Annual Report
2007

Top € 9,90
Vest € 14,90
DESIGNED BY:
RIHANNA

www.designersagainstaids.com
DAA
Skirt €19,90

Jacket €39,90
2007 – H&M’S MOST EXCITING YEAR TO DATE

2007 was H&M’s most intense year ever, with many new stores, new markets, new customer offerings as well as a completely new store chain. Here are some of the highlights.

- H&M opened 193 stores and closed 16. At the end of the financial year there were a total of 1,522 H&M stores in 28 countries.
- Several new markets: Greece, Slovakia, Hong Kong and Shanghai. Qatar on a franchise basis.
- Expanded footwear collection for women, which was well received by customers. In the autumn even more models were launched, along with a small collection of men’s footwear.
- Organic Cotton is a new and regular collection using organic cotton which received a warm welcome from customers.
- One of the spring’s largest women’s collections was created in collaboration with style icon Madonna.
- Kylie Minogue was the face of H&M for one of the summer’s beachwear collections – H&M loves Kylie.
- The new store chain COS, Collection of Style, opened eleven stores.
- Expansion of Internet and catalogue sales continues
  The expansion of Internet and catalogue sales outside the Nordic region continued in 2007, with catalogue sales in the Netherlands and online sales in Germany and Austria. This expansion follows the successful launch of online sales in the Netherlands in 2006.
- H&M loves Kylie
  Superstar Kylie Minogue was the face of H&M for one of the summer’s beachwear collections. Kylie’s beachwear collection was sold in all H&M stores that sell women’s wear. Ten percent of revenues went directly to WaterAid, an organisation that helps to provide the world’s poorest with clean water. The Kylie collection will contribute to give around 229,000 people access to clean water and 129,000 people access to sanitation facilities in Tanzania, Mozambique and Madagascar.
- Success for H&M in Athens
  The first H&M store in Greece was opened during the year. As usual, it was in the best business location – in the middle of Athens’s shopping district. Many fashion-conscious customers came to the opening and helped make it a fantastic premiere.
- H&M’s 60th anniversary
  2007 was the year of H&M’s 60th birthday. To celebrate, the Anniversary Foundation was established and the sum of SEK 60 million was transferred to it. The proceeds of the foundation will be spent on projects in areas such as health, education and access to water in countries in which H&M’s clothes are produced.
- Continued collaboration with Madonna
  The successful collaboration with style icon Madonna continued in 2007, resulting in one of the spring’s large women’s collections, M by Madonna. The collection was available in all H&M stores that sell women’s wear.
- H&M’s entry into Asia
  H&M’s move into Asia, one of the true highlights of the year, was celebrated with an opening party in Shanghai at which Kylie Minogue performed before 2,000 people. The store openings in Hong Kong and Shanghai were very well received by customers and form a good base for H&M’s continued expansion in Asia.
- Great attention for this year’s guest designer – Roberto Cavalli
  The launch of Roberto Cavalli’s unique collection for H&M was the big fashion party of the year. Customers queued up to buy the fashion legend’s party collection and the collaboration received attention all over the world. The Roberto Cavalli at H&M collection was sold in 200 selected H&M stores.
H&M IN 2007

H&M IN BRIEF

- H&M offers fashion and quality at the best price.
- H&M’s first store was opened in Sweden in 1947.
- At the end of the financial year there were 1,522 stores in 28 countries.
- H&M offers fashion for women, men, teenagers and children.
- The collections are created centrally by around 100 in-house designers together with buyers and pattern makers.
- H&M also sells own-brand cosmetics, accessories and footwear.
- The stores are refreshed daily with new fashion items.
- In Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria H&M offers fashion by Internet and catalogue sales.
- H&M does not own any factories, but instead buys its goods from around 700 independent suppliers, primarily in Asia and Europe.
- H&M has about 20 production offices around the world, mainly in Asia and Europe.
- H&M employs about 68,000 people.

At the end of 2007 H&M delivered fashion and quality at the best price to customers at more than 1,500 stores.”

Expansion 1974 – 2007

At the time of the IPO in 1974, H&M was present in Sweden, Norway and Denmark. In 1976 the company started to expand outside the Nordic region and today H&M is present in 28 countries with more than 1,500 stores.

KEY RATIOS

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<th>2007</th>
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<td>Average number of employees</td>
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Another record year

H&M’s profitability is continuing to develop strongly. In the past five years sales including VAT has increased by 73 percent and profit after tax by 139 percent.

An Eventful Year at H&M

H&M continued to grow in new markets and through new offerings in 2007. Among other things, we entered the Asian market with stores in Hong Kong and Shanghai, one of the most important steps that the Group has taken since its expansion into the USA in 2000. This expansion, as well as H&M’s collections, new concepts and offerings, form a good foundation for continued growth for a long time to come. Sales increased by 15 percent to SEK 92 billion including VAT in 2007. This increase took place with continued good profitability; the gross margin improved to 61.1 percent from the previous year’s record level of 59.5 percent. Profit after financial items increased by 21 percent to SEK 19 billion.

The key to success: winning collections

Key to our success were the winning collections that we created for our customers, and the fact that we strive for continual improvement in everything we do. H&M is constantly working to rejuvenate itself, in order to produce new attractive offerings. At the end of 2007, H&M delivered fashion and quality at the best price to our customers, and the fact that we strive for continual improvement in everything we do. H&M is constantly working to rejuvenate itself, in order to produce new attractive offerings. At the end of 2007, H&M delivered fashion and quality at the best price to customers at more than 1,500 stores. Sixty years after the first H&M store opened in Västerås, we continued to gain market share in the Scandinavian countries – some of our most mature markets. This indicates the strength of our business concept and is a good sign for the whole Group. To celebrate our 60th Anniversary we set aside SEK 60 million in a foundation, the proceeds of which are to go to projects within areas such as health, education and access to water in the countries in which H&M’s merchandise is produced.

During the year, we succeeded in increasing sales in comparable stores by 5 percent. We accomplished this by always focusing on our customers’ needs. H&M’s business is based on the fashion year, which centres around autumn and spring collections, so we can only evaluate how successful we are at the end of a full season. Exactly when the season occurs may vary by a few weeks from year to year, often depending on what the weather is like in our major markets. This year’s sales and profitability are a reflection of our good work and the fact that our customers appreciated what we delivered.

Growth through new offerings

H&M is expanding through new offerings and via new channels such as Internet and catalogue sales. We began offering catalogue sales in the Netherlands and Internet sales in Germany and Austria during the year and this has developed very well. Other 2007 milestones included the launch of an expanded collection of women’s footwear and a small range of men’s footwear, both of which have been very well received so far. The same is true of H&M’s new store concept COS, Collection of Style, which offers fashion and quality at the best price in a higher price segment. By the end of the financial year, we had successfully established eleven COS stores in some of Europe’s top metropolitan cities.

H&M’s markets are increasing in number

Our geographical markets are growing in number, as is our number of employees. During the year, the net increase was 177 stores, and at the end of the financial year H&M had about 68,000 employees spread across 1,522 stores in 28 countries. In addition to China, we expanded into Slovakia and Greece, and into Qatar through our franchising arrangement. Our expansion into new markets was successful, thanks largely to comprehensive preparation.

The financial year was characterised by very good sales development with well-received collections. This also applies to countries where the retail sector has in general been weaker. It was particularly pleasing to see strong sales development in Germany, which is H&M’s largest market with 319 stores.

Committed colleagues

Successful collaborations are the key to H&M’s success – and behind our successes, of course, lies the great commitment of our colleagues. H&M’s colleagues are key to the success of all the exciting things we do. For example, we rely on the experience of colleagues in existing H&M countries when expanding into new markets. They help get the new stores up and running and are an effective way of passing on the “H&M spirit”. Our employees also play an important role in our initiative to increase clarity in the stores and in the buying organisation – an initiative that continued to bear fruit during the year. H&M continued to refine the Group structure in 2007, in order to be even more effective in meeting the demands made by our expansion.

Successful collaborations

H&M is always looking for new and surprise people, and consequently we sometimes seek out collaborations with well-known designers and artists. The attention that these partnerships receive from customers and the media around the world is clear evidence of how global the H&M brand has become. During the spring, we continued our successful collaboration with Madonna by designing a wider H&M collection with her, called M by Madonna. This was followed in early summer by Kylie Minogue, who became the face of one of this year’s beachwear collections, from which some of the proceeds went to WaterAid. The autumn’s collaboration with designer Roberto Cavalli through the grand finale. The collection – Roberto Cavalli at H&M – was a huge success and sold out very quickly.

All of this year’s collaborations were well received both by customers and media. A great highlight was Kylie Minogue’s performance at the opening of the store in Shanghai. It was a glittering demonstration of the strength of H&M’s brand and a good example of how this type of collaboration can help H&M to grow further.

New sustainability policy

Increasing attention is being paid to sustainability issues – not least of which is the subject of climate change. H&M responded by initiating a new sustainability policy during the year. H&M takes responsibility for all who contribute to our success. We cooperate with our suppliers in order to develop long-term, sustainable social and environmental standards in the factories that produce H&M products. We do this primarily by establishing requirements for our suppliers, following up on these requirements and supporting the suppliers as they work to improve.

The policy also stipulates that through our choice of materials and improved production processes, we can proactively work to minimise our environmental impact. One example of this is our organic cotton initiative. In 2007, we used 1,300 tonnes of organic cotton, which is several times the volume used in the previous year.

Continued strong expansion

Most of our expansion in 2008 will take place in the USA, Spain, the UK, France, Germany and China. We expect to increase the storecount by 190 stores net this year. This year’s expansion includes entry into an exciting new market – Japan, where H&M will open stores this autumn in two of Tokyo’s most exclusive shopping districts, Harajuku and Ginza. In cooperation with our franchise partner Aishaya the opening of H&M stores in four new markets is planned in 2008: Egypt, Saudi Arabia, Bahrain and Oman. Another exciting development is our planned expansion into Russia. The first stores are expected to open in Moscow in 2009. The Russian market is of great interest and has great growth potential.

Initially we will focus on Moscow and the surrounding area. Overall, 2007 was a very eventful year for H&M. Once again we achieved record profitability and we established our first stores in the large Asian market – in Hong Kong and Shanghai. This would not have been possible without the good work of all of our H&M colleagues. Our strong finances and clear business concept have taken us far beyond the borders of our home market. From San Francisco in the west to Shanghai in the east, H&M is now truly global. Having established a solid foundation for continued expansion, we welcome our customers to a new and exciting year at H&M.

Behind our successes, of course, lies the great commitment of our colleagues.

“Behind our successes, of course, lies the great commitment of our colleagues.”

Rolf Eriksen
Managing Director
Business concept
H&M’s business concept is to offer fashion and quality at the best price.

Growth target
H&M’s growth target is to increase the number of stores by 10–15 percent per year, but also to increase sales at existing stores. The availability of attractive business locations is the major deciding factor in our rate of expansion. In 2007, 193 new stores were opened and 16 were closed.

H&M is an expansive and financially strong company. The objective is to grow in a controlled manner while maintaining profitability. In the past five years sales including VAT have increased by 73 percent and earnings per share by 139 percent. This expansion has been entirely self-financed.

Strategy
In order to offer the latest fashions H&M has its own design and buying department that creates the collections. Good product quality is ensured through continuous quality controls. In addition to product quality itself, quality also means producing the items with minimal impact on the environment and under good working conditions.

The best price is achieved by:
- having few middlemen
- buying in large volumes
- having a broad, in-depth knowledge of design, fashion and textiles
- buying the right products from the right market
- being cost-conscious at every stage
- having efficient distribution.

FASHION AND QUALITY AT THE BEST PRICE

Jeans €22,90
H&M MAKES FASHION ACCESSIBLE

The store is the most important sales channel

H&M meets the customer through three complementary sales channels: the stores, the Internet and the catalogues. The most important of these is the store. It is here that the customer can see what is new, try on and feel the items, get ideas for putting outfits together and be inspired. The stores are a shop window for the range and must attract the customers.

The aim is for H&M stores always to be located in the best business location, whether in the street, the other stores nearby and the traffic flows. This has been a firm principle of H&M since the first store opened and is still true today. H&M stores can for example be found on Fifth Avenue in New York, on Regent Street in London, on Corso Vittorio Emanuele in Milan and on Queen’s Road in Hong Kong.

The fact that H&M leases all the store premises is an advantage. It makes it easier to move a store to another site if the best business location in a city changes.

H&M has stores for different locations and customers

H&M offers a wide range of stores – everything from big full-range stores to small concept stores. The stores vary in size from a few hundred square metres to several thousand square metres. In 2007 the number of new and refurbished stores reached a record high. In addition, the standard of these stores was raised to make them more attractive and thereby further reinforce H&M’s competitive strength.

In 2007 H&M also opened a new store chain – COS Collection of Style – with a new fashion concept in a higher price segment to attract a different customer group.

Internet and catalogue sales complement the stores

For more than 25 years H&M’s customers in the Nordic countries have been able to shop from home using catalogues, and since 1998 also via the Internet. The strength is freedom of choice – the customers can choose the sales channel that suits them best at that moment.

Expansion of Internet and catalogue sales outside the Nordic region

In autumn 2006 H&M began a roll-out of Internet and catalogue sales outside the Nordic region. The first new country was the Netherlands, with Internet sales. In spring 2007 the first H&M catalogue was sent out to customers in the Netherlands in a initiative that has produced good results so far. In late July 2007 it was time to take the next step, with the launch of Internet sales in both Germany and Austria, and the first German-language catalogue was issued in January 2008.

What all these markets have in common is that they are major catalogue markets with a high level of Internet penetration and well developed broadband networks.

Catalogues create interest in the collections

Although more and more Internet and catalogue sales customers are making their purchases online, the catalogues remain important. Each year H&M produces four large catalogues – two in the spring and two in the autumn. These are supplemented by smaller seasonal catalogues with a particular focus.

The catalogues are sent out at the beginning of the season and generate interest in the new collections. The range is more or less the same as in our stores. The catalogue inspires customers and provides an overview of the full range, while also providing tips and ideas. It is then up to the customer to choose in each case where he or she wants to shop – in store, using a catalogue or by ordering online.

H&M GROWING THROUGH ALL THE SALES CHANNELS

H&M is continuing to grow through all three sales channels. Although the stores are H&M’s primary sales channel, Internet and catalogue sales strengthen H&M’s profile and increase the level of service to customers, thereby making H&M even more accessible. In the future, customers in more and more H&M countries will be able to shop online and using the catalogue, although the Group’s main expansion will take place through stores.

Best business location is crucial for expansion

The best location is crucial when establishing a successful store. H&M prefers not to open a store until the right business location becomes vacant. Every individual store has greatest commercial potential, while at other times it may be a family store. The most important thing is that the format is right in each case.

Analysis before H&M moves into a new market

Before H&M decides to move into a new market, an assessment is made of the market’s potential. Factors such as demographic structure, purchasing power, economic growth, infrastructure and political risk are analysed.

An on-the-spot assessment of the customer base and store locations is then carried out. The first store should preferably be a large store in the best business location in a big city, which is subsequently supplemented with a mix of stores offering all or parts of the product range. H&M can then continue to grow by opening stores in other cities.

H&M Shop on the Internet is an easy, convenient way to find shopping inspiration.

In the Nordic countries and the Netherlands, and from 2008 also in Germany and Austria, H&M’s customers can also shop by catalogue.
H&M has had another record year. Sixty years have passed since H&M opened the doors of its first store in Västerås and today H&M can be found in Europe, North America, the Middle East and Asia. 2007 was a year of continued strong sales, high profitability and many new customers. The year was intense, with a high level of activity. H&M moved into four new countries, opened 193 new stores, presented a number of new concepts and continued the launch of internet and catalogue sales in Europe. At the end of the financial year there were 1,522 H&M stores in 28 countries.

In total, H&M increased its sales by 15 percent to SEK 92 billion including VAT. In local currencies sales increased by 17 percent and sales in comparable stores increased by 5 percent. Comparable stores means stores that have been open for at least a full financial year, which means from 1 December to 30 November.

Continually monitoring the world around us
The fashion scene is influenced by trends and is spread rapidly around the world via the Internet, music, films and travel. In each market H&M faces competition from global fashion companies, local retail chains, department stores and individual shops – each with its own profile and range of products. But entertainment, home electronics and travel also compete for customers’ attention and demand. A strong brand and a competitive offering are important success factors. H&M aims to always offer fashion for all occasions in a new and creative way.

New offerings create growth
In 2007 H&M has opened new stores and launched new offerings at a faster pace than ever before. New offerings allow H&M to exploit growth opportunities even in countries where the company has been present for many years.

More and more customers want to be able to buy footwear that matches the collections. In 2007 H&M launched a wider range of women’s footwear as well as a small collection of men’s footwear in selected stores. Customers really appreciated H&M’s footwear collections and sales of both women’s and men’s footwear have started well.

Other examples of how H&M has surprised customers are the collections developed together with style icons such as Madonna and Kylie Minogue, and also the design collaboration with Roberto Cavalli. During the year H&M also opened a completely new store chain, COS – again with fashion and quality at the best price as its business concept, but in a higher price segment. COS complements H&M well and is a way of attracting a new customer group.
Growth while maintaining profitability is one of H&M’s aims, and by continually working on making things even better H&M lived up to this again in 2007. During the year the net increase of stores was 177. The majority of the new stores were opened in the USA, the UK, Germany, France and Italy. At the Nordic region got its first COS store in Copenhagen, and two new Divided stores fitted specifically to appeal to young, trend-conscious customers opened in Stockholm and Århus.

**THE H&M COUNTRIES**

High level of activity and good prospects in Germany

Germany is H&M’s biggest market and accounts for almost a quarter of the Group’s sales. With a large population and strong purchasing power, H&M still has good opportunities for growth in Germany. There was a high level of activity during the year, with a large number of major initiatives and projects. These involved not only the opening of new stores, but also renewal and refurbishments in order to have an attractive and inspiring store environment. In total, 20 stores were opened, of which six were COS stores. Four stores were closed. The expansion of Internet sales to Germany and Austria, which started in August, also got off to a good start.

The Netherlands – H&M’s fifth largest market

H&M has had a very good year in the Netherlands, which was the Group’s fifth largest market at the end of the financial year. Sales were given a lift by the highly successful launch of Internet and catalogue sales. Internet sales began in August 2006 and in spring 2007 the first catalogue was sent out.

**Growth in Southern Europe**

Business has developed positively in Southern Europe, with more and more customers discovering and appreciating H&M’s fashions. The countries of Southern Europe, where H&M has had a presence for less than ten years, have all a rapid rate of expansion. H&M now has a firm foothold and a good base for further growth. In Spain, which has 79 stores well distributed across the country, sales increased substantially. In Italy the number of stores almost doubled to 31 stores. Among others, a large store opened in Rome at Porta di Roma, one of the country’s largest shopping centres, and H&M’s first stores in southern Italy opened in Bari. In France, too, the positive development continued. New stores this year included a large store in France’s third largest city, Lyon. During the year H&M moved into Greece. The first store was opened in Athens on one of the very best shopping streets, and was followed by a further two stores. The reception was a great success, with many new customers discovering H&M.

**Eastern Europe – an exciting region with great opportunities**

H&M is also popular among the customers in the eastern parts of Europe. Poland has developed into a strong H&M market and sales and stores have continued to increase. At the end of the financial year the number of stores had increased by a net contribution of seven stores to 42 stores. H&M has also sold well in the Czech Republic, Slovenia and Hungary. H&M’s first store in Slovakia, which got a great reception, opened in Bratislava during the spring. Eastern Europe is an exciting growth region where H&M sees great opportunities for establishing more stores.

**North America – continued expansion with a strengthened presence on the West Coast**

Sales in North America have developed well. H&M continued its substantial expansion in both the USA and Canada. In the USA this included strengthening the company’s presence on the West Coast by opening a number of stores in Los Angeles. In October the opening of the first H&M store in Las Vegas took place. Business were also going well for H&M in Canada. Vancouver on the West Coast and Quebec in the east of Canada are now locations on the H&M map.

**Franchise in the Middle East – Qatar a new market**

In the Middle East H&M has been in partnership since 2000 with a franchisee, Alshaya, which is a leading retail player in the region. It is a classic franchising arrangement in which H&M sells and delivers items to Alshaya, which in turn stocks and then sells the items in stores. Except for the Middle East, franchising is not part of H&M’s expansion strategy.

H&M’s fashions are also appreciated in the Middle East and the stores have sold well. In March the first H&M store in Doha, the capital of Qatar, was opened. In total there were ten franchise stores in Dubai, Kuwait and Qatar at the end of the financial year.

**H&M in China – stores in Hong Kong and Shanghai**

Asia is a really exciting region with a high population and strong economic growth. During spring 2007 H&M’s first store in Hong Kong opened, closely followed by two stores on mainland China in Shanghai. A further store in Shanghai and three more stores in Hong Kong opened during the year. There were seven H&M stores in China in total at the end of the financial year.

The stores in Hong Kong and Shanghai have been fantastic and sales have by far exceeded the company’s expectations.

The stores in Hong Kong and Shanghai are the bridgehead for H&M’s continued expansion in Asia, an exciting continent with great potential for growth.

**H&M is continuing to grow – new concepts, stores and countries**

H&M is continuing to grow. In 2008 a net addition of 190 stores is planned. The main expansion will take place in the USA, Spain, the UK, France, Germany and Italy. Japan will become a new H&M country during the year. In January 2008 two excellently located stores will open in Tokyo in a couple of the city’s best known and most exclusive shopping districts. Japan, which is the second largest economy in the world, is a very exciting market, with a fashion-conscious public with strong purchasing power. Both Japan and China will undoubtedly be key markets of expansion in the future.

New franchise markets in 2008 will be Egypt, Saudi Arabia, Bahrain and Oman, where the stores will be opened in cooperation with Alshaya. H&M plans to establish stores in Russia in 2008, focusing initially on Moscow and the surrounding area. H&M is growing not only by turning to customers in new stores and new places. It is at least equally important that the company continually develops and enhances its offering by means of creative solutions and surprises in the collections.

To ensure that the new home textile range, H&M Home, meets H&M’s high requirements of fashion, price, quality and suppliers, the manufacture of the concept has been delayed until autumn 2008. H&M Home will initially be sold via Internet and catalogue sales.

**Market**

**Year ended**

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<td>Doha</td>
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<td>Total</td>
<td></td>
<td></td>
<td>1,522*</td>
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* Including Internet and catalogue sales
** Group total 47,029
*** excluding VAT

* excluding VAT
NEW OFFERINGS FOR EVERYONE WITH AN INTEREST IN FASHION

H&M is addressing everyone with an interest in fashion and offers a wide and varied range. At H&M customers should always be able to find clothes, footwear and accessories for every occasion and then combine these to create their own personal style. It should always be possible to find something new and exciting – in the store, in a catalogue or online. The range is continually updated with new items. Just as important as renewing the range is to surprise customers with new exciting offerings.

**THIS YEAR H&M** launched a number of exciting new fashion lines, such as footwear to match the collections, high quality underwear basics, fashionable garments in organic cotton, H&M’s skin care range for men and the new store chain COS.

**Organic cotton initiative well received**

In the spring H&M launched Organic Cotton, the new range using organic cotton, which received a warm welcome from customers. The collection was colourful and fashionable and included everything from underwear to outerwear. In the autumn the initiative was expanded to offer even more garments for women, men, teenagers and children. A conscious choice of material combined with the latest fashions allows customers to look good and up-to-date while at the same time looking after the environment.

Modern, soft and fashionable are words that sum up H&M’s Organic Cotton collection. The garments are marked with a special label to make them easy to find.

**Successful first season for COS**

COS – Collection of Style – is a new store chain that offers fashion and quality at the best price, in a higher price segment. COS is about fashion with a sense of style and quality. The garments are timeless, yet fashionable. The collections include basics with a high fashion content, updated classics and the latest trends. The first store opened its doors on London’s Regent Street in March 2007, after which a further ten stores were opened in European cities during the year.

**Perfect fit with Our Perfect**

A new collection of women’s underwear – Our Perfect – was created in 2007. It is about high quality modern underwear basics, designed to provide the perfect fit. There are four bra models and two matching models of briefs available in black, white, skintone, brown, pink and chalk blue.

**H&M MAN – skin care for men**

By H&M offers an extensive range of make-up, skin care and body care products. In 2007 H&M expanded the part of the range that is aimed at men to include skin care products. The products for men are recognisable by their grey packaging labelled H&M MAN.

**Footwear sales exceeded expectations**

Customers appreciated the women’s footwear initiative. In the spring a collection of women’s footwear was launched in 200 stores around the world and in the autumn the collection was expanded to include even more models matching H&M’s other collections. In addition, a small collection of men’s footwear was launched.

**Fashionable from top to toe.** One of H&M’s new moves this year was the introduction of a range of men’s and women’s footwear to match the collections.
**WOMEN**

**A PLAYFUL MIX OF STYLES OR MINIMALISM**

**THE WOMEN’S WEAR DEPARTMENT** has a wide range of fashions for fashion-conscious women of all ages. The collections consist of a section of tailored classics and a section containing current fashions, including everything from underwear and everyday garments to party wardrobes. The big city stores also sell fashions with a particularly high fashion content for women who want to keep up with the very latest international trends.

Women’s wear also includes L.O.G.G. with updated classic casuals, H&M Sport for the active lifestyle, Mama for women who want to be fashionable during their pregnancy and B&B in plus sizes. During the spring season there is also a wide range of swimwear.

For all the concepts there is a wide range of accessories to match the collections. There are also matching socks and tights, underwear and nightwear – everything from basic items to more exclusive sets.

One of this spring’s big women’s collections – M by Madonna – was designed by H&M in collaboration with the superstar Madonna. It was a broad collection that included tailored garments with a feminine touch. The women’s collections are aimed at the modern woman who wants to be well-dressed from morning to evening.

**New lines for female customers**

This year all stores that sell women’s wear carried a small range of women’s footwear and in around 200 selected stores H&M launched a wider range. Another new line is Our Perfect, a modern collection of high quality underwear basics, designed to provide the perfect fit. H&M’s focus on organic cotton was expanded by offering a trendy, colourful collection called Organic Cotton. A conscious choice of material combined with the latest fashions allows customers to look good and up-to-date while at the same time looking after the environment.

**WOMEN**

**H&M’S COLLECTIONS**

**MASCULINE AND WITH A SOLID SENSE OF STYLE**

**MEN**

**Focus on details**

Tailored and classic still characterise the fashion scene for men, with traditional garments such as suits, cardigans and double-breasted coats with updated details and a new silhouette. Today, most people combine their working wardrobe with their casual clothes. Jeans, T-shirts and knitwear are therefore important complements to the classic men’s line, as are sports-inspired garments.

Following the successful launch of women’s footwear, a small collection of footwear for men was also launched. The collection is available in about 70 H&M stores around the world. Also new for male customers is Organic Cotton, a trendy, colourful collection made using organic cotton.

Like the rest of H&M’s range, the men’s look is about styling and personal style – in other words, classic dressing that is nonetheless up-to-date and modern.

**Blazer**

€ 79,90

**Dress**

€ 29,90
DIVIDED
YOUNG TREND – A FEEL FOR THE LATEST TRENDS

HAM’S DIVIDED DEPARTMENT offers fashion with a young look. It is about creative design and references from the very latest trends from street and club wear in a style that appeals to both teenagers and adults.

The range consists of denim and street wear fashion for all occasions – from everyday clothes to party wear. This is supplemented with matching accessories and underwear. The Divided customer can also choose from updated basics and the organic collection Organic Cotton.

Focus on personal style
Divided is where trend-conscious customers with a great interest in fashion are found. The collections are a way for them to express themselves, to make the most of their personal style. Often it is here that future bestsellers can be identified.

Divided is particularly important to show H&M’s fashion profile, with a feel for the latest trends.

The look at Divided in autumn 2007 was inspired by 50s rockabilly, elegant 70s rock and 90s grunge with layering and pared-down minimalism. This was complemented by sports-inspired garments and a wide range of jeans and denim items.

&DENIM
EVERYTHING FROM FIVE-POCKET MODELS TO TRENDY FASHION JEANS

HAM’S JEANS CONCEPT &DENIM offers everything from traditional five-pocket models to trendy fashion jeans. &Denim gives customers a wide jeans range of high quality, with everything from basic models to the very trendiest cuts.

The aim of &Denim is to ensure that everyone is able to find exactly the jeans they need, whatever their fashion requirements and style. Jeans are the cornerstone of a wardrobe and many customers buy new jeans each season. Perhaps this is why jeans are the garment that most reflect current fashions, which is also why the entire range is updated each season.

Since autumn 2007 there is also a selection of &Denim models in organic cotton.

For many people, jeans are the most important item in their wardrobe. &Denim has jeans for all tastes and in all sizes. The prices are unbeatable, starting at €19,90.
THE CHILDREN’S RANGE is divided into different concepts for babies, children and H&M Young, which is aimed at children up to 14 years old. It is particularly important that garments for children are comfortable and functional, while at the same time fashion and trends are highly significant. The collections must be as fashionable as they are practical, hard-wearing, safe and comfortable. To guarantee the highest level of safety H&M’s children’s items undergo careful testing.

The baby wear collection consists of clothes for the youngest children (0–18 months). With a focus on function and safety, the season’s trends are expressed in a playful way.

H&M Young is the collection for 9–14 year olds. H&M Young customers often look to older teens for their fashion inspiration and they are more fashion-conscious than younger children. H&M Young offers fashionable garments that are functional, comfortable and safe.

Just as for men and women, the children’s department includes L.O.G.G., which offers timeless casual wear, as well as matching socks, underwear, nightwear, accessories and swimwear.

When H&M designs clothing for babies and children, quality and safety are given priority. Children’s wear has to be particularly hard-wearing because it is washed more than twice as often as other clothing.

The children’s wear collection for boys and girls aged 18 months to 8 years combines fashion, colour, graphics and design with comfort and functionality. The clothes must be fashionable, practical and hard-wearing.

H&M’s cosmetics range is constantly being renewed with new colours, fragrances and products that reflect current fashion trends.

H&M does not allow its cosmetic products to be tested on animals, either during the production process or in the finished state. All suppliers must guarantee that the content, packaging and labelling meet EU quality and safety requirements.

H&M’s cosmetics department offers an extensive range of make-up, skin care and body care products. The range is constantly being renewed with new colours, fragrances and products that reflect current fashion trends. By H&M is H&M’s own brand for make-up and skin care products. This product line contains a wide range of cosmetic products, carefully coordinated colours for both women and men.

H&M updates the entire range each season and coordinates it with the collections. The range also includes body care products and accessories such as brushes, make-up bags and toilet bags. Since autumn 2007 H&M has had a greater focus on products for men, with everything from creams, masks, scrubs to hair styling.

When H&M design clothing for babies and children, quality and safety are given priority. Children’s wear has to be particularly hard-wearing because it is washed more than twice as often as other clothing.
H&M creates and plans its collections centrally. In this work it is incredibly important to understand what customers want – from the idea, through the creation of a new product to the customer buying it. H&M’s designers, pattern makers and buyers agree on the trends that will inspire H&M’s fashion in the coming season and try to find a good balance between modern basics, current fashions and high fashion. H&M outsources the production of the items to independent suppliers, mainly in Asia and Europe. Getting everything to work places great demands on planning and organisation. Millions of items are involved and these are sent out to the stores via a number of distribution centres. Getting the right item to the right store at the right time is the key to H&M customers always finding something new and exciting. The path of the products from idea to customer is shown on pages 33 to 37.

1. IDEA AND DESIGN

“H&M’s collections always emerge with the customer in focus.”

The world as inspiration
H&M’s own designers, pattern makers and buyers create the collections together. Taking the world as inspiration, styles are identified that are right for the times and trends are adapted to fashions that work. It is about creating a good balance between fashion, quality and the best price.

The idea and design work is a continual creative process. To pick up on forthcoming trends H&M constantly monitors the world around it and draws inspiration from street fashion, films, travel and other cultures, the media, trend institutes, trade fairs and exhibitions as well as fashion history. The overall themes are often planned up to a year in advance, while the very latest trends are picked up at short notice.

Always with a focus on the customer
H&M’s collections always emerge with the customer in focus. To meet demand from customers of all ages, each with their own particular style, H&M offers many different concepts. Trends and influences are adapted to styles and models that will suit the customers. The themes, colours, fabrics, silhouettes and garment types are decided in order to create the new season’s collections.
Balance between modern basics, current fashions and high fashion

H&M builds up its range by putting together a balanced mix of modern basics, current fashions and high fashion within each concept. A number of different factors affect the final composition of the range. What sold well last season is combined with the coming season’s big trends, colours and models. The aim is that the range should reflect what customers want at all times.

Customer demand in different markets and in different stores determines the mix of the product range. Once again, the previous season’s sales form a good guide. The size of the stores, their location and whether it is a city store or a regional store also have a bearing on how the product range is distributed.

High fashion garments that are produced in limited quantities, for example, will be sold only in stores in the big cities. Modern basics – such as jackets, tops and trousers in a range of colours and in the current season’s cut – are ordered in larger volumes and distributed to more stores.

Concept teams find the right merchandise mix

Each concept has its own team of designers, buyers, assistants, pattern makers, a section manager and a controller. They are all united by their common interest in fashion and trends and by their understanding of what customers want. The teams produce the right mix of merchandise for each concept.

The number of people working on the teams varies depending on the concept. For the larger concepts, e.g. in women’s wear, a number of designers, buyers and pattern makers may work in parallel, while concepts such as Mama or BiB have considerably smaller teams.

Production offices choose the right supplier

H&M does not own any factories. Clothes and other products are instead bought in from around 700 independent suppliers, primarily in Asia and Europe.

The buying department plans the range, while the production offices deal with contacts with the suppliers. They are responsible for each order being placed with the right supplier. The combination of quality, price, quantity, lead time, flexibility and the supplier’s ability to live up to H&M’s CSR requirements are decisive in the choice of supplier. That production must take place under good working conditions and that H&M’s policy must be met are fundamental requirements. The cooperation is strategic and long-term and H&M’s ambition is to grow together with its suppliers.

The quality and safety of the goods are checked at the production offices, where extensive testing is carried out in respect of matters such as child safety and laundering, as well as chemical tests to check that the items meet H&M’s quality requirements. H&M always abides by the strictest regulations in the countries where the company has a presence and the most stringent regulation is then adopted as H&M’s standard in all countries.

Different items – different lead times

The time from an order being placed until the items are in the store may be anything from a few weeks up to six months. The best lead time will vary. For high-volume fashion basics and children’s wear it is advantageous to place orders further in advance. In contrast, trendier garments in smaller volumes have to be in the stores much quicker.
4. LOGISTICS/DISTRIBUTION

“Accuracy, flexibility and efficiency throughout the distribution chain.”

The right item to the right country and the right store

H&M handles millions of items each year. Through a number of distribution centres items are sent to more than 1,500 stores in 28 countries. Having the right items in the right quantity in the right store in the right country at the right time at the right cost calls for extremely well-functioning logistics. In order to succeed, accuracy, flexibility and efficiency are required throughout the supply chain.

H&M controls every link in the chain, from coming up with an idea right through until the item reaches the customer. Doing so the logistic flow is considerably more efficient than that of an individual producer, importer and/or retailer. Another crucial supply chain success factor is good IT support providing rapid sales feedback from the stores.

Transports and environment

H&M makes efforts to use clean and efficient modes of transport with limited environmental impact. The majority of the merchandise is transported by ocean, but goods are also transported by rail, road or sometimes air from the production countries to H&M’s distribution centres.

The most advantageous option is chosen for each consignment and environmental impact is an important parameter. The most advantageous transport option is chosen for each consignment. The environment is an important parameter in this decision. Whenever possible, transport by rail is the first choice. The ambition is that any transport by air must be combined with transports by ocean, which results in considerably less environmental impact.

In 2007 H&M opened a new large distribution centre in Poznan, Poland. This new facility supplies the Internet and catalogue sales countries outside the Nordic region as well as the stores in Eastern Europe. A new large distribution centre is also being built in Hamburg, Germany. It is expected to be completed by summer 2008 and will serve the stores in Germany, the Netherlands and Austria.

5. CUSTOMER

“Clear, inviting and exciting.”

Shop in store, online or by catalogue

H&M’s customers can choose between a number of different sales channels – in store, online or by catalogue. This increases accessibility and gives increasing numbers of customers the option of shopping at any time and from any place. Internet and catalogue sales are available in the Nordic region, the Netherlands, Germany and Austria.

Within H&M there are different kinds of stores – everything from very large stores offering all the concepts to small stores aimed at a narrower customer segment. This is why there is often more than one H&M store on a street, because they provide different shopping experiences and are aimed at somewhat different customer segments.

Interesting and inspiring stores

The display window plays an important part in attracting customers and profiling H&M as a brand. It must be clear and inviting and must inspire customers to make purchases. H&M stores are self-service stores and it must be easy for customers to find their way about. The store environment should be pleasant and generate a sense of well-being. It shall give customers ideas and inspire them to choose what suits their own style. H&M matches the range of garments in the stores to make it easier for customers to combine items. Display windows, mannequins, torsos and tables must all provide attractive shopping suggestions and are therefore updated frequently.

New items every day make the stores interesting and lively. Having a number of collections each season also means that the stores changes its appearance often. The aim is that customers should always be able to find something new and exciting.

New stores are continually being opened and older stores refurbished in order to be inviting and easy for customers to navigate. Stores in the big cities and stores aimed at young people are renovated more often.

Internet and catalogue complementary sales channels

The store is by far H&M’s most important sales channel, although catalogue and Internet sales are increasing. Internet and catalogue sales offer a wide and well-matched product range, with various shopping suggestions and combinations illustrated. Ordering is quick and easy for customers, whether traditionally via a catalogue or online.
A STRONG BRAND is an increasingly important competitive advantage. All H&M’s communication aims to build the brand, short- and long-term, while at the same time conveying the company’s offering. Collections, stores, the magazine, PR activities, shows, events and design collaborations must communicate the same messages. Customers must be able to recognise H&M and know what H&M stands for – fashion and quality at the best price.

H&M makes fashion accessible
There is always something new happening at H&M – new items come in, stores are refurbished and new campaigns are launched. H&M must be inviting, exciting and must always surprise. This way of thinking has guided H&M throughout its history and has helped to build the strong brand that exists today.

When H&M’s first store in Hong Kong opened in March 2007, customers queued for 48 hours ahead of the doors opening. The fact that people choose to do this shows how strong the brand is. The queues and the success of the openings create a positive buzz around H&M. The fact that people choose to do this shows how strong the brand is. The queues and the success of the openings create a positive buzz around H&M.

Collaboration with icons and designers strengthens the brand
Each year H&M launches a number of big campaigns supplemented with smaller campaigns. This generates interest in the season’s new collections. The campaigns are an exciting, recurrent invitation to H&M.

One of the spring’s largest women’s collections was a wide, classic collection produced by H&M in collaboration with style icon Madonna. In the autumn H&M’s collaboration with Roberto Cavalli received a great deal of attention when the Italian fashion legend created an exclusive women’s and men’s collection for H&M. These collaborations show the strength and breadth of H&M’s offering by illustrating clearly that fashion and design is not a matter of price. The attention they receive also strengthens the H&M brand as an international fashion company.

Same message globally
H&M communicates through all channels. The collaborations with designers and style icons are good examples of this. When H&M wanted to produce a beachwear collection based on Australian surf style and was looking for someone who could symbolise this, the choice was Kylie Minogue. Kylie was the face of one of the summer’s beachwear collections – in the stores and in H&M’s advertising. When she then performed at the opening in Shanghai, the world’s media reported on this and on H&M’s move into Asia. H&M does the unexpected and the high level of attention strengthens the brand and also makes it more exciting to go into the local store.

H&M inspires everywhere
H&M has high requirements that all its communication must be of the highest quality. H&M Magazine provides a good idea of how H&M views fashion. It offers readers a mix of fashion, inspiration and the latest lifestyle trends. It is issued four times a year and is aimed equally at customers and staff. Like all H&M’s communication, the magazine can be seen as an invitation to H&M. It is important for building the brand in the long term and is also available on the H&M website.

PR makes the brand even clearer
H&M is in close contact with the media in order to showcase its fashion and increase knowledge about H&M. H&M also communicates continually with the business press and financial markets.

Financial information
The H&M share is one of the most traded shares on the OMX Nordic Exchange in Stockholm. In terms of market capitalisation H&M was the largest company on the exchange in Stockholm and had at the end of the financial year approximately 175,000 shareholders. The message in H&M’s financial communications follows the same patterns as the company’s other communications. Providing accurate and relevant information – at press conferences and telephone conferences, for example – gives journalists and analysts a sound basis for their work and at the same time strengthens the H&M brand.

Website always provides the latest news
Current information about H&M, its campaigns, collections and stores can be found at www.hm.com. Financial information is also available there.

THE H&M BRAND

H&M’s messages are the same all over the world and through all communication channels. Kylie Minogue was the face for one of the beachwear collections in summer 2007. Kylie performed at the spectacular opening party for H&M’s first store in Shanghai.
COLLEAGUES CREATE GROWTH

The colleagues are H&M’s greatest asset

H&M’s competent and committed colleagues are one of the major reasons why H&M has succeeded in growing with good profitability for such a long period.

At the financial year-end, H&M employed about 68,000 people. Converted into full-time positions the number was 47,029, 80 percent of whom were female. Of those in positions of responsibility within the company, such as store managers and country managers, 76 percent were female.

If H&M is to continue its expansion, it is essential that the colleagues want to develop and grow along with the company. It is therefore very important that H&M is and continues to be an attractive employer, since many staff will need to be recruited in the period ahead.

Colleagues must have opportunity to grow with the company

An important ingredient in creating an attractive workplace is that the staff can develop with the company. We believe in individuals and in our colleagues’ ability to use their common sense to take responsibility and take initiatives. We call this the spirit of H&M. To encourage individual development among colleagues, H&M also provides internal training – generally with the emphasis on learning on the job.

Like H&M’s concept, this approach has proved to work all around the world. Everywhere we find capable colleagues with a sense of commitment and a desire to improve the business.

Varied duties – at home and abroad

Job rotation is a good way for colleagues to develop, thereby developing the company. In a store, job rotation may mean that a person’s duties vary from customer service, the cash-desk, fitting rooms and unpacking to display and follow-up of advertising and campaigns.

When we open stores in new markets job rotation may involve colleagues from established H&M countries supporting a store manager and store colleagues on site for the intensive period that precedes a store opening. One example of this is the establishment of H&M’s first stores in Hong Kong and Shanghai. Here the new employees were supported by more than 100 store colleagues, store managers, builders, decorators and others from eight different established H&M countries. The management team received special training in the Netherlands for three intensive months before the openings.

Internal recruitment for positions of responsibility

The openings in Hong Kong and Shanghai are good examples of how H&M succeeds in transferring its knowledge and culture, which is particularly important when moving into new countries. Having more varied duties gives colleagues a greater understanding of how H&M’s approach is put into practice in different parts of the business. It also gives us an opportunity to discover new talent for management and specialist functions within the company.

At present, the majority of those in managerial positions were recruited from within H&M.

Improvement through cooperation

H&M has grown substantially for many years and has never employed more people than now. This, together with the fact that these colleagues are spread all over the world, leads to greater requirements of H&M as an employer. To meet these new demands we are working hard on preparing our global policies on diversity and equality and against discrimination. H&M aims to be a good employer even in countries where laws and regulations do not live up to H&M’s requirements. The entire business must be characterised by a fundamental respect for the individual, which applies to everything from fair pay, reasonable working hours and freedom of association to the opportunity to grow and develop within the company.

H&M has found open and constructive dialogue with trade unions a positive experience and we welcome such relations wherever we operate. Examples of cooperation on staff issues include our agreement with UNI (Union Network International) and the work that we carry out with the European Works Council.

Many women in positions of responsibility

The colleagues’ commitment is H&M’s strength. Women hold 76 percent of the positions of responsibility within H&M and the majority were recruited internally.
TAKING RESPONSIBILITY FOR how people and the environment are impacted by our activities is important and is essential to H&M’s success. H&M conducts a dialogue both internally and with external stakeholders concerning how the company can develop further. It is therefore important to formulate and convey clearly how we should work, especially since H&M does not own any factories of its own. Our products are instead produced by around 700 independent suppliers, primarily in Asia and Europe.

**Code of Conduct and Sustainability Policy – the backbone of H&M’s work**

Our Code of Conduct and our Sustainability Policy (page 45) form the backbone of our work on corporate social responsibility. All the factories involved in producing H&M’s products are covered by the Code of Conduct. It applies both to our suppliers and to any production outsourced to subcontractors that they may use.

The Code of Conduct, which is based on ILO conventions and on the UN Convention on the Rights of the Child, includes the following requirements:

- compliance with local labour law
- statutory pay and working hours
- the right to organise and bargain collectively
- a ban on child labour
- a ban on discrimination
- a ban on forced labour
- health and safety in the workplace
- compliance with local environmental legislation.

Focus on compliance with the Code of Conduct

H&M works intensively to check compliance with the Code of Conduct. This is done by visits to the suppliers’ factories by our own auditors as well as independent audits carried out by the Fair Labor Association. Through a new IT system, developed especially for H&M’s CSR work this year, the auditors’ reports can be accessed by the production offices and the CSR department in Stockholm. H&M employs nearly 60 auditors in total. H&M carries out an extensive audit consisting of more than 300 points when it starts cooperating with new suppliers, or when a supplier uses a new subcontractor. This is known as the FAP audit and forms part of our Full Audit Programme. The aim is to obtain as accurate a picture as possible of conditions at the factory in question. The supplier is then given a certain period in which to draw up a plan for remedying any shortcomings. The auditors follow up the implementation of these measures. In 2007 follow-up of the audits was a priority matter. In connection with the follow-up visits the auditors review the suppliers’ action plans and improvements. The visits act as a forum for in-depth discussions with the suppliers, focusing on the suppliers’ own solutions. The key to long-term development is that the suppliers themselves are committed to sustainable improvements in the business.

**Water samples from factories with water treatment**

H&M’s Code of Conduct states that the suppliers must comply with environmental legislation. In practice, the requirements cover the handling of chemicals, waste management and waste-water treatment. H&M requires factories that carry out wet processes such as washing and dyeing to treat their waste-water. We also set requirements of the quality of water discharged by applying the guidelines developed by a working group made up of clothing companies within Business for Social Responsibility (BSR), which include H&M. During the year H&M analysed water samples from factories with water treatment. The results will form a basis for future FAP audits of the factories. Read more about the BSR guidelines at www.bsr.org/waterquality.

We are also proud of our partnership with the charity WaterAid. In 2007 we donated more money than ever before for the organisation’s work to provide the world’s poorest with clean water. H&M’s donation will contribute to giving around 229,000 people access to clean water and 129,000 people access to sanitation facilities in Tanzania, Mozambique and Madagascar. This money came from sales of the Kylie collection. In addition, sales of a specially-designed bikini contribute to WaterAid’s projects in Bangladesh.
More efficient use of resources

The water samples from the factories are an example of how we actively check that our products are being manufactured with a limited environmental impact. This is possible to do thanks to our suppliers’ commitment to observing the Code of Conduct. It does not solve all the problems, however. H&M does not buy fabrics directly from fabric suppliers, for example, and therefore cannot inspect their operations in the same way. Consequently, we realise that other types of cooperation and other methods are required if we are to have a positive influence on developments. Within the Cleaner production project we work to encourage the fabric-dying mills to take environmental considerations into account in their activities by making suggestions for more efficient use of resources.

Independent inspections benefit all parties

H&M works continually to improve its own methods and routines. Consequently, in 2006 H&M became a member of the Fair Labor Association (FLA). The FLA carries out independent audits of our suppliers’ factories in China and also reviews our system for follow-up of the Code of Conduct. The cooperation with the FLA is an important quality assurance, but is also a way for H&M to show stakeholders how effective its own follow-up is. In 2007 the FLA reported for the first time on the results of its audits on H&M’s suppliers. The FLA’s conclusions are in line with the results of our own FAP audits and are available on the organisation’s website www.fairlabor.org.

Strategic cooperation for long-term improvements

The challenges faced in the production countries are complex. We therefore cooperate with other players in the clothing industry. Among other things, H&M supports the Better Factories Cambodia programme. This initiative, which is run by the International Labour Organization (ILO), aims to improve working conditions for those employed through education and independent monitoring. During the year a number of H&M’s suppliers in Cambodia took part in BFC’s courses. The courses educate factory workers in matters such as employment law, monitoring. During the year a number of H&M’s suppliers and other cooperation partners, as well as to our customers.

Another educational project was carried out in India, where H&M organised training for the members of workers’ councils at three factories. The aim of this training, which was implemented in conjunction with the Fairtrade Foundation and two other international clothing companies, was to establish well-functioning workers’ councils capable of representing the workers vis-à-vis the factory management.

Another current project is the MFA Forum Bangladesh. In addition to around ten buyers, other participants include representatives of the Bangladesh government, local industry organisations, the World Bank, the global trade union organisation IITLGWF and a number of other organisations.

One of the focuses of this year’s work was on the purchasing behaviour of the buying companies, including H&M. The aim is to find ways of working that do not impact negatively on the suppliers’ ability to comply with the Code of Conduct.

Continued cooperation with UNICEF

H&M started its cooperation with UNICEF in 2004 and in 2007 a new cooperation agreement was formulated that is effective for a further three-year period. The cooperation involves a programme for the prevention of HIV/AIDS in Cambodia as well as the investigation of the social consequences of cotton growing in preparation for future FLA audits on this topic. The cooperation was carried out during the year which identified a number of problem areas. Based on the information in the report, H&M and UNICEF will be planning and implementing concrete measures in 2008.

Increased use of organic cotton

H&M works actively to reduce the environmental impact of cotton growing. We want to encourage the growing of organic cotton by contributing to increased demand and we also want to improve conventional cotton growing. Where organic cotton is concerned, we are very pleased that our work on collections that use organic cotton has been so well received by our customers. In total we used around 1,300 tonnes of organically grown cotton in 2007. In order to contribute to improvements within conventional cotton growing, H&M is a member of the Better Cotton Initiative (BCI). The BCI is a partnership between organisations, clothing companies, cotton growers and others. The objective is to measurably reduce the negative effects of conventional cotton growing. This cooperation was initiated by WHF in 2004. More information on the BCI can be found at www.bettercotton.org.

Climate-smart transport solutions

Reducing the company’s carbon dioxide emissions and thus limiting its climate impact is an important part of H&M’s environmental work. This mainly involves working on climate-smart solutions for the transportation of goods and use of energy in our stores and warehouses. We continually evaluate our transportation with a view to reducing its environmental impact. Since transport by air has the greatest environmental impact, we always try to choose other transport options. If this is not possible, transport by air is combined with transport by boat. Land-based transport should preferably be by train. H&M also supports the Clean Shipping Project’s (CSP) requirements of shipping. From the start of 2008 we will be applying the CSP criteria when assessing the environmental performance of different transport companies.

In the stores lighting is controlled in order to reduce energy consumption. A number of sales countries continually check energy consumption in the stores in order to identify any consumption above normal levels quickly. Remedial action can then be taken promptly.

Our work has been noted

Corporate social responsibility work is an ongoing process and we are always looking for ways to improve. At the same time, naturally it is flattering when our work is noticed and rewarded. H&M received the highest marks in a review of 35 garment companies’ CSR work that was carried out by the organisation G4S’s CSR work was noted by Ethisphere Magazine, which named H&M as one of the world’s most sustainable companies in its rankings for 2007.

H&M combats corruption

H&M associates itself from corruption in any form. This position is made clear in the Code of Ethics. All H&M’s suppliers and employees that come into contact with suppliers undertake to comply with the Code.

H&M included in sustainability indexes

H&M is included in a number of sustainability indexes, including the Dow Jones Sustainability Index World and FTSE4Good. The aim of these indexes is to make it easier for institutional investors to choose socially and environmentally sustainable investments.

Future targets

H&M’s efforts in respect of corporate social responsibility are aimed at a number of overall objectives. To come closer to these objectives, each year we formulate a number of detailed intermediate targets to be achieved in a specified time period.

Some of the targets for 2008 are:

- Together with UNICEF, carry out a project with the aim of improving conditions for children in cotton-growing areas in Tamil Nadu in India.
- Identify a tool for calculation of carbon dioxide emissions from the manufacture of H&M’s products.
- Develop training for H&M’s auditors with the aim of increasing the suppliers’ understanding of the company’s requirements, thereby facilitating greater compliance with the Code of Conduct.

Since 2005 H&M has been licensed to use the European Union’s official eco-label, the Flower. The Flower represents restrictions on the use of certain water pollutants banned by the production chain, from raw cotton to the finished product. In 2007 more than 430,000 baby garments labelled with the Flower were sold in our stores.

H&M’s SUSTAINABILITY POLICY

H&M’s business concept is to offer fashion and quality at the best possible price. Quality also means that the products must be made in an environmentally and socially sustainable way. We are driven by our operations, the company’s CSR work is based on working towards continual improvement.

We have a responsibility to everyone who contributes to our success, and we will act accordingly. H&M’s CSR work is based on working towards continual improvement.

We must be a good global citizen and act responsibly in our business decisions are based on considerations in which short- and long-term environmental benefits are taken into account in order to ensure that we choose solutions that are sustainable long-term.

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More information about H&M’s CSR work and the latest CSR report are available at www.hm.com/CSR.
FOCUS ON QUALITY AND SAFETY

H&M’s Quality, Chemical and safety tests form an important and natural part of the company’s care for and service to its customers. Tests are carried out both in H&M’s own laboratories and at external facilities. H&M has laboratories at the majority of its production offices around the world, as well as at the buying office. Around half a million tests are carried out annually and these include everything from laundry tests to chemicals testing, and quality and safety tests are also performed. These tests are then carried out on an ongoing basis throughout production in accordance with current standards. One example of H&M’s safety-consciousness is detachable hoods on outerwear to reduce the risk of accidents if the child should get caught by the hood while playing. H&M’s products conform to the EU standard on cords and drawstrings on children’s clothing, up to an age of 14 years. Further information on quality and safety of children’s wear can be found at www.hm.com.

How a product recall is handled:

- An unsafe product comes to our attention.
- The quality department and the Production Manager decide on a global recall.
- Sale of the product is immediately stopped in all markets and the authorities concerned are informed.
- Immediate information is sent internally to colleagues and to customers, for example by means of newspaper advertisements, the Internet and in-store notices.
- The quality department analyses what happened in order to prevent it from happening again.
- The recalled products are destroyed.

Established system for product recalls

Despite having a well thought-out system for product safety, on rare occasions a product that does not live up to H&M’s requirements may reach the stores. To ensure that such products are recalled quickly, a special recall routine has been established. No products were recalled during the year.

H&M’s product policy

- H&M does not sell real fur.
- H&M only sells leather from cattle, buffalo, sheep, goats and pigs that are raised for meat production.
- H&M does not buy leather from India due to the cruel animal transportation that takes place.
- H&M does not buy silk from India due to poor working conditions in the Indian silk industry.
- H&M does not accept mulesing, the practice carried out on merino sheep in Australia in order to prevent fly strike, and has therefore decided to concentrate its buying on suppliers that can guarantee mulesing-free merino wool.
- H&M products contain no materials made from endangered species.
- Down and feathers come exclusively from birds raised for meat production. H&M also requires a certificate stating that the down and feathers have been washed and sterilised as necessary.
- For wooden products originating from countries with tropical rainforest, H&M requires certification from the FSC (Forest Stewardship Council).
- H&M’s children’s clothes must be comfortable and practical. H&M endeavours not to sell children’s wear that could be perceived as provocative.
- Prints on tops and other garments must not be offensive, racist, sexist, political or religious.
- All garments are marked with their country of origin.
Dress € 69,90

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The Board of Directors and the Managing Director of H & M Hennes & Mauritz AB (publ), 56640-7220, domiciled in Stockholm, submit herewith their annual report and consolidated accounts for the financial year 1 December 2006 to 30 November 2007.

BUSINESS

The Group’s business consists mainly of the sale of clothing and cosmetics to consumers. H&M’s business concept is to offer fashion and quality at the best price. The business is operated from leased store premises as well as via Internet and catalogue sales. At the end of the financial year H&M was present in 28 countries, of which three are on a franchise basis. The total number of stores at the end of the financial year was 1,522, of which ten were franchise stores. Internet and catalogue sales are offered in Sweden, Norway, Denmark, Finland and the Netherlands, and also in Germany and Austria where Internet sales started in autumn 2007.

H&M’s own design and buying function creates the collections centrally. To secure the supply of goods H&M is increasingly using the concept of regional grouping. This means that goods are bought for and distributed to a group (region) of sales countries, rather than to each sales country as previously. The goods are then divided between the sales countries in the region according to demand in each market.

To facilitate this regional grouping and support the major on going expansion, the Group structure was reviewed and refined during the year. Amongst other things, this refinement involved transferring the central functions of design, buying, logistics and stock keeping into a separate buying company, H & M Hennes & Mauritz GBC AB, as of 1 June 2007 and the strengthening of the production function in Hong Kong to become a central procurement function for the Group.

The collections are produced by around 700 external suppliers in about 20 countries where H&M’s production offices maintain contacts with the suppliers. This means that the production offices are responsible for placing the order with the right supplier and for the items being produced at the right price, being of good quality and being delivered at the right time. They also carry out controls to ensure that production takes place under good working conditions. The goods are then transported by ocean, rail, road or air to various distribution centres. From there the goods are distributed directly to the stores and/or to the stores’ central regional replenishment centres. This means that production takes place under good working conditions. The goods are then transported by ocean, rail, road or air to various distribution centres. From there the goods are distributed directly to the stores and/or to the stores’ central regional replenishment centres.

The best price is achieved by having few middlemen, buying in large volumes, purchasing the right product from the right market, being cost-conscious in every part of the organisation and having efficient distribution processes. To assure the quality of the goods, H&M works in close partnership with all its suppliers, from product development to production. All testing, such as chemical testing and laundry tests, are carried out continually at the production offices and at external laboratories.

SIGNIFICANT EVENTS

The Group opened 193 (169) new stores during the financial year and 16 (16) stores were closed. Of the new store openings, 6 (6) were opened under the franchising arrangement. This represents a net increase of 177 (152) stores. In the fourth quarter 94 (96) stores were opened and 4 (5) stores were closed. The total number of stores in the Group thereby amounted to 1,522 (1,345).

During the year H&M started up Internet sales in Germany and Austria, with a very positive impact.

As part of the regional grouping, the new logistics facility in Poznan, Poland, was opened during the year. Initially supplying goods to the stores in Eastern Europe as well as H&M’s Internet and catalogue sales outside the Nordic region. In Hamburg, building work has begun on a new, larger logistics centre that will serve the stores in Germany, the Netherlands and Austria.

Dress €19.90

With effect from 1 June 2007 operation of the Swedish stores was transferred to the subsidiary H & M Hennes & Mauritz Sverige AB. Internet and catalogue sales operations in Sweden were transferred to a Swedish subsidiary, H & M Rowells AB, with effect from 1 December 2007.

H&M works continually on developing its offering to the customer and in 2007 a number of new initiatives took place. For example, H&M opened a new store chain under the brand name COS – Collection of Style. The stores carry a range for women and men in a higher price segment. H&M aims to offer the best price for comparable items also in this segment. Eleven stores opened in 2007 in the UK, Germany, the Netherlands and Belgium.

The expanded footwear range for women was launched initially in around 200 H&M stores in spring 2007. During the autumn the men’s collections were supplemented with a small collection of men’s footwear. H&M’s footwear was well received by customers, this was reflected in good sales development.

As announced previously, the Group has started a new home textiles initiative. To assure the quality of the concept the launch of H&M Home was deferred until autumn 2008. Sales of H&M Home will initially start through Internet and catalogue sales in the Nordic countries, the Netherlands, Germany and Austria.

During the year SEK 160 m was placed in an anniversary foundation to mark the fact that 60 years have passed since H&M was established in Västerås in 1947. The proceeds of the foundation will be spent on projects in areas such as health, education and access to water in countries in which H&M’s goods are produced.

SALES AND PROFITS

H&M Group sales excluding VAT increased in the financial year by 15 percent (in local currencies by 17 percent and in comparable stores by 5 percent) compared with the previous year and amounted to SEK 76,346 m (86,400). Sales including VAT were SEK 92,123 m (106,081). The gross profit amounted to SEK 47,847 m (40,664), which corresponds to 61.1 percent (59.0) of sales.

The operating profit after deducting selling and administrative expenses was SEK 18,382 m (15,208). This represents an operating margin of 23.5 percent (22.6).

The operating profit has been charged with depreciation of SEK 1,814 m (1,624).

The Group’s financial net income amounted to SEK 788 m (510). Profit after financial items was SEK 19,170 m (15,808), an increase of 21 percent.

The Group’s profit for the financial year after applying an average effective tax rate of 35.1 percent (31.2) was SEK 13,588 m (10,797), which represents earnings per share of SEK 16.42 (13.05), an increase of 26 percent. The lower tax rate is due to changes in internal pricing, corporation tax reductions in Denmark, the Netherlands, and Austria, as well as a non- recurring effect of a tax refund in the Netherlands of SEK 130 m relating to previous financial years.

The profit for the year represents a return on shareholders’ equity of 45.4 percent (40.2) and a return on capital employed of 63.7 percent (58.7).

COMMENTS ON PROFITS

The financial year was characterised by very good sales development with well-received collections. This also applies to countries where the retail sector has in general been weaker. It is particularly pleasing that sales developed well in Germany, H&M’s largest market. New customer offerings such as the expansion of H&M’s Internet and catalogue sales, the launch of the footwear range in a number of H&M stores and the start-up of the COS stores have contributed to the Group’s sales positively.

The number of new and refurbished stores reached a record high during the year. In addition, the standard of these stores was raised to make them more attractive and thereby further strengthen H&M’s competitiveness.

The pre-tax profit for the financial year was negatively affected by currency translation effects of around SEK 199 m (+127) when compared with the result recalculated at average rates for the
Preparations are underway for H&M's opening in Tokyo, Japan in autumn 2008. H&M plans to expand into Russia. The first stores are expected to open in Moscow in 2009. The Russian market is deemed to be of much greater interest with potential for growth for a long time to come and H&M will start focusing on the country in the near future.

H&M's objective is to increase the number of stores by 10 to 15 percent each year while at the same time increasing sales at existing stores.

TAXES
For the full-year 2007/2008 the Group’s effective tax rate is expected to decline further due to the change in the 2006/2007 tax law (tax rate of 27.5 percent). The tax rate for 2007/2008 is expected to be 27.5 percent due to the full effect of the changes in internal pricing and the fact that corporation taxes in some countries will decline.

EVENTS AFTER THE END OF THE FINANCIAL YEAR
In local currencies sales increased by 10 percent in December 2007 compared with the same period last year. Sales in comparable stores reduced by 1 percent.

January sales up to and including 29 January 2008 increased by 16 percent in local currencies compared with the same period in the previous year.

GUIDELINES FOR REMUNERATION PAID TO SENIOR EXECUTIVES
At the Annual General Meeting on 3 May 2007 a resolution on remuneration paid to senior executives within H&M was passed for the first time in accordance with the new Companies Act. The number of people considered to be senior executives is around 30.

The guidelines’ basic principle is that H&M's goods must be produced under good working conditions, that H&M incorporates environmental work into day-to-day routines in every area of the company’s activities, that H&M aims to achieve the right balance in the mix between fashion basics and trend items. To optimise fashion precision, H&M buys items on an ongoing basis.

In many markets H&M acts as both a buyer and a seller. This requires the company to be able to grow and develop within the company. The company’s values – the spirit of H&M – which have been in place ever since the days of H&M’s founder, Erling Persson, are partly based on the colleagues’ ability to achieve the right balance in the mix between fashion basics and trend items. To optimise fashion precision, H&M buys items on an ongoing basis.

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The purchase pattern is relatively similar in the various markets, the launch of new concepts, changes in consumer trends and the length of the season can vary between countries. The term senior executives covers the Managing Director, other members of the executive management team and country managers.

Compensation to senior executives is based on factors such as work tasks, experience and performance. In addition to their regular salaries senior executives also receive other benefits such as car benefits. The Managing Director, certain members of the executive management team and all country managers may also receive a bonus. In addition to the IPT plan, the executive management team is covered by either a benefit-based or a premium-based pension solution. The retirement age for the members of the executive management team, with the exception of the Managing Director, varies between 60 and 65.

Members of the executive management team and country managers that are employed by a subsidiary abroad are covered by local pension arrangements as well as a premium-based pension solution. The retirement age for those in accordance with local rules on retirement age. The cost of these commitments and the changes in market conditions which means that this annual report is H&M’s second full report prepared in accordance with IFRS. For further information see Note 1.

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.

Fashion. Fluctuations in the fashion industry is a risk in itself. Fashion is a perishable item and there is always a risk that one of the collections will not be well received by customers.

To optimise fashion precision, H&M buys items on an ongoing basis.

The notice period for senior executives varies from three to twelve months. No severance pay is payable within H&M, except in the case of the Managing Director.

The retirement age for the Managing Director is 65. He receives a pension of 63 percent of his salary for three years, after which a further lifelong pension equivalent to 50 percent of that salary. The Managing Director paid in the last three months’ notice.

In the case that the company cancels his employment contract, the Managing Director will receive severance pay of an extra year’s salary in addition to the 12 months’ notice.

Variable remuneration
The Managing Director, country managers and certain senior executives are included in the bonus system. The bonus per person is based on 0.1 percent of the increase in dividend approved by the Annual General Meeting and the fulfilment of targets in their respective areas of responsibility. The maximum bonus per person and year has been set at SEK 0.3 m net after tax. In the case of the Managing Director the bonus is 0.3 percent of the dividend increase, up to a maximum of SEK 0.9 m net after tax. The bonus paid must be invested entirely in shares in the company, which must be held for at least five years.

In certain cases other members of the executive management team and country managers may receive further one-off payments, up to a maximum of 30 percent of regular salary, at the discretion of the Board or the Managing Director.

The term senior executives covers the Managing Director, other members of the executive management team and country managers. Compensation to senior executives is based on factors such as work tasks, experience and performance. In addition to their regular salaries senior executives also receive other benefits such as car benefits. The Managing Director, certain members of the executive management team and all country managers may also receive a bonus. In addition to the IPT plan, the executive management team is covered by either a benefit-based or a premium-based pension solution. The retirement age for the members of the executive management team, with the exception of the Managing Director, varies between 60 and 65.

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**EQUITY AND LIABILITIES**  

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<tr>
<th></th>
<th>2007</th>
<th>2006</th>
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<tbody>
<tr>
<td><strong>Share capital, Note 16</strong></td>
<td>207</td>
<td>207</td>
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<tr>
<td><strong>Reserves</strong></td>
<td>263</td>
<td>22</td>
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<tr>
<td><strong>Retained earnings</strong></td>
<td>18,035</td>
<td>16,753</td>
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<tr>
<td><strong>Profit for the year</strong></td>
<td>13,588</td>
<td>10,797</td>
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<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td>32,093</td>
<td>27,779</td>
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*Only provisions for pensions are interest-bearing.*

**GROUP INCOME STATEMENT**  

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<tr>
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<th>2007</th>
<th>2006</th>
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<tbody>
<tr>
<td><strong>Sales including VAT</strong></td>
<td>92,123</td>
<td>80,081</td>
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<tr>
<td><strong>Sales excluding VAT, Notes 3, 4</strong></td>
<td>78,346</td>
<td>68,400</td>
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<tr>
<td><strong>Cost of goods sold, Notes 6, 8</strong></td>
<td>-30,499</td>
<td>-27,736</td>
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<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>47,847</td>
<td>40,664</td>
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<tr>
<td><strong>Selling expenses, Notes 5, 8</strong></td>
<td>-27,687</td>
<td>-23,971</td>
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<tr>
<td><strong>Administrative expenses, Notes 6, 8, 9</strong></td>
<td>-1,778</td>
<td>-1,395</td>
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<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td>16,382</td>
<td>15,238</td>
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<tr>
<td><strong>Interest income</strong></td>
<td>783</td>
<td>515</td>
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<tr>
<td><strong>Interest expense</strong></td>
<td>-5</td>
<td>-5</td>
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<tr>
<td><strong>PROFIT AFTER FINANCIAL ITEMS</strong></td>
<td>16,170</td>
<td>15,108</td>
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<tr>
<td><strong>Tax, Note 10</strong></td>
<td>-5,582</td>
<td>-5,011</td>
</tr>
<tr>
<td><strong>PROFIT FOR THE YEAR</strong></td>
<td>13,588</td>
<td>10,797</td>
</tr>
</tbody>
</table>

All profit is attributable to the parent company's shareholders.

**GROUP BALANCE SHEET**  

<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible fixed assets</strong></td>
<td>-266</td>
<td>-222</td>
</tr>
<tr>
<td><strong>Leasehold rights, Note 11</strong></td>
<td>-266</td>
<td>-222</td>
</tr>
<tr>
<td><strong>Tangible fixed assets</strong></td>
<td>8,821</td>
<td>7,134</td>
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<tr>
<td><strong>Buildings and land, Note 11</strong></td>
<td>466</td>
<td>420</td>
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<tr>
<td><strong>Equipment, tools, fixtures and fittings, Note 11</strong></td>
<td>9,287</td>
<td>7,564</td>
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<tr>
<td><strong>Long-term receivables</strong></td>
<td>253</td>
<td>155</td>
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<tr>
<td><strong>Deferred tax receivables, Note 10</strong></td>
<td>883</td>
<td>102</td>
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<tr>
<td><strong>TOTAL FIXED ASSETS</strong></td>
<td>10,689</td>
<td>8,033</td>
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<tr>
<td><strong>Stock-in-trade</strong></td>
<td>7,969</td>
<td>7,220</td>
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<tr>
<td><strong>Current receivables</strong></td>
<td>1,122</td>
<td>865</td>
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<tr>
<td><strong>Accounts receivable</strong></td>
<td>356</td>
<td>249</td>
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<tr>
<td><strong>Other receivables</strong></td>
<td>634</td>
<td>563</td>
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<td><strong>Prepaid expenses, Note 12</strong></td>
<td>2,112</td>
<td>1,677</td>
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<td><strong>Short-term investments, Note 13</strong></td>
<td>4,900</td>
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<td><strong>Liquid funds, Note 14</strong></td>
<td>16,064</td>
<td>9,877</td>
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<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>31,045</td>
<td>27,522</td>
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**EQUITY AND LIABILITIES**  

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<tr>
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<td>883</td>
<td>102</td>
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<tr>
<td><strong>Accounts payable</strong></td>
<td>7,969</td>
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<tr>
<td><strong>Total liabilities</strong></td>
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<td>102</td>
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**TOTAL LIABILITIES**  

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<tr>
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<td>2,112</td>
<td>1,677</td>
</tr>
<tr>
<td><strong>Short-term investments, Note 13</strong></td>
<td>4,900</td>
<td>8,748</td>
</tr>
<tr>
<td><strong>Liquid funds, Note 14</strong></td>
<td>16,064</td>
<td>9,877</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>31,045</td>
<td>27,522</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS**  

<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td>10,689</td>
<td>8,033</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>31,045</td>
<td>27,522</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>41,734</td>
<td>35,555</td>
</tr>
</tbody>
</table>

Earnings per share, SEK (before and after dilution)  

<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th>2007</th>
<th>2006</th>
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<tr>
<td><strong>Total assets</strong></td>
<td>41,734</td>
<td>35,555</td>
</tr>
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</table>

Number of shares (before and after dilution)  

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<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th>2007</th>
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</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>41,734</td>
<td>35,555</td>
</tr>
</tbody>
</table>
CHANGE IN EQUITY

All shareholders’ equity is attributable to the parent company’s shareholders since there are no minority interests.

<table>
<thead>
<tr>
<th>Shareholders’ equity, 1 December 2005</th>
<th>Share</th>
<th>Reserves, translation effects</th>
<th>Retained earnings</th>
<th>Total shareholders’ equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>207</td>
<td>1,703</td>
<td>24,814</td>
<td>25,924</td>
<td></td>
</tr>
</tbody>
</table>

Translation effects for the year

|                                | 207   | 24,814 | 25,924 |

Income and expenses posted directly to equity

|                                | 1,703 | 24,814 | 25,924 |

Profit for the year

|                                | 1,703 | 24,814 | 25,924 |

Total income and expenses

|                                | 1,703 | 24,814 | 25,924 |

Dividend

|                                | 1,703 | 24,814 | 25,924 |

Shareholders’ equity, 30 November 2006

|                                | 207   | 22    | 27,550 |

Translation effects for the year

|                                | 207   | 22    | 27,550 |

Income and expenses posted directly to equity

|                                | 207   | 22    | 27,550 |

Profit for the year

|                                | 207   | 22    | 27,550 |

Total income and expenses

|                                | 207   | 22    | 27,550 |

Dividend

|                                | 207   | 22    | 27,550 |

CASH FLOW ANALYSIS

1 December–30 November

|                                | 2007  | 2006  |

Profit after financial items*

|                                | 19,170 | 15,808 |

Provisions for pensions

|                                | 27     | 52    |

Depreciation

|                                | 1,814  | 1,624  |

Tax paid

|                                | -5,557 | -5,565 |

Cash flow from current operations before changes in working capital

|                                | 15,454 | 11,919 |

Cash flow from changes in working capital

|                                | -421   | -317   |

Stock-in-trade

|                                | -615   | -748   |

Current liabilities

|                                | 963    | 1,201  |

CASH FLOW FROM CURRENT OPERATIONS

|                                | 15,381 | 12,055 |

Investment activities

|                                | -86    | -30    |

Sales of/investments in buildings and land

|                                | -56    | 5      |

Investments in fixed assets

|                                | -3,466 | -1,958 |

Change in financial investments, 3–12 months

|                                | 3,848  | -3,398 |

Other investments

|                                | -96    | -15    |

CASH FLOW FROM INVESTMENT ACTIVITIES

|                                | 144    | -4,395 |

Financing activities

|                                | -9,515 | -7,861 |

Cash flow for the year

|                                | 6,010  | -201   |

Liquid funds at beginning of year

|                                | 9,877  | 10,496 |

Exchange rate effect

|                                | 177    | -418   |

Liquid funds at end of year

|                                | 16,064 | 9,877  |

* Interest paid amounts for the Group to SEK 5 m (5).
* Received interest amounts for the Group to SEK 822 m (487).
INCOME STATEMENT
1 December - 30 November 2007 2006
Sales including VAT 10,738 7,727
Sales excluding VAT, Note 5 9,629 6,221
Cost of goods sold, Notes 6, 8 -3,579 -1,432
GROSS PROFIT 6,560 4,789
Selling expenses, Notes 6, 8 -2,934 -2,356
Administrative expenses, Notes 6, 8, 9 -1,092 -663
OPERATING PROFIT 2,024 1,770
Income from financial investments
Dividends from subsidiaries 8,485 7,219
Interest income 449 247
Interest expense 0 0
PROFIT AFTER FINANCIAL ITEMS 10,938 9,236
Year-end appropriations, Note 21 130 3
Tax, Note 10 -751 -572
PROFIT FOR THE YEAR 10,317 8,667

Up to and including 31 May 2007 the Swedish stores were operated within the parent company; since this date they have been operated in a separate subsidiary. The departments for design, logistics and buying that were previously part of the parent company were also transferred into a separate subsidiary as of 1 June 2007.

BALANCE SHEET
30 November 2007 2006
ASSETS
FIXED ASSETS
Tangible fixed assets
Buildings and land, Note 11 59 61
Equipment, tools, fixtures and fittings, Note 11 258 458
317 519
Financial assets
Shares and participation rights, Note 22 17 11
Receivables from subsidiaries 0 24
Long-term receivables 10 13
Deferred tax receivables, Note 10 32 25
59 73
TOTAL FIXED ASSETS 376 592
CURRENT ASSETS
Stock-in-trade 407 759
Current receivables
Accounts receivable 508 432
Receivables from subsidiaries 5,786 4,991
Other receivables 42 11
Prepaid expenses and accrued income, Note 12 40 51
6,376 5,545
Short-term investments, Note 13 4,900 5,000
Liquid funds, Note 14 1,417 2,154
TOTAL CURRENT ASSETS 13,100 13,458
TOTAL ASSETS 13,476 14,050

Up to and including 31 May 2007 the Swedish stores were operated within the parent company; since this date they have been operated in a separate subsidiary. The departments for design, logistics and buying that were previously part of the parent company were also transferred into a separate subsidiary as of 1 June 2007.

EQUITY AND LIABILITIES
EQUITY
Restricted equity
Share capital, Note 16 207 207
Restricted reserves 88 88
295 295
Non-restricted equity
Retained earnings, Note 17 2,050 2,898
Profit for the year 10,317 8,667
12,367 11,565
TOTAL EQUITY 12,662 11,860
Untaxed reserves, Note 23 119 249
Long-term liabilities*
Previsions for pensions 113 99
113 99
Current liabilities*
Accounts payable 124 1,078
Accounts payable, subsidiaries 0 23
Tax liabilities 5 171
Other liabilities 221 115
Accrued expenses and deferred income, Note 19 232 455
582 1,842
TOTAL LIABILITIES 814 2,190
TOTAL EQUITY AND LIABILITIES 13,476 14,050
Pledged assets – –
Contingent liabilities, Note 24 12,431 10,966
* Only provisions for pensions are interest-bearing.
## PARENT COMPANY

### SHAREHOLDERS' EQUITY

#### CHANGES IN EQUITY

<table>
<thead>
<tr>
<th>Shareholders' equity, 1 December 2005</th>
<th>Share capital</th>
<th>Restricted reserves</th>
<th>Retained earnings</th>
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<tr>
<td>Dividend</td>
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<td>88</td>
<td>10,799</td>
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<tr>
<td>Profit for the year</td>
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<td></td>
<td></td>
<td>10,317</td>
<td>10,317</td>
</tr>
</tbody>
</table>

### CASH FLOW ANALYSIS

**1 December–30 November**

#### PROFIT AFTER FINANCIAL ITEMS

- 2007: 10,938 SEK m
- 2006: 9,236 SEK m

#### PROVISIONS FOR PENSIONS

- 2007: 14 SEK m
- 2006: 28 SEK m

#### DEPRECIATION

- 2007: 88 SEK m
- 2006: 120 SEK m

#### TAX PAID

- 2007: -924 SEK m
- 2006: -940 SEK m

#### CASH FLOW FROM CURRENT OPERATIONS BEFORE CHANGES IN WORKING CAPITAL

- 2007: 10,116 SEK m
- 2006: 8,444 SEK m

#### CASH FLOW FROM CHANGES IN WORKING CAPITAL

- Current receivables: -831 SEK m
- Stock-in-trade: 352 SEK m
- Current liabilities: -1,094 SEK m

#### CASH FLOW FROM CURRENT OPERATIONS

- 2007: 8,543 SEK m
- 2006: 6,098 SEK m

#### INVESTMENT ACTIVITIES

- Net investments in fixed assets: 114 SEK m
- Change in financial investments, 3–12 months: 100 SEK m
- Other investments: 21 SEK m

#### CASH FLOW FROM INVESTMENT ACTIVITIES

- 2007: 235 SEK m
- 2006: 1,232 SEK m

#### FINANCING ACTIVITIES

- Dividend: -9,515 SEK m

#### CASH FLOW FROM FINANCING ACTIVITIES

- 2007: -9,515 SEK m
- 2006: -7,861 SEK m

#### CASH FLOW FOR THE YEAR

- 2007: -737 SEK m
- 2006: -531 SEK m

#### LIQUID FUNDS AT BEGINNING OF YEAR

- 2007: 2,154 SEK m
- 2006: 2,686 SEK m

#### LIQUID FUNDS AT END OF YEAR

- 2007: 1,417 SEK m
- 2006: 2,154 SEK m

*Interest paid amounts for the parent company to SEK m (r).  
*Received interest amounts for the parent company to SEK 452 m (252).
The parent company H & M Hennes & Mauritz AB (publ) is a limited company domiciled in Stockholm, Sweden. The parent company’s corporate identity number is 556423–7619. The Group’s business consists mainly of the sale of clothing and cosmetics to consumers. The company’s financial year is December – November. The Annual Report was approved for publication by the Board of Directors on 30 January 2008 and was submitted to the Annual General Meeting on 8 May 2008.

Stefan Persson Placing AB’s shareholding in H & M Hennes & Mauritz AB corresponds to 11.75 percent of all the shares and 57.1 percent of the total number of votes. Stefan Persson Placing AB (556423–05679) is thus the parent company of H & M Hennes & Mauritz AB.

1 ACCOUNTING PRINCIPLES

BASIS FOR PREPARATION OF THE ACCOUNTS

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC). Since the parent company is a company incorporated in Sweden, it is subject to the Company Act by the EU are applied. The consolidated accounts also contain disclosures as set out in Recommendation RR 30:06 of the Swedish Financial Accounting Standards Council on Supplementary Accounting Statements, guidelines for their structure and minimum requirements of content.

CONSOLIDATED ACCOUNTS

The consolidated accounts encompass the parent company and its subsidiaries. Subsidiaries are included in the consolidated accounts from the date of acquisition, which is the date on which the parent company gains a determining influence, and are included in the consolidated accounts until such date as the determining influence ends. Currently all subsidiaries are 100 percent owned. All dividends are distributed when the account is used in the preparation of the consolidated accounts. The net assets of the acquired subsidiaries are determined based on a market valuation of the assets, liabilities and contingent liabilities at the time of acquisition. If the acquisition cost of the subsidiary’s shares exceeds the calculated value at the time of acquisition of the parent’s share of the net assets of the acquired company, the difference is reported as goodwill on consolidation. If the acquisition cost of the subsidiary’s shares is less than the calculated value at the time of acquisition of the parent’s share of the net assets, the difference is reported directly in the income statement.

The financial reports for the parent company and the subsidiaries included in the consolidated accounts cover the same period and have been prepared in accordance with the accounting principles that apply to the Group. Inter-group transactions, such as income, expenses, receivables and liabilities as well as unrealised gains and losses are eliminated entirely in the preparation of the Group’s consolidated accounts.

FOREIGN CURRENCY

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are converted at the exchange rate on the closing date, while the income statement is translated at the average exchange rate for the year. The translation difference arising from this, and also as a result of the fact that net investment is translated at a different exchange rate at the end of the year than at the beginning of the year, is posted directly to equity as a translation reserve. On disposal of a foreign business the accumulated exchange rate differences in the income statement are posted together with the profit or loss on disposal. Where foreign businesses are concerned, the accumulated translation differences attributable to the period before 1 December 2004 – the date of adoption of IFRS – have been set at zero in accordance with the transitional rules in IFRS 1.

INCOME

The Group’s income is generated mainly by sales of clothing and cosmetics to consumers. Sales revenue is reported less value-added tax in the income statement. Income is reported in conjunction with delivery of the goods, and franchise fees, which are reported when the franchisee sells goods to the consumer.

Marketing

Advertising costs and other marketing activities are expensed on a continuous basis.

INTANGIBLE AND TANGIBLE FIXED ASSETS

Intangible and tangible fixed assets are reported at acquisition cost less accumulated depreciation and any accumulated write-downs. Depreciation is distributed linearly over the assets’ expected period of use. No depreciation is applied to land. See also Note 8 and Note 11.

Costs relating to intangible and tangible fixed assets are recognised in the balance sheet if it is likely that the company will gain from the future financial benefits associated with the asset and if the asset’s acquisition cost can be reliably calculated. Costs relating to ongoing maintenance and repair are reported as an expense in the period in which they arise. The recorded value of intangible and tangible fixed assets is tested to see if impairment is indicated. If the asset’s recorded value exceeds its recoverable value (net sales value of the asset in use) its carrying amount is reduced by the amount by which the carrying amount exceeds its recoverable amount. If the recorded value falls below its recoverable value an impairment loss is reported. Any write-down is recorded in the income statement.

LEASING

Leasing agreements in which a substantial part of the risks and benefits of ownership are retained by the lessor are classified as operational leases. Minimal leasing agreements relating to operational leasing are recorded in the income statement as an expense and distributed linearly over the term of the agreement. The Group’s main leasing agreements are leases for fixed assets for periods of less than one year.

FINANCIAL INSTRUMENTS

Financial instruments are assessed and recognised in accordance with the rules of IAS 39. Financial instruments recognised in the balance sheet include the assets linked with the company’s liabilities, accounts receivable and accounts payable, long-term receivables and derivatives. On the liabilities and equity side, similar items include counterparty receivables and payables and derivatives.

Financial instruments are reported in the balance sheet when the Group becomes a party to the contractual terms of the instrument. Financial assets are removed from the balance sheet when the contractual rights to the cash flows from the asset cease. Financial liabilities are removed from the balance sheet when the obligation is met, cancelled or expires.

The Group classifies its financial instruments in the following categories:

Financial assets and liabilities at fair value through profit or loss

This category consists of two sub-categories: financial assets and liabilities that are held for trading, and other assets and liabilities that the company initially chose to place in this category when they were first reported. Assets and liabilities in this category are assessed continually at fair value, with changes in value recognised in the income statement.

Loans receivable and accounts receivable

This category primarily covers cash and bank balances plus accounts receivable.

Accounts receivable have a short-term expected term and are recognised at the original invoiced amount without discounting, with deductions for doubtful receivables.

Financial assets held to maturity

Financial assets held to maturity refers to assets with payment flows that are fixed or that can be established in advance, and with a fixed term, which the Group has the express intention and capacity to hold until maturity. Assets in this category are valued at accrued acquisition cost, with the effective interest rate being used to calculate the value. At the closing date, all the Group’s short-term investments fall into this category.

Financial assets that may be sold

This category contains financial assets that were either placed in this category at the time of acquisition or have not been classified in any other category. These are valued continually at fair value, with changes in value recognised in equity. No financial assets have been classified in this category.

Other financial liabilities

Financial liabilities that are not held for trading are assessed at acquired acquisition cost. Accounts payable fall into this category. These have a short-term expected term and are recognised at the nominal amount with no discounting.

Reporting of derivatives used for hedging purposes

All derivatives are reported initially and continually at fair value in the balance sheet. The result of the revaluation of derivatives

NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATION PRINCIPLES AND DISCLOSURE REQUIREMENTS

In number of the standard new interpretations of existing standards have been published but have not yet entered into force. The standards, amendments and interpretations below, which it is judged may significantly affect the Group, are not expected to have any effect on the consolidated accounts on their introduction beyond the provision of supplementary information in certain cases:

– Supplement to IAS 1, Presentation of Financial Statements – information on capital (effective from 2007/08). This will result in increased information on capital in the Annual Report.
– IFRS 7 Financial Instruments: Disclosures (effective from 2007/08), will result in increased information requirements.
– IFRS 8, Operating Segments (effective from 2009/10) – this standard contains information requirements relating to the Group’s operating segments.
– IFRIC 13, Customer Loyalty Programmes (effective from 2008/09) – requires rewards from customer loyalty programmes to be accounted for as a separate component of the sale transaction in which they are awarded, and that the amount of proceeds allocated to the award credits, measured at fair value, be reported as deferred income and distributed over the period when the obligation is fulfilled.
– Revised IAS 1, Presentation of Financial Statements (effective from 2009/10) – the revision brings about certain changes in the overall requirements of the presentation of financial statements, guidelines for their structure and minimum requirements of content.

ESTIMATES AND ASSESSMENTS

The preparation of the Annual Report and consolidated accounts requires estimates and assumptions to be made, as well as judgements in the application of the accounting principles. These affect recorded amounts for assets, liabilities, income, expenses and supplementary information. The estimates and assumptions are reviewed regularly and are based on historical experience, other relevant factors and expectations of the future. The actual outcome may therefore deviate from these estimates and assumptions. If it is possible to determine the range of the estimates and assumptions made, the estimates are disclosed, the range of the estimates and assumptions made in the statements to 30 November 2007 cannot significantly affect the results and position for the forthcoming financial year.

CONSOLIDATED ACCOUNTS

The consolidated accounts encompass the parent company and its subsidiaries. Subsidiaries are included in the consolidated accounts from the date of acquisition, which is the date on which the parent company gains a determining influence, and are included in the consolidated accounts until such date as the determining influence ends. Currently all subsidiaries are 100 percent owned. All dividends are distributed when the account is used in the preparation of the consolidated accounts. The net assets of the acquired subsidiaries are determined based on a market valuation of the assets, liabilities and contingent liabilities at the time of acquisition. If the acquisition cost of the subsidiary’s shares exceeds the calculated value at the time of acquisition of the Group’s share of the net assets of the acquired company, the difference is reported as goodwill on consolidation. If the acquisition cost of the subsidiary’s shares is less than the calculated value at the time of acquisition of the parent’s share of the net assets, the difference is reported directly in the income statement.

The functional currency for the parent company is Swedish kronor, which is also the reporting currency for the parent company and for the Group. Unless otherwise indicated, all amounts are reported in millions of Swedish kronor (SEK m).

The company

The parent company applies Recommendation RR 32:06 from the Swedish Financial Accounting Standards Council on Supplementary Accounting Statements, guidelines for their structure and minimum requirements of content.
defined benefit plans are primarily found in Sweden.

Pension obligations are assessed annually with the help of independent actuaries according to the so-called Projected Unit Credit Method. The assessment of pension obligations is made using actuarial assumptions. These assumptions include such things as the discount rate, anticipated salary and pension increases and the expected return on investments. Changes in the actuarial assumptions and outcomes that deviate from the assumptions give rise to actuarial gains or losses. Such gains or losses are recognised in profits in the year they arise.

For salaried employees in Sweden, H&M applies the ITP plan through insurance with Alecta. According to Swedish Financial Accounting Standards Council’s Emerging Issues Task Force (IUR 42), this is a defined benefit plan that covers a number of employees. An accounting plan will be reported as a defined contribution plan until the company gains access to information allowing this plan to be reported as a defined benefit plan. Alecta’s surplus may be allocated to the insured employees and/or the employer taking out the insurance. As of 30 September 2007, Alecta’s consolidation ratio was 164.0 percent (141.4). The consolidation ratio is calculated as the fair value of managed assets as a percentage of the obligations, calculated in accordance with Alecta’s actuarial assumptions. This calculation is not in line with IAS 19.

For further information see Note 18.

2 FINANCIAL RISKS

In the course of conducting business the Group is exposed to risk associated with financial instruments, such as cash funds, short-term investments, accounts receivable and accounts payable. The Group also conducts transactions involving currency derivatives with a view to managing currency risks that arise in the course of its business.

The risks related to these instruments are primarily the following:

- Interest risk associated with liquid funds and short-term investments
- Currency risk associated with foreign currency flows
- Credit risk associated with financial assets and derivative transactions

How these risks are handled and controlled is regulated in the financial policy adopted by the company’s Board of Directors. The financial policy is the most important financial control tool for the company’s financial activities and establishes the framework within which the company works.

The Group’s accounting principles for financial instruments, including derivatives, are described in Note 1.

INTEREST RISK

Interest risk is the risk that the value of a financial instrument will vary due to changes in market interest rates. Interest risk relates to the risk that the Group’s exposure to changes in market interest rates may affect net profit.

The Group’s exposure to risk from changes in interest rates relates to liquid funds as well as short-term investments. In accordance with the financial policy, the Group’s surplus liquidity is invested in current bank accounts or in fixed-interest deposits with a bank as the counterpart. The original term of the investments as of the closing date is up to six months. The financial policy allows investments for up to two years.

CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will vary due to changes in exchange rates. The currency used for H&M’s accounts is Swedish kronor, but the Group conducts business in countries all around the world. This means that the Group is exposed to currency risk due to the fact that changes in exchange rates may affect profit and capital.

Transaction exposure associated with commercial transactions

The payment flows in the form of payments in foreign currencies for accounts receivable and payable exposures are described as currency risk. With a view to dealing with the currency risk relating to changes in exchange rates, the Group hedges its currency risk within the framework of the financial policy.

The currency risk exposure is dealt with at central level. The bulk of the Group’s sales are made in euro and the Group’s most significant purchase currencies are the US dollar and the euro.

The currency risk exposure is dealt with at central level. The bulk of the Group’s sales are made in euro and the Group’s most significant purchase currencies are the US dollar and the euro.

The Group’s operating result for the year has been affected by SEK 375 m (148) as a result of exchange rate differences relating to product flows.

Translation exposure on consolidation of units outside Sweden

In addition to the effects of transaction exposure, the profits are also affected by translation effects as a result of changes in exchange rates for the local currencies of the various foreign subsidiaries vis-à-vis Swedish kronor compared with the same period in the previous year. The underlying profit/loss in a market may be unchanged in the local currency, but when converted into SEK may increase in kronor if the Swedish krona has weakened or decrease if the Swedish krona has strengthened. These translation effects have affected profit after tax for the year by SEK -199 m (127) compared with the result that would have been reported in SEK without the same change in the exchange rate.

Transportation charges affect the Group’s net assets on consolidation of the foreign subsidiaries’ balance sheets (translation exposure in the balance sheet). No equity hedging is carried out for this risk. The translation difference for the year, which is recognised directly in Group equity, amounts to SEK 241 m (1,081).

CREDIT RISK

Credit risk is the risk that a party to a transaction involving financial instruments may not be able to fulfill its commitment and thereby cause a loss to the other party.

Credit risk exposure arises when liquid funds are invested, including short-term investments, but also in the form of a counterparty risk associated with trading in derivatives. To limit credit risk, forward contract transactions are only executed with counterparties with a good credit rating, and funds are only invested in banks with a minimum rating of A-1/A (Standard & Poor) and P2/A3 (Moody’s).

The overwhelming majority of the Group’s sales are made against cash payment and consequently this part of the credit risk is low.

used for hedging is reported as described in the section Derivatives and Hedge Accounting below.

LIQUID FUNDS

Liquid funds cover cash and bank balances as well as short-term investments with a term of maximum three months from the date of acquisition. The investments carry no significant risk of value changes.

DERIVATIVES AND HEDGE ACCOUNTING

The Group’s policy is for derivatives to be held only for hedging purposes. Derivatives comprise forward currency contracts that are used to cover the risk of exchange rate changes in product flows.

With effect from 1 December 2003 H&M is applying hedge accounting in accordance with IAS 39. To meet the requirements of hedge accounting there must be a clear link to the hedged item. In addition, the hedging must effectively protect the hedged item, hedging documents must have been prepared and the effectiveness must be measurable.

In hedge accounting, derivatives are classified as cash flow hedging or as fair value hedging. How these hedging transactions are reported is described below.

Hedging of forecast currency flows – cash flow hedging

Currency exposure relating to future forecast flows is hedged through forward currency contracts. Derivatives that hedge the forecast flow are reported in the balance sheet at fair value.

Changes in value are reported directly in equity in the hedge reserve until such time as the hedged flow is recognised in the income statement. When the hedging instrument’s accumulated changes in value are transferred to the income statement they then correspond to the profit/loss effects of the hedged transaction.

Hedging of contracted currency flows – fair value hedging

Currency exposure relating to future contracted flows is hedged through forward currency contracts. When a hedging instrument is used to hedge fair value, the hedges are reported at fair value in the balance sheet and the contracted flow is also reported at fair value with regard to the currency risk being hedged. Changes in the value of the derivative are reported in the income statement together with changes in the value of the hedged item.

STOCK-IN-TRADE

Stock-in-trade is valued at the lower of the acquisition cost and the net realisable value. For stock-in-trade in the stores the acquisition cost is determined by reducing the selling price to the calculated gross margin (retail method). The net realisable value is the assessed market value less the projected selling expenses.

PROVISIONS

Provisions are reported in the balance sheet where there is a commitment as a result of an event that has occurred and it is likely that an outflow of resources will be required in order to settle the commitment and the amount can be reliably estimated.

PENSIONS

H&M has several different plans for benefits after employment and service to which the benefit relates. Defined benefit plans are assessed separately for the respective plan, based on the benefits earned during previous and current periods. The defined benefit obligations less the actual value of managed assets are reported under the heading ‘Provision for pensions’.

Credit risk is the risk that a party in a transaction involving financial instruments may not be able to fulfill its commitment and thereby cause a loss to the other party. Credit risk exposure arises when liquid funds are invested, including short-term investments, but also in the form of a counterparty risk associated with trading in derivatives. To limit credit risk, forward contract transactions are only executed with counterparties with a good credit rating, and funds are only invested in banks with a minimum rating of A-1/A (Standard & Poor) and P2/A3 (Moody’s).

The overwhelming majority of the Group’s sales are made against cash payment and consequently this part of the credit risk is low.
### 3 SEGMENT REPORTING

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic region</td>
<td>10,017</td>
</tr>
<tr>
<td>Net sales</td>
<td>5,786</td>
</tr>
<tr>
<td>Operating profit</td>
<td>4,123</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,033</td>
</tr>
<tr>
<td>Operating margin in %</td>
<td>46.8</td>
</tr>
<tr>
<td>Liabilities</td>
<td>17,606</td>
</tr>
<tr>
<td>Investments</td>
<td>3,317</td>
</tr>
<tr>
<td>Depreciation</td>
<td>711</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,508</td>
</tr>
<tr>
<td>Operating margin in %</td>
<td>19.1</td>
</tr>
<tr>
<td>External sales</td>
<td>19,899</td>
</tr>
<tr>
<td>Group total</td>
<td>82</td>
</tr>
<tr>
<td>Total</td>
<td>15,017</td>
</tr>
<tr>
<td>Total</td>
<td>608</td>
</tr>
<tr>
<td>Total</td>
<td>78,346</td>
</tr>
</tbody>
</table>

### 5 ROYALTIES FROM GROUP COMPANIES

The parent company's sales include royalties received from Group companies of SEK 2,017m (3).

### 6 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board, executive management</td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>9,042</td>
</tr>
<tr>
<td>Other overheads</td>
<td>1,941</td>
</tr>
<tr>
<td>Total</td>
<td>11,119</td>
</tr>
<tr>
<td>Group total</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td>47,029</td>
</tr>
</tbody>
</table>

### 7 AVERAGE NUMBER OF EMPLOYEES

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male employees</td>
<td>3.1</td>
</tr>
<tr>
<td>Female employees</td>
<td>3.9</td>
</tr>
<tr>
<td>Male employees</td>
<td>15,058</td>
</tr>
<tr>
<td>Female employees</td>
<td>8,594</td>
</tr>
<tr>
<td>Total</td>
<td>8,556</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
</tbody>
</table>

### 8 DEPRECIATION

Depreciation has been calculated at 12 percent of the acquisition cost of equipment and leasehold rights (intangible fixed assets) and 20 percent for computer equipment and vehicles, based on estimated economic lives. The fact that lease rates are depreciated over a period of more than five years is due to the crucial importance of the store locations to the business. Buildings are depreciated at 3 percent of acquisition cost. No depreciation is applied to land values. Depreciation for the year is reported in the income statement as follows:

<table>
<thead>
<tr>
<th>GROUP</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>2,053</td>
<td>1,722</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>1,105</td>
<td>1,174</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>38</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>3,999</td>
<td>3,364</td>
</tr>
</tbody>
</table>

### 9 AUDIT FEES

<table>
<thead>
<tr>
<th>GROUP</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Email &amp; Audit assignments</td>
<td>12.8</td>
<td>11.3</td>
</tr>
<tr>
<td>Other auditors</td>
<td>18.4</td>
<td>15.8</td>
</tr>
<tr>
<td>Other auditors</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td>35.0</td>
<td>35.3</td>
</tr>
</tbody>
</table>

* Other assignments refer mainly to tax advice in connection with changes to internal pricing principles and refinement of the Group structure.
10 TAX

GROUP PARENT COMPANY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax expense (-)</td>
<td>69</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax receivable (c)</td>
<td>43</td>
<td>55</td>
<td>56</td>
<td>67</td>
</tr>
<tr>
<td>Current tax</td>
<td>564</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Tax expense for the period</td>
<td>-5,408</td>
<td>-5,072</td>
<td>-758</td>
<td>-577</td>
</tr>
<tr>
<td>Deferred tax receivable (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in respect of temporary differences</td>
<td>69</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Deferred tax receivable (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in respect of losses from carry-forward</td>
<td>-10</td>
<td>-21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax receivable (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in respect of temporary differences</td>
<td>-64</td>
<td>-62</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>-6,288</td>
<td>-5,072</td>
<td>-758</td>
<td>-577</td>
</tr>
<tr>
<td>Deferred tax receivable (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in respect of temporary differences</td>
<td>564</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Deferred tax receivable (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in respect of losses from carry-forward</td>
<td>-10</td>
<td>-21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax receivable (c)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in respect of temporary differences</td>
<td>-64</td>
<td>-62</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>-6,288</td>
<td>-5,072</td>
<td>-758</td>
<td>-577</td>
</tr>
<tr>
<td>Total</td>
<td>-5,582</td>
<td>-5,011</td>
<td>-751</td>
<td>-572</td>
</tr>
</tbody>
</table>

11 LEASEHOLD RIGHTS, BUILDINGS, LAND & EQUIPMENT

GROUP PARENT COMPANY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold rights</td>
<td>116</td>
<td>115</td>
<td>116</td>
<td>115</td>
</tr>
<tr>
<td>Buildings</td>
<td>503</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Opening acquisition value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing acquisition value</td>
<td>503</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Acquisitions during the year</td>
<td>19</td>
<td>19</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Sales/disposals</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Translation effects</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Closing book value</td>
<td>523</td>
<td>523</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>Cost of land</td>
<td>503</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Opening acquisition value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing acquisition value</td>
<td>503</td>
<td>503</td>
<td>107</td>
<td>107</td>
</tr>
<tr>
<td>Acquisitions during the year</td>
<td>19</td>
<td>19</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Sales/disposals</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Depreciation for the year</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Translation effects</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Closing book value</td>
<td>523</td>
<td>523</td>
<td>105</td>
<td>105</td>
</tr>
</tbody>
</table>

12 PREPAID EXPENSES

GROUP PARENT COMPANY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid items</td>
<td>519</td>
<td>405</td>
<td>177</td>
<td>177</td>
</tr>
<tr>
<td>Other items</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>569</td>
<td>455</td>
<td>227</td>
<td>227</td>
</tr>
</tbody>
</table>

13 SHORT-TERM INVESTMENTS

This balance sheet item includes interest-bearing investments, i.e. investments in securities issued by governments or banks or in short-term bank deposits. As of 30 November 2007, there were no investments with terms longer than 6 months. The book value of short-term investments plus accrued interest equals the actual value. Investments are made on market terms and the interest rates are in the range 0.33–0.70 percent. The difference in interest rate depends on the currency in which the amount is invested. Short-term investments with a term of 0–3 months are reported as liquid assets (refer to note 14).

14 LIQUID ASSETS

GROUP PARENT COMPANY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and bank balances</td>
<td>4,849</td>
<td>4,338</td>
<td>109</td>
<td>109</td>
</tr>
<tr>
<td>Short-term investments, 0–3 months</td>
<td>14,415</td>
<td>8,541</td>
<td>1,308</td>
<td>2,048</td>
</tr>
<tr>
<td>Total</td>
<td>19,264</td>
<td>12,879</td>
<td>2,417</td>
<td>2,256</td>
</tr>
</tbody>
</table>

15 FORWARD CONTRACTS

The table below shows the outstanding forward contracts as of the closing date:

<table>
<thead>
<tr>
<th>Currency pair</th>
<th>Book value</th>
<th>Fair value</th>
<th>Nominal amount</th>
<th>Average remaining term in months</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEK/buy</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>NOK/SEK</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>GBP/SEK</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>EUR/SEK</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>USD/SEK</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

16 SHARE CAPITAL

The share capital consists of 972,000,000 class 'A' shares (10 votes per share) and 730,336,000 class 'B' shares (1 vote per share). There are no other differences between the rights of the shares. The total number of shares is 8,272,566,000.

17 APPROPRIATION OF PROFITS IN ACCORDANCE WITH THE 2007 ANNUAL GENERAL MEETING RESOLUTION

Unappropriated earnings as per balance sheet on 30 November 2006 | 11,565 |
Dividend, SEK 1.10 per share | -9,516 |
Total dividend | | 2,049 |
Retained earnings | | 2,049 |

18 PROVISIONS FOR PENSIONS

GROUP PARENT COMPANY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized value of defined benefit obligations</td>
<td>216</td>
<td>265</td>
<td>85</td>
<td>136</td>
</tr>
<tr>
<td>Tax free of managed assets</td>
<td>82</td>
<td>136</td>
<td>54</td>
<td>60</td>
</tr>
<tr>
<td>Provisions recorded in the balance sheet for pension obligations</td>
<td>156</td>
<td>130</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>Opening balance, 1 December</td>
<td>130</td>
<td>78</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>Reported pension expense</td>
<td>39</td>
<td>78</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>Premium paid</td>
<td>-8</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Pensions paid out</td>
<td>-5</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>38</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Recorded amount of defined benefit obligations 30 November</td>
<td>156</td>
<td>130</td>
<td>130</td>
<td>130</td>
</tr>
</tbody>
</table>

The amounts recorded as pension expenses include the following items:

- Expenses for services during the current year: 24,25
- Interest expense: 9
- Expected return on managed assets: -3
- Actuarial gains and losses: 9
- Changes in foreign exchange rates for plans valued in a currency other than the reporting currency: 1

19 ACCRUED EXPENSES

GROUP PARENT COMPANY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Holiday pay liability</td>
<td>567</td>
<td>499</td>
<td>499</td>
<td>499</td>
</tr>
<tr>
<td>Payroll overheads</td>
<td>182</td>
<td>190</td>
<td>190</td>
<td>190</td>
</tr>
<tr>
<td>Accrued income</td>
<td>441</td>
<td>313</td>
<td>313</td>
<td>313</td>
</tr>
<tr>
<td>Payroll liability</td>
<td>641</td>
<td>313</td>
<td>313</td>
<td>313</td>
</tr>
<tr>
<td>Costs relating to premises</td>
<td>79</td>
<td>79</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td>Other accrued overheads</td>
<td>919</td>
<td>712</td>
<td>712</td>
<td>712</td>
</tr>
<tr>
<td>Total</td>
<td>2,047</td>
<td>2,270</td>
<td>2,270</td>
<td>2,270</td>
</tr>
</tbody>
</table>

20 RELATED PARTY DISCLOSURES

Stefan Persson Placing AB is the parent company of H & M Hennes & Mauritz AB. The H&M Group leases the following store premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50–52 in Stockholm, Drottninggatan 56 in Stockholm, Sergelgatan 11 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsberg 9 in Malmo and Amagertorv 23 in Copenhagen. In November 2007 Stefan Persson’s company Ramsbury AB acquired the property at Oxford Circus in London in which H&M lease stores premises.

Rent is paid at market rates and amounted to a total of SEK 46 m (38) for the financial year. In 2005 an agreement was entered with Rambus AB regarding future leasing of office premises in Stockholm, for occupancy at the end of 2007/2008. The rent has been reviewed by two independent evaluators and is at the market rates.

In addition to his Board fees, Board member Karl-Johan Persson received salary amounting to SEK 1.2 m for work carried out in the subsidiary H & M Hennes & Mauritz UK Ltd. For information regarding salaries and other remuneration to related parties please refer to note 6.
Formal Annual Report

SIGNING OF THE ANNUAL REPORT

Stockholm, 30 January 2008

Chairman

Sussi Kvart
Bo Lundquist
Stig Nordfält

Employee representative

Marianne Norin-Broman*
Karl-Johan Persson
Melker Schörling
Margareta Welinder*
Rolf Eriksen

Managing Director

Stefan Persson
Fred Andersson
Lottie Knutson

Authorised Public Accountant

Åsa Lundvall
Erik Åstreöm

Ernst & Young AB
Ernst & Young AB

The undersigned hereby provide an assurance that the Annual Report and consolidated accounts have been drawn up in accordance with IFRS international accounting standards, as adopted by the EU, and with good accounting practice, and that they provide a true and fair view of the Group’s and the parent company’s position and earnings, and also that the Administration Report provides a true and fair view of the development of the Group’s and the parent company’s business, position and earnings, and also describe the significant risks and uncertainties faced by the companies making up the Group.

NOTES TO THE FINANCIAL STATEMENTS

21 APPROPRIATIONS

22 PARTICIPATION IN GROUP COMPANIES

23 UNTAXED RESERVES

24 CONTINGENT LIABILITIES

25 KEY RATIO DEFINITIONS

Stockholm, 30 January 2008

Our audit report was submitted on 31 January 2008

Åsa Lundvall
Erik Åstreöm

Authorised Public Accountant
Authorised Public Accountant

Ernst & Young AB
Ernst & Young AB
To the Annual General Meeting of H & M Hennes & Mauritz AB (publ) Corporate identity number 556042-7220

We have audited the annual accounts, consolidated accounts, accounting records and the administration of the Board of Directors and the Managing Director of H & M Hennes & Mauritz AB for the financial year 1 December 2006 to 30 November 2007. The company’s annual accounts and consolidated accounts are included in this document on pages 51–71. These accounts, the administration of the company and compliance with the Annual Accounts Act in the preparation of the annual report and the application of IFRS international accounting standards, as adopted by the EU, and of the Annual Accounts Act to the consolidated accounts are the responsibility of the Board of Directors and the Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below. The annual report has been prepared in accordance with the Annual Accounts Act and gives a true and fair view of the company’s earnings and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been compiled in accordance with IFRS international accounting standards, as adopted by the EU, and the Annual Accounts Act and give a true and fair view of the Group’s earnings and financial position. The administration report is consistent with the other section of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting that the income statement and balance sheet of the parent company and the Group be adopted, that the profit for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 31 January 2008

Åsa Lundvall
Authorised Public Accountant
Ernst & Young AB

Erik Åström
Authorised Public Accountant
Ernst & Young AB

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### Financial Year Summary

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales including VAT, SEK m</th>
<th>Sales excluding VAT, SEK m</th>
<th>Change from previous year, %</th>
<th>Operating profit, SEK m</th>
<th>Operating margin, %</th>
<th>Depreciation for the year, SEK m</th>
<th>Profit after financial items, SEK m</th>
<th>Profit after tax, SEK m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>90,123</td>
<td>78,346</td>
<td>+15</td>
<td>18,382</td>
<td>23.5</td>
<td>1,814</td>
<td>19,170</td>
<td>13,588</td>
</tr>
<tr>
<td>2006</td>
<td>80,081</td>
<td>68,400</td>
<td>+12</td>
<td>15,298</td>
<td>22.4</td>
<td>1,624</td>
<td>15,808</td>
<td>10,797</td>
</tr>
<tr>
<td>2005</td>
<td>71,886</td>
<td>61,262</td>
<td>+14</td>
<td>13,173</td>
<td>21.5</td>
<td>1,452</td>
<td>13,553</td>
<td>9,197</td>
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<td>2004</td>
<td>62,986</td>
<td>53,695</td>
<td>+11</td>
<td>10,667</td>
<td>19.9</td>
<td>1,232</td>
<td>11,005</td>
<td>6,386</td>
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<tr>
<td>2003</td>
<td>56,550</td>
<td>48,238</td>
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<td>9,223</td>
<td>19.1</td>
<td>1,126</td>
<td>9,609</td>
<td>5,030</td>
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</table>


Years 2002/2003–2003/2004 have been reported according to the previously applied principles based on the Swedish Financial Accounting Standards Council’s recommendations.

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Stockholm, 31 January 2008

Åsa Lundvall
Authorised Public Accountant
Ernst & Young AB

Erik Åström
Authorised Public Accountant
Ernst & Young AB
The minutes of the AGM were posted on the website within two weeks of the meeting.

Matters dealt with at the Board meetings in 2007 included

- Matters dealt with at the Board meetings in 2007 included
FACTS ABOUT THE BOARD MEMBERS

STEFAN PERSSON
Chairman of the Board. Born 1947.
PRIMARY OCCUPATION: Working Chairman of the Board of H&M.
OTHER SIGNIFICANT BOARD ASSIGNMENTS: Member of the board of SASAB and board assignments in family-owned companies.
WORK EXPERIENCE:
1983–1986 Managing Director and Chief Executive Officer of H&M.
1988—Chairman of the Board of H&M.

FRED ANDERSSON
Board member. Born 1946.
PRIMARY OCCUPATION: CEO of Capinordic Fonder AB.
OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of Coromandel Property Group AB. Member of the boards of Coromandel AB, Vanama Invest AB, Bonnier Industrier, Harmoniindustri AB, Climate Wall.
EDUCATION: Economics, Finnish Institute of Exportists.
WORK EXPERIENCE:
1993–1996 Managing Director of IKEA of Sweden, a design company with its own production.
1994–1997 Involved in various central trade & industry organisations, including the Swedish Retailers’ Association and the Swedish Industry Federation. Involvement in the Whitbread project.
2008–2009 Consulting, with a focus on board procedures.

LOTTIE KNUTSON
Board member. Born 1964.
PRIMARY OCCUPATION: Communications Director at Fridhemssällskapet Group Nordic, with responsibility for communications as well as corporate social responsibility.
OTHER SIGNIFICANT BOARD ASSIGNMENTS: No positions other than as member of the Board of H&M.
WORK EXPERIENCE:
1995–1999 Communications Consultant, JKL.
1999 – Communications Director at Fridhemssällskapet Group for the Nordic countries.

LUVIE KNUTSON
Communications Director at Fridhemssällskapet Group Nordic, with responsibility for communications as well as corporate social responsibility.

SUSSI KVART
Board member and member of the Auditing Committee. Born 1956.
PRIMARY OCCUPATION: Consulting, with a focus on strategy, business advice, corporate governance and board procedures.
OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of Korneli AB. Member of the boards of Healthcare Provision – Stockholm County Council, Stockholm Shadolin AB, Transparency International Sweden and DGC One AB.
EDUCATION: Bachelor of Laws, Lund University 1980.
WORK EXPERIENCE:
1997–2001 Member of the Board of Directors of the Swedish Companies Association Committee.
2002–2006 Member of the board of Capinordic Fonder AB.

STIG NORDFELT
Board member and Chairman of the Auditing Committee. Born 1945.
PRIMARY OCCUPATION: Head of family-owned investment company. Board assignments.
OTHER SIGNIFICANT BOARD ASSIGNMENTS: Chairman of the boards of Stockholm University College of Physical Education and Sports (SHF), Tekniskmagasinet AB (unlisted company), Duggkärlen (rebranded Group Alliance AB (unlisted company) and member of the board of Frans Svanström AB (unlisted company). Member of the board of the Anders Wall Foundation for Free Enterprise.
EDUCATION: M.Sc. Engineering, Chalmers University of Technology in Gothenburg 1968.
WORK EXPERIENCE:
1975–1977 Director, SSAB.
1983–1984 Managing Director, Bullenhuser Damm.
1984–1990 Vice President, Tetajürg.
1994–1996 Involved in various central trade & industry organisations, including Chairman of the Federation of Swedish Commerce and Trade.

MELKER SCHÖRLING
Board member. Born 1975.
PRIMARY OCCUPATION: Head of family-owned investment company. Board assignments.
OTHER SIGNIFICANT BOARD ASSIGNMENTS: Member of the board of Capinordic Fonder AB.
WORK EXPERIENCE:
2007–2009 Business Development, H&M.
1987–1992 Managing Director and CEO, Securitas AB.

MARIANNE NORIN-BROMAN

MARGARETA WELINDER

TINA JÄDERBERG

AGNETA RAMBERG
INDEPENDENCE ACCORDING TO THE CODE
The composition of H&M’s Board meets the independence requirements set out by the OMX Nordic Exchange Stockholm AB. The composition of the Board also satisfies the Code’s rule that at least two of the Board members who are independent of the company and its major shareholders are also independent of the company’s major shareholders.

The Code states, however, that a majority of the Board members elected by the AGM must be independent of the company and the company management. H&M deviates from this rule in that four of the eight Board members elected by the AGM have sat on the Board for over twelve years and one is employed by the company. The explanation given by the Election Committee for the first deviation is that the Board made up of members who have come to know the company and its business very well over a long period of time. The second deviation, which is that an employee is also a member of the Board, has been deemed natural in this case in view of the ownership structure of H&M.

FINANCIAL REPORTING
H&M’s financial reporting is carried out in compliance with the laws, statutes, agreements, regulations and recommendations that apply to companies listed on the OMX Nordic Exchange Stockholm AB. It falls to the Board of Directors to ensure the quality of financial reporting with the help, for example, of the Auditing Committee (see page 52). More information is available in the section on internal control over financial reporting.

AUDITING COMMITTEE
H&M’s Auditing Committee is made up of three Board members. The Committee is appointed annually by the Board of Directors at the statutory Board meeting held in conjunction with the AGM. The Audit Committee is responsible for preparing the Board’s work on quality assurance of the company’s financial reporting. The Committee is also the main path of communication between the Board and the company’s auditors.

The Auditing Committee, which comprises chairman Stig Nordfelt and members Sussi Kvart and Bo Lundquist, held three meetings during the year at which minutes were kept.

A deviation from the Code is that the majority of the members of the Committee are not independent of the company and the company management, since Stig Nordfelt and Bo Lundquist have sat on the Board for over twelve years. This is justified by the fact that these members have an in-depth knowledge of the company and of business economics and their experience and skills are deemed to make a constructive contribution to the Committee’s work. During the year the Committee addressed issues concerning the company’s financial reporting and internal control, gathered information concerning the scope and focus of auditing assignments, and also gathered information on matters including the refinement and review of the Group structures, work on the Code of Ethics and ongoing HR work. It also discussed the annual report and interim reports. Authorised Public Accountants Åsa Lundvall and Erik Åström have attended the Committee’s meetings and reported on their auditing work. The meetings were also attended by Leif Persson, CFO and Anders Jonasson, Chief Accountant, among others. The Committee’s comments are always minuted. The minutes are then distributed to the Board.

INFORMATION ON AUDITORS
The Annual General Meeting appoints auditors every four years. The 2005 AGM appointed the authorised public accountants Åsa Lundvall and Erik Åström of Ernst & Young AB as auditors. The 2007 AGM resolved that, as previously, the auditors’ fees should be paid based on the invoices submitted. The Annual General Meeting appoints auditors every four years. The 2005 AGM appointed the authorised public accountants Åsa Lundvall and Erik Åström, who are paid 4.0 million Swedish kronor for their auditing work. The meetings were also attended by Leif Persson, CFO and Anders Jonasson, Chief Accountant, among others. The Committee’s comments are always minuted. The minutes are then distributed to the Board.

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H&M’s internal control structure is based on:
- The division of work between the Board of Directors, the Auditing Committee and the Managing Director, which is clearly described in the Board’s formal work plan. The executive management team and the Auditing Committee report regularly to the Board on established routines.
- The company’s organisation and way of carrying on business, in which roles and the division of responsibility are clearly defined.
- Policies, guidelines and manuals; of these, the Code of Ethics, the communications policy and the store instructions are examples of important overall policies.
- Awareness among colleagues of the maintenance of good control over financial reporting.
- Reporting.

H&M has a matrix organisation (see page 79), which means that those on the executive management team with responsibility for a function are responsible for the results of work within their function in each country (the vertical arrows). The country managers are responsible for profitability in their country and thereby have overall responsibility for all the functions within their business (the horizontal arrows). The country organisation is in turn divided into regions, with a number of stores in each region. All the companies within the H&M Group have the same structure and accounting system with the same chart of accounts. This simplifies the creation of appropriate routines and control systems, which favours internal control and facilitates comparisons between different companies.

There are detailed instructions for the store staff that control daily work in the stores. Many other guidelines and manuals are also available within the Group. In most cases these are drawn up in the central departments at the head office in Stockholm and then communicated to the respective department in the country offices. In 2007 each central department reviewed its guidelines and manuals to see which needed updating and what new guidelines needed to be developed.

H&M and a communications policy providing guidelines for communication with external parties. The purpose of the policy is to ensure that all information obligations are met and that the information provided is accurate and complete.

**MONITORING**

As part of the company’s 2007 internal control work, each central department assessed internal control within its respective functions in the sales countries using the COSO model. Where necessary, this work resulted in action plans for the countries setting out further work on areas in which internal control can be strengthened further. As part of this assessment, the central departments were also provided with feedback concerning areas that could be improved centrally in the future.

Within the stores, controls are performed annually by internal shop controllers with the aim of finding out the strengths and weaknesses of the store assessed and how any deficiencies can be corrected. Within each central department risks within each function were also reviewed and documented during the year as part of the assessment of internal control in the sales countries.

Follow-up and feedback in respect of any problems found during the annual assessment of internal control form a central part of internal control work, since this is an effective way for the company to ensure that deficiencies are corrected and that control is strengthened further. The Board of Directors and the Auditing Committee continuously evaluate the information provided by the executive management team, including in respect of internal control. The Auditing Committee’s task of monitoring the efficiency of internal control by the executive management team is of particular interest to the Board. This work includes checking that steps are taken with respect to any problems detected and suggestions made during the assessment by the central departments as well as by external auditors.

**INTERNAL AUDIT**

H&M has not found it necessary up to now to establish a specific internal audit function. The work on internal control during the year has further increased awareness of internal control within the Group. In the company’s opinion, the assessment of internal control carried out in the sales countries during the year by all the central departments – such as Expansion, Communications, Security, Logistics and Production – as well as the work carried out by internal shop controllers largely corresponds to the work performed in other companies by an internal audit function. The issue of a specific internal audit function will be reviewed again in 2008.

Stockholm, February 2008

The Board of Directors

More information on H&M’s corporate governance work can be found in the section on Corporate Governance under Investor Relations at www.hm.com.
ANNUAL GENERAL MEETING
The Annual General Meeting will be held at Victoriahallen, Stockholm International Fairs in Stockholm on Thursday 8 May 2008, at 3 p.m. Shareholders who are registered in the share register print-out as of Friday 2 May 2008 and give notice of their intention to participate in the AGM no later than 12 noon, Friday 2 May 2008 (same date as above) are entitled to participate in the AGM.

Nominee shares
Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own names in order to be entitled to participate in the AGM. In order to re-register shares in time, shareholders should request temporary owner registration, which is referred to as voting right registration, in good time before 2 May 2008.

Notice
Notice of intention to participate in the Annual General Meeting must be submitted by mail, fax or telephone to:

H & M Hennes & Mauritz AB
Head Office/Carola
SE-106 38 Stockholm
Telephone: +46 (0)8-796 55 00
Fax: +46 (0)8-796 55 44
www.hm.com/arsstamma

Shareholders must state in the notice their name, civil identity number and telephone number (daytime).

Dividend
The Board of Directors and the Managing Director have decided to propose to the Annual General Meeting a dividend for 2007 of SEK 14.00 per share.

The Board of Directors has proposed Tuesday 13 May 2008 as record day. With this record day, VPC (the Nordic Central Securities Depository) is expected to pay the dividend on 16 May 2008. To have the right to receive a dividend H&M shares must be bought on 8 May 2008 at the latest.

FINANCIAL INFORMATION
H & M Hennes & Mauritz AB will provide the following information:

27 March 2008 Three Month Report
8 May 2008 Annual General Meeting 2008 at 3 p.m. at Victoriahallen, Stockholm International Fairs, Stockholm
19 June 2008 Half Year Report
30 September 2008 Nine Month Report
29 January 2009 Full Year Report
26 March 2009 Three Month Report
4 May 2009 Annual General Meeting 2009

As previously, we plan to publish monthly sales figures on the 15th of the following month. If the 15th falls on a weekend, the sales figures will be published on the following weekday. However, the sales figures for February, May, August and December are planned to be published in each following interim report.

This information will be available at www.hm.com.

CONTACT DETAILS
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H & M Hennes & Mauritz AB
Mäster Samuelsgatan 46A
SE-106 38 Stockholm
Tel.: +46 (0)8-796 55 00
www.hm.com

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Buying Madeleine Parsson
Design Ann-Sofié Johansson
Production Karl Gunnar Fagerlin
Corporate Social Responsibility Ingrid Schultström
Expansion Karl-Johan Persson
Marketing Jörgen Andersson
Communications Kristina Stenvinkel
Investor Relations Nils Vinge
Human Resources Pär Darj
IT Kjell-Olof Nilsson
Logistics Danny Fältmann
Security Angelika Gasse
Sweater
€ 9,90