Interim report for the Second Quarter of financial year 2006/2007

KappAhl: Sales are increasing in both new and existing stores

Second Quarter (December 2006 - February 2007)

- KappAhl's net sales for the period amounted to MSEK 1,088 (1,026), an increase of 6.0 percent.
- Operating profit amounted to MSEK 117 (88), an increase of 33 percent. This has been positively affected by non-recurring items of MSEK 13.
- The gross margin was 57.7 percent (57.4) and the operating margin was 10.8 percent (8.6).
- Profit after taxes amounted to MSEK 338 (19), which is equivalent to SEK 4.50 (0.25) per share. This has been positively affected by a tax revenue of MSEK 270.
- Cash flow from operating activities totalled MSEK 104 (120).

CEO comments on KappAhl's second quarter results

The quarter showed continued increased sales of KappAhl's fashions. Previously we have reported that, as of this financial year, we will be focusing upon sales growth while maintaining our margins. The development of the quarter is a clear consequence of this strategy. We are above all glad for a highly successful first part to the quarter.

We are also exceptionally proud of the continued improvement in profits, in which we have gone from a good position to an even better one. This is the consequence of continued sales successes and a disciplined cost development.

In summary, KappAhl is continuing with its strategy of constant improvements and we now present the 18th consecutive quarter of improved profits.

Christian W. Jansson
President and CEO

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KappAhl is a leading Nordic fashion chain with approximately 270 stores in Sweden, Norway, Finland and Poland. We design, market and sell clothes for the entire family but focus in particular on women between 30 and 50 years of age, shopping for the whole family. KappAhl's head office and distribution centre, which handles the distribution of goods to all stores, is located in Mölndal, just outside Gothenburg. KappAhl employs approximately 3,700 individuals, more than 90 percent of whom are women. During the financial year 2005/2006, KappAhl had sales of SEK 4.2 billion, with an operating profit of MSEK 530. KappAhl shares are listed on the Stockholm Stock Exchange. Further information about the company is available on **www.kappahl.com** and financial information is available on **www.kappahl.com/ir**.

Second quarter (September 2006 – February 2007)

- KappAhl's net sales for the period, amounted to MSEK 2,277 (2,178), an increase of 4.5 percent.
- Operating profit amounted to MSEK 303 (237), an increase of 28 percent. This has been positively affected by non-recurring items of MSEK 13.
- The gross margin was 60.1 percent (58.0) and the operating margin was 13.3 percent (10.9).
- Profit after taxes amounted to MSEK 461 (114), which is equivalent to SEK 6.14 (1.52) per share. This has been positively affected by a tax income of MSEK 270.
- Cash flow from operating activities totalled MSEK 313 (281).
- Twelve new stores have been opened and three have closed. In total, there were 268 stores at the end of the period.

Comments on the second quarter 2006/2007

Net sales and results

KappAhl's net sales for the period amounted to MSEK 1,088 (1,026), an increase of 6.0 percent. This increase is comprised of exchange rate differences (primarily against NOK) -1.7 percent, new and closed stores 4.8 percent and the development of sales in comparable stores 2.9 percent.

The sale of co smetics, which last year amounted to MSEK 21, has been phased out, affecting sales in comparable stores by -2.1 percent. Consequently, sales of clothing in comparable stores have increased by 5.0 percent.

The total increase in sales is primarily attributable to the fact that we have had 15 more stores open during the period compared with the previous year. In addition the development for comparable stores has been very good. This has been mitigated by exchange rate fluctuations, which have affected net sales negatively when recalculated into SEK.

Gross profit for the period totalled MSEK 628 (589), which is equivalent to a gross margin of 57.7 percent (57.4). The second quarter is always greatly affected by Christmas shopping and after that by strong winter sales. Christmas sales were very strong while the following period was somewhat weaker. The increase in the gross margins depends mainly on the slightly lower markdown rate. This quarter is the period of the year in which the company sees its lowest gross margins.

Sales and administrative expenses amounted to MSEK 524 (501) for the period. As costs have increased more slowly than income, the share of the costs has decreased to 48.2 percent (48.8). The driving force in this development has been provided by economies of scale from new stores.

Operating profit was MSEK 117 (88), which is equivalent to an operating margin of 10.8 percent (8.6). Selling the premises of one closed-down store has positively affected the result by MSEK 13.

Depreciation according to plan amounted to MSEK 49 (41).

Net financial items for the period were MSEK -23 (-62) and profit after financial items MSEK 94 (26). Net financial items for the quarter were negatively affected by MSEK 4 by the company acquisition (see below) in December. Profit after estimated tax was MSEK 338 (19). Earnings per share after tax were SEK 4.50 (0.25) for the period.

Cash flow

KappAhl's cash flow from continuing operations amounted to MSEK 104 (120) for the second quarter and cash flow after investments amounted to MSEK 17 (54).

Financing and liquidity

Net debt at the end of the period amounted to MSEK 1,559 (1,529) and the equity/assets ratio was 14.4 (14.2) percent. It is notable that the company has issued dividends of two years during the last twelve months at a total of MSEK 375.2. The net interest-bearing liabilities/EBITDA ratio was 2.0 at the end of the period.

Cash and cash equivalents totalled MSEK 1,676 (53) on 28 February 2007. In addition, there were unutilised credit facilities amounting to approximately MSEK 500.

Acquisition of companies

In December 2006, KappAhl acquired 100 percent of the shares in two companies for a total purchase price of MSEK 1,671. The acquired assets and liabilities amounted to MSEK 1,622 net. In addition, a fiscal deficit of MSEK 1,140 was received. This is deemed to be available for utilisation as from financial year 2012/2013. The acquired companies currently run no operations.

The Group's increase in interest-bearing liabilities and liquid resources is due exclusively to this acquisition. According to estimates, the acquisition loans will be repaid during the third quarter of the year.

The acquisition has brought about a positive net effect on the period's recorded tax and equity of MSEK 270 as a consequence of the revaluation of existing tax loss carry forward in the semi-annual financial statement. In addition, net financial items have been negatively affected by an amount of MSEK 4. Investments for the year, previously indicated at MSEK 230, will increase by approximately MSEK 55.

Comments on the first six months

Market

The Nordic Countries have a strong development of GNP compared to the rest of Europe. This is leading to the strong development of private consumption and also for the strong development of the demand for clothing.

The Group has a strong position within the Nordic market. KappAhl is market leader in clothing store sales in Sweden and third largest in Norway, according to independent statistics from GfK.

Net sales

KappAhl's net sales for the period amounted to MSEK 2,277 (2,178), an increase of 4.5 percent. This increase is comprised of exchange rate differences (primarily against NOK) -2.5 percent, new and closed stores 4.5 percent and the development of comparable stores, 2.5 percent.

The sale of cosmetics, which last year amounted to MSEK 41, has been phased out, affecting sales in comparable stores by -2.0 percent. Consequently, sales of clothing in comparable stores have increased by 4.5 percent.

Store network

KappAhl has opened 11 stores during the period. Three stores were opened in Sweden and four each in Norway and Finland. At the end of the period, the total number of stores was 268 (253). Of these, 131 were in Sweden, 84 in Norway, 40 in Finland and 13 in Poland. Three stores have closed during the period, two in Sweden and one in Norway.

Expansion

The search for new store sites continues according to plan and our aim of expanding by 15-20 new stores remains. In addition to the 268 that were in operation by 28 February 2007, there are contracts for an additional 25 new stores, of which three have been opened during March.

Inventory

At the end of the period, KappAhl's inventory amounted to MSEK 532 (498), an increase of 6.8 percent compared with the previous year, which means a lesser increase in comparable entities. The inventory is well balanced concerning both size and composition.

Investments

A total of MSEK 147 (126) has been invested since the beginning of the financial year, the majority in stores. The investments are directed towards efforts to enhance customer experience in our stores. In addition, a portion of the investments has gone towards the opening of new stores.

Cash flow

KappAhl's cash flow from operating activities amounted to MSEK 313 (281) during the first six months and cash flow after investments amounted to MSEK 166 (155).

Taxes

The tax rate for the whole year has been calculated at approximately 28 percent.

The Parent Company

The Parent Company's net sales during the second quarter were MSEK 2 and profits after financial items amounted to MSEK -24. For the six month period, the profit after financial items amounted to MSEK -34. The Parent Company did not make any investments during the period.

Events after the end of the reporting period

No essential events have taken place following the end of the report period.

Upcoming financial reports

Third quarter (1 March – 31 May)	28 June 2007
Fourth quarter (1 June – 31 Aug)	3 October 2007
First quarter (1 Sept – 30 Nov) and Annual General meeting	17 December 2007

Mölndal, 29 March 2007

KappAhl Holding AB (publ)

The Board of Directors

Consolidated income statement - Summary (SEK million)		Q2 2006/07	Q2 2005/06 1)	Sept-Feb 2006/07	Sept-Feb 2005/06 1)	Last 12 months March-Feb
Net sales		1 088	1 026	2 277	2 178	4 316
Cost of goods sold	Not 1	-460	-437	-909	-914	-1 672
Gross profit		**628**	**589**	**1 368**	**1 264**	**2 644**
Selling expenses		-488	-468	-1 001	-955	-1 909
Administrative expenses		-36	-33	-77	-72	-152
Other operating expenses	Not 2	13	0	13	0	13
Operating profit		**117**	**88**	**303**	**237**	**596**
Financial income		10	2	12	3	12
Financial expenses	Not 3	-33	-64	-49	-83	-79
Profit after financial items		**94**	**26**	**266**	**157**	**529**
Tax	Not 4	244	-7	195	-43	121
Net profit		**338**	**19**	**461**	**114**	**650**
Earnings per share, SEK		4,50	0,25	6,14	1,52	8,66
Earnings per share after dilution, SEK		4,50	0,25	6,14	1,52	8,66

1) Reclassification of 4 between selling expenses and administrative expenses.

Consolidated Balance Sheet - Summary (SEK million)	28-feb-07	28-feb-06	31-aug-06
Tangible fixed assets	661	653	662
Intangible fixed assets*	1 347	1 353	1 349
Deferred tax assets	413	209	122
Inventories	532	498	558
Other operating receivables	110	107	105
Cash and cash equivalents	1 676	53	83
Total assets	**4 739**	**2 873**	**2 879**
Equity	683	407	412
Interest-bearing long-term liabilities	1 308	1 546	1 370
Non-interest-bearing long-term liabilities	232	257	236
Interest-bearing current liabilities	1 927	36	297
Non-interest-bearing current liabilities	589	627	564
Total equity and liabilities	**4 739**	**2 873**	**2 879**
*of which goodwill	696	704	696
*of which trademarks	610	610	610

Consolidated cash flow statement - Summary (SEK million)		Sept-Feb 2006/07	Sept-Feb 2005/06
Cash flow from continuing operations before changes in working capital		**331**	**206**
Changes in working capital		-18	75
Cash flow from continuing operations		**313**	**281**
Cash flow from investment activities		-147	-126
Cash flow after investments		**166**	**155**
Change bank overdraft facility		59	-131
Dividend		-188	0
Other from financial activities	Not 5	1 556	-54
Cash flow from financial activities		**1 427**	**-185**
Cash flow for the period		**1 593**	**-30**
Cash and cash equivalents at beginning of the period		**83**	**83**
Cash and cash equivalents at the end of the period		**1 676**	**53**

Specification of changes in the Group's equity	Sept-Feb 2006/07	Sept-Feb 2005/06
Opening equity	412	284
Translation differences for the period	-2	1
Change in fair value reserves	0	8
Dividend	-188	0
New share issue	0	0
Profit for the period	461	114
Closing equity	**683**	**407**

Number of stores per country	28-feb-07	30-nov-06	31-aug-06	31-maj-06	28-feb-06
Sweden	131	133	130	129	128
Norway	84	85	81	80	78
Finland	40	40	36	36	35
Poland	13	13	13	14	12
Total	**268**	**271**	**260**	**259**	**253**

Sales per country	Q2 2006/07	Q2 2005/06	Change SEK %	Change local currency %
Sweden	614	567	8,3%	8,3%
Norway	307	312	-1,6%	5,0%
Finland	125	113	10,6%	13,3%
Poland	42	34	24,3%	26,4%
Total	**1 088**	**1 026**	**6,0%**	

Sales per country	Sept-Feb 2006/07	Sept-Feb 2005/06	Change SEK %	Change local currency %
Sweden	1 297	1 224	6,0%	6,0%
Norway	640	647	-1,1%	5,6%
Finland	255	235	8,5%	11,2%
Poland	85	72	18,1%	20,2%
Total	**2 277**	**2 178**	**4,4%**	

Segment reporting	Net sales Sept-Feb 2006/07	Net sales Sept-Feb 2005/06	Operating income Sept-Feb 2006/07	Operating income Sept-Feb 2005/06
Nordic countries	2 192	2 106	295	233
Poland	85	72	8	4
Total	**2 277**	**2 178**	**303**	**237**

Quarterly income statement (SEK million)	Q2 Dec-Feb 06/07	Q1 Sept-Nov 2006	Q4 June-Aug 2006	Q3 March-May 2006	Q2 Dec–Feb 2005/06 1)	Q1 Sept–Nov 2005	Q4 June–Aug 2005	Q3 Mar–May 2005
Net sales	1 088	1 189	1 010	1 029	1 026	1 152	987	966
Cost of goods sold	-460	-449	-371	-392	-437	-477	-390	-370
Gross profit	**628**	**740**	**639**	**637**	**589**	**675**	**597**	**596**
Selling expenses	-488	-513	-431	-477	-468	-487	-447	-448
Administrative expenses	-36	-41	-35	-40	-33	-39	-31	-34
Other operating expenses	13							
Operating profit	**117**	**186**	**173**	**120**	**88**	**149**	**119**	**113**
Financial income	10	2	0	0	2	1	3	1
Financial expenses	-33	-16	-12	-18	-64	-19	-48	-33
Profit after financial items	**94**	**172**	**161**	**102**	**26**	**131**	**74**	**81**
tax	244	-49	-45	-29	-7	-36	-11	-24
Net profit	**338**	**123**	**116**	**73**	**19**	**95**	**63**	**57**

1) Reclassification of 4 between selling expenses and administrative expenses.

Key ratios	Q2 2006/07	Q2 2005/06	Sept-Feb 2006/07	Sept-Feb 2005/06	Last 12 months March-Feb
Growth in sales	6,0%	7,7%	4,5%	9,3%	4,5%
Earnings per share, SEK	4,50	0,25	6,14	1,52	8,66
Total depreciation/amortisation	49	41	97	81	198
EBITA	117	88	303	237	596
Gross margin	57,7%	57,4%	60,1%	58,0%	61,3%
Operating margin	10,8%	8,6%	13,3%	10,9%	13,8%
EBITA margin	10,8%	8,6%	13,3%	10,9%	13,8%
Interest coverage ratio	-	-	-	-	7,69
Net interest-bearing liabilities	1 559	1 529	1 559	1 529	1 559
Net interest-bearing liabilities/EBITDA	-	-	-	-	2,0
Equity/assets ratio	14,4%	14,2%	14,4%	14,2%	14,4%
Equity per share, SEK	9,10	5,42	9,10	5,42	9,10
Equity per share after dilution, SEK	9,10	5,42	9,10	5,42	9,10
Number of shares at the end of the 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

Definitions	
Equity/assets ratio	Equity divided by balance sheet total
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
Equity per share	Equity / average number of shares
EBITA	Operating profit before amortisation of intangible fixed assets
EBITDA	Operating profit before depreciation / amortisation
Average number of employees	Average number of employees converted to full-time employees
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

KappAhl's 20 largest shareholders, 28 February 2007	Number of shares	Percent of shares and votes	Change compared to 30 November 2006
PEGATRO LIMITED	22 511 000	30,0	3 415 000
MORGAN STANLEY & CO INC, W9	6 566 367	8,8	3 483 150
JP MORGAN CHASE BANK, W9	3 852 515	5,1	2 904 899
SSB CL OMNIBUS AC OM07 (15 PCT)	2 752 170	3,7	-521 681
FORTIS BANQUE LUXEMBOURG S.A.	1 898 272	2,5	742 523
OKOBANK OY, ANU HÄTÖNEN G2	1 669 000	2,2	145 000
LIVFÖRSÄKRINGSAKTIEBOLAGET	1 419 150	1,9	1 419 150
UBS TAMARACK INT FUND, LLC	1 058 827	1,4	1 058 827
UBS AG LND IPB SEGREGATED CLIENT A	982 200	1,3	923 200
SSB CL OMNIBUS AC OM12 (30 PCT)	767 650	1,0	-157 000
INVESTORS BANK AND TRUST CO/TREATY	740 189	1,0	-155 208
FJÄRDE AP-FONDEN	724 600	1,0	724 600
SWEDBANK ROBUR SMÅBOLAGSFOND SVERIGE	719 000	1,0	719 000
BT PENSION SCHEME	687 700	0,9	687 700
PNC BLACKRK FDS INT OPP PORT	667 700	0,9	206 600
SEB STIFTELSEFOND SVERIGE	609 000	0,8	103 000
CATELLA REAVINSTFOND	600 000	0,8	600 000
SWEDBANK ROBUR SMÅBOLAGSFOND NORDEN	598 000	0,8	598 000
LAZARD INTL SMALL CAP	560 314	0,7	560 314
NORDEA SVERIGEFONDEN, NORDEA KAPITALFÖRV SVERIGE	501 439	0,7	501 439
Other shareholders	25 154 907	33,5	-17 958 513
Total	**75 040 000**	**100,0**	**0**

Accounting principles

The Group applies the International Financial Reporting Standards, IFRS, adopted by the European Commission. The accounting principles remain unchanged in comparison with those applied in the annual accounts for the financial year ending 31 August 2006.

This interim report has been prepared in accordance with IAS 34: Interim Reporting. For the parent company, the report is presented in accordance with the Swedish Annual Accounts Act and Financial Accounting Standards Council recommendation RR32.

The Company has no outstanding convertible loans or warrants.

Note 1

In the income statement, the figures in the column entitled “Last 12 months” report financial expenses including a non-recurring revenue stemming from the successful outcome for the company of a dispute in Norway concerning customs duties. A reserve amounting to MSEK 21 has thereby been released.

Note 2

Refers to the selling of the premises of a store.

Note 3

In the income statement, the figures in the column entitled “Sept-Feb 2005/06” report financial expenses including a non-recurring expense totalling MSEK 40 (MSEK 20 for the listing of the company and costs for restructuring the Group's finances of MSEK 20).

Note 4

A revenue of MSEK 270 attributable to a deduction for loss in an acquired company has been reported in Q2.

Note 5

An amount of MSEK 1,618 is included in this item, referring to borrowing in connection to the acquisition of a company.

Acquisition of companies

In December 2006, KappAhl acquired 100 percent of the shares in two companies for a total purchase price of MSEK 1,671. The fair value of the acquired assets and liabilities amounted to MSEK 1,671 net including a deferred tax asset of MSEK 49. In addition, a fiscal deficit of MSEK 1,140 was received. This is deemed to be available for utilisation from the financial year 2012/2013. The acquired companies have no operations. The acquisition has brought a positive net effect on the reported tax and equity for the period of MSEK 270, due to the revaluation of existing tax loss carry forward in the semi-annual financial statement.

Review report

We have carried out a review of the appended consolidated balance sheet for KappAhl Holding AB per 28 February 2007 and the reports thereto regarding the income statement, change in equity and change in cash flow for the six month period ending on that date, as well as a summary of important accounting principles and other supplementary disclosures.

The preparation and true and fair presentation of this interim financial information, in accordance with IAS 34, is the responsibility of the board of directors and the managing director. Our responsibility is to express a conclusion on the interim financial information based on our review.

We conducted our review in accordance with the Swedish Standard on Review Engagements (SÖG) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review includes making enquiries, primarily of persons responsible for financial and accounting matters, carrying out an analytical examination, and implementing other audit checks. A review has a different emphasis and is significantly less extensive compared with the emphasis and extent of an audit in accordance with auditing standards in Sweden, RS, and generally accepted auditing standards. The audit checks implemented in a review do not enable us to acquire such assurance that we become aware of all important circumstances which would have been identified if an audit had been carried out. The expressed conclusion based on a review, therefore, does not have the assurance of an expressed conclusion based on an audit.

Based on our review, no circumstances have emerged which give us reason to consider that the appended Interim Report does not, in substance, provide a true and fair representation of the company's financial position per 28 February 2007 and of its financial result and cash flow for the six-month period ending on this date, in accordance with IAS 34.

Gothenburg, 28 March 2007

PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant