



## **H & M HENNES & MAURITZ AB**

### **THREE-MONTH REPORT**

**1 December 2007 – 29 February 2008**

- **Sales excluding VAT for the H&M Group for the first three months of the financial year amounted to SEK 19,742 m (16,772), an increase of 18 percent. In local currencies, the increase was 16 percent and in comparable units 3 percent.**
- **Profit after financial items for the first quarter was SEK 4,057 m (3,411), an increase of 19 percent. Group profit after tax was SEK 2,941 m (2,302), corresponding to SEK 3.55 (2.78) per share, an increase of 28 percent.**
- **Gross profit amounted to SEK 11,770 m (9,876), corresponding to a gross margin of 59.6 percent (58.9).**
- **Operating profit amounted to SEK 3,799 m (3,223). The operating margin was 19.2 percent (19.2).**

## Sales

Sales excluding VAT for the H&M Group for the first three months of the financial year amounted to SEK 19,742 m (16,772), an increase of 18 percent. In local currencies the increase was 16 percent and 3 percent in comparable units. Sales including VAT amounted to SEK 23,241 m (19,701).

In local currencies, sales including VAT in February 2008 increased by 24 percent compared to the same month last year. Sales in comparable units increased by 10 percent. Calendar effects are estimated to have contributed positively with 5 percentage units.

During the first quarter, the Group opened 11 (9) stores and 4 (3) stores were closed. The total number of stores in the Group thus amounted to 1,529 (1,351) as per 29 February 2008.

## Results

Gross profit for the first quarter amounted to SEK 11,770 m (9,876), which corresponds to 59.6 percent (58.9) of sales.

The operating profit after deducting selling and administrative expenses was SEK 3,799 m (3,223). The result corresponds to an operating margin of 19.2 percent (19.2).

Operating profit for the quarter has been charged with depreciation amounting to SEK 578 m (469).

Consolidated net interest income was SEK 258 m (188).

Profit after financial items amounted to SEK 4,057 m (3,411), an increase of 19 percent.

Group profit after tax (estimated average effective tax rate) of 27.5 percent (32.5) for the three month period was SEK 2,941 m (2,302), corresponding to earnings per share of SEK 3.55 (2.78), an increase of 28 percent.

Return on shareholders' equity (rolling 12 months) was 43.6 percent (38.9) and return on capital employed (rolling 12 months) was 60.5 percent (56.9).

*All figures within parenthesis refer to the corresponding period or point of time previous year. Comparable units, previously referred to as comparable stores, mean the stores and the internet and catalogue sales countries that have been in operation for at least a financial year. H&M's financial year extends from 1 December to 30 November.*

## **Comments on the first quarter**

Sales in the quarter increased by 16 percent in local currencies and by 3 percent in comparable units. The sales increase converted into SEK was 18 percent. The good sales development is mainly due to well composed collections and expanded internet and catalogue sales and a slightly positive calendar effect.

The development of the US dollar exchange rate has led to lower buying costs which has affected the gross margin positively. This has partly been offset by marginally higher level of price reductions and transportation costs. The total effect resulted in a gross margin increase of 0.7 percentage units to 59.6 percent.

Selling and administrative expenses in relation to sales have increased by 0.7 percentage units compared to the same quarter last year. This is, among other things, explained by the strengthening of the organisation in order to support the Group's continued strong expansion with new markets and initiatives. In addition, the ongoing regionalisation of the store logistics has also led to conversion costs.

The profit before tax for the financial year was positively affected by currency translation effects of about SEK 129 m (-125) compared with a recalculation of the result at last year's average exchange rates. These currency translation effects arise because of the development in the exchange rates between the foreign subsidiaries' local currencies and the Swedish Krona.

## **Financial position and cash flow**

Consolidated total assets as per 29 February 2008 compared to the corresponding point of time last year, increased by 15 percent and amounted to SEK 43,746 m (38,164).

During the first three months of the financial year the Group generated a cash flow of SEK -2,525 m (2,272). The running operation generated a positive cash flow of SEK 2,446 m (2,836). Cash flow was among other things affected by investments in fixed assets of SEK -970 m (-662), and by financial investments with a duration of three to twelve months of SEK -4,004 m (112). Liquid funds and short-term investments amounted to SEK 22,450 m (20,931).

The stock-in-trade increased by 10 percent compared to the same time last year and amounted to SEK 7,892 m (7,196). This corresponds to 9.7 percent (10.3) of sales excluding VAT, rolling 12 months. The stock-in-trade was 18.0 percent (18.9) of total assets.

The equity/assets ratio was 79.5 percent (79.7) and the share of risk-bearing capital was 81.0 percent (81.1).

Shareholders' equity apportioned on the outstanding 827,536,000 shares as per 29 February 2008 was SEK 42.06 (36.74).

## **Expansion**

During the second quarter, the Group plans to open 54 stores and close four. Most of the stores are planned for the UK, the USA, Spain, Italy and Germany. During the corresponding period last year 74 stores were opened and five closed. For the financial year 2007/2008 a net contribution of 190 (177) stores is planned.

## **Taxes**

As previously notified in the full-year report, the effective tax rate for the Group for the financial year 2007/2008 is estimated to decline further compared to 29.1 percent for 2006/2007. The expected 2007/2008 Group tax rate is estimated to 27.5 percent as the changed transfer pricing will have full effect and the corporate tax rates will decline in some countries.

## **The Parent Company**

Stores and Internet and catalogue sales operations in Sweden were run up until and during 2007 by the Parent Company. In conjunction with Group restructuring activities, these business units were transferred to two wholly-owned Swedish subsidiaries, namely H & M Hennes & Mauritz Sverige AB and H & M Rowells AB. The external revenue that still remains in the Parent Company in the amount of SEK 29 million refers to remuneration for administrative expenses related to franchising.

The parent company achieved sales excluding VAT during the first three months of the financial year of SEK 29 m (1,963) with an estimated result before balance sheet appropriations of SEK 421 m (376). Net investments in fixed assets amounted to SEK 37 m (26).

## **Events after the end of the first quarter**

As previously announced in a press release issued on 6 March 2008, H&M has signed an agreement to acquire the privately owned Swedish fashion company Fabric Scandinavien AB that is running the store chains Weekday and Monki. The Group also designs and sells fashion through a number of own brands, such as Cheap Monday. H&M acquires 60 percent of the shares in Fabric Scandinavien for SEK 564 million in cash. In connection with the transaction the parties entered into agreement according to which H&M has the possibility/obligation to acquire the remaining shares in the company within three to five years.

The transaction is conditioned by acceptance of relevant competition authorities.

## **Accounting principles**

The Group applies International Financial Reporting Standards (IFRS) as adopted by EU. This Interim Report has been prepared according to IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act.

The accounting principles applied in this report are described in the Annual Report and Consolidated Financial Statements for 2006/2007, in Note 1 – Accounting principles.

The parent company applies the Swedish Annual Accounts Act and Recommendation RFR 2.1, Accounting for Legal Entities, which essentially means that IFRS is applied. In accordance with Recommendation RFR 2.1, IAS 39 is not applied in the parent company.

## Risks and uncertainties

A number of factors may affect H&M's results and business. Most of these can be dealt with through internal routines, while certain others are affected more by external influences. There are risks and uncertainties related to fashions, weather situations, quota systems and exchange rates, but also in connection with expansion into new markets, the launch of new concepts, changes in consumer behaviour or handling of the brand.

For a more detailed description of risks and uncertainties, refer to the Administration Report and to Note 2 in the Annual Report and Consolidated Accounts for 2006/2007. There were no significant changes in risks and uncertainties during the period.

## Calendar

8 May 2008	Annual General Meeting 2008, at 3 p.m, in Victoriahallen, Stockholm International Fairs in Stockholm.
18 June 2008	Half Year Report, 1 Dec 2007 – 31 May 2008
30 September 2008	Nine Month Report, 1 Dec 2007 – 31 August 2008
29 January 2009	Full Year Report, 1 Dec 2007 – 30 November 2008
26 March 2009	Three Month Report, 1 Dec 2008 – 28 Feb 2009
4 May 2009	Annual General Meeting 2009

This three month report has not been audited.

Stockholm, 27 March 2008  
The Board of Directors

## Contact persons:

Nils Vinge, IR	+46-8-796 5250
Leif Persson, CFO	+46-8-796 1300
Rolf Eriksen, CEO	+46-8-796 5233
Switchboard	+46-8-796 5500

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Information about H&M and press images are available at [www.hm.com](http://www.hm.com)

H & M Hennes & Mauritz AB (Publ.)  
106 38 Stockholm  
Phone: +46-8-796 5500, Fax: +46-8-24 80 78, E-mail: [info@hm.com](mailto:info@hm.com)  
Registered office Stockholm, Reg .No 556042-7220

## GROUP INCOME STATEMENT (SEK m)

	1 Dec. 07- 29 Feb. 08	1 Dec. 06- 28 Feb. 07	1 Dec. 06- 30 Nov. 07
Sales including VAT	23 241	19 701	92 123
Sales excluding VAT	19 742	16 772	78 346
Cost of goods sold	-7 972	-6 896	-30 499
<b>GROSS PROFIT</b>	<b>11 770</b>	<b>9 876</b>	<b>47 847</b>
Selling expenses	-7 491	-6 260	-27 687
Administrative expenses	-480	-393	-1 778
<b>OPERATING PROFIT</b>	<b>3 799</b>	<b>3 223</b>	<b>18 382</b>
<b>Income from financial investments</b>			
Interest income	259	189	793
Interest expense	-1	-1	-5
<b>PROFIT AFTER FINANCIAL ITEMS</b>	<b>4 057</b>	<b>3 411</b>	<b>19 170</b>
Tax	-1 116	-1 109	-5 582
<b>PROFIT FOR THE PERIOD</b>	<b>2 941</b>	<b>2 302</b>	<b>13 588</b>
Earnings per share before and after dilution, SEK	3.55	2.78	16.42
No. of shares before and after dilution, (thousands)	827 536	827 536	827 536
Depreciation, total	578	469	1 814
of which cost of goods sold	60	49	203
of which selling expenses	490	397	1 505
of which administrative expenses	28	23	106

## GROUP CONSOLIDATED BALANCE SHEET (SEK m)

	29 Feb. -08	28 Feb. -07	30 Nov. -07
<b>ASSETS</b>			
<b>Fixed assets</b>			
Intangible fixed assets	284	220	266
Tangible fixed assets	9 519	7 829	9 287
Financial assets	1 103	277	1 136
Total fixed assets	10 906	8 326	10 689
<b>Current assets</b>			
Stock-in-trade	7 892	7 196	7 969
Current receivables	2 508	1 711	2 112
Short-term investments, 3-12 months	8 904	8 636	4 900
Liquid funds	13 546	12 295	16 064
Total current assets	32 850	29 838	31 045
<b>Total assets</b>	<b>43 756</b>	<b>38 164</b>	<b>41 734</b>
<b>Equity and Liabilities</b>			
Equity	34 803	30 401	32 093
Long-term liabilities*	817	790	807
Current liabilities**	8 136	6 973	8 834
<b>Total equity and liabilities</b>	<b>43 756</b>	<b>38 164</b>	<b>41 734</b>

\* Only pensions liabilities of SEK 163 m are interest bearing (135 for Q1 2007 and 156 for the Full Year 2007).

\*\* No current liabilities are interest bearing.

	29 Feb. -08	28 Feb. -07	30 Nov. -07
<b>CHANGE IN EQUITY</b>			
Shareholders' equity at the beginning of the period	32 093	27 779	27 779
Dividend	0	0	-9 515
Exchange effects etc	-231	320	241
Profit for the period	2 941	2 302	13 588
Shareholders' equity at the end of the period	34 803	30 401	32 093

## GROUP CASH FLOW ANALYSIS (SEK m)

	1 Dec. 2007- 29 Feb. 2008	1 Dec. 2006- 28 Feb. 2007
<b>CURRENT OPERATIONS</b>		
Profit after financial items*	4 057	3 411
Provisions for pensions	7	5
Depreciation	578	469
Tax paid	-1 117	-1 284
<b>Cash flow from current operations before changes in working capital</b>	<b>3 525</b>	<b>2 601</b>
<b>Cash flow from changes in working capital</b>		
Current receivables	-411	23
Stock-in-trade	20	150
Current liabilities	-688	62
<b>CASH FLOW FROM CURRENT OPERATIONS</b>	<b>2 446</b>	<b>2 836</b>
<b>INVESTMENT ACTIVITIES</b>		
Investment in leasehold rights	-58	-4
Investment in sale of buildings and land	-912	-658
Financial investments, 3-12 months	-4 004	112
Other investments	3	-14
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-4 971</b>	<b>-564</b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>-2 525</b>	<b>2 272</b>
Liquid funds at the beginning of the year (incl. short-term inv. 0-3 months)	<b>16 064</b>	<b>9 877</b>
Cash flow for the period	-2 525	2 272
Exchange rate effect	7	146
Liquid funds at the end of the period (incl. short-term inv. 0-3 months)	13 546	12 295

\* Interest paid amounts for the Group to SEK 0.7 m (1.1).



## FIVE YEAR SUMMARY

<b>First quarter</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Sales including VAT, SEK m	23 241	19 701	17 686	14 820	13 807
Sales excluding VAT, SEK m	19 742	16 772	15 071	12 610	11 756
Change from previous year, %	17.7	11.3	19.5	7.3	9.3
Operating profit, SEK m	3 799	3 223	2 574	2 204	1 701
Operating margin, %	19.2	19.2	17.1	17.5	14.5
Depreciation for the period, SEK m	578	469	408	336	308
Profit after financial items, SEK m	4 057	3 411	2 680	2 309	1 788
Profit after tax, SEK m	2 941	2 302	1 809	1 501	1 162
Liquid funds and short-term investments, SEK m	22 450	20 931	17 812	15 966	13 784
Stock-in-trade, SEK m	7 892	7 196	7 073	5 395	5 130
Equity, SEK m	34 803	30 401	27 638	23 850	21 520
Number of shares (thousand) *	827 536	827 536	827 536	827 536	827 536
Earnings per share, SEK*	3.55	2.78	2.19	1.81	1.40
Shareholders' equity per share, SEK*	42.06	36.74	33.40	28.82	26.00
Share of risk-bearing capital, %	81.0	81.1	82.7	84.2	84.7
Equity/assets ratio, %	79.5	79.7	80.8	80.8	81.2
Total number of stores	1 529	1 351	1 196	1 069	948
<b>Rolling twelve months</b>					
Earnings per share, SEK*	17.19	13.64	11.55	9.20	7.79
Return on shareholders' equity, SEK	43.6	38.9	37.1	33.6	31.1
Return on capital employed, %	60.5	56.9	54.0	50.7	46.8

\* Before and after dilution

Definition on key figures see Annual Report.

The International Standards (IFRS) are being applied from 2005/2006.

The restatement of the 2004/2005 figures according to IFRS has not involved in any adjustment.

## SALES BY COUNTRY AND NUMBER OF STORES

### First quarter

COUNTRY	Sales incl. VAT		Change in %		No. of stores 29 Feb. 2008	Openings during the period	Closings
	Q1-2008	Q1-2007	SEK	local currency			
Sweden	1 736 *	1 598 *	9	9	124		
Norway	1 307 *	1 162 *	12	6	81		1
Denmark	923 *	803 *	15	11	65		
United Kingdom	1 655	1 648	0	7	130	2	1
Switzerland	1 041	928	12	10	61	1	
Germany	5 618 *	4 834	16	12	321	3	1
Netherlands	1 469 *	1 196 *	23	19	89		
Belgium	722	679	6	3	53		1
Austria	1 146 *	1 005	14	10	59	1	
Luxembourg	80	74	8	5	8		
Finland	560 *	486 *	15	11	34		
France	1 852	1 526	21	17	99	1	
USA	1 373	1 194	15	26	146	1	
Spain	1 355	1 138	19	15	79		
Poland	510	343	49	33	43	1	
Czech Republic	153	129	19	6	14		
Portugal	177	161	10	6	15		
Italy	544	292	86	80	32	1	
Canada	355	248	43	33	35		
Slovenia	121	85	42	38	6		
Ireland	113	87	30	26	7		
Hungary	69	40	73	67	6		
Slovakia	30				2		
Greece	54				3		
China	189				7		
Franchise	88 **	45 **	95	95	10		
<b>Total</b>	<b>23 241</b>	<b>19 701</b>	<b>18</b>	<b>16</b>	<b>1 529</b>	<b>11</b>	<b>4</b>

\* including internet and catalogue sales

\*\* excluding VAT

## SEGMENT REPORTING

Internal follow-up of the business is carried out by country. To present information on different segments in an easily accessible way, the operations are divided into three geographical regions: the **Nordic region**, **Euro Zone countries excluding Finland**, and the **Rest of the World**. There is no internal division into different business segments and hence reporting in secondary segments is not relevant. In 2007 the Group structure was refined in order to facilitate the division of the logistics functions into regions and to support continued expansion. As a result of this, the central functions of design, logistics, stock management and buying were transferred into a separate subsidiary. Along with all the other subsidiaries with no external sales, this company is reported with effect from 1 December 2007 in a separate segment: **Group Functions**. A great deal of the Group's value-added is created in this segment. In 2007 the internal pricing model was adapted in accordance with this, with the result that the operating profit and operating margin in individual segments for the current financial year are not comparable with previous years.

	1 Dec. 2007- 29 Feb. 2008		1 Dec. 2006- 28 Feb. 2007
<b>Nordic Region</b>		<b>Nordic Region</b>	
Net sales external	3 634	Net sales external	3 253
Operating profit	60	Operating profit	767
Operating margin, %	1.7	Operating margin, %	23.6
<b>Eurozone excluding Finland</b>		<b>Eurozone excluding Finland</b>	
Net sales external	11 151	Net Sales external	9 370
Operating profit	-55	Operating profit	1 975
Operating margin, %	neg	Operating margin, %	21.1
<b>Rest of the World</b>		<b>Rest of the World</b>	
Net sales external	4 957	Net sales external	4 149
Operating profit	-94	Operating profit	481
Operating margin, %	neg	Operating margin, %	11.6
<b>Group Functions</b>			
Net sales to other segments	11 459		
Operating profit	3 888		
Operating margin, %	33.9		
<b>Eliminations</b>			
Net sales to other segments	-11 459		
<b>Total</b>		<b>Total</b>	
Net sales	19 742	Net sales	16 772
Operating profit	3 799	Operating profit	3 223
Operating margin, %	19.2	Operating margin, %	19.2

## PARENT COMPANY INCOME STATEMENT (SEK m)

	1 Dec. 07- 29 Feb. 08	1 Dec. 06- 28 Feb. 07	1 Dec. 06- 30 Nov. 07
Sales including VAT	29	1 963	10 738
Sales excluding VAT	29	1 579	9 629
Internal sales excluding VAT	835	-	-
Cost of goods sold	-	-399	-3 579
<b>GROSS PROFIT</b>	<b>864</b>	<b>1 180</b>	<b>6 050</b>
Selling expenses	-262	-643	-2 934
Administrative expenses	-336	-247	-1 092
<b>OPERATING PROFIT</b>	<b>266</b>	<b>290</b>	<b>2 024</b>
<b>Income from financial investments</b>			
Dividends from subsidiaries	-	-	8 465
Interest income	155	86	449
<b>PROFIT AFTER FINANCIAL ITEMS</b>	<b>421</b>	<b>376</b>	<b>10 938</b>
Year-end appropriations	-	-	130
Tax	-118	-105	-751
<b>PROFIT FOR THE PERIOD</b>	<b>303</b>	<b>271</b>	<b>10 317</b>
Earnings per share before and after dilution, SEK	0.37	0.33	12.47
Number of shares before and after dilution, (thousands)	827 536	827 536	827 536
Depreciation, total	27	34	88
of which cost of goods sold	-	5	12
of which selling expenses	12	27	72
of which administrative expenses	15	2	4

## PARENT COMPANY BALANCE SHEET IN SUMMARY (SEK m)

ASSETS	29 Feb. 08	28 Feb. 07	30 Nov. 07
<b>Fixed assets</b>			
Tangible assets	366	553	317
Financial fixed assets	65	30	59
<b>Total fixed assets</b>	<b>431</b>	<b>583</b>	<b>376</b>
<b>Current assets</b>			
Stock-in-trade	-	558	407
Current receivables	3 978	5 966	6 376
Short-term investments	8 904	5 000	4 900
Liquid funds	168	2 049	1 417
<b>Total current assets</b>	<b>13 050</b>	<b>13 573</b>	<b>13 100</b>
<b>TOTAL ASSETS</b>	<b>13 481</b>	<b>14 156</b>	<b>13 476</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	12 999	12 112	12 662
Untaxed reserves	119	269	119
Long-term liabilities*	113	99	113
Current liabilities**	250	1 676	582
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13 481</b>	<b>14 156</b>	<b>13 476</b>

\* Refers to provisions for pensions.

\*\* No current liabilities are interest-bearing.

CHANGE IN EQUITY	29 Feb. 08	28 Feb. 07	30 Nov. 07
Shareholders' equity at the beginning of the period	12 662	11 860	11 860
Profit for the period	303	271	10 317
<b>Total income and expenses</b>	<b>12 965</b>	<b>12 131</b>	<b>22 177</b>
Dividend	-	-	-9 515
<b>Shareholders' equity at the end of the period</b>	<b>12 965</b>	<b>12 131</b>	<b>12 662</b>

Up to and including 31 May 2007 the Swedish stores were operated within the parent company.

Since this date they have been operated by a separate subsidiary.

The departments for design, logistics and buying that were previously part of the parent company were also transferred to a separate subsidiary as of 1 June 2007.