foundation of all we do is to offer value-for-money fashion with wide appeal. When we forget that and our offer becomes too narrow we lose our customers. That happened this year. A simultaneous rapid fall in the market helped intensify the negative trend.

At the same time we must remember that we sold approximately 60 million items and we also satisfied many customers this year. We have a customer base to be proud of and we will develop it further.

WHAT WERE THE CONSEQUENCES?

The weak market, combined with our offer being too narrow, ultimately led to reduced profitability and a high inventory level, which we are working hard to rectify.Things will improve, but it takes time. At the same time as we are selling our stocks we must fill our stores with new items. This is a balancing act, but one we can handle.

THE MARKET HAS WEAKENED SEVERELY, HOW DOES THAT AFFECT KAPPAHL?

Demand has fallen considerably and that affects us. At the same time I would like to point out that we are responsible for our own development, regardless of the state of the market.

Looking back a bit, we thought there would be a fall in demand at the time of the 2008 financial crisis. That didn't happen. Consumers continued to spend at the same high level until early autumn 2010. Then there was a substantial drop in demand. We misjudged this, which is an important reason for our present high level of inventories. The strange thing is that almost all consumers' disposable income has increased in the past year. Nevertheless they are consuming less. There is a lot of psychology involved – anxiety about the future.

WHAT COULD HAVE BEEN DONE DIFFERENTLY?

Now afterwards it is extremely easy to point out things that could have been done differently. The important thing is that we learn from our mistakes so that we don't repeat them.

The most important lesson is that when customers are uncertain, they prefer items they are comfortable with rather than the latest fashion, which we offered this year. We did not listen sufficiently here. Of course, we must run ahead of our customers and show the way purely in fashion terms, but never so far ahead that we lose contact. We are working to correct that by returning to "the heart of fashion", where the majority of our customers can be found. That's where we belong.

WILL FASHION CHANGE?

We are in all probability entering a new change in fashion. This is a positive thing, since, to be honest, not much has happened in recent seasons' major fashion trends. We will move from fairly everyday fashion to more prim and proper fashion. This will create increased demand, since customers need to renew their wardrobes.

YOU ARE ISSUING NEW SHARES, WHAT WILL THE MONEY BE USED FOR?

It will be used to reduce our debt. This way we secure continued development and expansion of our business.

Expansion is important to reach more customers and sell more. This means that we can benefit more from our economies of scale. Ultimately this leads to increased profitability. The operations are very capital-efficient, the stores are run effectively and rapidly become profitable. This means that we can grow securely.

We also need to reduce our debt, to improve the balance sheet. The capital injection from the shareholders will contribute here. The work of reducing inventories is also important, since it will release capital. The aim is to reduce capital tied up in inventories by about SEK 100–150 million from the current level. In addition, we will reduce our investments for a period.

YOU ARE MAKING SAVINGS, WHAT EFFECT WILL THAT HAVE?

We are implementing an extensive cost savings programme, in which we review all our costs, the greatest of which is salaries. It is mainly a matter of reducing the number of hours worked in the stores.

We are seeing signs that the programme is successful – costs are expected to fall by about SEK 150 million. This means that the total cost for 2011/2012 will be at the same level as for 2010/2011, counted in kronor and öre, despite our plans to open 19 stores.

ARE PURCHASE PRICES STILL INCREASING?

No, on the contrary, we see signs of a decline. Payroll expenses at the production stage are actually continuing to rise. But on the other hand the capacity problems at the production stage no longer exist. This leads to a better negotiating position for us. Raw materials prices are also on the way down.

All things considered, we should have lower purchase prices going forward than we have had in the past 12–18 months. But this will not show in our figures until 2012.

If we do see such a development, we will probably be able to reduce our prices in stores somewhat, retaining quality without compromising our profitability targets.

WHAT WILL THE KAPPAHL OF TOMORROW BE LIKE?

We will follow our historically successful formula; offering value-for-money fashion with wide appeal. We will continue to develop what is unique to KappAhl, fashion for adult customers.

The greatest difference in a few years will be that we will have considerably more stores, which means reaching even more customers. This year we opened 24 new stores and we have contracts for another 47.

We have also decided to establish ourselves in Austria. This will be in autumn 2012. In addition we are launching online shopping in autumn 2011.

And everything we do now, and in future, is with the sustainability perspective in mind.

WHAT CHALLENGES DO YOU SEE ON THE WAY?

The single largest issue is how the economy in general will develop and how it will affect consumers. Regardless of how it develops, it is something we must deal with. Being able to offer an attractive wardrobe at a reasonable price to many people is an advantage we must use even better in future, regardless of other market developments.

WHAT WILL YOUR PRIORITIES BE IN THE NEXT FEW YEARS?

We will be particularly careful to keep our customers' needs in focus. That is how we have built our successes in the past. That is how we must build them in the future as well.

"... we must remember that we *sold approximately 60 million items* and we also *satisfied many customers* this year..."

"STRATEGY FOR LONG-TERM GROWTH AND STRONG DIVIDENDS."

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.

WOMEN AGED 30-50 WITH FAMILIES KAPPAHL'S MAIN TARGET GROUP

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

AIMING FOR A HIGH GROSS MARGIN

KappAhl focuses on increasing profitability by strengthening the gross margin. For many years it has been among the highest in the industry – creating a stable foundation for growth. This year's gross margin has decreased, largely due to increased purchase costs and a high inventory level in the winter season, which resulted in a higher than normal percentage of clearance sales. The company is working to strengthen profitability, for example through more effective use of its purchasing and logistics resources.

CASH FLOW – LOW CAPITAL REQUIREMENT IN THE BUSINESS

The capital requirement in KappAhl's business is very low. 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. With the exception of 2010/2011, KappAhl's business has generated a strong cash flow for a number of years.

EXPANSION OF STORE NETWORK

The growth strategy rests on two principles: increased sales via existing stores and establishment of new stores. KappAhl will continue to gain 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. In 2010/2011 we opened 24 stores net.

The potential for establishing new stores in Poland, the Czech Republic and Austria is seen as good. In Sweden, Norway and Finland there are not as many unused locations, since KappAhl already has broad geographical coverage in those countries.

INVESTING IN THE STORES

KappAhl invests on an ongoing basis in improvement and refurbishment of existing 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. Effective marketing, improved store layout and goods display and development of the product mix are other important tools that KappAhl uses to increase sales. 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.

TARGETS AND TARGET FULFILMENT

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

Target 2005/2006–2010/2011	Outcome 2010/2011	Outcome 2009/2010	Outcome 2008/2009	Outcome 2007/2008	Outcome 2006/2007	New targets as of 2011/2012
OPERATIVE TARGETS						OPERATIVE TARGETS
The number of stores is to increase by 20–25 per year	27 new stores opened and 3 closed	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	The number of stores is to increase by 20–25 per year
The operating margin is to be 12 per cent over a business cycle and no lower than 10 per cent	4.5 per cent	10.8 per cent	10.8 per cent	14.1 per cent	13.8 per cent	The operating margin is to be 10 per cent at the latest in the 2013/2014 financial year
FINANCIAL TARGETS						FINANCIAL TARGETS
Interest-bearing net debt is not to exceed 3 times EBITDA other than temporarily	5.1 times	2.4 times	2.8 times	2.3 times	1.7 times	Interest-bearing net debt is not to exceed 3 times EBITDA other than temporarily
The interest coverage ratio is to exceed a multiple of five	3.1 times	6.2 times	6.3 times	8.5 times	6.6 times	
DIVIDEND POLICY						DIVIDEND POLICY
Dividend is to be 70–100 per cent of the profit after tax	The Board of Directors has decided to propose that no dividend be distributed	The dividend was 76.0 per cent of the profit after tax paid	The dividend was 29.7 per cent of the profit after tax paid, which was a temporary deviation from policy	The dividend was 77.5 per cent of the profit after tax paid	Redemption share equivalent to 125.3 per cent	Dividend is to be 40–60 per cent of the profit after tax on condition that the Group meets the financial targets above

"LOYAL, STABLE AND GROWING TARGET GROUP."

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 is almost SEK 190 billion, according to the company's estimates on the basis of available data for each market. In 2012 KappAhl will open stores in Austria, which will then become the company's sixth market.

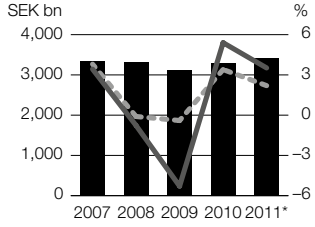
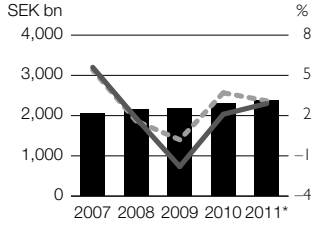
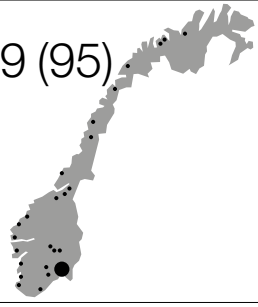
In 2010/2011 the fashion market was weak and there is uncertainty about development in the coming year. The risk of a weakened national economic trend affects the willingness of consumers to buy fashion.

It is true that development of disposable income has been good, but rising interest rates and energy prices have laid claim to part of the scope for consumption. In addition, according to HUI Research AB, more money has been spent on purchases of cars and services.

LOYAL AND GROWING CUSTOMER BASE

There is a connection between GDP growth and growth in retail fashion. Changes in population trends are also slowly but surely affecting patterns of consumption and behaviour.

KappAhl's mission is to sell value-for-money fashion with wide appeal – to women, men and children. The company's main target group, women aged 30–50 with

	Sweden	Norway
Market development * Estimated for the full year 2011		
The market in brief* *Statistics for 2010	Population: 9.4 million Clothing consumption/capita, incl VAT: SEK 5,851 per year Unemployment: 8.8 per cent	Population: 4.9 million Clothing consumption/capita, incl VAT: SEK 9,032 per year Unemployment: 3.6 per cent
Number of KappAhl stores	159 (153) 	99 (95) 
KappAhl's net sales per market, SEK million	2,639 (2,696)	1,338 (1,419)
KappAhl's market share (%) based on clothing consumption/capita, incl VAT	6.0	3.8
Number of KappAhl employees	2,460 (2,256)	1,129 (1,110)
Competitors	H&M, Lindex, Dressmann, Cubus	H&M, Lindex, Dressmann, Cubus

families, is a stable and loyal target group that is also growing (read more about the target group on the previous spread).

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.

INCREASED COMPETITION

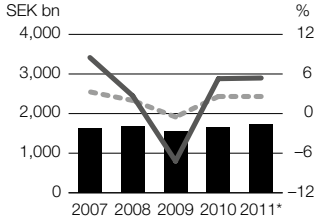
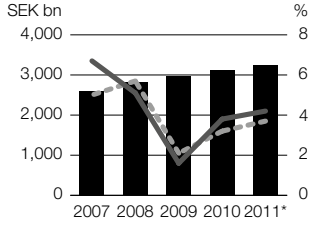
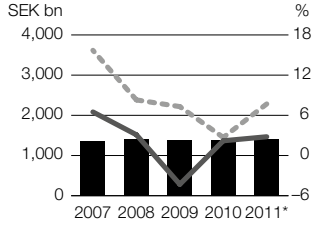
Competition in today's fashion industry is appreciable. As regards consumer spending, clothes also compete with other products that provide well-being, such as beauty and training products. KappAhl competes with international chains, local chains, independent stores, clothing departments in department stores and with supermarkets and sporting goods stores.

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. Many of these companies are known as fully integrated chains, with control of the entire 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.

CLEAR CONCEPT A STRENGTH

Clear concepts create stability in a trend-sensitive fashion world. There are more trends now than before and they shift faster. Consumers more often mix different styles of clothing, levels of fashion, quality and price.

Finland	Poland	The Czech Republic
		
Population: 5.4 million Clothing consumption/capita, incl VAT: SEK 4,721 per year Unemployment: 8.4 per cent	Population: 38.2 million Clothing consumption/capita, incl VAT: SEK 1,235 per year Unemployment: 12.3 per cent	Population: 10.5 million Clothing consumption/capita, incl VAT: SEK 1,657 per year Unemployment: 7.3 per cent
59 (56) 	47 (40) 	5 (1) 
616 (658)	360 (331)	21 (7)
3.0	0.9	0.1
498 (480)	417 (400)	74 (18)
H&M, Lindex, Dressmann, Seppälä	C&A, Inditex, Vistula, H&M, LPP	H&M, Marks & Spencer, Lindex, C&A

KAPPAHL'S CUSTOMER GROUPS

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

Each of our target groups has its unique behaviour, needs and wishes. What gives us energy 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.

CUSTOMER GROUP	SHARE OF KAPPAHL'S NET SALES	IMPORTANT EVENTS 2010/2011
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.		• Launch of Sentimental Journey, a special collection of coats, taking inspiration from KappAhl's almost 60-year history. • Two new second-hand inspired Vintage Stories collections were launched. Vintage Stories was a success right from when the first collection was launched in 2009. • Continued increase in sales of accessories, where we offer everything from bags and jewellery to hats and mittens. The fact is that every fourth item sold by KappAhl is an accessory.
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.		• Launch of Hampton Republic 27, a collection of timeless American, preppy-inspired fashion with exciting matches for the fashion-conscious man. • A less wide range, which led to increased sales in spring and summer 2011, both as regards trousers, jeans and summer garments such as shorts and t-shirts. • Increased homogeneity as regards colours and qualities in the respective collections. This leads to greater differences between the different collections, which makes the choice easier for customers.
CHILD KappAhl Child has a broad target group. It covers babies to "tweens", a rapidly growing group of young people between children and teenagers.		• Repeat of last year's success with Kaxs Proxtec, a collection of functional clothes for small children. Kaxs Proxtec had the best test result in its price category in an annual test of overalls published by the magazine Vi Föräldrar and the consumer product testing company Testfakta in autumn 2011. • Launch of Woxo 720°, a sporty collection with functional outerwear for older children. • Relaunch of Newbie, a collection in 100 per cent ecological cotton, for the new-borns. • Launch of the High Fashion collection, intended for the fashion-conscious girl, bringing something new to the stores every sixth week.

"OUR WOMEN ARE WORTH THE BEST – DESIGN BY KAPPAHL."

KappAhl Woman targets women between 30 and 50. Some live together with someone, but quite a few are single. Some have children, but many do not. However, there is a common denominator – interest in fashion. At the same time they often live in a stressful environment. Since fashion swings faster and faster it is difficult for individual consumers to keep tabs on everything. So our most important task is to help the customer find the right fashion at the right price quickly and simply.

In that way we help her to feel attractive, from the minute she gets out of bed and jumps into a pair of Magic jeans to when she slips into her flannel pyjamas at night. This is our task, every day – regardless of whether she is going to a party, client meeting, collecting from nursery school or just having a nice walk round town. Women who come to us must be given inspiration and we will make sure they get just what they need at a reasonable price, regardless of the type of customer or what their needs are that day. We have our customers in mind already at the design stage, how the garments can be matched and how the clothes are to be displayed in the stores to make it easy for our customers to shop.

LEADER IN TROUSERS AND JEANS

Many years ago we decided to be good at jeans and trousers, with a very wide range of styles and fits. We have succeeded in becoming market leader in jeans and trousers in Sweden – a position we still hold this year. Among the best sellers are our Magic jeans, which continue to be immensely popular with our customers.

We are also very strong on outerwear. We have worked intensively on an upgraded design and wider selection. For example we have increased the range of functional jackets with great success. Party clothes and soft packages containing underwear, nightwear and "cosy clothes" to put under the Christmas tree are other areas where we lead in Sweden.

One of the most important parts of our work is what we call the hidden design, which helps to achieve a perfect fit. Our pattern constructors are experts at this. The smallest pleat or notch is examined and corrected, so that the garments fit beautifully and comfortably. Our pattern constructors are experts at this. The smallest pleat or notch is examined and corrected, so that the garments fit beautifully and comfortably.

IMPORTANT EVENTS

This year we have worked to create greater variation in our range, to give inspiration. In 2010/2011 the special collection, Sentimental Journey, was launched, which was a fantastic success. The collection, consisting of coats with inspiration from the 1950s, 1960s, 1970s and 1980s, was a tribute to KappAhl's history and origin. Our designers worked from fashion pictures and drawings and developed garments with clear inspiration from the fashion of the different decades.

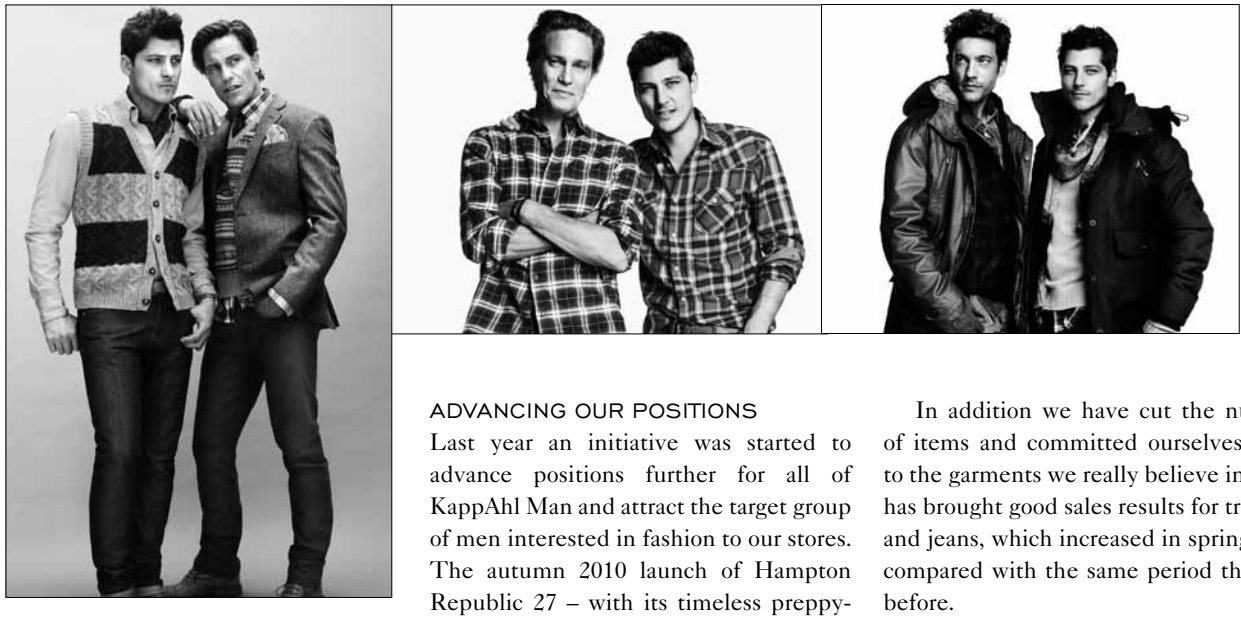
We also launched two new Vintage Stories collections, which were well-received by customers – just like the earlier collections. Vintage Stories, characterised by second-hand influences and where every garment is marketed with its own personal history, has been a success right from the launch of the first collection in 2009.

Our sales of accessories continue to grow vigorously. With a distinct section and a broad attractive selection of bags, jewellery, hats and mittens we have succeeded in showing customers that we know about accessories. Every fourth item sold by KappAhl is an accessory.

SALES TREND

KappAhl Woman achieved sales of SEK 2.8 (2.9) billion in 2010/2011, accounting for 57 (58) per cent of KappAhl's total sales.

"FASHION THAT MEN FEEL CONFIDENT IN."



KappAhl Man targets men between 30 and 50. They find a large selection of clothes of good quality and price at KappAhl. 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 the 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 growing numbers 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.

ADVANCING OUR POSITIONS

Last year an initiative was started to advance positions further for all of KappAhl Man and attract the target group of men interested in fashion to our stores. The autumn 2010 launch of Hampton Republic 27 – with its timeless preppy-inspired fashion, high quality and focus on finish – made a positive contribution to this. The change 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 with us and confident that we know about fashion. In addition we believe that the women who buy clothes for their husbands also like the increased clarity of our concepts.

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.

IMPORTANT EVENTS

We have worked hard to create more homogeneous expression as regards colours and qualities in the different collections. In that way the differences between the collections become clearer. Here the launch of Hampton Republic 27 in autumn 2010 added a distinctive note in the store.

In addition we have cut the number of items and committed ourselves more to the garments we really believe in. This has brought good sales results for trousers and jeans, which increased in spring 2011 compared with the same period the year before.

Sales of summer fashion, with shorts, short-sleeved shirts and t-shirts, were positively affected by our increased focus on a reduced range of products and fewer but more commercial and fashionable garments.

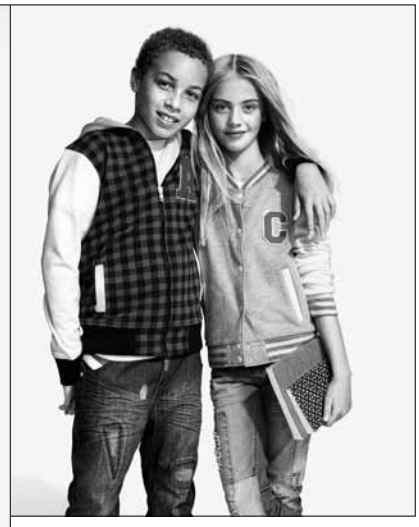
In 2010/2011 we put more effort into tactical pricing of individual products. This means that already at the launch we set an attractive price on products that we know have good chances of reaching large sales volumes. This was a success in spring 2011, when for example we concentrated hard on short-sleeved shirts at attractive prices.

Father's day and Christmas shopping marked two sales peaks during the year. This was largely thanks to a strong offer in knitwear and shirts. In addition our warmth accessories, such as mittens and scarves, sold very well.

SALES TREND

KappAhl Man achieved sales of SEK 0.6 (0.6) billion in 2010/2011, accounting for 11 (12) per cent of KappAhl's total sales.

"FASHION AND FUNCTION – THE RIGHT MODEL FOR OUR KIDS."



KappAhl Child has fashion for all ages and needs – a range that means that customers can put together complete, functional and good-looking outfits, simply and economically.

STRONG ON JEANS

If we are to point to any areas where KappAhl is particularly strong it must be trousers and jeans for all target groups – from babies to "tweens", the group between children and teenagers. At the beginning of the school year, for example, we can sell hundreds of thousands of pairs of trousers and jeans in just a few weeks. Another area where KappAhl holds a strong position is in outerwear – above all functional outerwear – with the Kaxs Proxtec and Woxo 720° collections.

IMPORTANT EVENTS

In September 2010 we launched Woxo 720°, a sporty collection with functional outerwear for older children. The inspiration comes from the snowboard world and "street fashion". Quality is very high, not least as regards details. For example, the garments are waterproof thanks to taped seams. The quality and fashionable design contributed to strong sales in both autumn 2010 and spring 2011. In preparation for autumn 2011 the collection has been extended with hooded jackets, WCT jackets and jogging trousers and jeans.

In autumn 2010 there was a relaunch of Newbie, a collection in 100 per cent ecological cotton for new-borns. Newbie includes functional and soft garments for the very smallest children, with a traditional sophisticated style and neutral, soft colour scale. All the details create a feeling of simplicity with a suggestion of nature. Newbie has been a great success, both in terms of sales and the media, enabling KappAhl to reach many new customers.

In autumn 2010 High Fashion was launched, for older girls. This is a collection where the very latest fashion for slightly older "tweenies" is interpreted by KappAhl's designers, who work very freely. The styles vary, with something new every sixth week.

During the year KappAhl has also followed up the large-scale accessories drive, which took place in 2009/2010. The successes continue and interest is great, for example for KappAhl's functional mittens and hats.

STUCK OUT IN A GOOD WAY

KappAhl continued to focus on Kaxs Proxtec, functional outerwear for small children, in 2010/2011. The garments look good and are of high quality, as regards both fit and function. This is shown not least in the good press the garments have received. In autumn 2011 Kaxs Proxtec had the best test result in its price category in an annual test of overalls published by the magazine Vi Föräldrar and the consumer product testing company Testfakta in autumn 2011.

During the year there has been lively debate in the media on gender roles and clothes. We stuck out in a good way there, thanks to efforts to offer gender neutral alternatives via Kaxs and Kaxs Proxtec, which are a complete, functional and colourful nursery school collection with everyday clothes in a large selection of colours. The same garment is offered to both girls and boys, which makes KappAhl unique among the large chains.

SALES TREND

KappAhl Child achieved sales of SEK 1.6 (1.6) billion in 2010/2011, accounting for 32 (30) per cent of KappAhl's total sales.

Attractive fashion at a reasonable price. This is what we want our customers to think of when they see our logotype. To constantly achieve that requires both inspiration and

STEP 1: DESIGN

"DESIGN WITH THE CUSTOMER IN MIND"

Over 10,000 articles are produced every year at KappAhl. Design plays a central role here. The company has more than 30 designers and a large number of pattern constructors who form all clothes. Altogether tens of thousands of hours are devoted to design every year. KappAhl's designers have their customer in mind all the way from the first idea to the finished garments and collections. The working method builds on transforming early trends to fashion that suits KappAhl's target group exactly, as regards appearance, fit and quality. In that way the collections are "at the heart of fashion", where the large sales volumes can be found.

STEP 2: PURCHASING

"GOOD PURCHASING IS BASED ON THE RIGHT FEELING FOR SALEABILITY"

All fashion produced by KappAhl must have the "right saleability". Here great responsibility rests with KappAhl's purchasing department, which consists of about 140 people. The buyers determine which garments are to be manufactured, in what volumes and when. They are also responsible for negotiating purchase prices. This is done with support from KappAhl's production offices in Asia and Europe. The purchasers, who are responsible for the gross profit on sales of the fashion that is purchased, set prices for each individual product and decide on any price reductions. KappAhl's buyers are recognised as being good at this, which is demonstrated by the company's historically good gross margin, compared with the industry as a whole.

STEP 3: PRODUCTION

"FLEXIBLE AND EFFECTIVE PRODUCTION PROCESS"

KappAhl's production is with some 240 carefully selected suppliers in Asia and Europe. Just over 80 per cent of purchases are made in Asia and around 30 producers account for 60 per cent of the total volume. Not owning the production side is a conscious choice. This leads to a reduction in tied-up capital and creates flexibility, enabling KappAhl to easily change to another production technology and supplier where necessary. To create an effective and quality assured production process KappAhl has production offices in important purchase markets: Bangladesh, India, China, Lithuania and Turkey. KappAhl carries out frequent spot checks at all stages of the production process. The percentage of garments in which production defects have arisen has decreased – it is now less than one per cent.

energy, but also a lot of knowledge and a systematic way of working. All the way from idea and design to store sales. Here is a brief picture of what we do at each step along this chain.

STEP 4: DISTRIBUTION

"HANDLING MORE THAN 60 MILLION ITEMS EVERY YEAR"

Storage space in KappAhl's stores is limited, since areas must preferably be used for selling. So timing of distribution is important. The goods must reach the store at exactly the right moment, to maximise sales and reduce the need to cut prices. At the head office, all logistics for the Group is coordinated. There is also KappAhl's distribution centre located, which is one of the most effective in Europe. Each year more than 60 million items pass through the facility. Our stores receive deliveries three to five times a week or more often if sales require. Almost 75 per cent of shipments from the country of manufacture are by sea, for environmental and cost 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.

STEP 5: MARKETING

"REFLECTS KAPPAHL'S SOUL IN ALL CONTEXTS"

Warmth, community, happiness and adult fashion – this is KappAhl's core and it must inform all marketing. Not least in the stores – the company's most important channel of communication as regards inspiring and helping customers to find the right fashion. Surveys show that KappAhl is successful in its meetings with customers. A large percentage of store visitors are converted to paying customers. Strengthening KappAhl's image and attracting more visitors therefore has a high priority. The company uses a mix that covers everything from PR and website to advertising in broad media. Use is also made of texting and direct advertising to customers in the company's loyalty programme, which is successfully established in all markets. During the year a new programme was launched, the fashion club Life & Style by KappAhl. Loyalty programmes are of great importance for sales, since card customers spend more than the average customer.

STEP 6: STORE SALES

"HUNDREDS OF THOUSANDS OF VISITORS EVERY DAY"

About 300,000 people visit KappAhl's stores daily. Each visit is a unique opportunity to help customers to find the right fashion in a simple and inspiring way. A KappAhl store must be perceived to be warm, adult and modern – customers feel at home then. Here it is not only the store's fittings, displays and lighting that must be good. How the salespeople treat the customer and their ability to help the customer is also of central importance. Every year a large number of adaptations and improvements are carried out in the store network. At the close of 2010/2011 KappAhl had 369 (345) stores. In the 2010/2011 financial year 27 stores were opened and 3 were closed. On 31 August 2011 there were contracts for a further 47 stores. During the year the decision was made on establishment in Austria in autumn 2012. KappAhl also carried out preparations for the launch of Shop Online, which took place in October 2011.

"SOME EXAMPLES OF ALL WE DO IN THE AREA OF SUSTAINABILITY"

KappAhl's customers expect more than just the right feeling for fashion. They also want the company to take responsibility for the business from the point of view of sustainability. A sustainable approach is the foundation of every successful company. We take responsibility for people and the environment and make an active contribution to development in the countries where we operate.

Here are some examples for you of what we do and how the work is done. If you want to know more please also read our CSR report. It is available at www.kappahl.com.

THREE POLICY DOCUMENTS

Work on sustainability is systematic at every stage of our operations, from design and production to distribution and store sales. Three policy documents are central in this work: The Code of Conduct for our suppliers, the Environmental Policy and the Work Environment Policy, which are presented on the next spread.

THE CODE OF CONDUCT

In 1997 we drew up our first code of conduct for suppliers. Since then we have worked continually to improve conditions of employment and working conditions in our suppliers' production units.

We have almost 240 suppliers. All of their production units are subject to the company's Code of Conduct, which covers areas such as pay, working hours, safety at work and freedom to join trade unions. The Code of Conduct is available to read in its entirety at www.kappahl.com.

The greatest percentage of our clothes is produced in China, Bangladesh and India. In addition production takes place in Turkey, Lithuania, Italy and Ukraine.

Twelve specialists work with the Code. They are located in our production office and work daily with suppliers and their production units under a system that includes inspections and follow-up visits. In 2010/2011 there were 683 inspections and follow-up visits.

FIRST IN THE INDUSTRY 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. A new audit is conducted every year. The ISO certificate 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. Certification of stores in Norway is also carried out on the basis of the nationally recognised standard. The ambition is to certify operations in all markets in the future.

20 PER CENT OF GARMENTS ARE ECO FASHION

The first time we launched Eco fashion was in 1993. Today more than 12 million, just over 20 per cent, of the garments have Öko-Tex, EU Flower or Organic Cotton labels.

All garments in our stores meet the same strict quality requirements, regardless of whether they are certified by an independent external body or examined by our internal test units. The areas examined include the product quality itself, the manufacturing process and use of chemicals – both in the garment itself and the manufacturing. All garments are examined by external independent laboratories and via internal tests. We have our own process for random checks for chemicals, "No-Risk", which has been used regularly for four years. We also have our own quality inspectors who check and approve all orders before they are allowed to be shipped. Checks are also made to ensure child safety and compliance with other physical requirements.

GREEN ELECTRICITY SINCE 1999

The sustainability perspective informs all parts of our operations. For example, since 1999 we have been using green electricity wherever possible. In addition, all shipments of folded garments are packed in crates of recycled plastic – and all customer bags are made of recycled plastic. They are more environmentally efficient than paper bags, thanks to their lower weight and energy consumption.

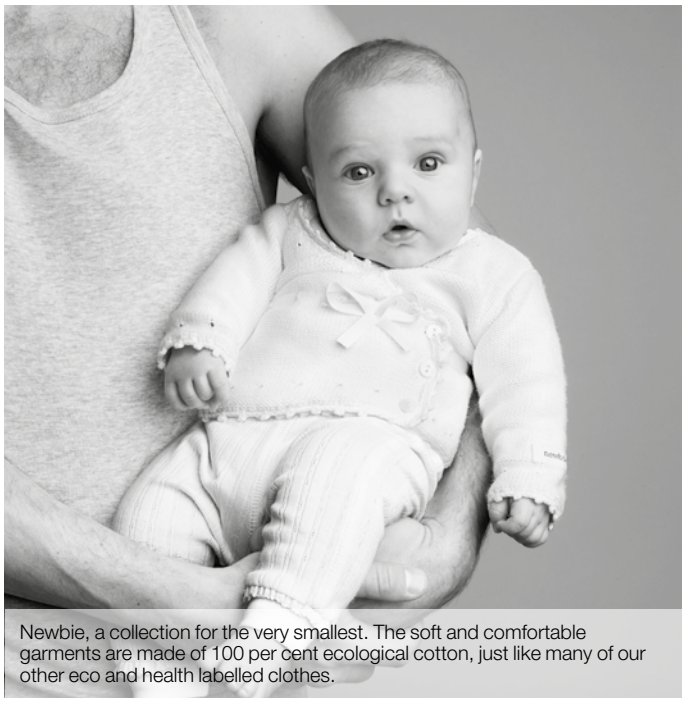
COOPERATION FOR REDUCED EMISSIONS

In goods transport we are working consciously to transfer goods when possible to modes of transport that have less environmental impact, such as ships and trains. We cooperate here with Green Cargo, for example. Grouped shipments and effective route planning, which are important for the environment, are also used.

Carbon dioxide emissions from transport decreased by 32 per cent in the past financial year and by a total of 17 per cent since 2005/2006. Calculated per garment the decrease was 34 and 29 per cent respectively in the same periods. The decrease is mainly due to a conscious reduction of our shipments by air. We engage an external party, Tricorona Climate Partner, for these climate quantification calculations.

CARBON OFFSETS FOR SEK 675,000

Buyers and management make most business trips at KappAhl, which was first in the industry to purchase carbon offsets



Newbie, a collection for the very smallest. The soft and comfortable garments are made of 100 per cent ecological cotton, just like many of our other eco and health labelled clothes.

for this type of travel. In 2010/2011 we bought carbon offsets for 100 tonnes of carbon dioxide. This means an allocation of about SEK 25,000. We have compensated for emissions of 2,600 tonnes of carbon dioxide since the start in 2007, which corresponds to an allocation of almost SEK 675,000. The money was invested in a UN certified wind power project for the textile industry in India.

COOPERATION THAT BRINGS IMPROVEMENT

We are positive towards working with other stakeholders regarding sustainability, since this increases access to expertise and puts more force behind implementation.

Cotton is our most important raw material and its cultivation affects many people. So we are working together with other fashion chains in a unique cooperation project for sustainable cotton cultivation. Together with others we can speed up the process and achieve so much more than we could individually. Another example of cooperation on important issues is STWI, the Sweden Textile Water Initiative – a cooperation project relating to water issues in production countries. KappAhl is also 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. Apart from that we participate in the Ethical Trading Initiative, the Nordic Chemicals Group and the Swedish Standards Institute standardisation group SIS/TK 160 that deals with such issues as safety in children's clothes and chemicals. In addition we are one of the principal sponsors of the Sustainable Fashion Academy (SFA).

INCLUDED IN SUSTAINABILITY INDEX

One of many signs that KappAhl is living up to strict sustainability requirements is that we are included in the OMX Sustainability Index, on the Nasdaq OMX Stockholm.

READ MORE IN THE CSR REPORT

If you want to know more about our sustainability work you are welcome to read the company's CSR report, which is available at www.kappahl.com.

SOME MILESTONES IN OUR SUSTAINABILITY WORK

1993
- First collection of "eco clothes"

1997
- Code of conduct introduced
- Environmental review carried out
- Öko-Tex labelled garments

1998
- First environmental policy

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

2000
- Started giving surplus clothes to charities in all markets

2002
- Member of the Norwegian Ethical Trading Initiative

2004
- Member of the Business Social Compliance Initiative, BSCI

2007
- Carbon offset of business travel by air for the first time.
- Member of the Better Cotton Initative, BCI

2009
- All KappAhl's bags in stores are manufactured from recycled plastic

2010
- Member of Business for Social Responsibility, BSR
- Donation of surplus clothes to local charities
- Training centre for vulnerable women in Bangladesh
- One of the main sponsors behind the Sustainable Fashion Academy

2011
- 20 per cent of the range consists of eco-labelled fashion
- CO_2 emissions from transport decreased by 32 per cent in 2010/2011 compared with the previous financial year
- More than SEK 1 million raised for the Swedish Heart-Lung Foundation

"BEST WORKPLACE – OUR GOAL!"

In December 2010 we were given the award "Sweden's best workplace" by the magazine Veckans Affärer for the second year in a row. The assessment was made on the basis of gender distribution of managers, wage dispersion and gender equality goals.

Other surveys in Sweden and in the company's other markets also show that we have a good workplace. The work climate and all the employees contribute to this. The organisation is good at sharing both successes and challenges as a team. This brings sound results in the long term.

4,900 EMPLOYEES AT 384 WORKPLACES

We have many different occupations and almost 4,900 employees at 384 workplaces in eleven countries, including everyone who lends a hand in the high season. Our employees work on everything from design to store sales – with the support of effective IT systems.

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 direction and goals. This gives security.

CULTURE THAT UNITES

Our culture is based on a will to develop, find new solutions and thereby be a step ahead of the competition. This ambition is summed up in the four words Creativity, Clarity, Energy and Courage.

The corporate culture colours all we do, from day-to-day tasks and decisions to development and change projects – and we do it together.

Team work is crucial for us. Our combined forces make us a winning team. That way a good foundation is created to enable employees to continue to grow, along with the company.

DEVELOPMENT IN DAILY WORK

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

But targeted training measures are also required. We have therefore developed extensive training programmes, with courses for different skills requirements. Apart from contributing to skills development at individual level the programme ensures that our concept is consistent in all markets.

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 performance review is conducted at least once a year and the objective is to achieve 100 per cent completed reviews. The results are measured and followed up, for example through our internal KappAhl Attitude Survey.

POSITIVE DEVELOPMENT VIA DIVERSITY

Variation enriches and contributes to new ideas and ways of working that are smarter than the old ones. That is why we value diversity of ages, gender, language, geographical and religious backgrounds.

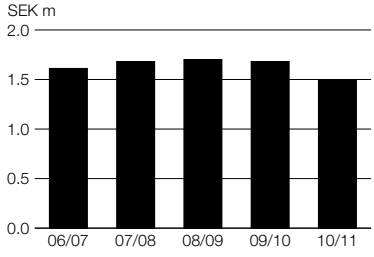
According to the latest survey in this area one or both parents of as many as one in three KappAhl employees in Sweden were born outside the country.

This is good because it means our operations largely reflect the community and the customers.

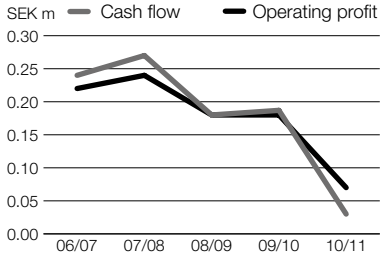
MANY WANT TO WORK FOR US

A lot of people want to work at KappAhl. When we advertise for sales assistants there are usually hundreds of applications.

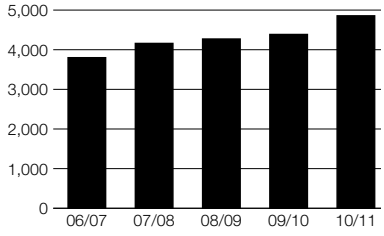
NET SALES PER FULL TIME POSITION



CASH FLOW AND OPERATING PROFIT PER FULL TIME POSITION



TOTAL NUMBER OF EMPLOYEES





To facilitate the work of recruitment the selection process has been refined and further systematised. We are careful when we recruit, for the sake of both parties, and we follow a quality assured process. We want to attract employees who are happy, develop and do a good job.

We focus on internal recruitment and about 7 out of 10 key positions are filled by internal applicants. This is proof that our development focus pays off.

SPREADING KNOWLEDGE

Cooperation with schools and universities is something to which we assign great importance. The main focus is on education and research connected to the retail 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 at other higher education institutions, such as the Swedish School of Textiles in Borås and at Advanced Vocational Education courses, trade fairs and seminars.

Every year we offer work experience places to a large number of students, both in stores and at the head office.

A HEALTHY WORKPLACE

The work environment is a strategic issue for us. 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.

We reward independent health initiatives at all levels of the company and encourage all employees to lead active lives, leading to good health. Consequently all employees are offered an exercise subsidy. We also cooperate with fitness centres, where our employees can exercise at a reduced price.

Sickness absence in the Group as a whole was 5.3 (5.6) days on average in 2010/2011.

OUR EFFORTS PAY OFF

Our method of operation evidently works well. Apart from the growth of the company, our employees are satisfied. This is shown in the KappAhl Attitude Survey (KAS) conducted in autumn 2010. It resulted in a continued high score for KappAhl 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 involved and 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.

READ MORE IN THE CSR REPORT

If you want to read more about our workplace you are welcome to read KappAhl's CSR report, which is available at www.kappahl.com.

KEY RATIOS, EMPLOYEES

	2010/2011
Total number of employees	4,856
Average number of full-time positions (restated)	3,332
Percentage of women	92.4
Average age	36.6

"OUR SHARE IS INCLUDED IN THE NASDAQ OMX GES SUSTAINABILITY INDEX."

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 2011 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 2011 the value of the KappAhl share decreased by 70.1 per cent. This can be compared with the Nasdaq OMX Stockholm All-Share index that fell in value by 7.7 per cent and Nasdaq OMX Stockholm Consumer Discretionary that fell by 21.0 per cent in the same period.

The highest price paid was SEK 64.50 on 17 September 2010 and the lowest price paid was SEK 14.60 on 30 August 2011.

At the close of the financial year KappAhl's market value was SEK 1,223 million and the P/E ratio estimated on profit for the year was 17.9.

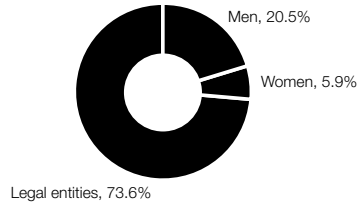
Between 1 September 2010 and 31 August 2011 a total of 123.5 million KappAhl shares were traded at a value of SEK 4.81 billion, based on the average price. This means that each share was traded 1.65 times over the year, corresponding to an average of 488,166 shares traded per day.

OWNERSHIP STRUCTURE

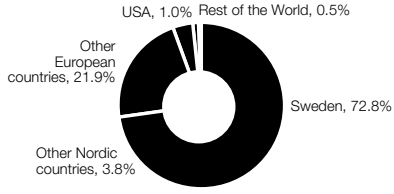
On 31 August 2011 KappAhl had 19,499 shareholders. The largest shareholder was KappAhl's President Christian W. Jansson, with a 16.28 per cent holding via a company, followed by Swedbank Robur fonder with a 5.74 per cent holding and Falkstenen AB (Rune Anderson) with a 4.92 per cent holding.

Of the shareholders, 22.9 per cent own more than 1,000 shares. Shareholdings registered with companies and institutions amounted to 73.6 per cent and shareholdings registered at non-Swedish addresses were 27.2 per cent.

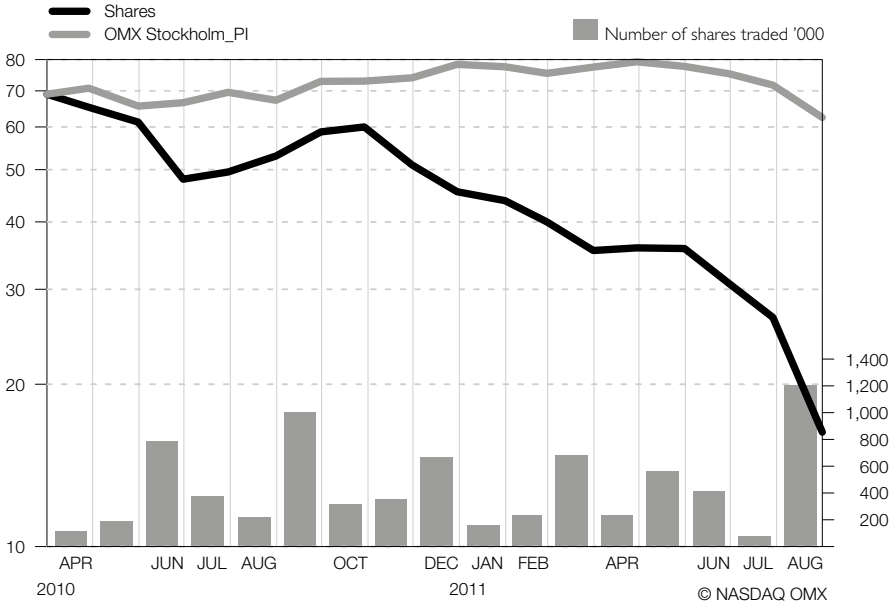
DISTRIBUTION OF OWNERSHIP, SHAREHOLDING



GEOGRAPHICAL DISTRIBUTION, SHAREHOLDING



KAPPAHL SHARE PERFORMANCE 2010/2011

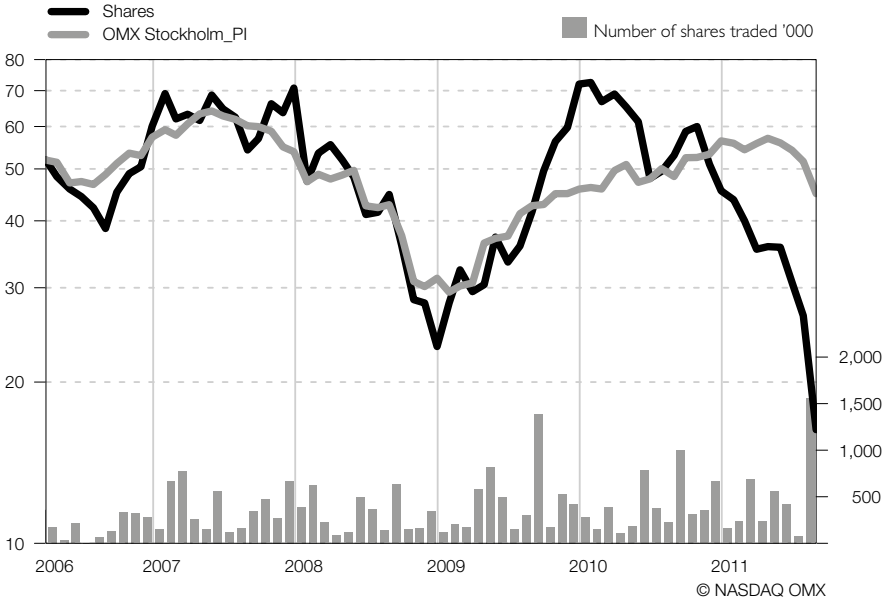


KAPPAHL IS INCLUDED IN SUSTAINABILITY INDEX

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

Shareholding (SEK thousand)	Number of shareholders	Number of shares	Share-holding (%)	Votes (%)
1–500	11,490	2,307,254	3.07%	3.07%
501–1,000	3,508	3,089,635	4.12%	4.12%
1,001–5,000	3,484	8,651,026	11.53%	11.53%
5,001–10,000	504	3,916,957	5.22%	5.22%
10,001–15,000	155	1,952,702	2.60%	2.60%
15,001–20,000	81	1,514,533	2.02%	2.02%
20,001–	227	53,607,893	71.44%	71.44%
Total	**19,449**	**75,040,000**	**100.0%**	**100.0%**

KAPPAHL SHARE PERFORMANCE MARCH 2006–31 AUGUST 2011



DIVIDEND

The Board of Directors proposes to the 2011 Annual General Meeting that no dividend be distributed for the 2010/2011 financial year.

STOCK MARKET INFORMATION

KappAhl's information to the stock market and shareholders is to be characterised by correctness, relevance, transparency and speed. KappAhl's press releases, quarterly reports and annual reports are available at www.kappahl.com/ir.

Here you will also find additional information about the company, financial performance and the KappAhl share and how to subscribe to information from KappAhl.

KEY FIGURES

	Sept–Aug 2010/2011	Sept–Aug 2009/2010	Sept–Aug 2008/2009	Sept–Aug 2007/2008	Sept–Aug 2006/2007
Sales growth, %	–2.7%	5.0%	5.3%	3.3%	6.1%
Operating profit (EBIT)	222	551	526	651	618
Total depreciation/amortisation	219	234	234	221	200
Gross profit margin, %	58.8%	61.8%	61.1%	62.4%	61.1%
Operating margin, %	4.5%	10.8%	10.8%	14.1%	13.8%
Interest coverage ratio (multiple)	3.1	6.20	6.27	8.48	6.61
Net interest-bearing liabilities	2 266	1,866	2,100	1,979	1,387
Net interest-bearing liabilities/EBITDA (multiple)	5.14	2.38	2.76	2.27	1.70
Equity/assets ratio, %	14.9%	22.1%	11.3%	16.4%	28.0%
Equity per share, SEK	6.93	9.90	5.05	7.09	11.86
Equity per share after dilution, SEK	6.93	9.90	5.05	7.09	11.86
Return on equity, %	1.27				
Cash flow from operating activities per share		6.77	6.71	9.73	8.89
Market price, SEK	16.30	53.00	41.60	44.80	64.75
Market value, SEK m	1,223	3,977	3,122	3,362	4,859
P/E ratio (multiple)	17.9	9.9	9.9	7.7	7.4
Dividend yield, %	0.0 %	6.1%	3.0%	10.0%	17.0%
Price/equity, %	235 %	535%	824%	633%	546%
Earnings per share, SEK	0.91	5.36	4.20	5.81	8.78
Dividend per share (proposed 2010/2011)	0.00	3.25	1.25	4.50	11.0[1]
Dividend payout ratio of earnings after tax paid, %	0.0 %	76.0%	29.7%	77.5%	125.3%
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 2010/2011	Sept–Aug 2009/2010	Sept–Aug 2008/2009	Sept–Aug 2007/2008	Sept–Aug 2006/2007
Net sales	4,974	5,111	4,866	4,622	4,473
Cost of goods sold	–2,048	–1,954	–1,893	–1,740	–1,738
Gross profit	**2,926**	**3,157**	**2,973**	**2 882**	**2,735**
Selling expenses	–2,560	–2,467	–2,315	–2,106	–1,985
Administrative expenses	–144	–139	–132	–136	–142
Other operating income	–	–	–	11	16
Other operating expenses	–	–	–	–	–6
Operating profit	**222**	**551**	**526**	**651**	**618**
Financial income	1	1	1	27	23
Financial expenses	–72	–89	–84	–80	–97
Profit/loss after financial items	**151**	**463**	**443**	**598**	**544**
Tax	–83	–61	–127	–162	115
Profit after tax	**68**	**402**	**315**	**436**	**659**

QUARTERLY INCOME STATEMENTS (SEK M)

	Q4 10/11	**Q3 10/11**	**Q2 10/11**	**Q1 10/11**	Q4 09/10	Q3 09/10	Q2 09/10	Q1 09/10	Q4 08/09	Q3 08/09	Q2 08/09	Q1 08/09
Net sales	1,208	1,237	1,188	1,341	1 290	1 221	1 256	1 344	1,226	1,206	1,168	1,266
Cost of goods sold	–556	–493	–508	–491	–521	–432	–531	–470	–473	–478	–490	–452
Gross profit	**652**	**744**	**680**	**850**	**769**	**789**	**725**	**874**	**753**	**728**	**678**	**814**
Selling expenses	–616	–651	–624	–669	–583	–639	–615	–630	–549	–587	–574	–605
Administrative expenses	–33	–36	–40	–35	–30	–38	–34	–37	–28	–32	–39	–33
Other operating income	–	–	–	–	–	–	–	–	–	–	–	–
Other operating expenses	–	–	–	–	–	–	–	–	–	–	–	–
Operating profit	**3**	**57**	**16**	**146**	**156**	**112**	**76**	**207**	**176**	**109**	**65**	**176**
Financial income	1	0	0	0	0	0	–	0	0	0	1	0
Financial expenses	–18	–22	–15	–17	–24	–24	–23	–18	–23	–23	–19	–19
Profit/loss after financial items	**–14**	**35**	**1**	**129**	**132**	**88**	**54**	**189**	**153**	**86**	**47**	**157**
Tax	–40	–9	0	–34	–7	–23	–20	–11	–47	–24	–13	–44
Profit after tax	**–54**	**26**	**1**	**95**	**125**	**65**	**34**	**178**	**106**	**62**	**34**	**113**

	Q4 07/08	Q3 07/08	Q2 07/08	Q1 07/08	Q4 06/07	Q3 06/07	Q2 06/07	Q1 06/07
Net sales	1,103	1,140	1,132	1,247	1,090	1,106	1,088	1,189
Cost of goods sold	–420	–413	–457	–450	–412	–417	–460	–449
Gross profit	**683**	**727**	**675**	**797**	**678**	**689**	**628**	**740**
Selling expenses	–480	–547	–521	–558	–456	–528	–484	–517
Administrative expenses	–32	–35	–36	–33	–33	–32	–40	–37
Other operating income	11	–	–	–	–	3	13	–
Other operating expenses	–	–	–	–	–6	–	–	–
Operating profit	**182**	**145**	**118**	**206**	**183**	**132**	**117**	**186**
Financial income	0	21	3	3	0	11	10	2
Financial expenses	–26	–18	–18	–18	–16	–32	–33	–16
Profit/loss after financial items	**156**	**148**	**103**	**191**	**167**	**111**	**94**	**172**
Tax	–43	–36	–29	–53	–48	–32	244	–49
Profit after tax	**113**	**112**	**74**	**138**	**119**	**79**	**338**	**123**

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 2010 to 31 August 2011.

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 24.

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 2011 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
Swedbank Robur Fonder	4,310,701	5 .74
FALKSTENEN AB (Mellby Gård AB)	3,689,944	4 .92
AVANZA PENSION	2,943,161	3 .92
SVENSKT NÄRINGSLIV (CONFEDERATION OF SWEDISH ENTERPRISE)	2,100,000	2 .80
SHB: ODIN SVERIGE AKSJEFONDET	1,957,332	2 .61
ROBUR FÖRSÄKRING	1,585,629	2 .11
Handelsbanken fonder	1,453,976	1 .94
Skandia Fonder	1,224,882	1 .63
SVENSKA HANDELSBANKEN CLIENTS ACC:3	1,145,474	1 .53
Other shareholders	42,414,201	56 .52
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 4,974 (5,111) million, a decrease of 2.7 per cent compared with the previous financial year. This consists of: new and closed stores, +4.6 per cent; development of comparable stores, –4.3 per cent; and currency translation differences, –3.0 per cent. During the year the number of stores increased by 24.

Gross profit was SEK 2,926 (3,157) million, which corresponds to a gross margin of 58.8 (61.8) per cent. The decrease in the gross margin is due to increased purchase costs and a higher percentage of clearance sales.

Operating profit

Selling and administrative expenses amounted to SEK 2,704 (2,606) 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 normal inflation.

The Group's operating profit for the financial year is SEK 222 (551) million, a decrease of 59.7 per cent. The operating margin is 4.5 (10.8) per cent.

Taxes

Taxes for the year reported in the income statement amount to 54.8 per cent, while tax paid amounts to about 75.7 per cent, The high reported tax is primarily due to not recording a deferred tax asset for losses in Poland and the Czech Republic. The difference between reported and paid tax refers to the tax cost in Sweden and Norway. A considerable part of this tax paid refers to the previous year.

Store network and expansion

During the financial year, 28 new stores were opened: eight in Sweden, seven in Poland, six in Norway. four in the Czech Republic and three in Finland. Two stores in Sweden and two in Norway were closed in the same period. At the end of the financial year the total number of stores was 369 (345); 159 in Sweden, 99 in Norway, 59 in Finland, 47 in Poland and five in the Czech Republic.

The work of finding new store sites is proceeding according to plan. Apart from the 369 (345) stores in operation on 31 August this year, there are at present contracts for 47 new stores. Of the new contracts, 12 stores will be opened in the first quarter of 2011/2012. The long-term goal – an increase in the

number of stores by 20 to 25 per year remains. In the coming financial year about 20 stores will be opened.

NUMBER OF STORES PER COUNTRY

	31/8/ 2011	31/8/ 2010	31/8/ 2009	31/8/ 2008	31/8/ 2007	31/8/ 2006	31/8/ 2005	31/8/ 2004
Sweden	159	153	144	138	131	130	125	124
Norway	99	95	92	87	84	81	74	72
Finland	59	56	53	46	42	36	32	30
Poland	47	40	30	20	15	13	11	9
Czech Republic	5	1						
Total	**369**	**345**	**319**	**291**	**272**	**260**	**242**	**235**

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 19.

FINANCING

Interest-bearing net debt at the end of the period was SEK 2,266 million, compared with SEK 1,866 million as at 31 August 2010. Net interest-bearing debt/EBITDA was 5.1 at the end of the period as compared with 2.4 as at 31 August 2010. The equity/assets ratio fell to 14.9 per cent (22.1), mainly due to dividend paid during the year. Cash and cash equivalents amounted to SEK 39 (26) million as at 31 August 2011. At the period close there were unutilised credit facilities of about SEK 300 (800) million. A new three-year loan agreement has been signed with the company's banks. Total credit facilities amount to SEK 2,550 million and the interest expense in the coming year is expected to be about 8 per cent of the amount utilised.

The Board of Directors has ensured the support of the principal shareholders for a rights Issue of SEK 600 million. The purpose of the capital infusion is to strengthen the balance sheet by reducing debt. Further information is available in Note 19.

SIGNIFICANT EVENTS

Market

During the year another four stores were opened in the Czech Republic, which is the latest market we have added.

Investments

Net investments for the year in the Group amount to SEK 241 (202) million and consist mainly of investments in existing and newly opened stores. In light of the current economic situation the investment level in the Group for the coming year will be at a lower level than normal. This means that the long-term rate of investment of SEK 250–300 million in new and existing stores will not be achieved in the coming year. In the Parent Company KappAhl AB (publ) no investments were made during the year.

FUTURE EXPECTATIONS

In the last year the market for retail fashion has been weak. This is mainly due to consumers becoming more careful with their money. In the last quarter the media have been heavily coloured by negative economic news, which affects consumers' willingness to spend. It is true that disposable income has developed well, but at the same time rising interest rates and rising energy prices have taken part of the scope for consumption. In addition, according to HUI Research AB (HUI), more money has been spent on purchases of cars and services. Developments in the next year are uncertain.

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 19. Risk management is also described in the corporate governance report, page 58, 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 continuing its expansion of the store network in all five geographical markets. In addition, KappAhl has decided to establish itself in Austria, which will take place in autumn 2012.

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 2011 there were contracts for 47 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.

PARENT COMPANY PERFORMANCE
The parent company's sales for the period amounted to SEK 20 (18) million and profit after financial items was SEK 268 (166) million. The difference in earnings is explained by higher dividends from subsidiaries of SEK 104 million.

EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR
The period after the close of the financial year has been intensive. The following events took place:

- The company informed the market of a guaranteed rights issue to existing shareholders of SEK 600 million. Due to this rights issue the company will hold an extraordinary general meeting on 8 November.
- The company has revised its financial targets. An explanation of these updated targets is available to read on the company's website, www.kappahl.com/ir
- The company has signed a new loan agreement with the banks concerned.
- The company launched an online shop on 5 October 2011.
- The company has appointed a new President and Chief Executive Officer who will take up his position at the beginning of 2012.

GUIDELINES FOR REMUNERATION TO SENIOR EXECUTIVES

The senior executive must be offered a fixed salary that is market related and based on the person's responsibility and conduct. Salary will be set per calendar year. The senior executive may, from time to time, be offered a bonus. The maximum bonus payable is 50 per cent of the fixed salary. The senior executive may, on his or her own initiative, convert the bonus into extra pension payments. Bonuses are to be primarily based on the operating profit (EBIT) of the KappAhl Group. Bonuses will be set per financial year.

CORPORATE GOVERNANCE

Information is provided in a separate Corporate Governance report.
(See page 55)

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 1,023,695,919 be appropriated as follows:

Dividend (75,040,000 x SEK 0.00)	SEK 0
To be brought forward	SEK 1,023,695,919
Total	**SEK 1,023,695,919**

The proposal is in accordance with the current dividend policy, which implies a dividend of 40–60 per cent of the profit after tax paid, on condition that the financial targets have been reached.

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	1/9/2010 31/8/2011	1/9/2010 31/8/2010
Net sales	2, 3	4,973.8	5,110.7
Cost of goods sold		–2,048.3	–1,953.8
Gross profit	6	**2,925.5**	**3,156.9**
Selling expenses	6	–2,559.6	–2,466.4
Administrative expenses	6	–144.0	–139.3
Operating profit	4, 5, 6, 16, 20	**221.9**	**551.2**
Financial income	7, 25	0.7	1.1
Financial expenses	7, 25	–72.0	–89.1
Net financial items	7	**–71.3**	**–88.0**
Profit before tax		**150.6**	**463.2**
Tax	8	–82.5	–61.2
Profit for the year		**68.1**	**402.0**
Other comprehensive income			
Year's translation differences		–23.9	–7.7
Actuarial gains/losses including social security contributions		–19.5	30.1
Cash flow hedges - unrealised value changes		–17.9	55.0
Tax attributable to items in other comprehensive income		14.2	–22.4
Other comprehensive income for the year after tax		**–47.1**	**55.0**
Total comprehensive income		**21.0**	**457.0**
Earnings per share			
before dilution (SEK)		0.91	5.36
after dilution (SEK)		0.91	5.36

Comments on the consolidated income statement

Net sales
Net sales amounted to SEK 4,974 (5,111) million, a decrease of 2.7 per cent.

The decrease consists of new and closed stores, +4.6 per cent, development of stores that are comparable between years, –4.3 per cent, and translation differences in foreign currency, mainly NOK and EUR, of –3.0 per cent.

Gross profit
Gross profit is SEK 2,926 million, a decrease of SEK 231 million. The gross margin is 58.8 per cent, compared with 61.8 per cent in the previous year. The lower margin is due to increased purchase costs and a higher percentage of clearance sales.

Operating profit
The operating profit is SEK 222 million, a decrease of 59.7 per cent. The operating margin is 4.5 per cent, which is a decrease compared with 10.8 per cent in the previous year. The increase in selling and administrative expenses is partly attributable to the Group having more stores than the previous year, and partly to inflation.

Profit before tax
Profit before tax is SEK 151 million, which is a deterioration compared with the previous year of SEK 312 million. Net financial items amount to SEK –71 million, which is an improvement compared with the previous year of SEK 17 million.

Tax
Taxes for the year reported in the income statement amount to 54.8 per cent, while tax paid amounts to about 75.7 per cent. The high reported tax is primarily due to not recording a deferred tax asset for losses in Poland and the Czech Republic. The difference between reported and paid tax refers to the tax cost in Sweden and Norway. A considerable part of this tax paid refers to the previous year.

Consolidated balance sheet

Amounts in SEK m	Note	31/8/2011	31/8/2010
ASSETS			
Non-current assets			
Intangible assets	9	1,335.3	1,329.0
Property, plant and equipment	10	995.9	1,006.4
Long-term receivables	12	–	0.2
Deferred tax assets	8	143.8	156.1
Total non-current assets		**2,475.0**	**2,491.7**
Current assets			
Inventories	13	857.7	702.9
Trade receivables	19	2.9	4.2
Prepaid expenses and accrued income	14	114.9	95.8
Other receivables	12	11.1	38.3
Cash and cash equivalents	19	39.3	26.5
Total current assets		**1,025.9**	**867.7**
Total assets		**3,500.9**	**3,359.4**
EQUITY AND LIABILITIES			
Equity			
Share capital		10.7	10.7
Other contributed capital		205.1	205.1
Other reserves		–56.1	–24.4
Retained earnings		360.0	551.3
Total equity		**519.7**	**742.7**
Liabilities			
Long-term liabilities			
Long-term interest-bearing liabilities	15, 19	2,139.7	1,835.4
Provisions for pensions and similar obligations	15,16	52.1	42.4
Deferred tax liabilities	8	9.3	18.1
Total long-term liabilities		**2,201.1**	**1,895.9**
Current liabilities			
Trade payables		211.8	217.1
Current tax liabilities		28.1	56.4
Other liabilities	17	171.8	190.5
Accrued expenses and deferred income	18	255.9	243.0
Liability to credit institutions		50.0	–
Bank overdraft facilities	15	62.5	13.8
Total current liabilities		**780.1**	**720.8**
Total liabilities		**2,981.2**	**2,616.7**
Total equity and liabilities		**3,500.9**	**3,359.4**

For information on the Group's pledged assets and contingent liabilities, please see Note 22.

Comments on the consolidated balance sheet

Non-current 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. During the year an impairment loss of SEK 14 million on non-current assets was recorded referring to unprofitable stores, primarily in Poland.

Current assets
Inventories
Inventories are recorded at the lower of cost or net realisable value. Inventories increased by SEK 155 million between the years. The largest proportion of the increase in inventories consists of autumn goods received early and inventories in new stores, but to some extent also refers to older goods Overall, the size and composition of inventories are not deemed to be entirely satisfactory.

Equity
The change in equity is SEK –223 million and, apart from the net income for the year of SEK 68 million, mainly consists of dividends to shareholders during the year totalling SEK –244 million and changes in unrealised value of cash flow hedges totalling SEK –13 million.

Current liabilities
Current liabilities increased by SEK 59 million due to an increase in the overdraft facilities and liabilities to credit institutions.

Consolidated statement of changes in equity

	Equity attributable to the parent company's shareholders					
			Other reserves			
Amounts in SEK m	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total equity
Opening equity, 1 September 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	–	–	40.5	–	–	40.5
Year's translation differences	–	–	–	–7.7	–	–7.7
Actuarial gains/losses	–	–	–	–	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**

	Equity attributable to the parent company's shareholders					
			Other reserves			
Amounts in SEK m	Share capital	Other contributed funds	Hedging reserve	Translation reserve	Retained earnings	Total equity
Opening equity, 1 September 2010	**10.7**	**205.1**	**–33.8**	**9.4**	**551.3**	**742.7**
Profit for the year	–	–	–	–	68.1	68.1
Other comprehensive income						
Cash flow hedges *	–	–	–13.2	–	–	–13.2
Year's translation differences *	–	–	–	–18.5	–	–18.5
Actuarial gains/losses *	–	–	–	–	–15.5	–15.5
Total other comprehensive income	**–**	**–**	**–13.2**	**–18.5**	**–15.5**	**–47.2**
Transactions with shareholders						
Dividend	–	–	–	–	–243.9	–243.9
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–243.9**	**–243.9**
Closing equity, 31 August 2011	**10.7**	**205.1**	**–47.0**	**–9.1**	**360.0**	**519.7**

* Net after tax.

Consolidated cash flow statement

Amounts in SEK m	Note	1/9/2010 31/8/2011	1/9/2010 31/8/2010
Operating activities			
Profit before tax		150.6	463.2
Adjustment for non-cash items	25	230.4	248.3
Income tax paid	8	–114.0	–142.2
Cash flow from operating activities before changes in working capital		**267.0**	**569.3**
Cash flow from changes in working capital			
Decrease (+)/Increase (–) in inventories		–154.7	32.9
Decrease (+)/Increase (–) in operating receivables		–13.1	–5.5
Decrease (–)/Increase (+) in operating liabilities		–5.0	–89.4
Cash flow from operating activities		**94.2**	**507.3**
Investing activities			
Acquisition of property, plant and equipment		–224.5	–171.1
Acquisition of subsidiaries, impact on net proceeds	25	–	–23.6
Acquisition of intangible assets		–16.1	–6.7
Cash flow from investing activities		**–240.6**	**–201.4**
Financing activities			
Dividend paid		–243.8	–93.8
Decrease (–)/Increase (+) in bank overdraft facilities		403.0	–206.4
Cash flow from financing activities		**159.2**	**–300.2**
Cash flow for the year		**12.8**	**5.7**
Cash and cash equivalents at the start of the year		26.5	20.8
Exchange rate differences in cash and cash equivalents		0.0	0.0
Cash and cash equivalents at the close of the year		**39.3**	**26.5**

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 219 (234) million.

Regarding income tax paid, this is relatively high for the year. A considerable part of this tax paid refers to the previous year.

Cash flow from changes in working capital
The cash flow from the changes in working capital gives a net impact on cash flow of SEK –173 million (–62), which is mainly explained by an increase in inventories.

Cash flow from investing activities
Cash flow from investing activities has resulted in payments totalling SEK 241 (201) 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 159 (–300) million. This includes share dividend of SEK –244 (–94) million. The remaining change corresponds to increased borrowing totalling SEK 403 (–206) million.

Parent company income statement

Amounts in SEK m	Note	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Net sales		20.3	18.1
Cost of goods sold		–	–
Gross profit		**20.3**	**18.1**
Other operating expenses		–31.6	–27.1
Operating profit	4, 5, 6, 20	**–11.3**	**–9.0**
Profit from financial items	7		
Profit from participations in subsidiaries	25	358.2	253.9
Other interest income and similar profit/loss items	25	8.4	–
Interest expense and similar profit/loss items	25	–87.1	–78.7
Profit/loss after financial items		**268.2**	**166.2**
Appropriations		–	–
Profit before tax		**268.2**	**166.2**
Tax	8	23.6	23.0
Profit for the year		**291.8**	**189.2**
Other comprehensive income			
Cash flow hedges – unrealised value change		26.2	2.2
Tax attributable to items in other comprehensive income		–6.9	–0.6
Other comprehensive income for the year after tax		**19.3**	**1.6**
Total comprehensive income		**311.1**	**190.8**

Parent company balance sheet

Amounts in SEK m	Note	31/8/2011	31/8/2010
ASSETS			
Non-current assets			
Financial assets			
Participations in group companies	24	3,143.8	3,143.8
Deferred tax assets	8	9.9	16.7
Total financial assets		**3,153.7**	**3,160.5**
Total non-current assets		**3,153.7**	**3,160.5**
Current assets			
Current receivables			
Receivables from Group companies	11	209.4	112.0
Tax asset		0.5	–
Prepaid expenses and accrued income	14	21.2	3.9
Cash and cash equivalents		1.0	–
Total current receivables		**232.1**	**115.9**
Total current assets		**232.1**	**115.9**
Total assets		**3,385.8**	**3,276.4**
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		731.9	701.2
Profit for the year		291.8	189.2
Total non-restricted equity		**1,023.7**	**890.4**
Total equity		**1,239.5**	**1,106.2**
Untaxed reserves		**8.0**	**8.0**
Long-term liabilities			
Liabilities to credit institutions	15	2,042.9	2,083.1
Total long-term liabilities		**2,042.9**	**2,083.1**
Current liabilities			
Current tax liability		–	7.1
Liabilities to credit institutions		50.0	–
Other liabilities	17	38.3	65.6
Accrued expenses and deferred income	18	7.1	6.4
Total current liabilities		**95.4**	**79.1**
Total equity and liabilities		**3,385.8**	**3,276.4**

For information on the Group's pledged assets and contingent liabilities, please see Note 22.

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 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	–	–	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**	**–47.0**	**937.4**	**1 106.2**

SEK m	Restricted equity		Non-restricted equity		
	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total equity
Opening equity, 1 September 2010	**10.7**	**205.1**	**–47.0**	**937.4**	**1 106.2**
Profit for the year	–	–	–	291.8	291.8
Other comprehensive income					
Cash flow hedges	–	–	19.3	–	19.3
Total other comprehensive income	**–**	**–**	**19.3**	**–**	**19.3**
Transactions with shareholders					
Dividend	–	–	–	–243.9	–243.9
Group contributions				89.6	89.6
Tax on group contributions	–	–	–	–23.5	–23.5
Total transactions with shareholders	**–**	**–**	**–**	**–177.8**	**–177.8**
Other comprehensive income	**10.7**	**205.1**	**–27.7**	**1,051.4**	**1,239.5**

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, January 2008	75,040,000	–
Redemption 1:2 February 2008	–75,040,000	–
Closing amount, 31 August 2011	**75,040,000**	**10,720,000**

Parent company cash flow statement

Amounts in SEK m	Note	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Operating activities			
Profit/loss after financial items		268.2	166.2
Income tax paid		–0.7	–
Adjustment for non-cash items	25	19.3	1.6
Cash flow from operating activities before changes in working capital		**286.8**	**167.8**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		–25.1	410.0
Increase (+)/Decrease (–) in operating liabilities		–26.6	–7.7
Cash flow from operating activities		**235.1**	**570.1**
Investing activities			
Cash flow from investing activities		**–**	**–**
Financing activities			
Dividend paid		–243.9	–93.8
Loans raised		–	–
Decrease (–)/Increase (+) in liabilities to credit institutions		9.8	–476.3
Cash flow from financing activities		**–234.1**	**–570.1**
Cash flow for the year		**1.0**	**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		**1.0**	**0.0**

Notes to the financial statements

CONTENTS

NOTE 1 | Accounting policies

COMPLIANCE WITH STANDARDS AND LAWS

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the European Commission for use within the EU. Additional information in accordance with the Swedish Financial Reporting Board recommendation RFR 1 ”Supplementary accounting rules for groups” has also been 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 ”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 26.

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 impact on the Group’s earnings and financial position.

- IAS 32 Financial instruments: Classification – Classification of rights issues – amendments.

- IFRS 1 First time adoption of IFRS – amendments.
- IFRIC 19 Extinguishing financial liabilities with equity instruments – interpretation statement.
- Improvements to IFRSs, 2009.

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

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BY THE IASB 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.

- IFRIC 14 Prepayments of a minimum funding requirement.
- IAS 24 Related party disclosures – revised, consequential amendments in IFRS 8.
- Improvements to IFRSs, 2010.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BY THE IASB BUT NOT APPROVED BY THE EU

The IASB published a number of new or revised standards and interpretation statements in 2010/2011. As these have not yet been approved by the EU and are not to be applied during the 2011/2012 financial year either, KappAhl has not investigated any possible impact on financial position and performance.

- IAS 1 Presentation of Financial Statements (Amended)
- IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)
- IAS 19 Employee Benefits (Amendments)
- IAS 27 Separate Financial Statements (Revised)
- IAS 28 Investments in Associates and Joint Ventures (Revised)
- IFRS 7 Disclosures – Transfers of Financial Assets (Amendments to IAS 12)
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement

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 3 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. Translation differences that arise in connection with translation of foreign operations are recognised other comprehensive income 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 other comprehensive income. 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 hedging, value changes are recorded in other comprehensive income. 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 19.

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 or internally developed 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 has been based on the Group's segments, which are considered to be the lowest cash generating units. Goodwill is monitored in the Group's management accounting at Group level, and therefore impairment testing is carried out for the Group as a whole. 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 mortgage bond market is used for KappAhl Sverige AB and a discount rate based on the government borrowing rate is used for KappAhl AS. See Note 16. 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.

PENSION PROVISION
Ahead of the previous year-end closing KappAhl reviewed the issue of choice of discount rate when calculating pension provision. In the opinion of KappAhl there was at that time reason to regard the market for corporate bonds, primarily mortgage bonds, as having the breadth and depth to justify seeking support for the discount rate in this market. Consequently KappAhl based its interest rate assumption on mortgage bonds with comparable maturities, but basically considered 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.

This assessment also forms the basis of this year's pension provision valuation.

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.

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, have been applied as of the 2009/2010 financial year. As far as KappAhl is concerned, the application of IFRS 8 has meant that the Group's reportable segments have been changed so that 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. Income taxes are recorded in the income statement except when the underlying transaction is recognised in other comprehensive income or equity, in which case the associated tax effect is also recognised in other comprehensive income or 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. Moreover, temporary differences relating to participations in subsidiaries that are not expected to be reversed in the foreseeable future are not taken into account either. The value of deferred tax is based on how the reported amounts of assets or liabilities are expected to be realised or paid. Deferred tax is calculated using the tax rates and tax rules that are in effect or substantively in effect as at the balance sheet date.

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

PARENT COMPANY ACCOUNTING POLICIES

The parent company presents its annual accounts in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for Legal Entities". According to RFR 2, in the annual accounts for the legal entity, the parent company must apply all of the IFRS rules and statements approved by the EU to the extent possible within the framework of the Annual Accounts Act and the Act on Safeguarding Pension Commitments, taking into account the connection between accounting and taxation. The recommendation states the exceptions from and additions to IFRS that are to be made. The differences between the Group's and the parent company's accounting policies are outlined below.

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. No segment information is given because the Group as a whole constitutes an operating segment.

NOTE 3 | Net sales

Net sales by geographical market

Group SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Sweden	2,638.9	2,695.6
Norway	1,337.5	1,419.5
Finland	615.7	658.1
Poland	360.3	330.9
Czech Republic	21.4	6.6
Total	**4,973.8**	**5,110.7**

NOTE 4 | Employees and staff costs

Average number of employees

	1/9/2010 31/8/2011	Of whom men	1/9/2010 31/8/2010	Of whom men
Parent Company				
Sweden	8	37.5 %	8	37.5 %
Total parent company	**8**	**37.5 %**	**8**	**37.5 %**
Subsidiaries				
Sweden	1,649	11.0 %	1,585	13.4 %
Norway	638	2.7 %	634	3.1 %
Finland	368	1.8 %	352	2.3 %
Poland	342	9.9 %	290	9.0 %
Czech Republic	55	3.6 %	13	15.4 %
Asia	158	44.3 %	158	43.0 %
Total, subsidiaries	**3,210**	**9.8 %**	**3,032**	**11.1 %**
Group total	**3,218**	**9.8 %**	**3,040**	**11.2 %**

Gender breakdown of company management

	31 Aug 2010 Of whom women	31 Aug 2010 Of whom women
Parent Company		
Board of Directors	57.1 %	57.1 %
Other senior executives	62.5 %	62.5 %
Group total		
Board of Directors	57.1 %	57.1 %
Other senior executives	62.5 %	62.5 %

Note 4 cont.

Salaries, other remuneration and social security costs

	1/9/2010–31/8/2011		1/9/2010–31/8/2010	
SEK m	Salaries and remuneration	Social security costs	Salaries and remuneration	Social security costs
Parent Company	**17.2**	**9.4**	**15.8**	**8.8**
(of which pension costs)		3.3		1.9
Subsidiaries	**901.1**	**266.6**	**867.6**	**210.4**
(of which pension costs)		53.8		44.2
Group total	**918.3**	**276.0**	**883.4**	**219.2**
(of which pension costs)		57.1		46.1

* The Group's pension costs include SEK 1.4 (1.5) 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

	1/9/2010–31/8/2011		1/9/2010–31/8/2010	
SEK m	Board and CEO	Other employees	Board and CEO	Other employees
Parent Company				
Sweden	5.8	11.4	6.0	9.8
(of which bonus etc.)	–	–	–	–
Total parent company	**5.8**	**11.4**	**6.0**	**9.8**
(of which bonus etc.)	–	–	–	–
Subsidiaries in Sweden	–	516.0	0.4	487.1
(of which bonus etc.)	–	2.2	–	2.9
Foreign subsidiaries				
Norway	2.4	236.7	2.5	235.7
(of which bonus etc.)	–	–	–	–
Finland	1.6	86.2	1.8	87.6
(of which bonus etc.)	–	–	–	–
Poland	0.8	31.1	0.8	27.5
(of which bonus etc.)	–	–	–	–
Czech Republic	1.0	2.3	0.5	0.6
(of which bonus etc.)	–	–	–	–
Asia	2.1	20.9	1.9	21.2
(of which bonus etc.)	–	–	–	–
Total, subsidiaries	**7.9**	**893.2**	**7.9**	**859.7**
(of which bonus etc.)	–	2.2	–	2.9
Group total	**13.7**	**904.6**	**13.9**	**869.5**
(of which bonus etc.)	–	2.2	–	2.9

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 6–12 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 current 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.

Other
For information on post-employment employee benefits and equity compensation benefits, please see Note 16.

Note 4 cont

Benefits for senior executives

Remuneration and other benefits during the year

	1/9/2010–31/8/2011				1/9/2010–31/8/2010			
SEK m	Base salary Board fee	Variable remuneration	Pension cost	Total	Base salary Board fee	Variable remuneration	Pension cost	Total
Chairman of the Board Finn Johnsson	0.5	–	–	0.5	0.5	–	–	0.5
Board member Amelia Adamo	0.2	–	–	0.2	0.2	–	–	0.2
Board member Paul Frankenius	0.2	–	–	0.2	0.5	–	0.1	0.6
Board member Jan Samuelson	0.3	–	–	0.3	0.3	–	–	0.3
Board member Lena Apler (from 23 November 2010)	0.2	–	–	0.2	–	–	–	–
Board member Pernilla Ström (until 23 November 2010)	0.1	–	–	0.1	0.3	–	–	0.3
Other (5 board members)	0.1	–	–	0.1	0.1	–	–	0.1
CEO	4.2	–	1.4	5.6	4.1	–	1.4	5.5
Management Team (7 people)	9.5	–	3.2	12.7	9.8	–	2.3	12.1
Total	**15.3**	**–**	**4.6**	**19.9**	**15.8**	**–**	**3.8**	**19.6**

NOTE 5 | Fees and remuneration to auditors

	Group		Parent Company	
SEK m	**10-09-01 11-08-31**	09-09-01 10-08-31	**10-09-01 11-08-31**	09-09-01 10-08-31
PricewaterhouseCoopers AB				
Audit assignments	1.6	1.1	0.2	0.2
Other review assignments	0.2	0.2	0.2	0.2
Tax consultancy	0.4	0.9	–	–
Other services	0.2	0.5	–	–
Total	**2.4**	**2.7**	**0.4**	**0.4**

'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. Other review assignments refer to examination of the mid-year financial statements and certificates for turnover rents. By tax consultancy is meant advisory services related to taxes, VAT and employee withholding taxes. Everything else is "Other assignments".

NOTE 6 | Operating expenses

Group SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Raw materials and supplies	1,903.6	1,837.1
Staff costs	1,172.8	1,120.4
Depreciation	219.5	234.0
Impairment	14.4	–
Other operating expenses	1,441.5	1,368.0
Total	**4,751.8**	**4,559.5**

NOTE 7 | Net financial items

Group

SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Interest income	0.7	1.1
Financial income	**0.7**	**1.1**
Interest expense	–72.1	–89.1
Financial expenses	**–72.1**	**–89.1**
Net financial items	**–71.4**	**–88.0**

Parent Company

SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Dividend from subsidiaries	358.2	253.9
Profit from participations in subsidiaries	**358.2**	**253.9**
Interest income	8.4	–
Interest income	**8.4**	**–**
Interest expense	–87.1	–78.7
Interest expense and similar profit/loss items	**–87.1**	**–78.7**
Net financial items	**279.5**	**175.2**

NOTE 8 | Taxes

Reported in the income statement

Group SEK m	1/9/2010 31/8/2011	1/9/2010 31/8/2010
Current tax expense (–)		
Tax expense for the period	–53.7	–111.6
Adjustment of tax relating to previous years	–6.0	–6.9
Deferred tax expense (–) /tax credit (+)		
Deferred tax relating to temporary differences	–25.3	–25.1
Deferred tax in change in loss carry-¬forwards	2.5	82.4
Total reported tax in the Group	**–82.5**	**–61.2**
Tax reported in other comprehensive income		
Cash flow hedges – unrealised value change	4.7	–14.5
Translation differences	4.1	–
Actuarial gains/losses including social security contributions	5.4	–7.9
Total tax reported in other comprehensive income	**14.2**	**–22.4**

Parent Company SEK m	1/9/2010 31/8/2011	1/9/2010 31/8/2010
Current tax credit (+)		
Tax credit for the period	23.6	23.0
Deferred tax expense (–) /tax credit (+)		
Deferred tax due to capitalised tax value in loss carry-¬forwards during the year	–	–
Total reported tax in the parent company	**23.6**	**23.0**
Tax reported in other comprehensive income		
Cash flow hedges – unrealised value change	–6.9	–0.6
Total tax reported in other comprehensive income	**–6.9**	**–0.6**

Reconciliation of effective tax

Group SEK m	1/9/2010 31/8/2011 (%)	1/9/2010 31/8/2011	1/9/2010 31/8/2010 (%)	1/9/2010 31/8/2010
Profit before tax		150.6		463.2
Tax at effective tax rate for parent company	–26.3	–39.6	–26.3	–121.8
Effect of other tax rates for foreign subsidiaries	–4.8	–7.2	–1.6	–7.3
Non-deductible expenses	–0.9	–1.3	–1.5	–7.1
Notional interest referring to tax allocation reserve	–1.3	-2.0	–	–
Revaluation of acquired loss carry-forwards	–	–	18.3	84.9
Revaluation of deferred tax asset	–7.3	–11.0	–	–
Losses for which no loss carry-forwards have been reported	–12.9	–19.4	–0.6	–3.0
Adjustment of current tax for previous periods	–	–	–1.5	–6.9
Other	–1.3	–2.0	–	–
Effective tax	**–54.8**	**–82.5**	**–13.2**	**–61.2**

Parent Company SEK m	1/9/2010 31/8/2011 (%)	1/9/2010 31/8/2011	1/9/2010 31/8/2010 (%)	1/9/2010 31/8/2010
Profit before tax		268.2		166.2
Tax at effective tax rate for parent company	–26.3	–70.5	–26.3	–43.7
Share dividend, non-taxable	35.1	94.2	40.1	66.7
Other	0	–0.1	–	–
Effective tax	**8.8**	**23.6**	**13.8**	**23.0**

Note 8 cont

REPORTED IN THE BALANCE SHEET

Deferred tax assets and liabilities

Group	Net	
SEK m	**31/8/2011**	31/8/2010
Market value of derivatives	16.8	16.7
Carry-forward of unused tax losses	366.7	364.3
Other tax-deductible temporary differences	61.0	62.4
Deferred tax assets	**444.5**	**443.4**
Netting against deferred tax liability	–300.7	–287.3
Total deferred tax assets	**143.8**	**156.1**
Accelerated depreciation on property, plant and equipment	–22.0	–21.4
Untaxed reserves	–106.9	–96.2
Trademarks	–160.2	–160.2
Provisions	–12.3	–9.6
Other taxable temporary differences	–8.6	–18.0
Deferred tax liability	**–310.0**	**–305.4**
Netting against deferred tax assets	300.7	287.3
Total deferred tax liability	**–9.3**	**–18.1**

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 2011/2012 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	**31/8/2011**	31/8/2010	**31/8/2011**	31/8/2010	**31/8/2011**	31/8/2010
Derivatives for hedge accounting	16.8	16.7	–11.7	–	5.1	16.7
Deferred tax asset/deferred tax liability	**16.8**	**16.7**	**–11.7**	**–**	**5.1**	**16.7**
Offset	–	–	–	–	–	–
Tax assets/liabilities, net	**16.8**	**16.7**	**–11.7**	**–**	**5.1**	**16.7**

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

NOTE 9 | Intangible assets

Group SEK m	Software	Trademarks	Tenancy rights	Goodwill	Total
Cost of acquisition					
Opening balance, 1 September 2009	117.7	610.4	48.8	695.8	1 472.7
Other investments	0.6	0.2	–	–	0.8
Disposals	–6.4	–0.4	–	–	–6.8
Closing balance, 31 August 2010	**111.9**	**610.2**	**48.8**	**695.8**	**1,466.7**
Opening balance, 1 September 2010	111.9	610.2	48.8	695.8	1,466.7
Other investments	16.1	–	–	–	16.1
Disposals	–14.2	–	–	–	–14.2
Translation differences	–0.7	–	–	–	–0.7
Closing balance, 31 August 2011	**113.1**	**610.2**	**48.8**	**695.8**	**1,468.0**
Depreciation and impairment losses					
Opening balance, 1 September 2009	–96.5	–	–35.9	–	–132.4
Depreciation for the year	–6.8	–	–4.9	–	–11.7
Disposals	6.4	–	–	–	6.5
Closing balance, 31 August 2010	**–96.8**	**–**	**–40.8**	**–**	**–137.6**
Opening balance, 1 September 2010	–96.8	–	–40.8	–	–137.6
Depreciation for the year	–6.1	–	–3.7	–	–9.8
Disposals	14.2	–	–	–	14.2
Translation differences	0.6	–	–	–	0.6
Closing balance, 31 August 2011	**–88.1**	**–**	**–44.5**	**–**	**–132.6**
Carrying amounts					
As at 31 August 2010	**15.1**	**610.2**	**8.0**	**695.8**	**1,329.1**
As at 31 August 2011	**25.0**	**610.2**	**4.3**	**695.8**	**1,335.3**

Depreciation

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

	Group		Parent Company	
SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Cost of goods sold	–1.0	–1.3	–	–
Administrative expenses	–8.9	–10.2	–	–
Total	**–9.8**	**–11.5**	**–**	**–**

Impairment testing for cash-generating units with goodwill and trademarks

Goodwill is monitored in the Group's management accounting at Group level, and therefore impairment testing is carried out for the Group as a whole.

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 6.4 per cent after tax. Material assumptions in the impairment testing are described in the list below.

Note 9 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 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.
Discount rate	Interest is calculated as a weighted average between required return on equity and borrowed capital respectively. The forecast corresponds to previous experience and external sources of information.

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. Deviations in profitability in individual years have very little effect on the calculations. Long-term profitability is what is absolutely crucial to the model. To justify current balance sheet values there must be a long-term operating profit and cash flow of about SEK 100–125 million.

NOTE 10 | Property, plant and equipment

Group SEK m	Land and buildings	Equipment, tools, fixtures and fittings	Total
Cost of acquisition			
Opening balance, 1 September 2009	462.0	1,967.3	2,429.3
Year's acquisitions	–	177.3	177.3
Acquisition	–	–	–
Disposals	–	–47.2	–47.2
Translation differences	–	–28.7	–28.7
Closing balance, 31 August 2010	**462.0**	**2,068.7**	**2,530.7**
Opening balance, 1 September 2010	462.0	2,068.7	2,530.7
Year's acquisitions	–	224.5	224.5
Disposals	–	–64.2	–64.2
Translation differences	–	–13.4	–13.4
Closing balance, 31 August 2011	**462.0**	**2,215.6**	**2,677.6**
Depreciation and impairment losses			
Opening balance, 1 September 2009	–9.3	–1,359.9	–1,369.2
Depreciation for the year	–7.5	–215.0	–222.5
Disposals	–	46.8	46.8
Translation differences	–	20.6	20.6
Closing balance, 31 August 2010	**–16.8**	**–1 507.5**	**–1 524.3**
Opening balance, 1 September 2010	–16.8	–1,507.5	–1,524.3
Depreciation for the year	–7.8	–201.8	–209.6
Disposals	–	62.8	62.8
Impairment	–	–14.5	–14.5
Translation differences	–	3.9	3.9
Closing balance, 31 August 2011	**–24.6**	**–1,657.1**	**1,681.7**
Carrying amounts			
As at 31 August 2010	**445.2**	**561.2**	**1,006.4**
As at 31 August 2011	**437.4**	**558.5**	**995.9**

Carrying amounts	**31/8/2011**	31/8/2010
Buildings	347.9	355.7
Land	89.5	89.5
Total	**437.4**	**445.2**

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	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Cost of goods sold	–6.2	–11.6	–	–
Administrative expenses	–1.5	–7.9	–	–
Selling expenses	–201.9	–203.0	–	–
Total	**–209.6**	**–222.5**	**–**	**–**

NOTE 11 | Receivables from Group companies

Parent Company	Receivables from Group companies	
SEK m	**31/8/2011**	31/8/2010
Accumulated cost of acquisition		
At beginning of year	112.0	429.6
Group contributions	89.6	87.6
Dividend received	358.2	253.9
Settlement of balance	–350.4	–659.1
Closing balance	**209.4**	**112.0**

NOTE 12 | Long-term receivables and other receivables

Group		
SEK m	**31/8/2011**	31/8/2010
Long-term receivables that are non-current assets		
Other receivables	0.0	0.2
Total	**0.0**	**0.2**
Other receivables that are current assets		
Currency derivatives	2.2	26.2
Other	8.9	12.1
Total	**11.1**	**38.3**

NOTE 13 | Inventories

Group		
SEK m	**31/8/2011**	31/8/2010
Finished goods and goods for resale	857.7	702.9
Total	**857.7**	**702.9**

Inventories are reported according to the principles in Note 1.

NOTE 14 | Prepaid expenses and accrued income

	Group		Parent Company	
SEK m	**31/8/2011**	31/8/2010	**31/8/2011**	31/8/2010
Prepaid rental costs	64.6	59.2	–	–
Prepaid banking costs	13.6	0.1	11.6	–
Other	36.7	36.5	9.6	3.9
Total	**114.9**	**95.8**	**21.2**	**3.9**

NOTE 15 | 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 19.

Group		
SEK m	**31/8/2011**	31/8/2010
Long-term liabilities		
Provisions	52.1	42.4
Bank loans	1,450.0	1,500.0
Bank overdraft facilities	689.7	335.4
Total	**2,191.8**	**1,877.8**
Current liabilities		
Liability to credit institutions	50.0	–
Bank overdraft facilities	62.5	13.8
Total	**112.5**	**13.8**
Total	**2,304.3**	**1,891.6**

Parent Company		
SEK m	**31/8/2011**	31/8/2010
Long-term liabilities		
Bank loans	1,450.0	1,500.0
Bank overdraft facilities	592.9	583.1
Total	**2,042.9**	**2,083.1**
Current liabilities		
Liability to credit institutions	50.0	–
Total	**50.0**	**–**
Total	**2,092.9**	**2,083.1**

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 19 and pledged assets/terms and conditions, Note 22.

NOTE 16 | Employee benefits

Pensions and other post-employment benefits

Defined benefit plans

Group SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Present value of fully or partially funded obligations	198.2	179.8
Fair value of plan assets	–146.1	–137.4
Net of fully or partially funded obligations	52.1	42.4
Present value of net obligation	52.1	42.4
Net obligation for defined benefit plans	**52.1**	**42.4**

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

Provisions for pensions	52.1	42.4

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.

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. 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.

Expected yield on plan assets is based on government bond yields with a supplementary risk premium referring to equity instruments. The assumption also reflects the distribution of assets for each respective plan and the yield for each respective country.

Plan assets consist of the following

Sweden and Norway	Sweden		Norge	
Per cent	**2011**	2010	**2011**	2010
Shares and funds (KappAhl AB (publ.) included at 0)	34.0 %	34.0 %	19.5 %	18.7 %
Debt securities	64.0 %	64.0 %	60.4 %	62.2 %
Real property	–	–	17.0 %	17.6 %
Other	2.0 %	2.0 %	3.1 %	1.5 %
Total	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

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

Group SEK m	**31/8/2011**	31/8/2010
Net obligation for defined benefit plans as at 1 September	42.4	65.1
Benefits paid out	–5.4	–5.0
Contributions received	–5.0	–3.1
Revenue (– sign)/cost reported in the income statement	3.5	2.3
Actuarial gains/losses	16.3	–17.8
Other	–	1.1
Translation differences	0.3	–0.2
Net obligation for defined benefit plans as at 31 August	**52.1**	**42.4**

Cost reported in the income statement for defined benefit plans

Group SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Costs relating to service in current period	1.1	1.0
Interest expense relating to obligation	6.7	7.2
Expected yield on plan assets	–5.7	–5.0
Effects of reductions and adjustments	1.4	–0.9
Total net cost in the income statement	**3.5**	**2.3**

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

Group SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Cost of goods sold	0.0	0.0
Selling expenses	2.5	0.0
Financial income/expenses	1.0	2.3
	3.5	**2.3**
Actual yield on plan assets	5.6	9.6

Assumptions for defined benefit obligations

The most significant actuarial assumptions as at the balance sheet date (expressed as weighted averages)

Sweden and Norway	Sweden		Norge	
Per cent	**2011**	2010	**2011**	2010
Discount rate as at den 31 August	3.8 %	4.0 %	2.0–3.5 %	2.5–3.2 %
Future salary increases	n/a	n/a	4.0 %	4.5 %
Future pension increases	1.9%	1.5 %	1.5–4.25 %	1.5–4.25 %
Inflation	1.9%	1.5 %	–	–
Expected yield	3.8%	4.0 %	4.2–4.7 %	4.4–5.7 %

NOTE 17 | Other liabilities

Group

SEK m	31/8/2011	31/8/2010
Current		
Value added tax	38.8	56.0
Liabilities to staff	38.2	35.2
Gift vouchers	23.8	21.9
Interest rate derivatives	37.6	63.7
Currency derivatives	28.3	8.3
Other	5.1	5.4
Total	**171.8**	**190.5**

Liabilities falling due for payment more than five years after the balance sheet date
A certain portion of the gift vouchers' liability for the Swedish operating subsidiary is spread over more than five years because the gift vouchers are valid for ten years.

Parent Company

SEK m	31/8/2011	31/8/2010
Current		
Interest rate derivatives	37.6	63.7
Other	0.7	1.9
Total	**38.3**	**65.6**

NOTE 18 | Accrued expenses and deferred income

	Group		Parent Company	
SEK m	31/8/2011	31/8/2010	31/8/2011	31/8/2010
Liabilities to staff	171.0	155.4	5.9	4.7
Financial expenses	1.1	1.4	0.6	1.1
Other	83.8	86.2	0.6	0.6
Total	**255.9**	**243.0**	**7.1**	**6.4**

NOTE 19 | 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 normally has a positive 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 normally 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 net debt is not to exceed, other than temporarily, three times the EBITDA.

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.

A new three-year loan agreement has been signed with the company's banks. Total credit facilities amount to SEK 2,550 million and the interest expense in the coming year is expected to be about 8 per cent of the amount utilised. Repayment will be made of SEK 400 million during the period of the loan, which is well in line with the company's goal of returning to a ratio of less than 3.0 for net debt/EBITDA. The terms and conditions of the loans are linked with a number of agreed covenants. The agreement also includes customary pledging of shares in subsidiaries and the Group's property. The description below of maturities, interest rates etc. is made on the basis of the new agreement.

The Board of Directors has ensured the support of the principal shareholders for a guaranteed rights issue of SEK 600 million. The purpose of the capital infusion is to strengthen the balance sheet by reducing debt.

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, 60 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 2011, the company had interest swaps with a contractual value of SEK 1 400 (1 600) million, which is regarded as being in line with the company's policy.

The net fair value of the swaps on 31 August 2011 was SEK –38 (–64) million, consisting of assets of SEK 0 (0) million and liabilities of SEK 38 (64) million.

Total interest expense, including interest swaps, amounted to about SEK 72 (89) million for the financial year, which corresponds to around 1.5 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 20 million (on full utilisation of the limit).

Note 19 cont.

Interest-bearing liabilities
KappAhl has assurances of credit totalling SEK 2,550 million, of which SEK 2,253 million had been utilised at the close of the financial year.

Loan maturity structure

Year	
2011/2012	113
2012/2013	100
2013/2014	150
2014/2015	1,890
2015 and later	–
Total	**2,253**

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. As the Group makes its purchases primarily in USD, exposure is greatest in that currency. An increase in USD against SEK of SEK 0.50 implies increased purchase costs of about SEK 100 million.

Transaction exposure
The Group has income and expenses in a number of currencies. Thus KappAhl is exposed to exchange rate fluctuations. This risk is called transaction exposure and affects the Group's operating profit. The financial policy sets the parameters for managing this risk and this involves hedging the flows up to twelve months. The foreign companies essentially generate income and expenses in their local currencies. This means that the Group's transaction exposure can most easily be illustrated by looking at the currency flows in Sweden:

	1/9/2010–31/8/2011		1/9/2010–31/8/2010	
Currency	Outward	Inward	Outward	Inward
USD m	205	–	168	–
EUR m	29	39	33	37
NOK m	–	555	–	563
PLN m	–	52	–	51

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 –26 (18) million as at 31 August 2011. Assets amounted to SEK 2 (26) million and liabilities to SEK 28 (8) 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.

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

Group	**31/8/2011**	31/8/2010
Currency	Amounts in SEK m	Amounts in SEK m
NOK	100	102
EUR	88	40
PLN	131	41
CZK	31	8
HKD	6	5

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 is shown below.

Assets in the balance sheet	**31/8/2011**	31/8/2010
Trade receivables	2.9	4.2
Other current receivables		
Currency derivatives	2.2	26.2
Cash and cash equivalents	39.3	26.5
Total	**44.4**	**56.9**

Liabilities in the balance sheet	**31/8/2011**	31/8/2010
Long-term interest-bearing liabilities	2,139.7	1,835.4
Short-term interest-bearing liabilities	112.5	13.8
Trade payables	211.8	217.1
Other current liabilities		
– Interest rate derivatives	28.3	63.7
– Currency derivatives	37.6	8.3
Total	**2,529.9**	**2,138.3**

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*	2,253	293	271	313	2,041	–	2,918
Trade payables	212	212	–	–	–	–	212
Interest swaps*	38	–	–	–	–	–	–
Forward exchange contracts, net	28	28	–	–	–	–	28
Total	**2,531**	**533**	**271**	**313**	**2,041**	**–**	**3,158**

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

NOTE 20 | Operational leasing

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

	Group		Parent Company	
SEK m	**31/8/2011**	31/8/2010	**31/8/2011**	31/8/2010
Within one year	2.1	1.4	–	–
From one to five years	2.1	1.4	–	–
Total	**4.2**	**2.8**	**–**	**–**

Rent
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:

	Group		Parent Company	
SEK m	**31/8/2011**	31/8/2010	**31/8/2011**	31/8/2010
Within one year	103.1	88.9	–	–
From one to five years	1,347.3	1,343.4	–	–
More than five years	1,126.9	703.7	–	–
Total	**2,577.3**	**2,136.0**	**–**	**–**

The operating profit has been charged with SEK 656 (634) million referring to costs of rented store premises. The rental charges are based on fixed rent and/or turnover-based rent.

NOTE 21 | Capital commitments

Group
In 2011 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 2011. The commitments are expected to be settled over the course of the next financial year.

NOTE 22 | Pledged assets and contingent liabilities

	Group		Parent Company	
SEK m	**31/8/2011**	31/8/2010	**31/8/2011**	31/8/2010
Pledged assets				
Floating charges	9.9	10.2	None	None
Total pledged assets	**9.9**	**10.2**	**None**	**None**
Contingent liabilities				
Guarantee commitments, FPG/PRI	0.4	0.4	None	None
Purchase guarantee	0.2	0.2	None	None
Total contingent liabilities	**0.6**	**0.6**	**None**	**None**

Instead of pledged assets KappAhl uses covenants/loan terms and conditions. The new loan agreement includes pledging shares in subsidiaries and property companies. See Note 19. See Note 26 for a description and assessment of a dispute concerning customs duty in Norway.

NOTE 23 | Related parties

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

NOTE 24 | Participations in group companies

Parent Company

SEK m	**31/8/2011**	31/8/2010
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

Subsidiary / Corporate identity number / Country	Number of shares	Percentage share	**31/8/2011** Carrying amount	31/8/2010 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, Marieham	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 25 | Cash flow statement

The cash flow statement was prepared using the indirect method.

Interest paid and dividend received

	Group		Parent Company	
SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Dividend received from participations in subsidiaries	–	–	358.2	253.9
Interest received	0.7	1.1	8.4	–
Interest paid and other financial items	–72.0	–89.1	–87.1	–78.7
Total	**–71.3**	**–88.0**	**279.5**	**175.2**

Adjustments for non-cash items

	Group		Parent Company	
SEK m	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010	**1/9/2010 31/8/2011**	1/9/2010 31/8/2010
Depreciation	219.4	234.0	–	–
Provisions for pensions	9.7	–4.3	–	–
Other adjustments	1.3	18.9	19.3	1.6
Total	**230.4**	**248.6**	**19.3**	**1.6**

NOTE 26 | 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 9.

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 8.

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. It is worth noting, however, that during the year the company received a part-refund of the claim the company considers it has on the Norwegian Customs. The company entertains good hopes of also receiving the remaining part.

NOTE 27 | 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 2010/2011 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 24 October 2011. The income statements and balance sheets will be presented to the Annual General Meeting on 23 November 2011.

Mölndal, 24 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

Lena Apler
Member of the Board

Rose-Marie Zell-Lindström
Employee representative

Christian W. Jansson
CEO

Our audit report was issued on 24 October 2011
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 financial year 1 September 2010 to 31 August 2011. The company's annual accounts and the consolidated accounts are included in the printed version on pages 23–53. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free 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 have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and 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, 24 October 2011

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 Chapter 6, Sections 6-9 of the Annual Accounts Act and Chapter 9, Section 31 of the Companies Act and refers to the 2010/2011 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 2011 the share capital of KappAhl AB (publ) was SEK 10,720,000 divided between 75,040,000 shares. All shares are of the same class, entitling shareholders to the same rights in terms of the company's assets, profits and dividends. According to Euroclear's share register KappAhl had about 19,449 shareholders on 31 August 2011. The shareholder with a direct or indirect holding representing more than 10 per cent of the voting power on 31 August 2011 was Dutot Ltd. The ten largest shareholders, as at 31 August 2011, are specified in the Administration Report on page 23. More information on major shareholders is available on KappAhl's website.

ANNUAL GENERAL MEETING

KappAhl's highest decision-making body is the General Meeting of shareholders. Notice to attend the Annual General Meeting, as well as notice to attend the Extraordinary General Meeting, which is to deal with the amendment of the Articles of Association, will be given no earlier than six weeks and no later than four weeks before the Meeting. The Annual General Meeting is held within six months of the close of the financial year. 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. There is no limit to the number of votes each shareholder may cast. A proxy may represent shareholders who are unable to attend.

The most recent Annual General Meeting held was the Annual General Meeting of 23 November 2010 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 and Paul Frankenius. Lena Apler was elected as a new member of the Board of Directors. The next Annual General Meeting will be held on 23 November 2011 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, The latter shall consist of three ordinary members, to be appointed by the three largest shareholders in the company. The Chairman of the Board of Directors will then contact the three largest shareholders and be co-opted to the committee. The composition of the Nominations Committee for the Annual General Meeting on 23 November 2011 was published on the company's website before 23 May 2011. Kristian Lundius (Dutot Ltd.) and Evert Carlsson (Swedbank Robur Fonder AB) sit on the Nominations Committee. Finn Johnsson, Chairman of the Board, has been co-opted to the Nominations Committee. After a change in ownership Rune Anderson (Mellby Gård AB) also sits on the Nominations Committee. Jessica Malmfors (Skandia Fonder AB) has left the Nominations Committee after a change in ownership. The Nominations Committee represented, on 30 September 2011, about 34 per cent of the shareholders' votes.

The Nominations Committee held its inaugural meeting on 21 July 2011, at which time Kristian Lundius was elected as the Committee 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 in ownership among the largest shareholders taking place earlier than six weeks prior to

the Annual General Meeting, and if one shareholder, having become one of the three largest shareholders after this material change in ownership, requests to be included in the Nominations Committee, the Nominations Committee shall offer this shareholder a place on the Nominations Committee as instructed by the Annual General Meeting. This is to be done either by the Nominations Committee deciding that this shareholder is to replace the smallest shareholder after the change or by deciding to increase the Nominations Committee to include one more member. As a result of this procedure Rune Andersson (Mellby Gård AB) became a member of the Nominations Committee and Jessica Malmfors (Skandia Fonder AB) left the Committee.

The Nominations Committee assesses, in light of the Group's needs, what skills and qualities the members of the Board of Directors should possess. The aim is to create a suitable composition of the Board of Directors and for its members' pooled skills and experience to provide a broad base that is appropriate from the point of view of KappAhl's current phase and market situation. The Committee will also keep itself up to date with general developments in fee and remuneration matters in Swedish listed companies. In 2011 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 current Board are dependent in relation to the company or its major shareholders. Ahead of the Annual General Meeting in 23 November 2011 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 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. Finn Johnsson has declined re-election. The Nominations Committee has proposed that Christian W. Jansson be elected at the Annual General Meeting on 23 November 2011 as ordinary member of the Board and be appointed Chairman. 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 agreed standards and approved invoice, during the financial year PricewaterhouseCoopers AB has sold services to the company for about SEK 0.8 million, of which most relates to tax consultations, consultations in connection with acquisitions and various accountancy consultations.

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 2010. 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 secretary to the Board of Directors. There are no special

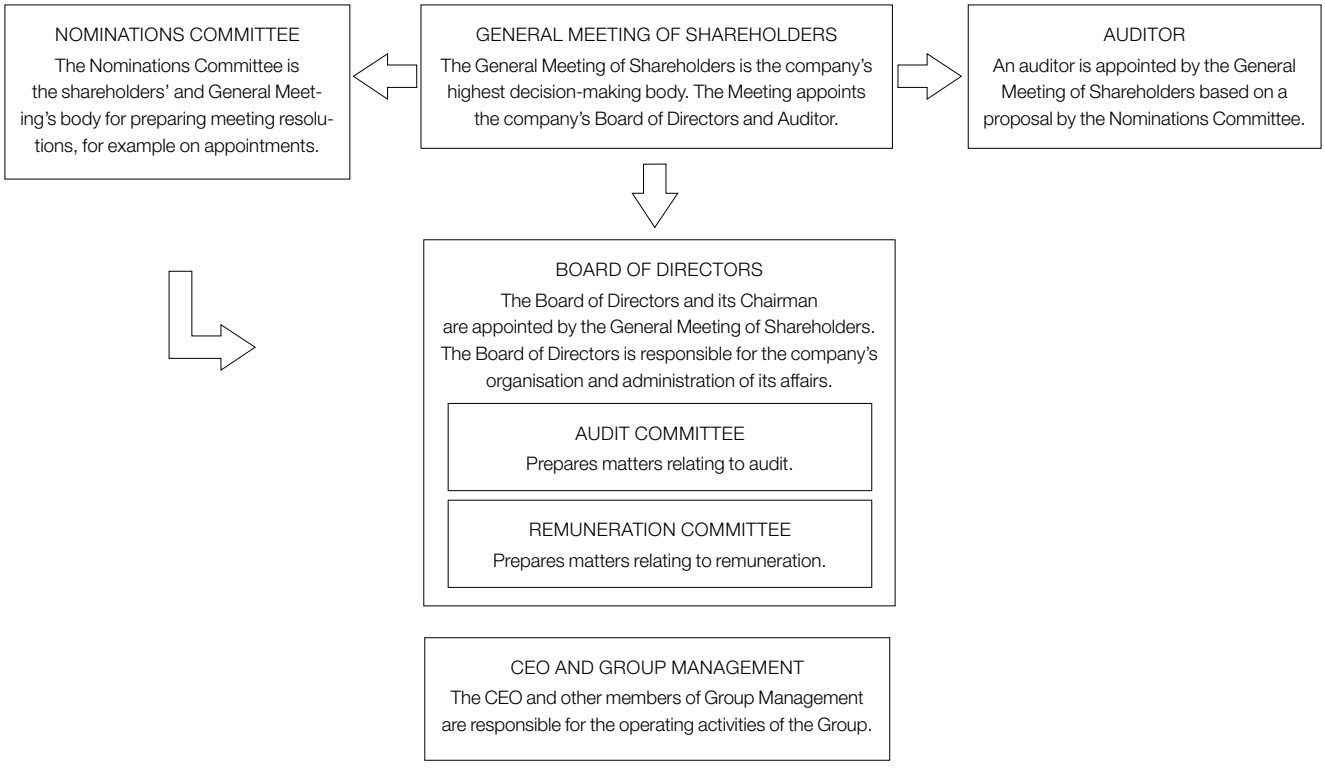
	Inaugural Board meeting No. 2010:6 24 Nov 2010	Ordinary Board meeting No. 2010:7 12 Dec 2010	Ordinary Board meeting No. 2011:1 29 March 2010	Ordinary Board meeting No. 2011:2 8 April 2011	Ordinary Board meeting No 2011:3 16 May 2011	Ordinary Board meeting No. 2011:4 21 June 20110	Ordinary Board meeting No. 2011:5 9 Augusti 2011
Finn Johnsson	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Amelia Adamo		Yes		Yes	Yes	Yes	Yes
Lena Apler	Yes	Yes		Yes	Yes	Yes	Yes
Paul Frankenius	Yes	Yes	Yes (by phone, item 7-8,12)	Yes	Yes	Yes	Yes
Jan Samuelson	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Helena Blixt	Yes	Yes	Yes	Yes	Yes	Yes	
Bodil Gummesson	Yes	Yes	Yes	Yes	Yes		Yes
Melinda Hedström						Yes	Yes
Marie Matthiessen	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rose-Marie Zell-Lindström	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Jonas Frii	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Christian W. Jansson	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Håkan Westin	Yes	Yes	Yes	Yes		Yes	Yes

provisions in the articles of association concerning the appointment or removal of members of the Board. Since the Annual General Meeting on 23 November up to 31 August 2011 the Board of Directors held seven meetings, all of which were minuted. One meeting was an inaugural Board meeting and six meetings were ordinary meetings. Since 31 August 2011 the Board of Directors held further meetings on 16, 28 and 29 September 2011 and 10 October 2011. Members' attendance at each meeting is presented in the table below.

The CEO, CFO and in some cases other members of the management made presentations at the Board meetings. Remuneration and benefits to the Board of Directors of KappAhl are presented in Note 4 on page 42. Board members' shareholdings in KappAhl are presented on page 62–63. On the same pages information can be found on the Board members' other elected positions and independence. More information on the Board is also available on KappAhl's website, www.kappahl.com/ir.

WORK OF THE BOARD OF DIRECTORS

Between each Annual General Meeting the Board of Directors is to 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 23 November 2010 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, reports from the Audit Committee and Remuneration Committee, and a report from senior executives are presented and decisions are made on establishments and investments. Among the more important matters dealt with by the Board during the year were discussions on financing, investments and an action programme. 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 62–63 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 2011 the Committee will comprise Finn Johnsson (chairman) and Amelia Adamo. The Remuneration 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 and terms and conditions of employment for a new President and CEO. 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 20 October 2011. 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 23 November 2010. The adopted policy means, among other things, that senior executives shall be offered a fixed salary that is market-related and based on responsibility and conduct. Salaries shall be set for the calendar year, and a senior executive may, from time to time, be offered a bonus of a maximum of 50% of fixed salary. Any bonuses shall primarily be based on the operating profits of the KappAhl Group. Senior executives and the company must both observe a period of six months' notice of termination. 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 2011 the Committee comprises Jan Samuelson (chairman) and Lena Apler. 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 controls 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 2011 Committee work included preparing issues concerning interim reports, financing, foreign currency issues and internal financial control. Since the Annual General Meeting on 23 November 2010 up to 31 August 2011 the Committee held four meetings, all of which were minuted. The Committee has subsequently held another two meetings. 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 60–61 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 2010/2011

During the year focus has been on 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

Mölndal, 24 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

Lena Apler
Member of the Board

Rose-Marie Zell-Lindström
Employee representative

Christian W. Jansson
CEO

Auditor's report on the Corporate Governance Report

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

To the annual meeting of the shareholders in
KappAhl AB (publ),
corporate identity number 556661-2312.

It is the board of directors who is responsible for the corporate governance report for the financial year 1 September 2010 to 31 August 2011 55–59 and that it has been prepared in accordance with the Annual Accounts Act.
As a basis for our opinion that the corporate governance report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the corporate governance report and assessed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 24 October 2011
PricewaterhouseCoopers AB

Bror Frid
Authorized Public Accountant

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

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: 3,700 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

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 a company.

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

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: 0 shares

Carina Ladow
Vice President, Marketing
Carina Ladow (born 1957) has been Vice President, Marketing since 2010. Carina Ladow has a long history in the fashion business and has worked in several different roles for the largest Swedish fashion chains.
Shareholding: 84,000 shares

Håkan Westin
Chief Financial Officer
Håkan Westin (born 1959) has been Chief Financial Officer at KappAhl since 2001 and with the company since 1989. 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: 300,000 shares

Shareholdings as at 31 August 2011.

Jan Samuelson
(born 1963). Jan Samuelson is a member of the board of KappAhl and chairman of the Board's Audit Committee. Jan Samuelson is one of the founders of the private equity fund Accent Equity and is also a member of the board of Invisio Communications AB and Axholmen AB. Jan Samuelson has a B.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 0 shares.

Marie Matthiessen
(born 1965). Marie Matthiessen is a board member 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.

Melinda Hedström
(born 1966). Melinda Hedström is a deputy board member and employee representative on the board of KappAhl. Melinda Hedström works as a sales representative at KappAhl. Melinda Hedström 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 Geveko, Luvata Oy, Thomas Concrete Group AB, EFG (European Furniture Group AB), Poseidon and Ovako and a member of the board of Norske Skog. Finn Johnsson has a B.Sc. in Business Administration from the Stockholm School of Economics.
Shareholding: 2,000 shares.

Lena Apler
(born 1951). Lena Apler is a member of the board of KappAhl. Lena Apler is the founder and CEO of the finance company Collector AB and subsidiaries. Lena Apler is also a member of the board of Skogssällskapet, Svenska Garantiprodukter AB, Svolder and the West Sweden Chamber of Commerce and Industry. Lena Apler is an economist and was previously active in the senior management of SEB and Securum.
Shareholding: 10,000 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 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.

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

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 Nasdaq OMX Stockholm.
Shareholding: 0 shares.

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.

Shareholdings as at 31 August 2011.

FINANCIAL CALENDAR

Extraordinary General Meeting	8 November 2011
Annual General Meeting	23 November 2011
First quarter (1 Sep–30 Nov)	21 December 2011

An updated financial calendar is published regularly at www.kappahl.com/ir.

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

ANNUAL GENERAL MEETING

The Annual General Meeting of KappAhl AB (publ) will be held on Wednesday 23 November 2011 at 10.00 at KappAhl's head office in Mölndal, Idrottsvägen 14.

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 Thursday 17 November 2011, 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. The period of validity of the power of attorney may be a maximum of five years from its date of issue. The company will provide a form for a power of attorney on request and the form is also available from the company's website www.kappahl.com/ir.

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 Thursday 17 November 2011. 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 and 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 equivalents.

COLLECTION A series of garments designed and produced for a particular season.

CSR Corporate Social Responsibility – a collective term covering companies' responsibility and efforts for social development from an economic, environmental and social perspective.

DIVIDEND PAYOUT RATIO Dividend divided by profit after tax.

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, i.e. earnings before interest, taxes, depreciation and amortisation.

ECONOMIES OF SCALE Means that the average unit cost is reduced as volumes increase.

EQUITY/ASSETS RATIO Equity divided by balance sheet total.

EQUITY PER SHARE Equity divided by the average number of shares.

GROSS MARGIN Gross profit divided by net sales.

HUI HUI Research AB is a research institute in retail and tourism. It was formerly known as the Swedish Retail Institute.

INTEREST BEARING NET LIABILITIES Interest bearing debt less cash and cash equivalents.

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 DIVIDED BY EBITDA (MULTIPLE) Net interest bearing debt 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.

PREPPY The term is associated with fashion with a classic cut and has its roots in the north-east of the US. Tweed jackets, button-down shirts, rugby shirts and chinos are usually associated with this fashion, along with rugby, polo and tennis.

PRICE/EQUITY Market value divided by equity.

RANGE The products the company, store or department offer.

WCT Material manufactured from 100 per cent polyester. Commonly used in sporty fashion.

KappAhl

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