KappAhl

INTERIM REPORT

21 December 2011

• REPORT FOR THE FIRST QUARTER 2011/2012 •

Continued weak sales but improved inventory situation

- KappAhl's net sales for the period amounted to SEK 1,193 (1,341) million, a decrease of 11 per cent.
- The operating profit was SEK 16 (146) million.
- The gross margin was 58.4 (63.4) per cent and the operating margin was 1.3 (10.9) per cent.
- Profit/loss after tax was SEK -11 (95) million, which is equivalent to SEK -0.15 (1.27) per share.
- Cash flow from operating activities was SEK 30 (157) million.
- A rights issue of SEK 600 million was completed during the quarter.

• CEO'S COMMENTS •

The trend in the fourth quarter has largely continued during the autumn. Customers have been cautious, which we can see not only from our own figures, but also from visitor statistics from many shopping centres, and in financial statistics. At the same time our weak performance continues in the market, mainly due to our women's range. It will take one or more quarters before the improvement in the range has an impact.

It is worth noting that some of the measures taken are already having an effect. The cost savings can be seen clearly and we are starting to see positive changes in inventories. It is a well-known fact that reducing inventories is a difficult balancing act, in that for a period you have to buy in less than you sell. Renewal of the range may suffer and clearance goods compete with the new arrivals. This has had a negative effect on earnings during the quarter.

Geographically we can note that the fast establishment rate in Poland and the Czech Republic is now clearly burdening earnings. As already communicated, expansion will be somewhat slower for some time to come.

JOHAN ÅBERG
President and Chief Executive Officer

A telephone conference will be held for analysts, media and investors today at 9.00 a.m. To participate, call +44 207 750 99 50. There will also be a direct webcast of the presentation available at www.kappahl.com/presentations, or www.financialhearings.com.

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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 a.m. on 21 December 2011.

KappAhl is a leading fashion chain with more than 380 stores and 4 900 employees in Sweden, Norway, Finland, Poland and the Czech Republic. *KappAhl sells value-for-money fashion with a wide appeal – to women, men and children – and focuses in particular on women aged 30-50 with families. All clothes are from our own designers. In 1999 KappAhl was the first fashion chain to be environmentally certified. In the 2010/2011 financial year KappAhl's net sales were almost SEK 5 billion and operating profit SEK 222 million. KappAhl is listed on Nasdaq OMX Stockholm. More information can be found at www.kappahl.com*

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COMMENTS ON THE FIRST QUARTER

Market

In the last year the market for retail fashion has been increasingly weak. This is mainly due to consumers becoming more careful in their consumption. In the last year 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 mortgage rates 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. Market development in the next year will probably continue to be weak.

Net sales and results

KappAhl's net sales for the quarter amounted to SEK 1,193 (1,341) million, a decrease of 11.0 per cent. This is explained by: the effect of new and closed stores, +3.2 per cent; change in comparable stores, -13.9 per cent and translation differences totalling -0.3 per cent. The weak sales are largely due to the women's range not meeting our customers' expectations. In comparable stores the trend is very weak.

Gross profit for the quarter was SEK 697 (850) million, which corresponds to a gross margin of 58.4 (63.4) per cent. The gross margin was negatively affected by the initially high inventory level leading to a higher than normal percentage of clearance sales, and by higher purchasing costs. The high percentage of clearance sales also means a negative impact on sales of new goods. The increased purchasing costs have been due to suppliers' shortage of capacity, rising raw materials costs and increasing payroll expenses. However, now the situation regarding access to production capacity and raw materials costs is considerably better and regarded as normal. This will have a positive effect going forward.

Selling and administrative expenses for the quarter have decreased to a total of SEK 681 (704) million, despite an increased number of stores and general inflation. This shows that the savings initiated at the beginning of the summer are clearly having an effect.

The operating profit was SEK 16 (146) million, a decrease of 89 per cent. This is equivalent to an operating margin of 1.3 (10.9) per cent. The deterioration in earnings is due both to weak sales and to a lower gross margin.

Depreciation according to plan was SEK 41 (55) million, which was affected by a changed assessment of real useful lives – see further under accounting policies.

Net financial income was SEK -26 (-17) million for the quarter. Rising interest expenses are for the most part due to higher debt and to a lesser extent due to the new loan agreement launched in mid-November. Profit/loss after financial items was SEK -10 (129) million and the profit/loss after estimated tax was SEK -11 (95) million. Earnings per share for the quarter were SEK -0.15 (1.27) (before rights issue).

Other comprehensive income

Unrealised changes in the fair value of the Group's cash flow hedges are reported under 'Other comprehensive income'. These are SEK -18 (12) million for the period.

Store network

At the end of the period the total number of stores was 381 (360); 163 in Sweden, 101 in Norway, 61 in Finland, 51 in Poland and five in the Czech Republic. A total of 12 stores opened during the quarter. Apart from our stores an online shop was opened in Sweden during the quarter. Customers were already able to look at the range on the company's website. Consequently it was natural to give customers the opportunity to also order directly, even though many nevertheless prefer to visit a store and try on the garment before purchasing.

Cash flow

KappAhl's cash flow from operating activities amounted to SEK 30 (157) million during the quarter and cash flow after investments amounted to SEK -55 (-6) million. What mainly affected cash flow negatively is a deterioration in earnings. At the same time we can see that changes in inventories are moving in the right direction. During the period inventories decreased by SEK 67 million, compared with an increase in the corresponding period of the previous year of SEK 81million.

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Financing and liquidity

During the period a decision was made on a rights issue of about SEK 600 million. The issue was fully subscribed and the underwriting guarantees did not need to be exercised. At the close of the period most of the money had been paid in and at the beginning of December the entire amount had been paid. The purpose of the rights issue was to reduce debt and at the beginning of December a repayment of SEK 500 million was made. The remaining issue proceeds were used to reduce the use of the company's overdraft facilities.

The Annual General Meeting also decided on a warrant programme directed at key staff, equivalent to about three per cent of the company's shares. Subscription will be in the second quarter and the programme will then run for three years. The warrants will be sold at market price. For more detailed information please see the company's website under "General Meeting".

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 eight per cent of the amount utilised. These limits were reduced at the beginning of December by SEK 500 million through a repayment.

Interest-bearing net debt at the end of the period was SEK 1,784 million, compared with SEK 1,870 million as at 30 November 2010. Net interest-bearing debt/EBITDA was 6.0 at the end of the period, as compared with 2.6 as at 30 November 2010. The equity/assets ratio increased to 26.9 per cent (24.5), mainly due to the rights issue and dividend paid in December 2010.

Cash and cash equivalents amounted to SEK 566 (19) million as at 30 November 2011. The explanation for the high amount of cash and cash equivalents is that the proceeds from the rights issue at the close of the period were in a separate bank account. At the period close there were unutilised credit facilities of about SEK 250 (800) million.

Expansion

The work of finding new store sites is proceeding according to plan. Apart from the 381 (360) stores in operation on 30 November this year, there are at present contracts for 37 new stores. Of the new contracts no stores will be opened in the second quarter (Dec - Feb) and nine will be opened during the remainder of the financial year. The long-term goal to increase the number of stores by 20 to 25 per year remains, but is expected to lie at the lower end of the interval.

Inventories

At the close of the period inventories amounted to SEK 791 million, an increase of SEK 7 million compared with the previous year. During the period inventories decreased by SEK 67 million, compared with an increase in the corresponding period of the previous year of SEK 81million. Altogether the size and composition of the inventories are regarded as better than in the last two quarters, but are still not entirely satisfactory.

Investments

Investments of SEK 50 (97) million were made during the quarter, mainly referring to investment in existing and newly opened stores. For the full year investments are expected to amount to about SEK 150 million, which implies a decrease compared with the previous year of about SEK 90 million.

Related party transactions

Apart from underwriting guarantees for the rights issue there have not been any related party transactions.

Taxes

The tax cost has been negatively affected by not recording a deferred tax asset for losses in Poland and the Czech Republic. The Group has deferred tax assets of SEK 365 million in Sweden, referring to blocked loss carry-forwards that can partly start to be used from 2011/12.

Risks and uncertainties

Purchase prices have risen sharply due to increasing cotton prices, higher wage costs and insufficient capacity. In recent months cotton prices and the capacity situation have, however, improved, but it will take a number of months before this affects deliveries.

The most important strategic and operative risks that affect KappAhl's operations and industry are described in detail in the annual report for 2010/2011 and in the rights issue prospectus. These include competition in the fashion industry, economic fluctuations, 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, 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 2010/2011, Note 19. 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 0 (4) million and profit after financial items was SEK 16 (-20) million. The financial items for the quarter consist of dividend received from subsidiaries totalling SEK 43 (-) million. The Parent Company did not make any investments during the period.

Upcoming reports

Second quarter (1 December–29 February) 30 March 2012
Third quarter (1 March–31 May) 29 June 2012
Fourth quarter (1 June–31 August) 10 October 2012

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

Mölndal, 21 December 2011
KappAhl AB (publ)

JOHAN ÅBERG
President and Chief Executive Officer

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Group income statement - Summary (SEK million)	Sep-Nov 2011/2012	Sep-Nov 2010/2011	Latest 12 months Dec-Nov
Net sales	1 193	1 341	4 826
Cost of goods sold	-496	-491	-2 053
Gross profit	**697**	**850**	**2 773**
Selling expenses	-648	-669	-2 539
Administrative expenses	-33	-35	-142
Operating profit	**16**	**146**	**92**
Financial income	0	0	1
Financial expenses	-26	-17	-81
Profit after financial items	**-10**	**129**	**12**
Tax	-1	-34	-50
Net profit	**-11**	**95**	**-38**
Profit attributable to parent company shareholders	**-11**	**95**	**-38**
Earnings per share before and after dilution, SEK	-0,15	1,27	-0,51
Earnings per share after new share issue, SEK	-0,05	0,42	-0,17
Other comprehensive income			
Net Profit	-11	95	-38
Translationdifferences for the period	16	-7	-1
Actuarial losses	0	0	-19
Change in fair value reserves	-18	12	-48
Tax attributable to other comprehensive income	5	-4	23
Total other comprehensive income attributable to parent company shareholders	**-8**	**96**	**-83**

Group Balance Sheet - Summary (SEK million)	30-Nov-11	30-Nov-10	31-Aug-11
Tangible assets	1 002	1 016	996
Intangible assets*	1 337	1 330	1 335
Deferred tax assets	142	142	144
Inventories	791	784	858
Other operating receivables	242	136	129
Cash and cash equivalents	566	19	39
Total assets	**4 080**	**3 427**	**3 501**
Equity	1 099	839	520
Interest-bearing long-term liabilities	1 701	1 877	2 192
Non-interest-bearing long-term liabilities	16	12	9
Interest-bearing current liabilities	649	12	113
Non-interest-bearing current liabilities	615	687	667
Total equity and liabilities	**4 080**	**3 427**	**3 501**
*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 2011/2012	Sep-Nov 2010/2011
Cash flow from operating activities before changes in working capital	**30**	**157**
Changes in working capital	-35	-97
Cash flow from operating activities	**-5**	**60**
Cash flow from investing activities	-50	-66
Cash flow after investments	**-55**	**-6**
Change in bank overdraft facility	47	-1
New share issue	535	-
Dividend	-	-
Cash flow from financing activities	**582**	**-1**
Cash flow for the period	**527**	**-7**
Cash and cash equivalents at beginning of the period	**39**	**26**
Cash and cash equivalents at the end of the period	**566**	**19**

Specification of changes in the Group's equity	Sep-Nov 2011/2012	Sep-Nov 2010/2011
Opening equity	520	743
Dividend	-	-
New share issue - after issue expenses and tax	587	-
Total comprehensive income	-8	96
Closing equity	**1 099**	**839**

Number of stores per country	30-Nov-2010	28-Feb-2011	31-May-2011	31-Aug-2011	30-Nov-11
Sweden	157	157	159	159	163
Norway	99	99	100	99	101
Finland	58	58	59	59	61
Poland	43	43	44	47	51
Czech Republic	3	3	5	5	5
Total	**360**	**360**	**367**	**369**	**381**

Sales per country	Sep-Nov 2011/2012	Sep-Nov 2010/2011	Change SEK %	local currency %
Sweden	631	726	-13,1%	-13,1%
Norway	325	358	-9,2%	-11,0%
Finland	141	152	-7,2%	-5,5%
Poland	87	101	-13,9%	-2,9%
Czech Republic	8	4	100,0%	118,1%
Total	**1 193**	**1 341**	**-11,0%**	**-**

Geografic reporting	Net sales Sep-Nov 2011/2012	Net sales Sep-Nov 2010/2011	Operating income Sep-Nov 2011/2012	Operating income Sep-Nov 2010/2011
Nordic countries	1097	1236	78	193
Other	96	105	-22	-4
Intercompany expenses	-	-	-40	-43
Totalt	**1 193**	**1 341**	**16**	**146**

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

4) 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

Quarterly income statement (SEK million)	Q2 Dec-Feb 2009/10	Q3 Mar-May 2009/10	Q4 Jun-Aug 2009/10	Q1 Sep-Nov 2010/11	Q2 Dec-Feb 2010/11	Q3 Mar-May 2010/11	Q4 Jun-Aug 2010/11	Q1 Ssep-Nov 2011/2012
Net sales	1 256	1 221	1 290	1 341	1 188	1 237	1 208	1 193
Cost of goods sold	-531	-432	-521	-491	-508	-493	-556	-496
Gross profit	**725**	**789**	**769**	**850**	**680**	**744**	**652**	**697**
Selling expenses	-615	-639	-583	-669	-624	-651	-616	-648
Administrative expenses	-34	-38	-30	-35	-40	-36	-33	-33
Other operating income	-	-	-	-	-	-	-	-
Other operating expenses	-	-	-	-	-	-	-	-
Operating profit	**76**	**112**	**156**	**146**	**16**	**57**	**3**	**16**
Financial income	1	0	0	0	0	0	1	0
Financial expenses	-23	-24	-24	-17	-15	-22	-18	-26
Profit after financial items	**54**	**88**	**132**	**129**	**1**	**35**	**-14**	**-10**
Tax	-20	-23	-7	-34	0	-9	-40	-1
Net profit	**34**	**65**	**125**	**95**	**1**	**26**	**-54**	**-11**
Operating margin	6,1%	9,2%	12,1%	10,9%	1,3%	4,6%	0,2%	1,3%
Earnings per share, SEK	0,45	0,87	1,67	1,27	0,01	0,35	-0,72	-0,15

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Yearly income statement (SEK million)		Sep-Aug 2006/07	Sep-Aug 2007/08	Sep-Aug 2008/09	Sep-Aug 2009/10	Sep-Aug 2010/11
Net sales		4 473	4 622	4 866	5 111	4 974
Cost of goods sold		-1 738	-1 740	-1 893	-1 954	-2 048
Gross profit		**2 735**	**2 882**	**2 973**	**3 157**	**2 926**
Selling expenses	5)	-1 985	-2 106	-2 315	-2 467	-2 560
Administrative expenses	1)	-142	-136	-132	-139	-144
Other operating income	2, 6)	16	11	-	-	-
Other operating expenses		-6	-	-	-	-
Operating profit		**618**	**651**	**526**	**551**	**222**
Financial income	4)	23	27	1	1	1
Financial expenses		-97	-80	-84	-89	-72
Profit after financial items		**544**	**598**	**443**	**463**	**151**
Tax	3)	115	-162	-128	-61	-83
Net profit		**659**	**436**	**315**	**402**	**68**
Operating margin		13,8%	14,1%	10,8%	10,8%	4,5%
Earnings per share, SEK		8,78	5,81	4,20	5,36	0,91

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 2006/07 and 107 MSEK 2009/10.

4-6) See above

Parent company income statement - Summary (SEK million)	Sep-Nov 2011/2012	Sep-Nov 2010/2011	Latest 12 months Dec-Nov
Net sales	0	4	16
Cost of goods sold	-	-	-
Gross profit	**0**	**4**	**16**
Administrative expenses	-8	-7	-32
Operating profit	**-8**	**-3**	**-16**
Result from participations in group companies	43	0	401
Financial income	9	1	16
Financial expenses	-28	-18	-97
Profit after financial items	**16**	**-20**	**304**
Resultat after appropriations	**16**	**-20**	**304**
Tax	-4	0	20
Net profit	**12**	**-20**	**324**

Parent company Balance Sheet - Summary (SEK million)	30-Nov-11	30-Nov-10	31-Aug-11
Tangible assets	-	-	-
Financial assets	3 218	3 144	3 144
Deferred tax assets	14	8	10
Other operating receivables	76	23	234
Cash and cash equivalents	622	-	1
Total assets	**3 930**	**3 175**	**3 389**
Equity	1 831	1 112	1 240
Untaxed reserves	8	8	8
Interest-bearing long-term liabilities	1 415	2 007	2 046
Deferred tax liabilities	-	-	-
Interest-bearing current liabilities	600	-	50
Non-interest-bearing current liabilities	76	48	45
Total equity and liabilities	**3 930**	**3 175**	**3 389**

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Key ratios	Sep-Nov 2011/2012	Sep-Nov 2010/2011	Latest 12 months Dec-Nov
Growth in sales	-11,0%	-0,2%	-5,5%
Earnings per share, SEK	-0,15	1,27	-0,51
Total depreciation/amortisation	41	55	205
Operating result (EBIT)	16	146	92
Gross margin	58,4%	63,4%	57,5%
Operating margin	1,3%	10,9%	1,9%
Interest coverage ratio	1,1	8,6	1,1
Net interest-bearing liabilities	1 784	1 870	1 784
Net interest-bearing liabilities, excl. Buildings	1 234	1 320	1 234
Net interest-bearing liabilities/EBITDA	6,0	2,6	6,0
Equity/assets ratio	26,9%	24,5%	26,9%
Equity per share, SEK	14,65	11,18	14,65
Equity per share after dilution, SEK	14,65	11,18	14,65
Return on equity	-	-	-5,6%
Return on capital employed	-	-	3,3%
Number of shares after dilution	75 040 000	75 040 000	75 040 000
Number of shares after new share issue	225 120 000	225 120 000	225 120 000

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 prifit/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 2011	Number of shares	Percentage of shares and votes	Change compared with 31 Aug 2011
DUTOT LIMITED (Christian W Jansson)	12 214 700	16,28	0
MELLBY GÅRD AB	8 862 886	11,81	5 172 942
Swedbank Robur fonder	4 310 701	5,74	0
AVANZA PENSION	3 335 436	4,44	392 275
SVENSKT NÄRINGSLIV	2 100 000	2,80	0
ROBUR FÖRSÄKRING AB	1 961 871	2,61	376 242
NORDNET PENSIONSFÖRSÄKRING AB	1 208 435	1,61	136 333
NORDEA BANK NORGE NOMINEE	1 029 200	1,37	1 009 000
JP MORGAN BANK	592 348	0,79	-70 652
SVENSKA HANDELSBANKEN SA	575 292	0,77	9 500
Catella Fondförvaltning	435 000	0,58	-357 300
IDEELLA FÖRENINGEN	380 000	0,51	0
JPM CHASE NA	345 329	0,46	189 510
DANICA PENSION	310 617	0,41	116 150
Andra AP-fonden	306 137	0,41	0
Folksam	303 700	0,40	0
GUSTAV SVENSSON AB	300 000	0,40	300 000
JULA AB	300 000	0,40	300 000
FÖRSÄKRINGS AB SKANDIA	297 866	0,40	-247 833
LÄNSFÖRSÄKRINGAR JÖNKÖPING	293 039	0,39	0
Övriga	35 577 443	47,42	-7 326 167
Summa	**75 040 000**	**100,00**	**-**

Accounting policies

The Group applies International Financial Reporting Standards, IFRS, as adopted by the EU. The accounting policies are unchanged in comparison with the latest annual accounts as at 31 August 2011.

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 of the Swedish Financial Reporting Board.

The company has no outstanding convertible debt instruments or warrants.

An examination has been made of the company's estimated useful lives of store inventories. The examination shows that for several inventory classes the actual useful life is estimated at between five and seven years, which is a longer useful life than that estimated previously, of three to five years. As a consequence of this the depreciation period for these inventory groups has been extended, effective from September 2011. The effect of this for the first quarter is a reduced depreciation cost of about SEK 12 million, compared with the previous depreciation plan.

Deferred tax

The tax cost in the first quarter of 2011/12 has been negatively affected by not recording a deferred tax asset for losses in Poland and the Czech Republic.