

Interim Report for Third Quarter of financial year 2007/2008

Stable development

Third Quarter (March – May 2008)

- KappAhl's net sales for the period (excluding VAT) amounted to MSEK 1,140 (1,106), an increase of 3.1 percent.
- Operating profit amounted to MSEK 145 (132). Operating profit in the previous year was affected positively by non-recurring items in an amount of MSEK 3. Excluding non-recurring items, profit increased by 12.4 percent.
- The gross margin amounted to 63.8 percent (62.3) and the operating margin was 12.7 percent (11.9).
- Profit after taxes amounted to MSEK 112 (79), which is equivalent to SEK 1.49 (1.05) per share. Profit has been positively affected in an amount of MSEK 23 due to the termination of a financial lease for real estate.
- Cash flow from operating activities totalled MSEK 221 (136).

First nine months (September 2007 – May 2008)

- KappAhl's net sales for the period amounted to MSEK 3,519 (3,383), an increase of 4.0 percent.
- Operating profit amounted to MSEK 469 (435). Operating profit in the previous year was affected positively by non-recurring items in an amount of MSEK 16. Excluding non-recurring items, profit increased by 11.9 percent.
- The gross margin amounted to 62.5 percent (60.8) and the operating margin was 13.3 percent (12.9).
- Profit after taxes amounted to MSEK 324 (540), which is equivalent to SEK 4.32 (7.20) per share. Profit after taxes in the previous year was positively affected by tax revenue of MSEK 270.
- Cash flow from operating activities totalled MSEK 600 (449).

CEO's comments



Christian W. Jansson
CEO

During the spring, the fashion market was slightly weaker than in previous quarters. Our ability to demonstrate continued steady development in such a market is highly encouraging and indicates that KappAhl has a strong offer that appeals to our customers. However, global uncertainty may lead to caution on the part of our customers. This makes it difficult to assess the near future, at the same time as these conditions could also bring new business opportunities for operations of our type. We are also pleased to be able to state that growth from new stores will increase, as we now have contracts for 56 new stores.

For further information, please contact

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KappAhl is a leading fashion chain with around 4,000 employees and nearly 300 stores in Sweden, Norway, Finland and Poland. KappAhl sells value-for-money fashion to a number of target groups - men, women and children - but focuses particularly on women between 30 and 50. All clothes are designed by in-house designers. In 1999, KappAhl was the first fashion chain in the world to be environmentally certified in line with international standards. The head office and distribution centre are located in Mölndal, in the outskirts of Gothenburg. In the 12-month period that ended on 31 August 2007, KappAhl's net sales were SEK 4.5 billion and operating profit was SEK 618 million. KappAhl is listed on the OMX Nordic Exchange, Stockholm. Further information about the company is available at www.kappahl.com and financial information is available at www.kappahl.com/ir.

Comments on the Third Quarter

Net sales and results

KappAhl's net sales for the period (excluding VAT) amounted to MSEK 1,140 (1,106), an increase of 3.1 percent. Of net sales growth, translation differences (primarily against NOK) accounted for +1.6 percent and new and closed stores accounted for +2.0 percent. Growth in net sales in terms of sales in comparable stores was at -0.5 percent.

Sales were weak at the start of the period, particularly as the Easter weekend took place in March. However, sales in May were very strong, indeed. Net sales in terms of sales in comparable stores should be seen in light of the fact that a +6.0 percent increase was reported in the previous year's third quarter.

Gross profit for the quarter totalled MSEK 727 (689), which is equivalent to a gross margin of 63.8 percent (62.3). A strong range suited to our customer group forms the basis for this strong margin. Gross margin development indicates that we have, again, succeeded in strengthening our concept in this respect. Furthermore, the development of the exchange rate against the USD has been advantageous, although this has partially been offset by the strengthening of several Asian currencies against the USD.

Sales and administrative expenses amounted to MSEK 582 (560) for the quarter. This increase is partially attributable to a larger number of stores, compared with the previous year, and partly due to the exchange rate effects in the consolidated accounts (primarily against NOK).

Operating profit was MSEK 145 (132), which is equivalent to an operating margin of 12.7 percent (11.9). Previous year's profit was positively affected by MSEK 3, attributable to sales of a store site.

Depreciation according to plan amounted to MSEK 54 (50).

Net financial items for the period were MSEK 3 (-21) and profit after financial items was MSEK 148 (111). Net financial items include MSEK 23 arising from the fact that the real estate used for the distribution centre and head offices is no longer reported according to the principles for financial leasing. This reporting has been terminated due to the fact that KappAhl has now purchased the properties. Profit after estimated tax was MSEK 112 (79). Earnings per share after tax were SEK 1.49 (1.05) for the period.

Store network

KappAhl has opened five new stores during the quarter. No stores have been closed. At the end of the period, the total number of stores was 285 (272). Of these, 135 were in Sweden, 86 in Norway, 45 in Finland and 19 in Poland.

Cash flow

KappAhl's cash flow from continuing operations amounted to MSEK 221 (136) during the period, and cash flow after investments amounted to MSEK -308 (73). Cash flow after investments has been negatively affected by MSEK -462 due to the purchase of real estate.

Financing and liquidity

Total liabilities at the end of the period amounted to MSEK 2,028, compared with MSEK 1,479 as per 31 May 2007. This has been impacted by MSEK 462 due to the purchase of the real estate used for the distribution centre and head office. At the end of the period, the equity/assets ratio was 11.4 percent, compared with 14.4 percent as per 31 May 2007. The net interest-bearing liabilities/EBITDA ratio was 2.4 at the end of the period.

Cash and cash equivalents totalled MSEK 32 on 31 May 2008. At the end of the period, there were unutilised credit facilities amounting to approximately MSEK 1,000.

Comments on the first nine months

Market

During the spring, we have experienced a clear decline in the state of the market, together with weak statistics for fashion sales. However, it should be noted that the forecasted development of GNP for those countries in which KappAhl is active is stronger than the average figure for Europe. Furthermore, KappAhl's chosen customer groups are not normally significantly affected by developments on the financial markets, as these groups have comparatively small loans and investments in shares. Substantial energy price increases have entailed concern for levels of spendable income among consumers, but we consider ourselves to be well positioned to deal with a weakened state of the market.

Net sales

KappAhl's net sales for the first nine months amounted to MSEK 3,519 (3,383), an increase of 4.0 percent. This increase is comprised of exchange rate differences primarily against NOK +2.0 percent, new and closed stores +1.3 percent and the development of sales in comparable stores +0.7 percent.

Expansion

The search for new retail sites continues according to plan. In addition to the 285 (272) stores which were operational as of 31 May this year, there are contracts for an additional 56 new stores. The aim is to increase the number of stores by 20-25 per year. Per 31 August this year, we expect to have 292 stores in operation, an increase of 20 stores against the previous year.

Inventory

At the end of the period, KappAhl's inventory amounted to MSEK 555, an increase of MSEK 20 compared with the previous year. Measured in local currency, the inventory level per store is the same as in the previous year. Inventory is deemed to be at satisfactory levels as regards both size and composition.

Investments

A total of MSEK 644 (210) has been invested since the beginning of the financial year. Of the year's increase, MSEK 462 refers to the acquired properties in Mölndal, housing the head office and distribution centre, which were previously reported as a financial lease. The major portion of the remaining amount consists of investments in existing and newly-opened stores.

Transactions with related parties

There have been no transactions with related parties.

Cash flow

KappAhl's cash flow from operating activities amounted to MSEK 600 (449) during the first nine months, and cash flow after investments amounted to MSEK -44 (239).

Taxes

The tax rate for the entire year has been calculated as approximately 28 percent, while income tax paid is estimated at approximately 20 percent, depending on the utilisation of loss carry forward.

The Parent Company

The Parent Company's net sales during the third quarter were MSEK 1 (4) and profit after financial items amounted to MSEK -18 (-21). The Parent Company did not make any investments during the period.

Upcoming financial reports

Fourth quarter (1 June – 31 Aug)	30 September 2008
First quarter (1 Sept – 30 Nov) and Annual General Meeting	17 December 2008

This report has not been the subject of an audit by the Company's auditors.

KappAhl Holding AB (publ) discloses the information provided herein pursuant to the Securities Markets Act and/or the Financial Instruments Trading Act. The information was submitted for publication at 08.30 on 27 June 2008.

The Chief Executive Officer affirms that this report gives a true and fair view of the Parent Company's and the Group's operations, financial position and results of operations and describes the material risks and uncertainties faced by the Parent Company and the Group.

Möln dal, 27 June 2008
KappAhl Holding AB (publ)

Christian W. Jansson
CEO

Consolidated income statement - Summary (SEK million)	Q3 2007/08	Q3 2006/07	Sept-May 2007/08	Sept-May 2006/07	Last 12 months June-May
Net sales	1 140	1 106	3 519	3 383	4 609
Cost of goods sold	-413	-417	-1 320	-1 326	-1 732
Gross profit	727	689	2 199	2 057	2 877
Selling expenses	-547	-528	-1 626	-1 529	-2 082
Administrative expenses	Note 1 -35	-32	-104	-109	-137
Other operating income	Note 2 -	3	-	16	0
Other operating costs	-	-	-	-	-6
Operating profit	145	132	469	435	652
Financial income	Note 5 24	11	30	23	30
Financial expenses	-21	-32	-57	-81	-73
Profit after financial items	148	111	442	377	609
Tax	Note 3 -36	-32	-118	163	-166
Net profit	112	79	324	540	443
Earnings per share, SEK	1,49	1,05	4,32	7,20	5,90
Earnings per share after dilution, SEK	1,49	1,05	4,32	7,20	5,90

Consolidated Balance Sheet - Summary (SEK million)	31-May-08	31-May-07	31-Aug-07
Tangible fixed assets	Note 5 1 026	674	685
Intangible fixed assets*	1 342	1 345	1 356
Deferred tax assets	363	415	408
Inventories	555	535	606
Other operating receivables	147	96	97
Cash and cash equivalents	32	128	60
Total assets	3 465	3 193	3 212
Equity	395	762	890
Interest-bearing long-term liabilities	1 332	1 304	1 261
Non-interest-bearing long-term liabilities	272	266	266
Interest-bearing current liabilities	782	303	186
Non-interest-bearing current liabilities	684	558	609
Total equity and liabilities	3 465	3 193	3 212
*of which goodwill	696	696	696
*of which trademarks	610	610	610

Consolidated cash flow statement - Summary (SEK million)	Q3 2007/08	Q3 2006/07	Sept-May 2007/08	Sept-May 2006/07
Cash flow from continuing operations before changes in working capital	156	133	522	464
Changes in working capital	65	3	78	-15
Cash flow from continuing operations	221	136	600	449
Cash flow from investment activities	Note 5 -529	-63	-644	-210
Cash flow after investments	-308	73	-44	239
Change bank overdraft facility	277	1	675	60
Redemption of shares/Dividend	0	0	-825	-188
Other from financial activities	Note 4 27	-1 622	166	-66
Cash flow from financial activities	304	-1 621	16	-194
Cash flow for the period	-4	-1 548	-28	45
Cash and cash equivalents at beginning of the period	36	1 676	60	83
Cash and cash equivalents at the end of the period	32	128	32	128

Specification of changes in the Group's equity	Sept-May 2007/08	Sept-May 2006/07
Opening equity	890	412
Translation differences for the period	16	-2
Change in fair value reserves	-10	0
Redemption of shares	-825	-
Dividend	-	-188
Profit for the period	324	540
Closing equity	395	762

Number of stores per country	31-May-07	31-Aug-07	30-Nov-07	29-Feb-08	31-May-08
Sweden	132	131	133	133	135
Norway	84	84	85	85	86
Finland	41	42	43	44	45
Poland	15	15	18	18	19
Total	272	272	279	280	285

Sales per country	Q3 2007/08	Q3 2006/07	Change SEK %	Change local currency %
Sweden	632	634	-0,3%	-0,3%
Norway	307	298	3,0%	-0,4%
Finland	138	128	7,8%	5,4%
Poland	63	46	37,0%	23,0%
Total	1 140	1 106	3,1%	

Sales per country	Sept-May 2007/08	Sept-May 2006/07	Change SEK %	Change local currency %
Sweden	1 947	1 931	0,8%	0,8%
Norway	986	938	5,1%	-0,1%
Finland	416	383	8,6%	6,7%
Poland	170	131	29,8%	18,5%
Total	3 519	3 383	4,0%	

Segment reporting	Net sales Q3 2007/08	Net sales Q3 2006/07	Operating income Q3 2007/08	Operating income Q3 2006/07
Nordic countries	1 078	1 060	322	542
Poland	63	46	2	-2
Total	1 140	1 106	324	540

Segment reporting	Net sales Sept-May 2007/08	Net sales Sept-May 2006/07	Operating income Sept-May 2007/08	Operating income Sept-May 2006/07
Nordic countries	3 350	3252	459	425
Poland	170	131	10	10
Total	3 519	3 383	469	435

Quarterly income statement (SEK million)	Q4 June-Aug 2005/06	Q1 Sept-Nov 2006/07 1)	Q2 Dec-Feb 2006/07 1)	Q3 Mar-May 2006/07	Q4 June-Aug 2006/07	Q1 Sept-Nov 2007/08	Q2 Dec-Feb 2007/08	Q3 Mar-May 2007/08
Net sales	1 010	1 189	1 088	1 106	1 090	1 247	1 132	1 140
Cost of goods sold	-371	-449	-460	-417	-412	-450	-457	-413
Gross profit	639	740	628	689	678	797	675	727
Selling expenses	-431	-517	-484	-528	-456	-558	-521	-547
Administrative expenses	-35	-37	-40	-32	-33	-33	-36	-35
Other operating income	-	-	13	3	-	-	Note 2	-
Other operating costs	-	-	-	-	-6	-	0	-
Operating profit	173	186	117	132	183	206	118	145
Financial income	0	2	10	11	0	3	3	24
Financial expenses	-12	-16	-33	-32	-16	-18	-18	-21
Profit after financial items	161	172	94	111	167	191	103	148
Tax	Note 3	-45	-49	244	-32	-48	-53	-36
Net profit	116	123	338	79	119	138	74	112

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

Parent company income statement - Summary (SEK million)	Q3 2007/08	Q3 2006/07	Sept-May 2007/08	Sept-May 2006/07	Last 12 months June-May
Net sales	1	4	5	6	7
Cost of goods sold	-	-	-	-	-
Gross profit	1	4	5	6	7
Selling expenses	-	-	-	-	-
Administrative expenses	-2	-3	-6	-5	-11
Other operating income	-	-	-	-	-
Operating profit	-1	1	-1	1	-4
Result from participations in group companies	0	0	139	0	409
Financial income	2	0	5	0	10
Financial expenses	-19	-22	-72	-32	-165
Profit after financial items	-18	-21	71	-31	250
Tax	10	7	14	10	26
Net profit	-8	-14	85	-21	276

Parent company Balance Sheet - Summary (SEK million)	31-May-08	31-May-07	31-Aug-07
Financial fixed assets	3 149	2 971	2 882
Deferred tax assets	15	10	-
Other operating receivables	182	73	752
Cash and cash equivalents	-	-	-
Total assets	3 346	3 054	3 634
Equity	849	1 012	1 575
Interest-bearing long-term liabilities	1 703	1 091	1 049
Deferred tax liabilities	6	0	1
Interest-bearing current liabilities	782	57	908
Non-interest-bearing current liabilities	6	894	101
Total equity and liabilities	3 346	3 054	3 634

Key ratios	Q3 2007/08	Q3 2006/07	Sept-May 2007/08	Sept-May 2006/07	Last 12 months June-May
Growth in sales	3,1%	3,5%	4,0%	6,3%	4,0%
Earnings per share, SEK	1,49	1,05	4,32	7,20	5,90
Total depreciation/amortisation	54	50	163	147	217
Operating result (EBIT)	145	132	469	435	652
Gross margin	63,8%	62,3%	62,5%	60,8%	62,4%
Operating margin	12,7%	11,9%	13,3%	12,9%	14,1%
Interest coverage ratio	-	-	-	-	9,34
Net interest-bearing liabilities	2 082	1 479	2 082	1 479	2 082
Net interest-bearing liabilities/EBITDA	-	-	-	-	2,40
Equity/assets ratio	11,4%	14,4%	11,4%	14,4%	11,4%
Equity per share, SEK	5,26	10,15	5,26	10,15	5,26
Equity per share after dilution, SEK	5,26	10,15	5,26	10,15	5,26
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
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, 31 May 2008	Number of shares	Percent of shares and votes	Change compared to 29 Feb 2008
PEGATRO LIMITED	22 511 000	30,00	0
Catella Fondförvaltning	3 306 391	4,41	628 191
Swedbank Robur fonder	3 249 018	4,33	2 105 917
MORGAN STANLEY & CO INC, W9	3 240 694	4,32	-273 635
US RESIDENTS OMNIBUS LENDING A/C	2 193 400	2,92	-74 980
SVENSKA HANDELSBANKEN CLIENTS ACC:3	2 128 400	2,84	141 200
SEB Investment Management	2 056 810	2,74	410 710
State street Bank	1 951 343	2,60	-62 406
AKTIA SPARBANK	1 410 000	1,88	750 000
NORDEA BANK NORGE NOMINEE	1 350 200	1,80	115 000
JP MORGAN CHASE BANK, W9	1 021 541	1,36	270 959
SEB Fondinvest	866 240	1,15	64 000
RIKSBANKENS JUBILEUMSFOND	773 400	1,03	123 400
FORWARD INTL SMALL COMPANIES FUND	754 627	1,01	172 310
FORTIS BANQUE LUXEMBOURG S.A.	743 132	0,99	-403 370
DIDNER & GEORGE AKTIEFOND	739 000	0,98	-60 000
MELLONS US TAX EXEMPT ACCOUNT	710 595	0,95	246 161
STIFTELSEN VIN & SPRITHISTORISKA, MUSEET	700 000	0,93	0
LIVFÖRSÅKRINGSBOLAGET	698 350	0,93	-125 000
MELLON OMNIBUS 15%, AGENT F ITS CLIENTS	560 820	0,75	357 908
Other owners	24 075 039	32,08	-4 386 365
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 2007.

This 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

Reclassification of MSEK 4 between Sales Expenses and Administrative Expenses. Refers to Sept-May 2006/2007.

Note 2

In the income statement for "Sept-May 2006/2007", revenue regarding the sale of two store premises is included.

Note 3

In the income statement for "Sept-May 2006/2007", deferred tax revenue of MSEK 270 has been recorded regarding loss carried forward in acquired companies.

Note 4

In the Third Quarter of 2006/2007, MSEK -1,620 has been included regarding the settlement of short-term borrowing carried out in connection the acquisition of companies.

Note 5

In the Third Quarter of 2007/2008, the Group acquired the properties in which the distribution centre and head office are housed for a total of MSEK 447. As a consequence of this acquisition, a financial lease contract has been terminated. This has entailed a positive effect on financial income of a total of MSEK 23 through the settlement of the financial liability.

Risks and uncertainties

The most essential strategic and operative risks affecting KappAhl's operations and industry are described in detail in the annual report for 2006/2007. They are comprised, among other things, of competition within the fashion industry, fashion trends, store location and store expansion. The Company's risk management is also described in the corporate governance report in the same annual report, included in the section "Report on Internal Control". The same applies to the Group's management of financial risks, which are accounted for in the annual report for 2006/2007, Note 23. The recorded risks, in all material aspects, are considered unchanged and, therefore, are not further accounted for here.