

# RNB RETAIL AND BRANDS

## RNB interim report on the second quarter of 2006/2007

September 1, 2006 – February 28, 2007

### Strong growth and strengthened financial position

#### *First half of the year, September 1, 2006 – February 28, 2007*

- Net sales amounted to SEK 1,770.8 M (688.7) – an increase of 157%. Net sales for comparable stores rose 6.5%.
- Operating profit amounted to SEK 228.0 M (62.5). Profit after net financial items amounted to SEK 209.2 M (60.2). Nonrecurring items totaling SEK 84.4 M had a favorable effect on earnings for the period.
- Profit after tax amounted to SEK 176.3 M (43.1), corresponding to SEK 3.12 (1.30) per share.
- Cash flow from operating activities before nonrecurring items amounted to SEK 133.2 M (44.4).

#### *Second quarter, December 1, 2006 – February 28, 2007*

- Net sales amounted to SEK 881.0 M (373.3) – an increase of 136%. Net sales for comparable stores rose 6.3%.
- Operating profit amounted to SEK 141.2 M (31.2). Profit after net financial items amounted to SEK 131.9 M (29.4). Nonrecurring items totaling SEK 84.4 M had a favorable effect on earnings for the period.
- Profit after tax amounted to SEK 114.1 M (20.8), corresponding to SEK 2.01 (0.63) per share.
- Cash flow from operating activities before nonrecurring items amounted to SEK 71.2 M (41.0).
- RNB is vacating its Mölnlycke office to combine its operations in a single location, Stockholm.

### After the close of the reporting period

- During August 2007, Brothers will launch three stores with an expanded collection based on the same content as male one-stop shopping, including fragrances, cosmetics and accessories.
- The Board has decided to raise the company's target long-term operating margin to 15% and established the long-term target for sales growth of 10–20%.

### The RNB Group

RNB is organized in two business areas – Polarn O. Pyret and a distribution platform for national and international brands. Polarn O. Pyret is a brand that focuses on baby and children's wear. The distribution platform consists of the two primary segments, Department Stores and Store Concepts. The Department Stores operations are conducted through stores within department stores NK, in Stockholm and Gothenburg, and Steen & Ström, in Oslo. The Store Concepts segment consists of J-Store, JC, Brothers and Sisters. The total number of stores under the RNB umbrella amounted on February 28, 2007, to 444, of which 213 are operated by franchisers.

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## **RNB vacating Mölnlycke office to bring operations together in Stockholm**

RNB is vacating its Mölnlycke office to bring its operations together in a single location in Stockholm. The move is expected to take place in stages beginning June 1, 2007, a new tenant will take up occupancy of the Mölnlycke premises on September 1, 2007.

The move is expected to involve approximately SEK 25 M in nonrecurring costs, which have been charged to earnings in the second quarter of 2006/2007. The synergistic benefits after the relocation between RNB and JC are expected to amount to at least SEK 120 M annually, beginning with the 2007/2008 fiscal year, compared with the SEK 80 M that was announced previously.

## **Store concepts Solo and Saks divested**

As of February 1, 2007, Solo and Saks have been divested to the Varner Group. The divestment is a step toward streamlining the operations within the Store Concepts business area and fully focusing on the store concepts that became part of RNB through the acquisition of JC. The sale involved 16 stores in total. The purchase consideration amounted to SEK 150 M, resulting in a tax-free capital gain of SEK 109.4 M in the second quarter.

## **Establishment in the Illum department store in Copenhagen**

The Department Stores business area is expanding its distribution platform by means of an establishment in the Illum department store in Copenhagen. The new space amounts to a total area of approximately 2.000 square meters, distributed among menswear, cosmetics, jewelry and clocks. The operations are scheduled to begin in August 2007.

## **Market and demand**

The fashion and clothing trade in Sweden grew during the September 2006 – February 2007 period by 2.3%, according to the HUI index for comparable units. For RNB's operations, sales in comparable stores rose 6.5%.

According to HUI, sales rose 2.6% in the second quarter. For RNB's operations, sales in comparable units rose 6.3% for the same period.

## **Revenue and earnings**

RNB's net sales during the period amounted to SEK 1,770.8 M (688.7) – an increase of 157%. The acquisition of JC during the period had a favorable effect, amounting to SEK 992 M, on net sales. Sales in comparable stores during the period rose 6.5%.

The gross profit margin for the period amounted to 46.0% (49.4). The new operations resulting from RNB's acquisition of JC have a lower gross margin compared with the other parts of RNB. Warm weather during the autumn and winter resulted in a higher than normal amount of price reductions, which had an adverse effect on the gross margin.

Operating profit amounted to SEK 228.0 M (62.5). Profit after net financial items amounted to SEK 209.2 M (60.2). Profit after tax amounted to SEK 176.3 M (43.1). Items of a nonrecurring nature affected operating profit favorably by SEK 84.4 M, of which SEK 109.4 M was proceeds of the divestment of the Solo and Saks operations and SEK 25 M is attributable to a provision for costs relating to the relocation of Mölnlycke operations to Stockholm.

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## *Second quarter*

RNB's net sales during the second quarter amounted to SEK 881.0 M (373.3) – an increase of 136%. Sales in comparable stores during the period rose 6,3%. The gross profit margin in the second quarter amounted to 43.5% (47.4). The warm weather during the autumn and winter resulted in a higher than normal amount of price reductions, which had an adverse effect on the gross margin during the second quarter.

Operating profit for the quarter amounted to SEK 141.2 M (31.2). Profit after net financial items amounted to SEK 131.9 M (29.4). Nonrecurring items totaling SEK 84.4 M had a favorable effect on earnings in the second quarter.

## **Polarn O. Pyret business area**

Net sales during the period amounted to SEK 210.7 M (162.8) – an increase of 29.4%. Sales in comparable stores rose 24.7%. Operating profit amounted to SEK 34.0 M (24.4). The concept was streamlined during the autumn through the removal of the womenswear collection, which resulted in an increased focus on the baby and children's collections.

## *Second quarter*

Net sales during the second quarter amounted to SEK 103.2 M (80.0) – an increase of 29.0%. Sales in comparable stores rose 24.2%. Operating profit amounted to SEK 13.6 M (9.7).

The establishment of Polarn O. Pyret outside Sweden is proceeding according to plan. The assessment is that it should be possible by 2010 to establish a Polarn O. Pyret presence in at least 20 countries. The number of proprietary stores at the end of the period amounted to 38 (37). In addition, there are 43 (27) franchises, of which 16 (15) are in Sweden and 27 (12) outside Sweden.

## **Department Store business area**

The business area includes operations at the department stores NK Stockholm, NK Gothenburg, Steen & Ström in Oslo and Kosta Outlet. Beginning in autumn 2007, operations will also be conducted at the Illum department store in Copenhagen.

Net sales during the period amounted to SEK 490.0 M (415.5) – an increase of 17.9%. Sales in comparable units rose 5.4%. Operating profit amounted to SEK 38.5 M (40.0).

## *Second quarter*

Net sales during the second quarter amounted to SEK 256.4 M (239.3) – an increase of 7.1%. Sales in comparable stores rose 4.9%. Operating profit amounted to SEK 18.1 M (23.2). The decline compared with the preceding year was due to a weaker trend for the operations at NK Gothenburg and that the Kosta outlet seasonally had an adverse impact on operations.

During autumn 2007, the business area will launch another department store through the establishment of Illum in Copenhagen. This involves a total of approximately 2,000 square meters allocated to menswear, cosmetics, jewelry and clocks. During autumn 2007, the operations at Steen & Ström in Oslo will be expanded by an additional 1,000 square meters. The additional floorspace will focus primarily on womenswear and sport fashion.

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## **Store Concepts business area**

The business area includes the four separate store concepts J-Store, JC, Brothers and Sisters. Up to January 31, 2007, it also included store concepts Solo and Saks, but they were subsequently divested.

Net sales for the period amounted to SEK 1,071.0 M (111.0). The increase in sales is attributable to the acquisition of the JC Group. Sales in comparable units during the period rose 3,6%. Operating profit amounted to SEK 67.3 M (1.0). The increase in profit is attributable to the acquisition of the JC Group.

## *Second quarter*

Net sales during the second quarter amounted to SEK 522.2 M (54.4). Sales in comparable stores increased by 5.4%. Operating profit amounted to SEK 24.7 M (loss: 1.2).

During August 2007, Brothers will launch three stores with an expanded collection based on the same content as male one-stop shopping, including fragrances, cosmetics and accessories. The number of proprietary stores at the end of the period amounted to 128 (16). In addition, there are 170 (0) franchises, of which 11 (0) are in Norway.

## **Financial position and liquidity**

The consolidated balance-sheet total amounted to SEK 2,865.6 M, compared with SEK 2,862.5 M at the end of the preceding fiscal year. Shareholders' equity amounted to SEK 1,482.2 M (1,273.0), resulting in an equity/assets ratio of 51.7% (44.5).

Shareholders' equity increased during the period by SEK 209.2 M, of which SEK 45.4 M was through a new issue in conjunction with the acquisition of JC, and by SEK 40 M through conversion of debentures.

Inventories amounted at February 28, 2007, to SEK 490.9 M, compared with SEK 229.7 M at the same date in the preceding year. The increase is primarily due to the acquisition of JC.

Cash flow from operating activities amounted to SEK 133.2 M (44.4). Cash flow after investments and acquisitions and divestments of subsidiaries amounted to SEK 207.4 M (negative: 33.1). Acquisition of JC had an adverse impact of SEK 28.6 M on cash flow while at the same time the divestment of Solo and Saks affected cash flow favorably in an amount of SEK 144.7 M.

Net borrowings amounted to SEK 704.8 M, compared with SEK 890.2 M on August 31, 2006.

Consolidated cash and cash equivalents, including unutilized overdraft facilities, amounted at the end of the period to SEK 353.5 M, compared with SEK 217.8 M at the end of the preceding fiscal year.

## **Investments and depreciation/amortization**

Investments during the period amounted to SEK 118.4 M (82.7), of which the acquisition of JC shares accounts for SEK 74.0 M. Depreciation/amortization during the period amounted to SEK 38.4 M (13.8). The increase in depreciation/amortization is attributable to the acquisition of JC.

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## Human resources

The average number of employees during the period amounted to 1,366 (645). The increase is attributable to the acquisition of JC.

## Parent Company

Net sales in the Parent Company amounted to SEK 0 M (0). Earnings after net financial items amounted to a loss of SEK 15.7 M (loss: 5.0). Investments during the period amounted to SEK 78.2 M (43.5), of which company acquisitions amounted to SEK 74.0 M (40.3).

## Future outlook

In 2007, the retail trade in Sweden is expected to see strong growth, which combined with the preceding year's acquisition of JC is expected to have a favorable effect on net sales and earnings for RNB.

After the acquisition of JC, an extensive review was conducted to identify potential synergies and create development plans for RNB's business areas. Thereafter, the Board decided to raise the company's long-term operating margin target to 15% and established the long-term target for sales growth of 10–20%.

## Future publication dates

Interim report for the third quarter of 2006/2007	June 20, 2007
Year-end report for 2006/2007	October 19, 2007

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RNB RETAIL AND BRANDS AB (publ)

Mikael Solberg  
President

If you have any questions about this report, contact:

Mikael Solberg, President, Tel +46-8-670 95 95, +46-708-18 44 40  
Göran Blomberg, CFO, Tel. +46-8-670 95 99, +46-733-97 95 99.

# RNB RETAIL AND BRANDS

## September 2006 - February 2007

### CONSOLIDATED INCOME STATEMENT

MSEK	3 months Dec 2006- Feb 2007	3 months Dec 2005- Feb 2006	6 months Sep 2006- Feb 2007	6 months Sep 2005- Feb 2006	12 months Sep 2005- Aug 2006
Net turnover	881,0	373,3	1 770,8	688,7	1 535,2
Other operating incomes	1,6	4,8	2,5	6,8	8,0
	<b>882,6</b>	<b>378,1</b>	<b>1 773,3</b>	<b>695,5</b>	<b>1 543,2</b>
Goods for resale	-497,7	-196,2	-955,6	-348,3	-798,7
Other external costs	-170,9	-69,8	-358,4	-134,8	-333,8
Personnel costs	-137,8	-73,4	-277,3	-136,1	-294,3
Depreciation of tangible and intangible fixed assets	-19,4	-7,5	-38,4	-13,8	-36,8
Capital gain on the sale of subsidiaries	109,4	-	109,4	-	-
Restructuring costs	-25,0	-	-25,0	-	-49,7
<b>Operating income</b>	<b>141,2</b>	<b>31,2</b>	<b>228,0</b>	<b>62,5</b>	<b>29,9</b>
Financial incomes	0,6	0,0	1,0	0,5	0,5
Financial costs	-9,9	-1,8	-19,8	-2,8	-9,5
<b>Income after financial items</b>	<b>131,9</b>	<b>29,4</b>	<b>209,2</b>	<b>60,2</b>	<b>20,9</b>
Tax	-17,8	-8,6	-32,9	-17,1	-10,3
<b>Profit/loss for period</b>	<b>114,1</b>	<b>20,8</b>	<b>176,3</b>	<b>43,1</b>	<b>10,6</b>
Net profit of the year attributable to:					
Parent Company's shareholders	114,1	-	175,8	-	11,3
Minority owners	0,0	-	0,5	-	-0,7
<b>Earnings per share (SEK), average number of shares</b>	<b>2,01</b>	<b>0,63</b>	<b>3,12</b>	<b>1,30</b>	<b>0,31</b>
<b>Earnings per share (SEK), average number of shares, at full conversion *)</b>	<b>2,00</b>	<b>0,61</b>	<b>3,09</b>	<b>1,28</b>	<b>0,31</b>
<b>Average number of shares, 000's</b>	<b>56 734</b>	<b>33 216</b>	<b>56 364</b>	<b>33 216</b>	<b>36 181</b>
<b>Average number of shares, 000's, at full conversion *)</b>	<b>57 079</b>	<b>34 216</b>	<b>57 038</b>	<b>33 716</b>	<b>36 931</b>

\*) Conversion of convertible debentures outstanding occurred during December 2006.

### CONSOLIDATED BALANCE SHEET

MSEK	28-Feb-2007	28-Feb-2006	31-Aug-2006
<b>Assets</b>			
Rental rights	44,9	17,9	53,7
Goodwill	1 315,1	234,7	1 274,4
Brands	500,0	-	500,0
Tangible fixed assets	205,0	91,4	196,6
Financial fixed assets	3,6	0,2	6,1
Deferred tax assets	8,4	8,0	8,7
Inventories	490,9	229,7	508,1
Other current assets	297,7	64,4	314,9
<b>Total assets</b>	<b>2 865,6</b>	<b>646,3</b>	<b>2 862,5</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity attributable to Parent Company's shareholder	1 471,2	272,8	1 236,1
Shareholders' equity attributable to minority owners	11,0	-	36,9
Long-term liabilities, interest-bearing	629,5	95,8	660,3
Other long-term liabilities	196,1	-	155,4
Short-term liabilities, interest-bearing	115,3	51,2	260,8
Convertible debenture	-	40,0	40,0
Other short-term liabilities	442,5	186,5	473,0
<b>Total shareholders' equity and liabilities</b>	<b>2 865,6</b>	<b>646,3</b>	<b>2 862,5</b>

# RNB RETAIL AND BRANDS

## September 2006 - February 2007

### CASH-FLOW STATEMENT

MSEK	Sep 2006- Feb 2007	Sep 2005- Feb 2006	Sep 2005- Aug 2006
Cash flow from current operations before changes in working capital	165,4	70,8	57,1
Changes in working capital	-32,2	-26,4	-85,1
<b>Cash flow from current operations</b>	<b>133,2</b>	<b>44,4</b>	<b>-28,0</b>
Company acquisitions	-28,6	-39,8	-670,1
Divestment of subsidiaries	144,7	-	-
Cash flow from other investments activities	-41,9	-37,7	-72,0
<b>Cash flow after investments</b>	<b>207,4</b>	<b>-33,1</b>	<b>-770,1</b>
Cash flow from financial activities	-198,0	34	789,2
<b>Cash flow for period</b>	<b>9,4</b>	<b>0,9</b>	<b>19,1</b>

### CHANGES IN SHAREHOLDERS' EQUITY

MSEK	Sep 2006- Feb 2007	Sep 2005- Feb 2006	Sep 2005- Aug 2006
Opening balance according to approved balance sheet	1273,0	256,2	256,2
Effect of change in accounting principles to IFRS	-	-1,5	-1,5
<b>Opening balance in accordance with IFRS</b>	<b>1273,0</b>	<b>254,7</b>	<b>254,7</b>
New issue	45,4	-	994,7
Dividend	-23,4	-25,0	-25,0
Conversions of debentures	40,0	-	-
Changes recognized in shareholders' equity	-2,7	-	0,4
Profit for the period attributable to Parent Company's shareholders	175,8	43,1	11,3
Shareholders' equity attributable to minority owners	-25,9	-	36,9
<b>Balance at end of period</b>	<b>1482,2</b>	<b>272,8</b>	<b>1273,0</b>

### KEY FIGURES

		Sep 2006- Feb 2007 6 months	Sep 2005- Feb 2006 6 months	Sep 2005- Aug 2006 12 months
Gross margin	%	46,0	49,4	48,0
Operating margin	%	12,9	9,1	1,9
Profit margin	%	9,9	6,3	0,7
Return on capital employed	%	-	-	2,4
Return on shareholders' equity	%	-	-	1,5
Solidity	%	51,7	42,2	44,5
Solidity, at full conversion	%	51,7	48,4	45,9
Interest coverage ratio	mult	11,6	22,5	3,2
Net dept	Mkr	704,8	134,3	890,2
Net dept/equity ratio	%	47,6	49,2	69,9
Average number of employees, full time		1 366	645	721
Average number of shares, 000's		56 364	33 216	36 181
Average number of shares, 000's, at full conversion *)		57 038	33 716	36 931
Number of shares at end of period, 000's		57 079	33 216	55 172
Number of shares at end of period, 000's, at full conversion *)		57 079	34 216	56 172
Earnings per share after tax, average number	Kr	3,12	1,30	0,31
Earnings per share after tax, average number, at full conversion *)	Kr	3,09	1,28	0,31
Shareholders' equity per share at end of period	Kr	25,97	8,21	23,07
Shareholders' equity per share at end of period, at full conversion*)	Kr	25,97	9,14	23,37

\*) Conversion of convertible debentures outstanding occurred during December 2006.

# RNB RETAIL AND BRANDS

## September 2006 - February 2007

### NET TURNOVER AND OPERATING RESULT PER BUSINESS AREA

	3 months Dec 2006- Feb 2007	3 months Dec 2005- Feb 2006	6 months Sep 2006- Feb 2007	6 months Sep 2005- Feb 2006
<b>Net turnover, MSEK</b>				
Polarn O. Pyret	103,2	80,0	210,7	162,8
Department Stores	256,4	239,3	490,0	415,5
Store Concepts	522,2	54,4	1071,0	111,0
Other	-0,8	-0,4	-0,9	-0,6
<b>Total</b>	<b>881,0</b>	<b>373,3</b>	<b>1770,8</b>	<b>688,7</b>
<b>Operating result, MSEK</b>				
Polarn O. Pyret	13,6	9,7	34,0	24,4
Department Stores	18,1	23,2	38,5	40,0
Store Concepts	24,7	-1,2	67,3	1,0
Other	84,8	-0,5	88,2	-2,9
<b>Total</b>	<b>141,2</b>	<b>31,2</b>	<b>228,0</b>	<b>62,5</b>

### INCOME STATEMENT PER QUARTER, GROUP

MSEK	2006/2007 Dec-Feb	2006 Sep-Nov	2006 June-Aug	2006 March-May	2005/2006 Dec-Feb	2005 Sep-Nov	2005 June-Aug	2005 March-May
Net turnover	881,0	889,8	539,1	307,4	373,3	315,4	266,4	244,3
Other operating incomes	1,6	0,9	-	1,2	4,8	2,0	5,5	1,1
Goods for resale	-497,7	-457,9	-299,7	-150,7	-196,2	-152,1	-146,5	-121,2
<b>Gross profit</b>	<b>384,9</b>	<b>432,8</b>	<b>239,4</b>	<b>157,9</b>	<b>181,9</b>	<b>165,3</b>	<b>125,4</b>	<b>124,2</b>
<b>Gross margin</b>	<b>43,5%</b>	<b>48,5%</b>	<b>44,4%</b>	<b>51,0%</b>	<b>47,4%</b>	<b>51,8%</b>	<b>45,0%</b>	<b>50,4%</b>
Other external costs	-170,9	-187,5	-131,9	-67,1	-69,8	-65,0	-62,1	-50,1
Personnel costs	-137,8	-139,5	-90,8	-67,4	-73,4	-62,7	-54,0	-61,6
Depreciation	-19,4	-19,0	-14,7	-8,3	-7,5	-6,3	-8,4	-6,6
Capital gain on the sale of subsidiaries	109,4							
Restructuring costs	-25,0	-	-49,7	-	-	-	-	-
<b>Operating income</b>	<b>141,2</b>	<b>86,8</b>	<b>-47,7</b>	<b>15,1</b>	<b>31,2</b>	<b>31,3</b>	<b>0,9</b>	<b>5,9</b>
Financial incomes	0,6	0,4	-	-	-	0,5	0,5	0,4
Financial costs	-9,9	-9,9	-4,4	-2,3	-1,8	-1,0	-1,9	-1,7
<b>Income after financial items</b>	<b>131,9</b>	<b>77,3</b>	<b>-52,1</b>	<b>12,8</b>	<b>29,4</b>	<b>30,8</b>	<b>-0,5</b>	<b>4,6</b>

### NUMBER OF STORES AT END OF PERIOD

	28-Feb-2007	30-Nov-2006	31-Aug-2006	31-May-2006	28-Feb-2006	30-Nov-2005	31-Aug-2005	31-May-2005
Own stores Sweden	152	165	163	115	115	108	101	93
Own stores Norway	48	48	46	-	-	-	-	-
Own stores Finland	31	29	20	-	-	-	-	-
Franchise stores Sweden	175	175	174	16	15	15	15	15
Franchise stores outside Sweden	38	37	36	19	12	12	10	9
<b>Total</b>	<b>444</b>	<b>454</b>	<b>439</b>	<b>150</b>	<b>142</b>	<b>135</b>	<b>126</b>	<b>117</b>

### ACCOUNTING PRINCIPLES

The accounting principles and methods for calculations in the parent company and Group correspond to those applied in the most recent annual report, with the exception of the transition to IFRS, which is described separately.

The gross profit margin is calculated as ((net turnover minus costs of goods sold)/net turnover).

This report is unaudited.

RNB RETAIL AND BRANDS AB  
P.O. Box 161 42, Regeringsgatan 29  
S-103 23 STOCKHOLM, SWEDEN  
Phone: +46-8-670 95 00. Fax: +46-8-670 95 01  
Organisationsnummer: 556495-4682