



Report for the first quarter of the financial year 2010/2011

Weak sales

First quarter (Sep-Nov 2010)

- KappAhl's net sales for the period amounted to SEK 1,341 (1,344) million, a decrease of 0.2 per cent.
- The operating profit was SEK 146 (207) million.
- The gross margin was 63.4 (65.0) per cent and the operating margin was 10.9 (15.4) per cent.
- Profit after tax was SEK 95 (178) million, which is equivalent to SEK 1.27 (2.37) per share, where the previous year was positively affected by tax revenue of SEK 39 million, equivalent to SEK 0.52 per share.
- Cash flow from operating activities was SEK 60 (133) million.

CEO's comments

Sales in comparable stores have not lived up to our expectations in the Nordic area. It is different in Poland, with a clearly positive sales trend for comparable units, while earnings are still burdened by a high proportion of new stores.

The market trend in the autumn was also weaker than we expected despite strong growth in the economy as a whole.

Looking forward we see a labour market that continues to be sound, which is good for us.

We are not pleased with our performance in a weak market. We can do substantially better and we are preparing actions to recapture our position on the fashion market.

*Christian W. Jansson,
President and Chief Executive Officer*

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KappAhl is a leading fashion chain with 360 stores and 4,800 employees in Sweden, Norway, Finland, Poland and the Czech Republic. KappAhl sells value-for-money fashion with a wide appeal – for women, men and children - and focuses in particular on women aged 30-50 with families. All clothes are from our own designers. In 1999 KappAhl was the first fashion chain to be environmentally certified. In the 2009/2010 financial year KappAhl's net sales were about SEK 5.1 billion and operating profit SEK 551 million. KappAhl is listed on Nasdaq OMX Stockholm. More information is available at www.kappahl.com.

KappAhl AB (publ) discloses the information provided here pursuant to the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication at 07.30 on 22 December 2010.

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Comments on the first quarter

Market

Even though a strong general economic development during the autumn in the countries where we operate, the retail trade have developed considerably slower. The opposite was true during the financial crisis. Going forward we see continued labour market improvement, which should be good for consumption and hence also for retail fashion.

Net sales and results

KappAhl's net sales for the quarter amounted to SEK 1,341 (1,344) million, a decrease of 0.2 per cent. This is explained by: the effect of new and closed stores, +5.8 per cent; change in comparable stores, -3.1 per cent and translation differences totalling -2.9 per cent. Growth in local currency is positive in all markets.

Growth from new stores is in the upper section of our target interval but the sales trend in comparable stores is unsatisfactory. None of our business areas have fully reached expectations.

Gross profit for the quarter was SEK 850 (874) million, which corresponds to a gross margin of 63.4 (65.0) per cent. This means the gross margin is normal for our first quarter performance in recent years and in line with our target of 61-62% on an annual basis.

Selling and administrative expenses for the quarter totalled SEK 704 (667) million. The increase is largely due to new stores. In addition, further marketing campaigns have meant increased costs.

The operating profit was SEK 146 (207) million, a decrease of 28.0 per cent. This is equivalent to an operating margin of 10.9 (15.4) per cent. The deterioration in earnings is primarily due to weak sales.

Depreciation according to plan was SEK 55 (60) million.

Net financial income was SEK -17 (-18) million for the quarter. Profit after financial items was SEK 129 (189) million and the profit after estimated tax was SEK 95 (178) million. Earnings per share for the quarter were SEK 1.27 (2.37). Profit after tax was affected in the previous year by tax revenues of SEK 39 million on company acquisition, see also Note 1.

Store network

At the end of the period the total number of stores was 360 (337); 157 in Sweden, 99 in Norway, 58 in Finland, 43 in Poland and three in the Czech Republic. Fifteen new stores opened during the quarter. No stores were closed.

Cash flow

KappAhl's cash flow from operating activities amounted to SEK 60 (133) million in the quarter and cash flow after investments amounted to SEK -6 (53) million. The deterioration in earnings is the main explanation for the poorer cash flow compared with the previous year.

Financing and liquidity

Interest-bearing net debt at the end of the period was SEK 1,870 million, compared with SEK 2,048 million as at 30 November 2009. Net interest-bearing debt/EBITDA was 2.6 at the end of the period as compared with 2.6 as at 30 November 2009. The equity/assets ratio improved to 24.5 per cent (16.9).

Cash and cash equivalents amounted to SEK 19 (18) million as at 30 November 2010. At the period close there were unutilised credit facilities of about SEK 800 (500) million.

Expansion

The work of finding new store sites is proceeding according to plan. Apart from the 360 (319) stores in operation on 30 November this year, there are at present contracts for 44 new stores. Of the new contracts, no new stores will open in the second quarter (December-February). The next store opening is planned for March. The long-term goal to increase the number of stores by 20 to 25 per year still applies. There will probably be more than 25 stores in this business year.

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Inventories

At the close of the period inventories amounted to SEK 784 million, an increase of SEK 71 million compared with the previous year. The increase is explained by new stores and a raise in efforts during the second quarter.

Investments

Investments of SEK 66 (80) million were made during the quarter, mainly referring to investment in existing and newly opened stores. For the full year investments are expected to be SEK 250-300 million.

Related party transactions

There were no transactions with related parties.

Taxes

The tax cost for the financial year has been calculated in accordance with each country's tax rate. For the Group this is equivalent to about 26 per cent. During the first quarter of the previous year there was an additional positive tax effect of SEK 39 million from company acquisition. The Group has deferred tax assets of SEK 365 million that can start to be applied from 2012/13.

Risks and uncertainties

The most important strategic and operative risks that affect KappAhl's operations and industry are described in detail in the annual report for 2009/2010. They consist of such factors as competition in the fashion industry, changes in the economy, fashion trends, store locations and store expansion. The company's risk management is also described in the corporate governance report in the same annual report, under the section "Report on internal controls". The same applies to the Group's management of financial risks, which are described in the annual report for 2009/2010, Note 21. The reported risks are otherwise deemed to be unchanged in all essentials.

Parent company

The Parent Company's net sales for the period were SEK 4 (5) million and profit after financial items was SEK -20 (235) million. Financial items for the previous year include dividend received from subsidiaries totalling SEK 254 million. The Parent Company did not make any investments during the year.

Upcoming reports

Second quarter (1 December–28 February)	30 March 2011
Third quarter (1 March–31 May)	22 June 2011
Fourth quarter (1 June–31 August)	29 September 2011

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

Möndal, 22 December 2010
KappAhl AB (publ)

Christian W. Jansson
Chief Executive Officer

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Group income statement - Summary (SEK million)	Sep-Nov 2010/11	Sep-Nov 2009/10	Latest 12 months Dec-Nov
Net sales	1 341	1 344	5 108
Cost of goods sold	-491	-470	-1 975
Gross profit	850	874	3 133
Selling expenses	-669	-630	-2 506
Administrative expenses	-35	-37	-137
Operating profit	146	207	490
Financial income	0	0	1
Financial expenses	-17	-18	-88
Profit after financial items	129	189	403
Tax	Not 1 -34	-11	-84
Net profit	95	178	319
Profit attributable to parent company shareholders	95	178	319
Earnings per share before and after dilution, SEK	1,27	2,37	4,25
Other comprehensive income			
Net Profit	95	178	-
Translation differences for the period	-7	7	-
Actuarial losses	-	-	-
Change in fair value reserves	12	20	-
Tax attributable to other comprehensive income	-4	-7	-
Total other comprehensive income attributable to parent company shareholders	96	198	-
Group Balance Sheet - Summary (SEK million)	30 Nov 10	30 Nov 09	31 Aug 10
Tangible assets	1 016	1 086	1 006
Intangible assets*	1 330	1 334	1 329
Deferred tax assets	142	132	156
Inventories	784	713	703
Other operating receivables	136	127	139
Cash and cash equivalents	19	18	26
Total assets	3 427	3 410	3 359
Equity	839	577	743
Interest-bearing long-term liabilities	1 877	2 062	1 878
Non-interest-bearing long-term liabilities	12	7	18
Interest-bearing current liabilities	12	4	14
Non-interest-bearing current liabilities	687	760	706
Total equity and liabilities	3 427	3 410	3 359
*of which goodwill	696	696	696
*of which trademarks	610	610	610

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Group cash flow statement - Summary (SEK million)	Sep-Nov 2010/11	Sep-Nov 2009/10
Cash flow from operating activities before changes in working capital	157	224
Changes in working capital	-97	-91
Cash flow from operating activities	60	133
Cash flow from investing activities	-66	-80
Cash flow after investments	-6	53
Change in bank overdraft facility	-1	-56
Dividend	-	-
Cash flow from financing activities	-1	-56
Cash flow for the period	-7	-3
Cash and cash equivalents at beginning of the period	26	21
Cash and cash equivalents at the end of the period	19	18

Specification of changes in the Group's equity	Sep-Nov 2010/11	Sep-Nov 2009/10
Opening equity	743	379
Dividend	-	-
Total comprehensive income	96	198
Closing equity	839	577

Number of stores per country	30 Nov 09	28 Feb 09	31 May 10	31 Aug 10	30 Nov 10
Sweden	150	149	153	153	157
Norway	95	95	95	95	99
Finland	55	55	56	56	58
Poland	36	36	39	40	43
Czech Republic	1	1	1	1	3
Total	337	336	344	345	360

Sales per country	Sep-Nov 2010/11	Sep-Nov 2009/10	Change SEK %	Change local currency %
Sweden	726	717	1,3%	1,3%
Norway	358	376	-4,8%	0,2%
Finland	152	166	-8,4%	1,6%
Poland	101	84	20,2%	25,5%
Czech Republic	4	1	300,0%	173,0%
Total	1 341	1 344	-0,2%	-

Geografic reporting	Net sales Sep-Nov 2010/11	Net sales Sep-Nov 2009/10	Operating income Sep-Nov 2010/11	Operating income Sep-Nov 2009/10
Nordic countries	1 236	1 259	193	252
Other	105	85	-4	0
Intercompany expenses*	-	-	-43	-45
* See below	1 341	1 344	146	207

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Quarterly income statement (SEK million)	Q2 Dec-Feb 2006/07	Q3 Q4 Mar-May 2006/07	Jun- Q1 Aug 2006/07	Sep- Q2 Nov 2007/08	Dec- Feb 2007/08	Q3 Mar-May 2007/08	Q4 Jun-Aug 2007/08	Q1 Sep-Nov 2008/09
Net sales	1 088	1 106	1 090	1 247	1 132	1 140	1 103	1 266
Cost of goods sold	-460	-417	-412	-450	-457	-413	-420	-452
Gross profit	628	689	678	797	675	727	683	814
Selling expenses	5) -484	-528	-456	-558	-521	-547	-480	-605
Administrative expenses	1) -40	-32	-33	-33	-36	-35	-32	-33
Other operating income	2, 6) 13	3	-	-	-	-	11	-
Other operating expenses	-	-	-6	-	-	-	-	-
Operating profit	117	132	183	206	118	145	182	176
Financial income	4) 10	11	0	3	3	21	0	0
Financial expenses	-33	-32	-16	-18	-18	-18	-26	-19
Profit after financial items	94	111	167	191	103	148	156	157
Tax	3) 244	-32	-48	-53	-29	-36	-43	-44
Net profit	338	79	119	138	74	112	113	113
Operating margin	10,8%	11,9%	16,8%	16,5%	10,4%	12,7%	16,5%	13,9%
Earnings per share, SEK	4,50	1,05	1,59	1,84	0,99	1,49	1,51	1,51

1) Reclassification of SEK 4 million between Selling expenses and Administrative expenses in Q1 and Q2 2006/07.

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

3) Deferred tax credit 270 MSEK referring to loss carry forwards in acquired companies, period Dec-Feb 2006/07

4) After acquired the properties in which the distribution centre and head office are located a finance lease was terminated and gave a positive effect on financial income 23 MSEK in Q3 2007/08

5) Change in pension solution for employees in Q4 2007/08 SEK 20 million.

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

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	Q2	Dec- Feb 2008/09	Q3 Q4 Mar-May 2008/09	Jun- Aug 2008/09	Q1 Sep-Nov 2009/10	Q2	Dec- Feb 2009/10	Q3 Mar- May 2009/10	Q4 Jun- Aug 2009/10	Q1 Sep-Nov 2010/11
Quarterly income statement (SEK million)										
Net sales		1 168	1 206	1 226	1 344	1 256	1 221	1 290	1 341	
Cost of goods sold		-490	-478	-473	-470	-531	-432	-521	-491	
Gross profit		678	728	753	874	725	789	769	850	
Selling expenses		-574	-587	-549	-630	-615	-639	-583	-669	
Administrative expenses		-39	-32	-28	-37	-34	-38	-30	-35	
Other operating income		-	-	-	-	-	-	-	-	
Other operating expenses		-	-	-	-	-	-	-	-	
Operating profit		65	109	176	207	76	112	156	146	
Financial income		1	0	0	0	1	0	0	0	
Financial expenses		-19	-23	-23	-18	-23	-24	-24	-17	
Profit after financial items		47	86	153	189	54	88	132	129	
Tax		-13	-24	-47	-11	-20	-23	-7	-34	
Net profit		34	62	106	178	34	65	125	95	
Operating margin		5,6%	9,0%	14,4%	15,4%	6,1%	9,2%	12,1%	10,9%	
Earnings per share, SEK		0,45	0,83	1,41	2,37	0,45	0,87	1,67	1,27	

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Yearly income statement (SEK million)	Sep-Aug 2005/06	Sep-Aug 2006/07	Sep-Aug 2007/08	Sep-Aug 2008/09	Sep-Aug 2009/10
Net sales	4 217	4 473	4 622	4 866	5 111
Cost of goods sold	-1 677	-1 738	-1 740	-1 893	-1 954
Gross profit	2 540	2 735	2 882	2 973	3 157
Selling expenses	5) -1 863	-1 985	-2 106	-2 315	-2 467
Administrative expenses	1) -147	-142	-136	-132	-139
Other operating income	2, 6) -	16	11	-	-
Other operating expenses	-	-6	-	-	-
Operating profit	530	618	651	526	551
Financial income	4) 2	23	27	1	1
Financial expenses	-113	-97	-80	-84	-89
Profit after financial items	419	544	598	443	463
Tax	3) -117	115	-162	-128	-61
Net profit	302	659	436	315	402
Operating margin	12,6%	13,8%	14,1%	10,8%	10,8%
Earnings per share, SEK	4,02	8,78	5,81	4,20	5,36

1-6) See above

Parent company income statement - Summary (SEK million)	Sep-Nov 2010/11	Sep-Nov 2009/10	Latest 12 months Dec-Nov
Net sales	4	5	17
Cost of goods sold	-	-	-
Gross profit	4	5	17
Administrative expenses	-7	-7	-27
Operating profit	-3	-2	-10
Result from participations in group companies	-	254	0
Financial income	1	0	1
Financial expenses	-18	-17	-80
Profit after financial items	-20	235	-89
Resultat after appropriations	-20	235	-89
Tax	0	0	23
Net profit	-20	235	-66

Parent company Balance Sheet - Summary (SEK million)	30 Nov 10	30 Nov 09	31 Aug 10
Tangible assets	-	-	-
Financial assets	3 144	3 144	3 144
Deferred tax assets	8	15	17
Other operating receivables	23	284	116
Cash and cash equivalents	-	-	-
Total assets	3 175	3 443	3 277
Equity	1 112	1 185	1 106
Untaxed reserves	8	8	8
Interest-bearing long-term liabilities	2 007	2 172	2 083
Deferred tax liabilities	-	-	-
Interest-bearing current liabilities	-	-	-
Non-interest-bearing current liabilities	48	78	80
Total equity and liabilities	3 175	3 443	3 277

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Key ratios	Sep-Nov 2010/11	Sep-Nov 2009/10	Latest
			12 months Dec-Nov
Growth in sales	-0,2%	6,2%	3,4%
Earnings per share, SEK	1,27	2,37	4,25
Total depreciation/amortisation	55	60	229
Operating result (EBIT)	146	207	490
Gross margin	63,4%	65,0%	61,3%
Operating margin	10,9%	15,4%	9,6%
Interest coverage ratio	-	-	5,6
Net interest-bearing liabilities	1 870	2 048	1 870
Net interest-bearing liabilities/EBITDA	2,6	2,6	2,6
Equity/assets ratio	24,5%	16,9%	24,5%
Equity per share, SEK	11,18	7,69	11,18
Equity per share after dilution, SEK	11,18	7,69	11,18
Return on equity	-	-	45,1%
Return on capital employed	-	-	18,3%
Number of shares after dilution	75 040 000	75 040 000	75 040 000

Definitions

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

KappAhl's 20 largest shareholders, 30 November 2010	Number of shares	Percentage of shares and votes	Change compared with 31 August 2010
Christian W. Jansson via bolag	12 214 700	16,28	0
CARLSON SVERIGE KONCIS	2 225 926	2,97	-362 275
SVENSKT NÄRINGSLIV	2 100 000	2,80	0
NORDEA BANK NORGE NOMINEE	1 909 200	2,54	1 055 000
SVENSKA HANDELSBANKEN CLIENTS ACC:3	1 886 274	2,51	0
AWILCO INVEST AS	1 505 000	2,01	1 335 620
DIDNER & GERGE SMÅBOLAG	1 424 290	1,90	-295 976
SWEDBANK FÖRSÅKRING AB	1 310 360	1,75	754 190
NTC VARMA MUTUAL PENS INC COMP	1 269 291	1,69	1 269 291
SKANDIA SVERIGE	1 234 057	1,64	382 975
AVANZA PENSION	1 185 419	1,58	277 593
LÄNSFÖRSÅKRINGAR SMÅBOLAGSFOND	1 124 224	1,50	-591 218
VERDIPAPIRFOND ODIN SVERIGE	863 233	1,15	411 102
FONDITA NORDIC MICRO CAP SR	850 000	1,13	225 000
SKANDIA BALANSERAD	785 222	1,05	123 457
SWEDBANK ROBUR SVERIGEFOND MEGA	711 765	0,95	0
ANDRA AP-FONDEN	642 950	0,86	-90 000
NORDEA SVERIGEFONDEN	621 817	0,83	-883 168
JP MORGAN BANK	621 325	0,83	10 501
FONDITA NORDIC SMALL CAP	600 000	0,80	0
Other	39 954 947	53,23	-3 622 092
Total	75 040 000	100,00	-

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Accounting policies

The Group applies International Financial Reporting Standards, IFRS, adopted by the European Commission. The accounting policies are unchanged in comparison with the latest annual accounts as at 31 August 2010, apart from what is stated below.

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

The amendment to IAS 1 has meant a change in how financial statements are to be drawn up. KappAhl has opted to present the Group's comprehensive income divided up into two reports; an income statement and a report of other comprehensive income. In other respects the accounting policies are unchanged in comparison with the annual report for 2008/2009.

The amendment to IFRS 3 - Business combinations – is applied by KappAhl as of the 2009/2010 financial year. For KappAhl the amended standard has meant that costs associated with acquisitions of subsidiaries do not constitute part of the cost of acquisition but are recognised as an expense in the income statement in their entirety.

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

The company has no outstanding convertible debt instruments or warrants.

Note 1

Acquisition of subsidiaries

In September 2009, 100 % of the shares and votes in KappAhl Mode Holding AB was acquired. The purchase price was SEK 160 million. The fair value of the company's net assets at the time of acquisition was SEK 199 million, of which SEK 10 million was a deferred tax asset. The acquired company is not in operation.

Costs in connection with the acquisition amounted to SEK 1 million and were charged to administrative expenses in the income statement in the first quarter 2009/2010.

After the date of access the subsidiary's possibilities of using existing loss carry-forwards were reviewed. It is estimated that from the 2014/2015 income year it will be possible to use the entire loss carry-forward of SEK 188 million, resulting in the reporting of an additional SEK 39 million as a deferred tax asset and as a deferred tax credit in the first quarter of 2009/2010.

In June 2010, 100 % of the shares and votes in KappAhl Fashion Holding AB was acquired. The purchase price was SEK 113 million. The fair value of the company's net assets at the time of acquisition was SEK 158 million, of which SEK 13 million was a deferred tax asset. The acquired company is not in operation.

Costs in connection with the acquisition amounted to SEK 2 million and were charged to administrative expenses in the income statement in the fourth quarter 2009/2010.

After the date of access the subsidiary's possibilities of using existing loss carry-forwards were reviewed. It is estimated that from the 2015/2016 income year it will be possible to use the entire loss carry-forward of SEK 225 million, resulting in the reporting of an additional SEK 45 million as a deferred tax asset and as a deferred tax credit in the fourth quarter of 2009/2010.