

H&M

PART I. H&M IN WORDS AND PICTURES 2008



DRESS € 19.90

小売のロックスター、
原宿に進出。

（『タイム誌』）



IN AND DESIGN EX

PART I

H&M IN WORDS AND PICTURES 2008

Pages 6–7

CEO INTERVIEW Rolf Eriksen, CEO of H&M, looks back on an exciting year.

Pages 8–9

H&M 2008 IN BRIEF New concepts, stores, projects and collections – this happened in the past year.

Pages 10–13

BUSINESS CONCEPT, GOALS AND

STRATEGY H&M's business concept is simple: providing fashion and quality at the best price.

Pages 14–15

H&M 2008 IN FIGURES Financial information, key ratios and company history.

Pages 16–19

OUR COLLECTIONS During the year, technical materials and organic cotton made dramatic progress.

Pages 20–21

MARKETS H&M stores opened in five new markets. H&M now has a presence in 33 countries.

Pages 22–23

H&M IN THE US Country Manager Sanna Lindberg on our continuing expansion in the US.

Pages 24–29

STORES AND OPENINGS In autumn 2008, H&M finally came to Japan.

Pages 30–33

DESIGN In the design department, trends turn into fashions, available to all. New Head of Design Ann-Sofie Johansson explains how.

Pages 34–36

OUR PEOPLE Committed employees are one of the keys to H&M's success.

Pages 37–41

OUR RESPONSIBILITY Ingrid Schullström, Tobias Fischer and Tomas Persson discuss CSR, the environment and quality.

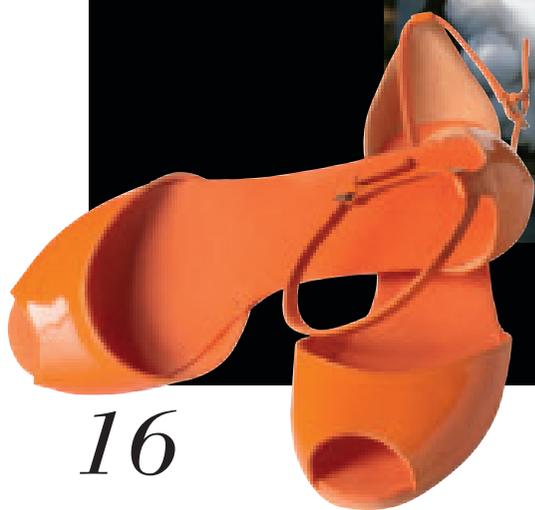
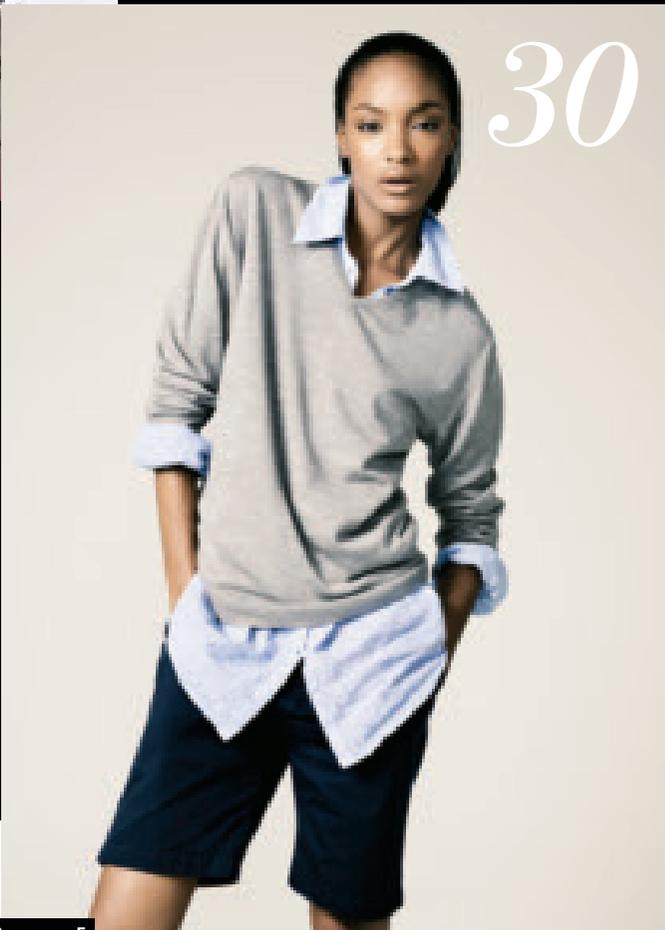
Page 42

CONTACT DETAILS

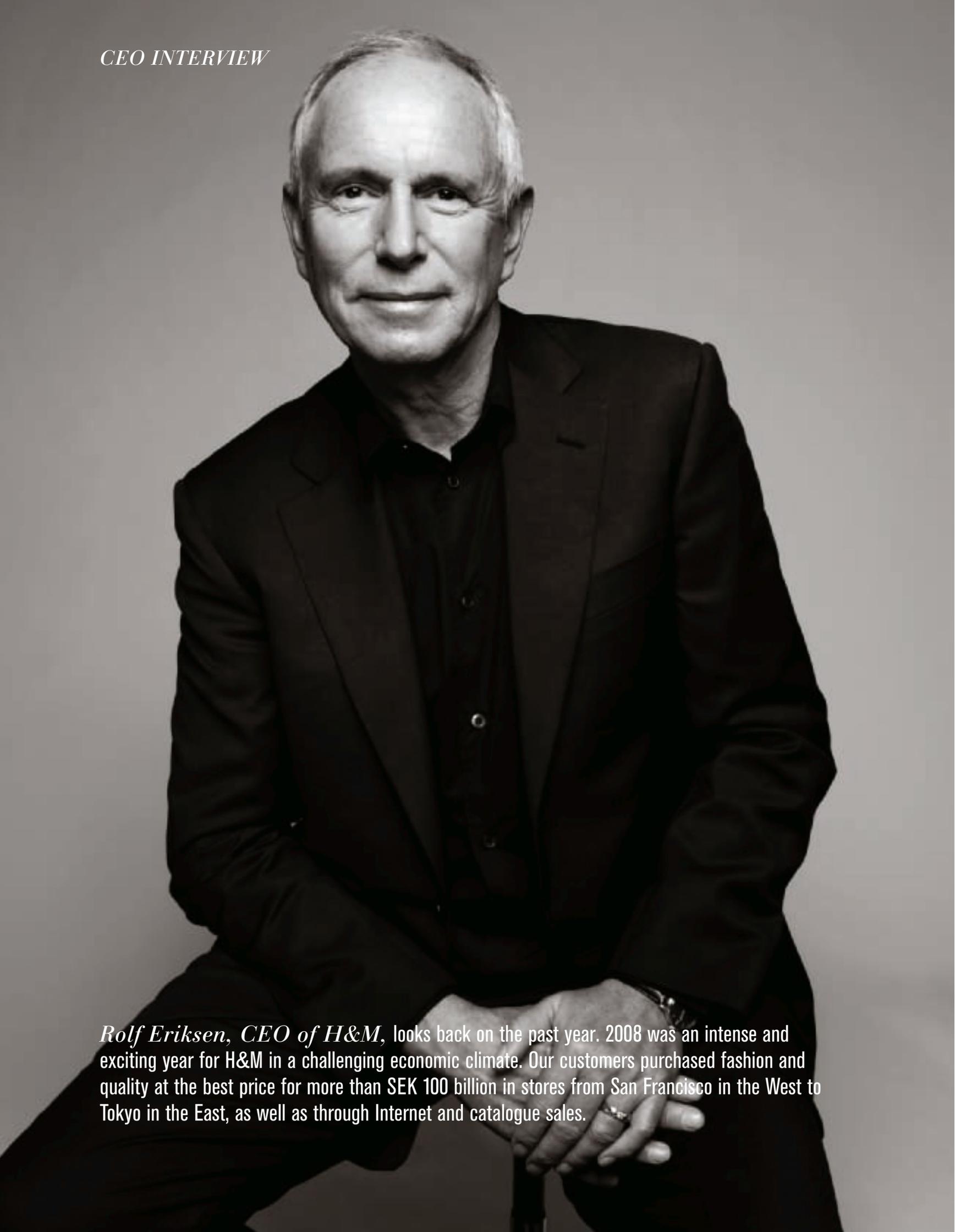
PART II

H&M IN FIGURES 2008 including the Annual Accounts and Consolidated Accounts

The H&M Annual Report for 2008 consists of two parts: Part I H&M in words and pictures 2008 and Part II H&M in figures 2008 including the Annual Accounts and Consolidated Accounts.



CEO INTERVIEW



Rolf Eriksen, CEO of H&M, looks back on the past year. 2008 was an intense and exciting year for H&M in a challenging economic climate. Our customers purchased fashion and quality at the best price for more than SEK 100 billion in stores from San Francisco in the West to Tokyo in the East, as well as through Internet and catalogue sales.

Today H&M is a company with over 1,700 stores in 33 countries. Our business concept – fashion and quality at the best price – works globally and there are still many new markets for H&M to enter into in the future. Despite the economic downturn, 2008 was still a strong year for H&M.

“Taking into account the current economic climate, we are happy with a result that shows satisfactory sales and strong profitability. Our sales passed the milestone of SEK 100 billion including VAT, our gross margin was 61.5 percent and our profit after financial items increased by 11 percent to SEK 21.2 billion.”

Internet and catalogue sales developed very well during the year; in Germany and Austria catalogue sales were added to Internet sales – a move that was well received.

How is the recession affecting H&M?

“Historically, H&M has not been greatly impacted by economic downturns, but of course the recession is affecting us. In the fourth quarter of the year most of our markets were affected by consumption being more restrained, although we continued to increase our market shares in increasingly competitive markets”, says Rolf Eriksen, and continues:

“H&M stands strong and we are focusing on the future. The economic situation is creating great opportunities that we are going to take, for example in terms of access to new attractive commercial locations and being in a strong position to negotiate. This year we plan to open a net amount of 225 new stores and recruit 6,000 to 7,000 new employees.”

Describe H&M's development during recent years.

“H&M has expanded in recent years in Europe, the US, Asia and the Middle East, extended Internet and catalogue sales to more countries, developed new concepts and positioned itself as an international fashion brand with more than 100 designers and much appreciated guest designer collections. In 2008, H&M acquired the Swedish fashion company FaBric Scandinavien which includes the store chains Weekday and Monki as well as the Cheap Monday brand. The year before, H&M opened COS, Collection of Style, and in 2009 H&M Home will offer fashion for the home via Internet and catalogue sales.”

In 2008, a net total of 196 stores were opened. An additional 20 stores were added through the acquisition of FaBric Scandinavien. The expansion goal for H&M is to grow by 10–15 percent in new stores annually – a strategy that involves constant expansion into new markets. The major establishments of the year were the expansion into Japan as well as adding the franchise markets of Egypt, Saudi Arabia, Bahrain and Oman.

What was the most important establishment in 2008?

“For many years we have had a vision of opening stores in Japan. There is a great interest in fashion in Japan and I, personally, have always found the Japanese style exciting. It turned out to be our greatest launch success ever with sales that exceeded our high expectations.”

“The Group's store expansion in 2008 has also involved raising the standard of our stores and developing new concepts for store interiors. The stores in Tokyo and the new flagship stores in London and Barcelona are inspirational design experiences for our customers. The COS chain, which offers fashion in a higher price segment, is also an exciting venture for the H&M Group.”

Where will you expand next?

“In 2009, the Group is planning to open 225 stores net; most will be in the US, France, Italy, Spain, the UK and Germany. Preparations are under way right now to open the first stores in Beijing and Moscow in 2009. Russia is a huge market with

enormous potential, and in 2010 the first H&M store will open in St. Petersburg. Meanwhile, our franchise partnerships in the Middle East are being increased with stores planned in Lebanon in 2009 and Israel in 2010.”

H&M is always trying to surprise its customers. Over the past few years there have been several designer collaborations, starting in 2004 with Karl Lagerfeld, Comme des Garçons this past autumn and this spring it is Matthew Williamson's turn.

What have designer collaborations meant for H&M?

“They have been very successful, both because our customers have appreciated them and because fashion designers have been able to reach out to a broader audience – a win-win situation. For us, they show the strength of our business concept – that fashion and design are not a matter of price. We make fashion available to everyone and we give the customer a fashion experience that strengthens the H&M brand.”

What distinguishes a successful collection?

“The most important thing is that the customers appreciate it, but naturally from a financial standpoint, it's important for the collection to sell out.”

What is the key to H&M's success?

“Basically it's our business concept: fashion and quality at the best price. But it's our employees that make it possible. Our committed employees are essential to H&M's ability to grow and continue to be highly profitable. At H&M we share the same goals at the same time as we minimise bureaucracy and focus on the individual. We delegate a lot of responsibility to local markets, stores and individual people – and we encourage people to take their own initiatives at all levels.”

What is H&M's new CSR strategy?

“In 2008, we developed a new sustainability strategy under which sustainability will be considered in all departments within the company and responsibility for it shared by all H&M employees.”

“For H&M, it is self-evident to take responsibility for social issues and the environment. Sustainability is one of H&M's cornerstones and part of what we stand for. This is true both for our own stores and for our suppliers's factories. One fundamental principle is that H&M's products must be manufactured under good working conditions. That's why H&M sets high standards for working conditions and actively applies a Code of Conduct for long-term improvement for those who manufacture our products.”

What does H&M mean to you?

“H&M for me is a business based on teamwork, humility and respect for people. At the same time we are cost-conscious and have a competitive instinct that makes us aim for constant improvements.”

“We have experienced fantastic growth, but we are always heading towards the next challenge.”

What are the greatest challenges H&M will face in the future?

“When we expand into new markets it's important that we do not lose sight of our core values. We also need to manage all of the components that H&M consists of in an effective way and ensure that our core values are upheld in all parts of our organisation regardless of country or cultural differences. 2009 will be an exciting and intense year with new stores, new markets and new products for our customers, and above all, new opportunities,” concludes Rolf Eriksen.

After 23 years at H&M, Rolf Eriksen will retire in 2009 as previously announced.

In February 2009, the Board of Directors decided to appoint Karl-Johan Persson as the new CEO of H&M. Karl-Johan Persson will work alongside Rolf Eriksen until 1 July 2009 when Karl-Johan will take over ■

NAME **ROLF ERIKSEN** POSITION CEO BORN 1944 FAVOURITE CLOTHING ITEM SUITS

H&M 2008 IN BRIEF



Two worlds meet – H&M in Japan

In September, H&M finally established a presence in the fashion nation of Japan. A collaboration between H&M and one of Japan's most respected fashion houses, Comme des Garçons, made headlines in 2008.

“Comme des Garçons’ designer Rei Kawakubo’s intellectual, avant-garde collection for H&M was a huge hit among the fashion-conscious customers of Japan. This is a very exciting collection,” says H&M’s creative advisor Margareta van den Bosch.

The media was equally excited about the newly opened stores in Ginza and Harajuku, Tokyo’s two major fashion districts. H&M’s Comme des Garçons collection was launched on 8 November in the Tokyo stores, where the first customers began waiting in line three days before the launch. Rei Kawakubo, who created complete men’s and women’s collections as well as accessories and a unisex scent, was satisfied:

“The initial reaction from the customers was beyond our expectations. The artistic side of Comme des Garçons together with the more commercial H&M seems to work very well” ■

Green H&M

H&M’s long-term commitment to organic cotton continues. So does the development of new “green” materials such as recycled cotton, wool and polyester. In 2009, the goal is to increase use of organic cotton by 50 percent compared with the target figures for 2008.

“Our organic cotton collection is also high fashion, as customers are becoming increasingly aware of both fashion and the environment,” says H&M creative advisor Margareta van den Bosch. “We are proud to offer clothes made from organic cotton in almost every H&M department.”

H&M has, since spring 2008, also been using recycled materials, including polyester produced from recycled PET plastic bottles, textile scraps, and wool from worn-out clothing. Also new since last spring is cotton made from fabric scraps that is then reused in production. These items can be found in the various departments of H&M’s stores and are marked with special hangtags ■



New look for Shop Online

H&M sells its products online in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria. During the past year, H&M Shop Online has had a makeover. The internet shop receives millions of unique visitors per week, the same visit rate as hm.com, which is available in nine languages.

The H&M Video Podcast was relaunched as H&M Fashion TV, a fashion programme broadcast twice a month. H&M also has MySpace and Facebook pages ■



Fashion Against AIDS

In 2008, H&M joined forces with Designers Against AIDS (DAA) to launch a collection for boys and girls together with Rihanna, Timbaland and a variety of other well-known artists and designers.

“I think it’s fantastic that H&M is giving young people around the world a simple, fashionable way of engaging with this important issue,” says Rihanna. The collection was available in all H&M Divided departments starting in February 2008 ■

Homage to Marimekko

Jackie Kennedy put Marimekko on the fashion map when she wore their colourful dresses in the 1960s. In spring 2008, H&M brought Marimekko back with an explosive collection that paid homage to the Finnish textile company. The collection, featuring Marimekko patterns from the 50s, 60s and 70s, was sold in all H&M stores ■



Support for Uzbekistan

Back in 2004 H&M entered into a three-year partnership with UNICEF, the United Nations Children's Fund. In 2007, we renewed our commitment, and since July 2008 we have been supporting UNICEF's efforts to improve the situation of children in Uzbekistan. In this way, H&M seeks to help prevent child labour in the Uzbeki cotton industry.

The objectives of the project are to improve understanding of children's rights and the Convention on the Rights of the Child, and to provide the children of Uzbekistan with greater protection against exploitation. In the initial phase which runs until summer 2009, H&M is contributing USD 150,000.

In 2007, UNICEF launched a study, commissioned by H&M, looking into the social consequences of cotton cultivation. Work on the study is ongoing and will form the basis for future action ■

Acquisition of FaBric Scandinavien

In March 2008 H&M signed a contract cementing its acquisition of the Swedish fashion firm FaBric Scandinavien AB, which operates the retail chains Weekday and Monki, as well as its Cheap Monday label. H&M bought 60 percent of the shares in FaBric Scandinavien.

"We have long been impressed by the development of FaBric Scandinavien, and see a potential to develop the stores and the concept in other markets," says H&M CEO Rolf Eriksen.

"This partnership will enable us to further stimulate their growth, and to do so more efficiently by drawing on H&M's experience and expertise in areas such as production, logistics and expansion."

The company will be run as an independent subsidiary within the H&M Group ■

H&M Home

In 2009 H&M will launch a range of textiles for interior decorating that makes it easy to update your home. The vision is to combine fashion with interior decorating, and the collection includes everything from bedclothes and pillows to towels. The goal is the same as for the rest of H&M's range: to enable everybody to find something that fits their lifestyle at a good price.

"This is a natural progression for a company that has traditionally been good at producing fashion and textiles," says Evelina Kravaev Söderberg, who is in charge of design for H&M's new line.

"Interior design is very "now", you might say; people care more and more about how their homes look."

H&M is hoping to revitalise the interior decorating industry.

"Because of our experience in the clothing industry, we can update our range quickly without compromising quality," says Maria Lindblom, in charge of H&M Home.

"We are putting a lot of effort into the feeling, function and details of the line," she says. Take the denim pillows, for example. They close with a genuine jeans zipper and are produced at a jeans plant.

Initially H&M Home will be sold through hm.com and by mail order in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria ■

Trends for men

H&M developed H&M Man Trend, a new concept in men's clothing that has been available in 30 stores around the world since mid-September.

"This is an exciting concept with a higher fashion content," says H&M head of design Ann-Sofie Johansson of the collection, which includes items such as overalls and fake fur jackets with designs that push the limits. The range will be updated regularly to keep up with seasonal trends ■



H&M 2008 IN BRIEF



H&M in the Middle East

In September 2008, the first three H&M stores in Saudi Arabia opened, including stores at the Mall of Arabia in Jeddah and the Mall of Dhahran in Dhahran. One of the purposes of opening the stores was to support working women in the country. One store specialises in underwear; only women work there and only women may shop there. For cultural reasons, men are excluded from either working or shopping there.

H&M has franchise stores in the Middle East since the establishments in Dubai and Kuwait in 2006. The first store in Doha, the capital of Qatar opened in March 2007. In June 2008, a 3,500 sqm store were opened in the exclusive Stars Centre in Cairo, the first Egyptian branch. A store featuring the women's and children's ranges opened in Bahrain in autumn 2008 ■



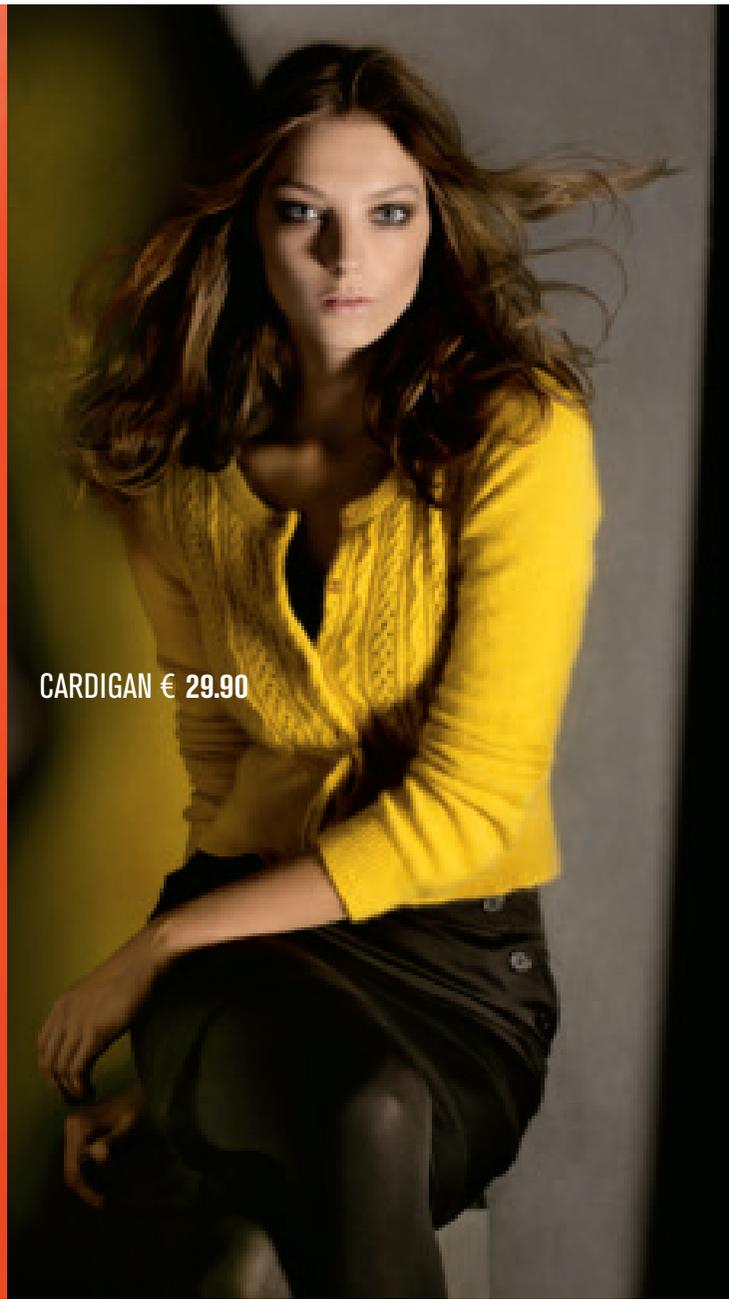
BUSINESS CONCEPT

FASHION AND QUALITY AT THE BEST PRICE

H&M's business concept is simple: *to offer fashion and quality at the best price.*
H&M provides an extensive range for *women, men, youth and children.*

A photograph of two women in a window display. The woman on the left is wearing a taupe, sleeveless, wrap-style dress with a cowl neck and a small slit at the hem. She is wearing dark high-heeled sandals and has her hand raised. The woman on the right is wearing a white, short-sleeved, wrap-style top with a cowl neck and a white skirt with gold buttons. She is wearing white high-heeled sandals and has her hand raised. They are both smiling and looking towards the camera. The background is a bright white window display.

DRESS € 19.90

A photograph of a woman with long, wavy brown hair, wearing a bright yellow, textured cardigan over a dark top and a dark skirt. She is sitting and looking directly at the camera. The background is a dark, moody setting with some green and yellow lighting.

CARDIGAN € 29.90

QUALITY

BLAZER € 49.90



BUSINESS CONCEPT



SHIRT € 14.90



PONCHO € 49.90



COAT € 34.90



DRESS € 29.90

BUSINESS CONCEPT, GOALS & STRATEGY

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, while increasing sales in existing stores. The growth, which will be financed entirely with the company's own funds, will proceed with an emphasis on quality and continued high profitability.

Strategy

H&M is driven by strong values such as salesmanship, simplicity, constant improvements, cost-consciousness and entrepreneurship. H&M's own designers interpret fashion trends and create fashions that are accessible to all. The stores are revitalised daily with new items.

Quality is a central issue, from the idea stage all the way to the end customer. The quality work includes extensive testing, as well as ensuring that the goods are produced with the least possible environmental impact and under good working conditions.

H&M does not own any production factories. Production of goods is outsourced to independent suppliers, primarily in Asia and Europe, through H&M's local production offices. Nor does H&M own any of its stores. Instead H&M rents store space from international and local landlords.

"H&M HAS YEARS OF EXPERIENCE AND A DEEP KNOWLEDGE OF DESIGN, FASHION AND TEXTILES. OUR FLEXIBILITY AND RESPONSIVENESS ENABLE US TO ADAPT TO CONSTANTLY CHANGING CONDITIONS. THROUGH A COMBINATION OF FASHION, PRICE AND QUALITY, WE DELIVER UNBEATABLE VALUE TO OUR CUSTOMERS."

ROLF ERIKSEN, CEO

H&M 2008 *IN FIGURES*

At the end of the financial year the H&M Group had 1,738 stores, including 18 franchise stores, 13 COS stores, 17 Monki stores and 8 Weekday stores.

H&M offers fashion in stores and through Internet and catalogue sales. H&M has stores in 33 countries. Internet and catalogue sales are offered in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria.

In 2008 H&M opened 214 stores and closed 18. H&M also acquired 20 Monki and Weekday stores. This makes a total net addition of 216 stores.

New markets in 2008: Japan, Egypt, Oman, Bahrain and Saudi Arabia.

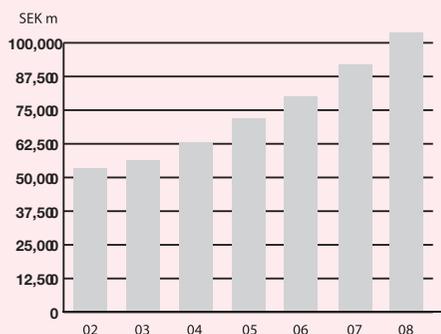
H&M buys goods from some 700 independent suppliers through around 20 production offices, mainly in Asia and Europe.

Since 2002 sales including VAT have increased by 95 percent and profit after tax by 169 percent.

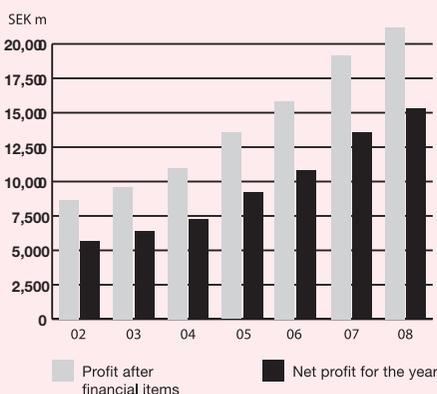
SALES INCLUDING VAT BY COUNTRY 2008, SEK m



SALES DEVELOPMENT INCLUDING VAT



PROFIT AFTER FINANCIAL ITEMS / NET PROFIT FOR THE YEAR



EARNINGS PER SHARE / DIVIDEND PER SHARE



1947 The first store opens in Västerås and sells women's clothing. The store is called Hennes.

1952 Hennes opens in Stockholm.

1964 The first store outside Sweden is established in Norway.

1968 Founder Erling Persson buys the hunting and fishing equipment store, Mauritz Widforss. Its inventory includes men's clothing. Sales of men's and children's clothing begin and the name is changed to Hennes & Mauritz.

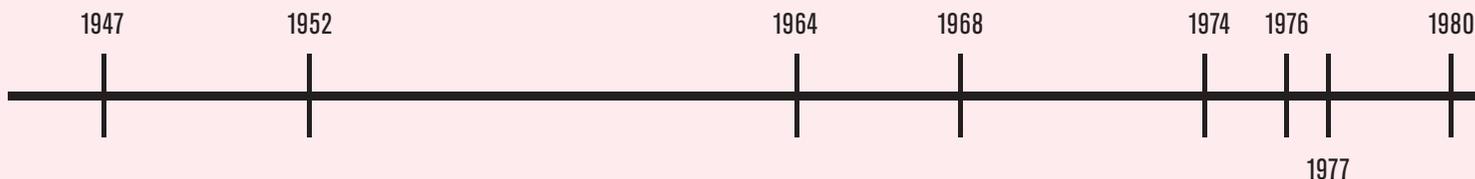
1974 H&M is listed on the Stockholm Stock Exchange.

1976 The first store outside the Nordic region is established in London, UK.

1977 Impuls stores are launched. Sales of cosmetics begin.

1980s

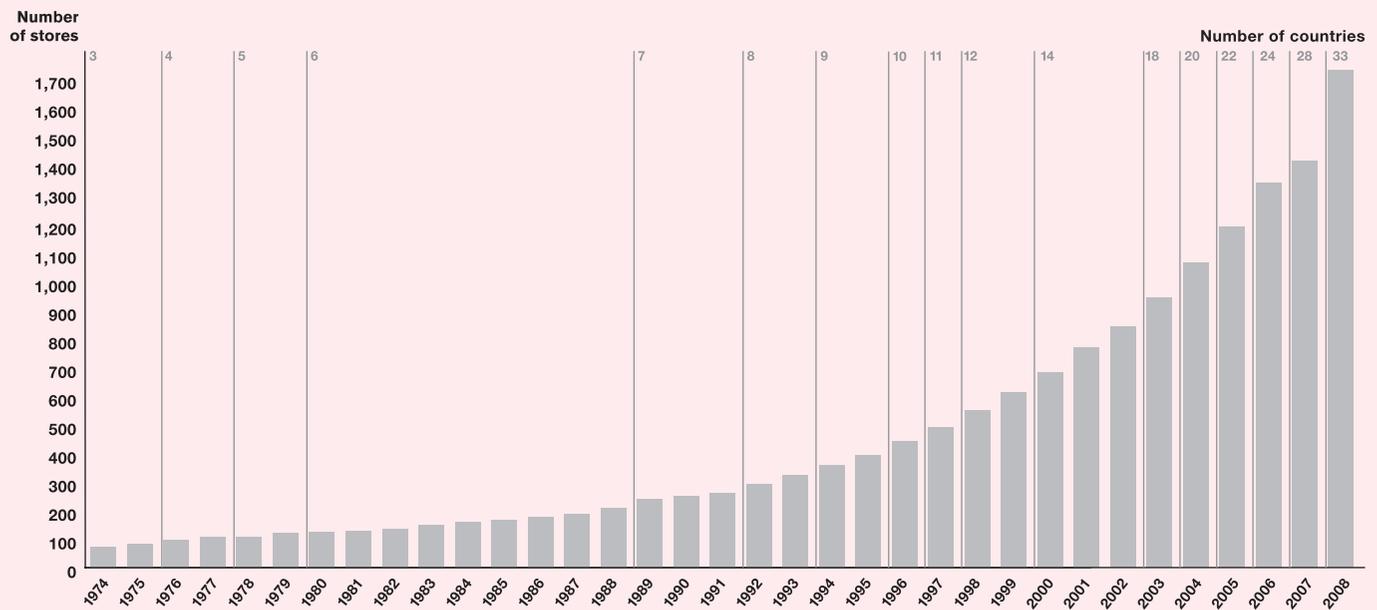
Expansion: Germany and the Netherlands. H&M acquires mail order company Rowells. H&M's design department is further developed.



KEY RATIOS

	2008	2007
Sales including VAT, SEK m	104,041	92,123
Sales excluding VAT, SEK m	88,532	78,346
Change, %	+13	+15
Operating margin, %	22.7	23.5
Profit after financial items, SEK m	21,190	19,170
Profit for the year, SEK m	15,294	13,588
Earnings per share, SEK (before and after dilution)	18.48	16.42
Change, %	+13	+26
Return on equity, %	44.3	45.4
Return on capital employed, %	61.1	63.7
Share of risk-bearing capital, %	75.7	78.5
Equity/assets ratio, %	72.1	76.9
Total number of stores	1,738	1,522
Average number of employees	53,430	47,029

EXPANSION 1974-2008



1990s

The expansion in Europe continues. Newspaper advertisements are supplemented by outdoor advertising featuring famous models. In 1999 Internet sales are launched in a few markets.

2000s

In 2000 the first store in the US is opened on Fifth Avenue in New York. The same year stores are opened in Spain. In the years that follow, many new European markets are added. In 2004 design collaboration begins with Karl Lagerfeld,

followed by Stella McCartney, Viktor & Rolf, Madonna, Roberto Cavalli and Comme des Garçons.

2006 Major expansion of Internet and catalogue sales begins.

2007 The first stores are opened in Asia: Hong Kong and Shanghai. The same year the new store concept COS, Collection of Style, is launched.

2008 H&M opens stores in Tokyo, Japan. Fashion company FaBric Scandinavien is acquired.

2009 The first stores open in Russia. H&M Home is launched. Plans are made for the first franchise store in Lebanon.

1990

2000

2006 2008

2007 2009

H&M ♥ FASHION

From basics to the very latest trends—*fashion is the heart of H&M*. In the past year, there have been revolutionary developments in technical materials and organic cotton. *Fashion communicator Catarina Midby* is a member of the group that interprets the trends.

When Catarina Midby runs through all the new H&M collections in 2008, the list seems never-ending: a design collaboration with Comme des Garçons, a brand new men's trend line, summer dresses made of Marimekko fabrics,

Fashion Against AIDS, Organic Cotton. But she's firmly focused on the future. Catarina Midby is fashion communicator at H&M and belongs to the group that develops H&M's trends. "Fashion is about expressing a particular moment in time, so you have to stay open to new impressions", says Catarina.

"We go to trend seminars, draw inspiration from various cultures both at home and abroad, study fashion history and fashion magazines, go to exhibitions, watch movies and television series, and much more", she says.

At any given time, H&M is working on several trend directions at once. According to Catarina Midby, one trend is always tailored, one sporty, one ethnic, one romantic, one futuristic. Each trend can be found in every department—women, men, young and children.

In 2008, we continued to see retro influences in the collections, primarily from the 80s and 90s. There is still an emphasis on tailored pieces, but they have been updated with new materials. A decisive change during the year was the wider silhouette.

"Uniformly slim silhouettes are on their way out of the fashion picture", says Catarina. "Patterns and prints have played an important role this year: classic checks and stripes, romantic flowers, and art-influenced abstract and figurative patterns. We've seen global influences in folkloric pieces and handcrafted details."

"The palette has shifted from dark neutrals to light neutrals. In particular, we're seeing more colour."

Catarina Midby relates that important sources of inspiration in 2008 were the revolutionary development of new materials, especially technically advanced textiles, and the growing environmental awareness. In the trend line of the women's collection, H&M worked with organic cotton, organic wool, recycled cotton and recycled polyester.

"It feels great—and so right—that we have a particular focus on sustainability. Pieces made of organic cotton are now standard in all collections. In the children's collection, half of all cotton jersey items are made of organic cotton.

"The important thing to understand is that this isn't just a trend, it's long-term. Organic cotton is part of a green approach for us."

H&M has established a five-year set of goals for increasing the percentage of ▶



NAME **CATARINA MIDBY** POSITION FASHION COMMUNICATOR

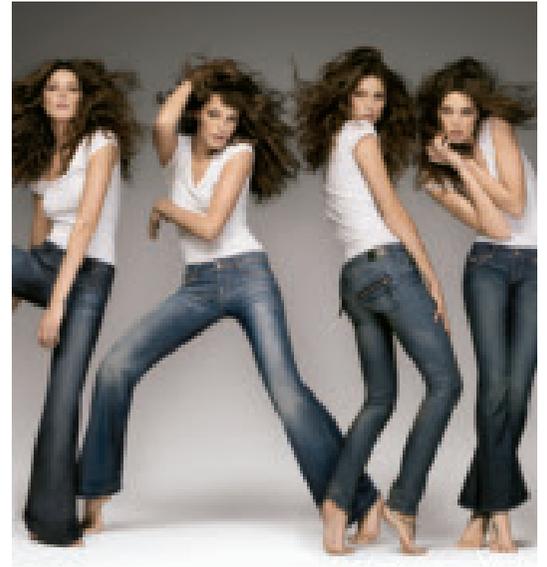
BORN 1962 FAVOURITE CLOTHING ITEM A CLASSIC GREY MELANGE CASHMERE CARDIGAN

OUR COLLECTIONS



Children

The children's range is divided into various concepts for babies (0–18 months), children (1.5–8 years), and H&M Young (9–14 years). The collections are intended to be as fashionable as they are practical, durable, safe and comfortable.



&denim

The jeans concept &denim includes everything from traditional five-pocket jeans to trendy fashion jeans. Since 2007, a selection of &denim models in organic cotton has been available.



Divided

H&M's Divided department offers fashion with a younger look. The range includes denim and street fashions for all occasions, from everyday looks to partywear, complemented by matching accessories and underwear.



Women

The women's collections are intended for fashion-minded women of all ages. The extensive range includes everything from modern basics to tailored classics, sportswear, maternity clothes and cutting-edge fashion. The collections are complemented by matching accessories, underwear and shoes.



Cosmetics

H&M's cosmetics department provides a wide range of makeup, skin care and body care products. The range is constantly updated with new colours, scents and products that reflect contemporary fashions. H&M does not permit animal testing of its cosmetic products either during the production process or in finished form. All suppliers must guarantee that their contents, packaging and labelling meet EU quality and safety requirements.

Men

The men's collections include everything from timeless tailored pieces to modern basics, leisurewear and seasonal fashions that reflect the latest trends. Matching accessories, underwear and shoes are also included in the men's collection.



OUR COLLECTIONS



H&M Comme des Garçons

"Comme des Garçons has always been on our wish list of partners. We were very happy when Rei Kawakubo agreed to work with us, and we are extremely proud of the results."

► organic cotton used in the collections.

The goal is to boost use of organic cotton by 50 percent compared to last year's target.

"Our sustainability-based approach applies to the design process as well, from the materials we choose to the durability of the garment types. Ideally, they should be timeless and fashionable at the same time. The goal is to increase the useful life of the garments."

How are the various trends received in different countries?

"Obviously there are differences in climate and culture, but fashion is global today and we are working with the same trends in all 33 markets."

How is H&M doing in the trend race?

"Our goal is to be at the forefront. H&M should have something for everybody, from

modern basics to cutting-edge fashions."

The truly trendy items are initially produced in small runs. This enables ideas to be tested. If a trend catches on, more can be produced later. Catarina Midby emphasises the importance of H&M's willingness to take chances and run ahead.

"There has to be an edge to a collection, otherwise it's boring", says Catarina Midby. "It's essential to keep trying new products." Catarina almost always dresses in clothing from H&M.

What are your H&M favourites?

"I think there are many fine items in our women's department, my chinos are one of my H&M favourites. They come from the tailored Modern Classics collection, have a slightly higher waist and fit perfectly. I'm very fond of the men's shirts, too" ■

VOICES ON H&M

"I like H&M for its basics, which I find inventive and durable. They are playful in a Scandinavian way, and easy to match with what's already in my wardrobe. The fact is, I like it when you don't instantly recognise a piece, because I'm convinced that style is a personal construction, and labels should never take too prominent a place. My favourite H&M line is therefore Divided."

Angelo Flaccavento, Vogue Italia

"The Comme des Garçons collection was a real hit—loads of students and fashion fans picked up polka dot cardigans, deconstructed jackets and harem trousers. When I came back to the office for a meeting, no fewer than three of the staff were wearing jackets from the collection. They looked like members of a brand new urban tribe."

Harriet Quick, British Vogue ■



H&M in collaboration with Marimekko

"This was a suggestion from our designers in the women's department. They have always loved these cheerful, colourful patterns, which most people associate with the 1960s and 1970s. Marimekko said yes, and we gained access to their huge pattern archive. The collection was a fabulous injection of colour."



Fashion Against AIDS

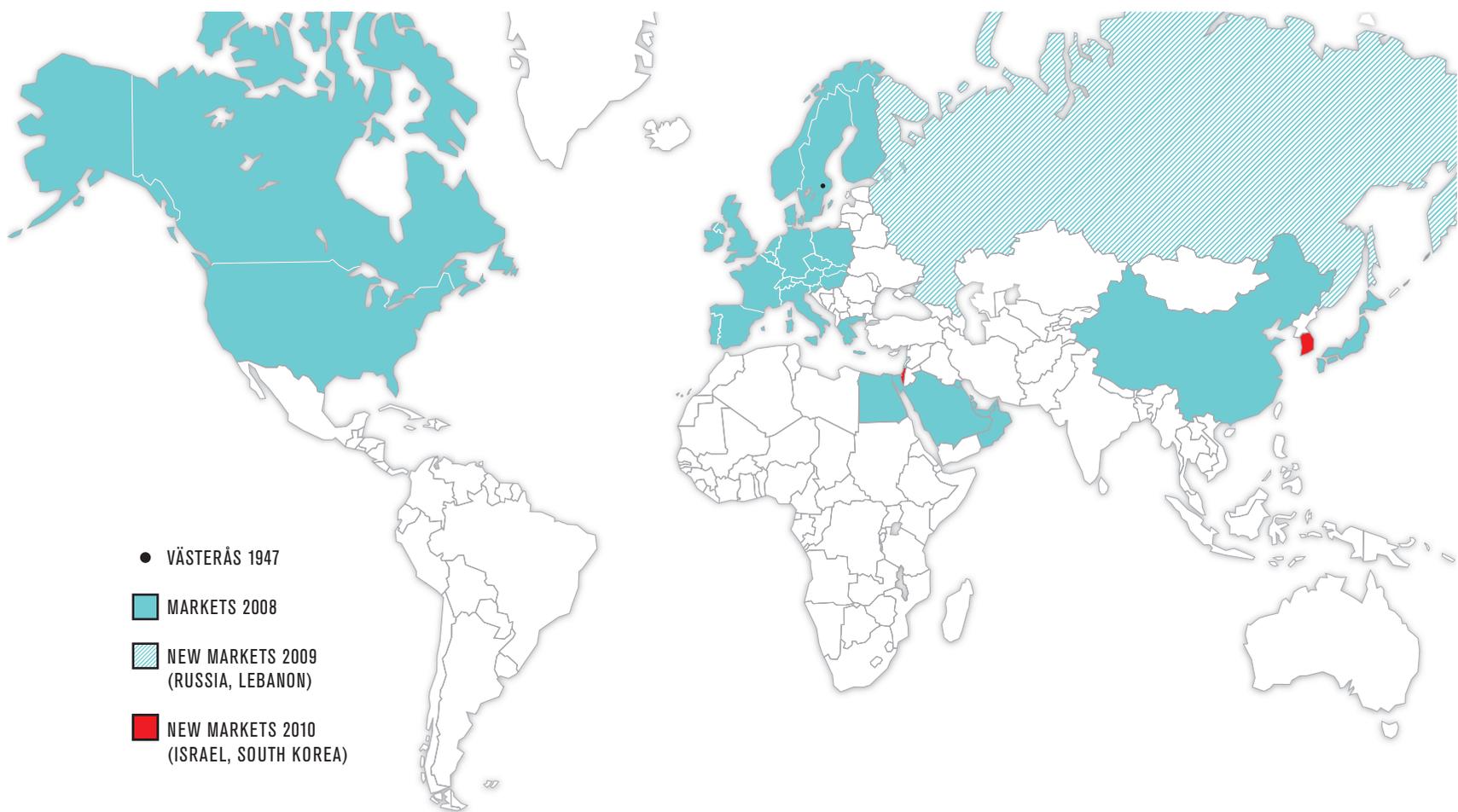
"We got together with Designers Against AIDS and produced a collection, primarily of t-shirts for boys and girls, together with Rihanna, Timbaland, Good Charlotte and a variety of other famous artists. The idea behind the collection was to call attention to the issue and improve young people's understanding of HIV/AIDS."

H&M Man Trend

"This collection takes H&M's men's fashion one step further. This autumn's premiere collection included items such as daring overalls and fake fur jackets, as well as innovative updates of typical men's classics – like a nylon coat with asymmetrical seams and a V-neck mohair sweater."



MARKETS



H&M IN 33 COUNTRIES

H&M continued to grow in 2008 and at the end of the financial year the company was present in 33 countries. Five new countries were added in 2008: Japan, Egypt, Oman, Saudi Arabia and Bahrain; stores in the last four are operated on a franchise basis. The net addition of stores in 2008 was 216 including the acquisition of 20 Monki and Weekday stores. At the end of the financial year the H&M Group had a total of 1,738 stores. New stores were launched in several existing markets, including one in Barcelona designed by the prominent Spanish architecture studio, Estudio Mariscal, as well as a 3,000 sqm flagship store on Regent Street in London.

The Group's total sales increased by 13 percent to SEK 104 billion including VAT. In local currencies sales increased by 11 percent and sales in comparable units—i.e. the stores and countries with Internet and catalogue sales that have been operating at least one financial year (1 December–30 November)—decreased by 1 percent. Taking into account the global economic situation in the autumn 2008, the sales can be considered satisfactory.

Internet and catalogue sales—currently available in Sweden, Norway, Denmark, Finland, the Netherlands, Germany and Austria—developed well during the year.

In 2008 H&M expanded its operations mainly in the US, Spain, the UK, France, Germany and Italy. 2008 was also the year when H&M established the first stores in the Japanese market. Two stores were opened in Tokyo, one in Ginza followed by one in Harajuku, which have already proved to be the most successful store launches in H&M's history. The expansion in Japan is continuing in 2009, with new stores in Shibuya, Shinjuku and in Osaka in 2010. In addition to the focus on Japan and China, which includes the first store launch in Beijing in spring 2009, H&M will open stores in Russia. The first stores will open during 2009 in the Moscow area and in St. Petersburg the first store is expected to open in 2010. New, planned franchise markets are Lebanon in 2009 and Israel in 2010.

H&M continues to be optimistic about future expansion and business opportunities. A net addition of 225 stores is planned for 2009, which will create 6,000–7,000 new jobs.

Most of the Group's expansion is planned for the US, France, Italy, Spain, the UK and Germany.

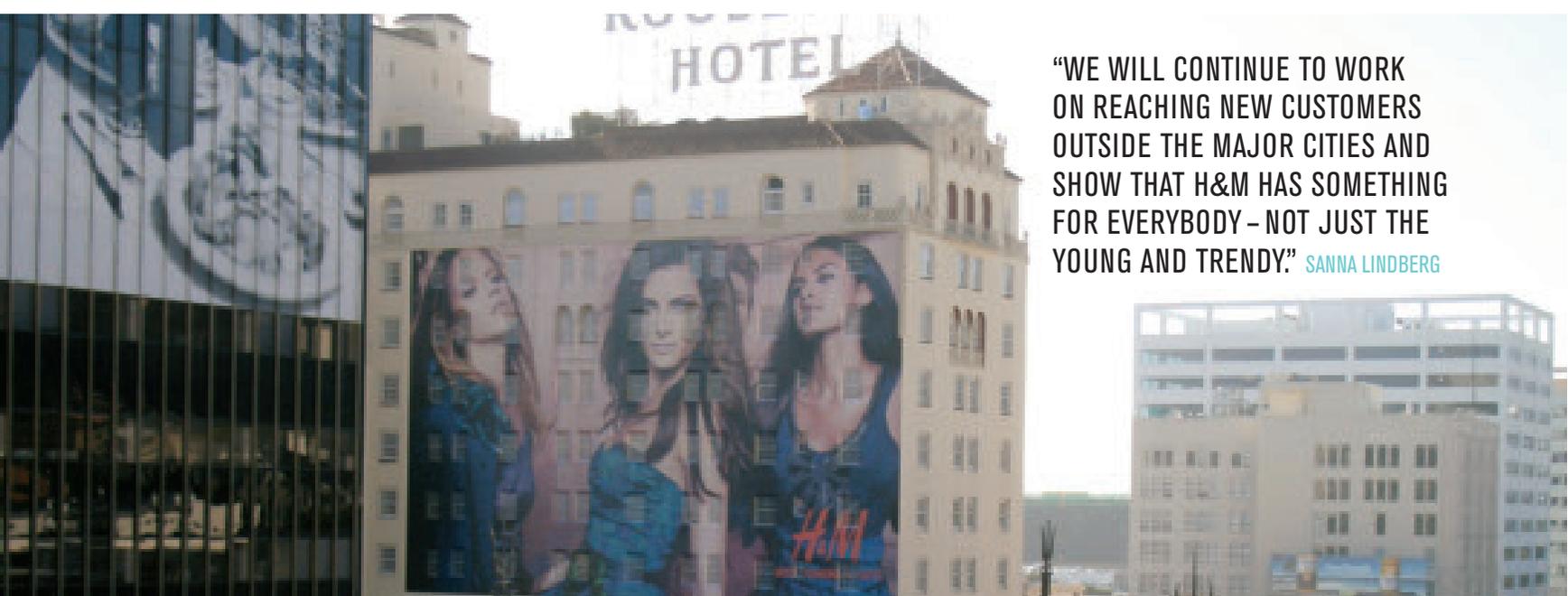
The expansion plan, which mainly focuses on H&M stores, also includes COS, Monki and Weekday stores. COS, Collection of Style, which offers a women's and men's range in a higher price segment, plans to open eight new stores in 2009. 15 new Monki and Weekday stores are planned in 2009 ■

MARKET OVERVIEW

MARKET	YEAR EST.	NO. OF STORES 30 NOV. 2008	NEW STORES ¹⁾ DURING THE YEAR	CLOSED STORES DURING THE YEAR	SALES 2008 INCLUDING VAT (SEK m)	SALES 2007 INCLUDING VAT (SEK m)	AVERAGE NO. EMPLOYEES
Sweden	1947	150	29	3	7,444	7,228	4,924
Norway	1964	85	4	1	5,290	5,155	1,575
Denmark	1967	69	5	1	3,867	3,746	1,335
UK	1976	146	20	3	7,337	7,320	4,275
Switzerland	1978	66	7	1	4,879	4,206	1,599
Germany	1980	339	25	5	25,487	22,150	10,746
Netherlands	1989	96	8	1	6,793	6,147	2,395
Belgium	1992	55	3	2	3,122	2,836	1,332
Austria	1994	60	2		5,020	4,543	1,986
Luxembourg	1996	9	1		351	331	134
Finland	1997	36	3	1	2,450	2,247	840
France	1998	114	16		7,988	6,972	3,396
USA	2000	169	24		6,513	5,816	6,820
Spain	2000	99	20		5,778	5,114	4,528
Poland	2003	53	11		2,508	1,776	1,956
Czech Republic	2003	16	2		670	610	281
Portugal	2003	17	2		764	672	606
Italy	2003	46	15		2,675	1,742	1,052
Canada	2004	43	8		1,812	1,449	1,011
Slovenia	2004	9	3		594	485	129
Ireland	2005	9	2		488	418	220
Hungary	2005	8	2		304	197	135
Slovakia	2007	3	1		137	81	65
Greece	2007	8	5		301	141	247
China	2007	13	6		881	482	1,109
Japan	2008	2	2		198		203
Franchise ²⁾	2006	18	8		390 ³⁾	259	
Total		1,738	234	18	104,041	92,123	52,889⁴⁾

1) Including 20 acquired Monki and Weekday stores 2) United Arab Emirates, Kuwait, Qatar, Saudi Arabia, Egypt, Bahrain, Oman 3) Excluding VAT 4) Group total 53,430

NAME SANNA LINDBERG POSITION COUNTRY MANAGER US BORN 1957 LANGUAGES SWEDISH, ENGLISH, GERMAN, FRENCH, DANISH



“WE WILL CONTINUE TO WORK ON REACHING NEW CUSTOMERS OUTSIDE THE MAJOR CITIES AND SHOW THAT H&M HAS SOMETHING FOR EVERYBODY – NOT JUST THE YOUNG AND TRENDY.” SANNA LINDBERG

GO WEST

Eight years after H&M opened its first store in New York, the US is H&M’s sixth largest market. Country manager Sanna Lindberg discusses the ongoing US expansion.

The first time somebody suggested to Sanna Lindberg that she should take a summer job at H&M, she said, “No, thanks – not for me.” After thinking it over, she changed her mind: “Well...maybe.” Over twenty years later, she can look back on stints as a store manager, buyer, sales manager and market manager. She helped establish H&M in France and has worked in Sweden, Germany, England and Switzerland. Today she is H&M’s country manager in the US.

“Walk the talk”, says Sanna Lindberg when asked what her approach is. In her early years abroad, she surprised employees by helping out behind the cash register or in the fitting room. She and her colleagues at H&M’s US office always stay in close touch with the stores through regular visits.

“We focus on sales in the store, on seeing that the right people are in the right place at the right time, and on making sure that all the campaigns are working the way they should. You have to make sure the

stores are always well stocked, that they are tidy and neat everywhere, and that all the fitting rooms are in good order.

“I think that having worked in so many different countries is an advantage for me. So is my background in sports, since teamwork is such a big part of what we do. I want to know that the employees feel they can take the initiative. We don’t hand out lists of things to be done every morning. Sure, we have our routines, but unexpected things happen all the time and we deal with them as they come up.”

What is most fun about your job?

“It’s fun that things happen all the time, and it’s fun working with products I really like. Most fun of all though are the people and the cultural diversity. I love bringing in young talents with the potential to become tomorrow’s leaders. It is fantastic to help them develop and grow in their jobs.”

Sanna Lindberg came to the US in 2003. At that point, there were about 60 stores. Today there are almost 170, most of them on the east coast. However, the west coast is where H&M is currently growing fastest.

How do you manage such rapid growth?

“It’s a matter of being well prepared and ensuring that we are transferring H&M’s expertise and values as efficiently as possible. It’s the current employees’ job to train new people and get them excited about what we’re doing. This way, new colleagues can absorb H&M’s values in a way that is natural and simple.”

How do you manage the flow of goods in such a big country?

“We have to have efficient logistics so every store gets the right goods at the right time. We maintain replenishment facilities close to the stores, so we can restock quickly.”

What similarities are there between the US and Europe?

“There are more similarities than differences. We always communicate our core values without losing sight of the specific cultural phenomena that are unique to the US.”

Do you notice any differences in consumption patterns compared with other countries?

“There are huge differences between the countryside and the city. There is tough price competition, especially during 2008 when the US was strongly affected by the global recession. We are constantly analysing prices to stay at the right level, and we constantly communicate information to the buyers. I’m interested in clothing myself, so I always try to keep up with our offerings and those of our competitors.”



What will H&M be doing in the US in 2009?

“We will continue to focus on in-store sales and new store openings. We have been here long enough that it’s time to start renovating the first stores.”

What are your biggest current challenges?

“The biggest one is increasing our visibility. We will continue to work on reaching new customers outside the major cities and show that H&M has something for everybody—not just the young and trendy. We also have good basics and other items that attract a somewhat older target group.”

Tell us a bit about the store openings in recent years.

“Whenever H&M opens a new store in the US, it’s really an event. The media is very interested and we have people lining up outside all day. When we opened at a mall in Las Vegas with lots of other stores, the people from the mall wanted to put up a five-metre rope outside the store. Sorry, I said. That is never going to be enough.”

And it wasn’t?

“No, absolutely not... (laughs). We always draw a huge crowd, often several thousand people.”

What were the most important openings of the year?

“Seattle and Atlanta were the biggest stores, but the opening that got the most media coverage was in Pasadena several years ago. The media covered us from news helicopters, and there was just as much interest from the public at large. People slept outside the store in sleeping bags the night before we opened!” ■

GREEN LOGISTICS

More than *1,700 stores in 33 countries* – logistics is essential at H&M

H&M’s collections are centrally created and planned. Throughout the entire process it is necessary to understand what the customers desire, from the idea of a new product until the consumer purchase. H&M’s designers, patternmakers and buyers agree on which trends will inspire H&M fashions in the upcoming season and try to find a good balance between modern basics, contemporary and high fashion. The production department outsources manufacturing to independent suppliers, primarily in Asia and Europe. Thorough planning and a well functioning organisation are required to make it all work. Every year H&M handles millions of items shipped from the production sites to the stores around the world.

The right product has to arrive at the right place, at the right time and at the right cost. Logistics is a challenge for every fashion company. In addition H&M demands the greenest possible transports, which is in line with the ongoing ambitious work towards sustainability. One example is that the airfreight volumes have been halved in just a few years. H&M monitors the environmental performance of logistic service providers such as shipping lines and road hauliers.

Goods sent from producers in Asia are transported almost exclusively by ocean. Within Europe, H&M’s ambition is to increase the share of movements by rail over road. More than 90 percent of all transports are done via ocean, rail or road. Air is used only in exceptional cases when faster deliveries are required.

The merchandise arrives at one of the distribution centres located in the different sales markets. After unpacking and allocation the garments are distributed to the stores. These centres are in some cases supporting the stores in a geographic region consisting of several sales countries.

The individual stores do not have backup stocks; they are replenished as required from central stockrooms. As soon as a product is sold a request is sent for replenishment. Every day, the H&M stores receive new goods.

The keywords for H&M logistics are simplicity, reliability and transparency. Simplicity – logistics must not become too complicated. Reliability – the fastest is not always the best. Instead H&M prioritises the most reliable and greenest method. Transparency – information exchange between all links in the logistical chain ■

STORES & OPENINGS

H&M TO JAPAN



The façade of the H&M store in Ginza was designed by Universal Design Studio, London

In autumn 2008, H&M finally reached Japan.

The two new stores in Tokyo were instant successes – experiences that will prove useful for autumn 2009, when two more stores open their doors. *H&M's country manager in Japan is Christine Edman.*



Cutting the ribbon at the Harajuku opening



NAME CHRISTINE EDMAN **POSITION** COUNTRY MANAGER JAPAN **BORN** 1975 **LANGUAGES** JAPANESE, ENGLISH, A LITTLE SWEDISH

Outdoor campaign prior to the Ginza opening



In autumn 2008, H&M finally came to Japan. On 13 September, the first Tokyo store opened its doors with almost 8,000 expectant customers – some of whom had been standing in line since the previous evening. Just two months later, it was time for store number two.

“The public and media interest has been enormous; H&M is incredibly popular”, says Christine Edman, country manager for H&M in Japan. “The Japanese are trend-aware, fashion-conscious consumers. Many were well aware of us even before the stores opened, from magazines, travelling and fashion blogs.”

H&M’s first Tokyo store is in the heart of elegant Ginza. With its impressive façade of patterned glass panels, it fits right into the exclusive shopping district.

“Our store reflects the exclusive character of Ginza”, says Christine Edman. “The first thing visitors see isn’t an ordinary display window—it’s a work of art”, says Christine about the façade, whose backlit pattern is even more prominent after dark.

Inside the store, visitors experience a brand new H&M interior design concept, in which the whole bottom floor serves

as a display window. The backbone of the building is a huge staircase, where the façade pattern is repeated in form-pressed, embossed plaster panelling.

The ground-floor men’s department also has a brand new look for H&M, with dark, elegant woods and thick carpets that keep the spotlight on the clothing and give the premises an exclusive feel.

In November 2008, the elegant Ginza store gained a counterpart in Harajuku, one of Tokyo’s trendier shopping areas, full of exciting little shops. The illustrator and fashion designer Lovisa Burfitt provided illustrations for the store walls. Like that in Ginza, the façade of the Harajuku store is something very special. Covered with glass and white steel, the free-standing H&M building’s advanced structure gives it an entirely different look depending on which direction the visitor comes from.

The Ginza and Harajuku stores are adapted to the distinctive characters of their neighbourhoods. But H&M is a global company, and one of the most important elements of establishing a presence in Japan was integrating local staff into H&M’s corporate culture and values. Recruiting began long in advance. As early as November 2007, the first employees flew to Norway for training in several existing H&M stores.

“It’s essential for our employees in Japan to be part of our culture and come into our flat organisation, where we have open communication and speak very straightforwardly with one another”, says Christine Edman.

Today H&M in Japan has its sights on new goals.

“Now that the first two stores are in place, we can further improve our understanding of the Japanese market to ensure that we manage the H&M brand in the best possible way”, says Christine Edman.

The lessons learned will come in handy when two new stores open in the autumn 2009. After Ginza and Harajuku, stores of almost 3,000 sqm will open in Shibuya and Shinjuku, with another store opening to follow in Osaka in 2010. Shinjuku will be a full-range store selling all H&M concepts, including children’s clothing and underwear.

“Japan has enormous potential as a market for H&M”, says Christine Edman, commenting on the degree of interest the first two Tokyo stores generated. “This is a country of some 128 million people, 13 million of them in Tokyo. The Japanese are highly interested, highly aware customers who expect a lot when it comes to fashion and quality. There’s huge demand for trendy fashion at affordable prices, and that’s exactly what H&M offers—fashion and quality at the best price” ■



Christine Edman



“HARAJUKU IS TOKYO’S CREATIVE DISTRICT. JUST AS IN GINZA, WHERE WE MADE SURE THE ELEGANCE OF THE NEIGHBOURHOOD WAS REFLECTED IN OUR STORE, WE STARTED BY TAKING INTO ACCOUNT THE CHARACTER OF THE AREA. HERE WE FRAMED OUR STORE IN A WAY THAT FEELS MORE ROCK’N’ROLL.”

ULRIKA BERNHARDTZ, STORE DEVELOPMENT



JAPAN COMES TO H&M

2008 was more than just the year that H&M came to Japan. Thanks to an exciting designer collaboration with Comme des Garçons, it was also the year Japan came to H&M ■





Store interior, Harajuku



Men's department, Ginza



“TO ENHANCE THE CHARACTER OF THE STORES IN TOKYO, WE ADAPTED OUR APPROACH AND PLACED A GREAT DEAL OF EMPHASIS ON MANNEQUIN STYLING AND PRESENTATION OF THE CLOTHING.”

CAMILLA HENRIKSSON, STORE DISPLAY



Opening evening, Ginza





STORES THAT INSPIRE

The store is H&M's most important interface with customers, and the right store design is thus essential. At the Head Office guidelines for store design and window displays are drawn up.

The store and its window displays are H&M's most important channel of communication with customers, and the right design is thus particularly important. Every two or three years, H&M creates a brand new interior design programme for a large number of stores based on one new, special store in an interesting market. "Simple, smart and sustainable" are the keywords for the latest store design update, which will be rolled out in autumn 2009 and is based on the two recently opened H&M stores in Japan.

"Our interior programme has to work in a variety of conditions, and it's designed to do just that. The programme enables us to make every store unique," says Ulrika Bernhardt, creative director for store development.

"When we open new stores, we're choosing premises for their location, not what they look like."

When H&M creates a new store, the

goal is to make it inviting and inspiring. It should appeal to a broad public so everyone feels comfortable, regardless of background.

"The store's most important task is to serve as a distinctive setting for a range that is constantly changing", says Ulrika Bernhardt.

"It also has to have a rhythm with various focal points, so it maintains the same energy level throughout a customer's visit. The objective is to present a varied shopping experience running through the entire store."

The most important part of all may well be the display window, which is the cus-

tomers' first encounter with H&M. The windows and the most important areas within the store change every 10–14 days at stores around the globe. The design guidelines for over 5,000 H&M windows worldwide are developed in a test store at the Head Office in Stockholm.

"The idea is to inspire the customer and highlight the best from the collections. We try to make the clothes look inviting, and we show them together with shoes and accessories, sometimes in combinations that customers may not have come up with themselves", says Camilla Henriksson, Head of the Display department.

"The design of a display window should spur an association or evoke a feeling without stealing the limelight from the clothing. The way we present the products is thus essential to enable people to orient themselves quickly and easily between different styles and different departments." ■



The new concept store in Barcelona was designed in cooperation with architect Javier Mariscal



NAME HASSAN ZIRYA AGE 24 CITY LONDON

What do you like about this particular H&M store (Oxford Circus)? The fact that it offers a wide and varied range. **Why do you shop here?** Because H&M is trendy and relaxed. **How would you describe your personal style?** I like to keep it simple yet stylish. **What is your favourite H&M item?** A waist-length jacket with two zippers in the front. Its design is unusual and cool.



NAME LUCY BLASCHE AGE 16 CITY BERLIN

How do you put together your own personal style? I take inspiration from the stores, and I like trying out many styles to see what suits me. I read fashion magazines to keep up with the latest trends. **What is your favourite H&M item?** A leather jacket I bought last year. It goes with almost anything and it makes me feel chic.



NAME YUKARI TAKAHO AGE 19 CITY TOKYO

What did you buy today? Shirts and hoodies. I thought the Comme des Garçons was good-looking, but the dots didn't really suit me. And anyway, everybody went running straight to those items, so I decided to go for something else instead. **Have you ever been in an H&M store before?** Yes, in London last summer on holiday. That was where I bought the sweater I'm wearing now.



NAME RICHARD AHLSRÖD AGE 42 CITY LONDON

Why do you shop at H&M? Because they have a stylish range at a good price. I particularly like the men's shirts, suits and underwear. **How would you describe your personal style?** Less is more. **What is your favourite H&M item?** A woollen coat. It looks as exclusive as a coat from Hugo Boss, but at a much better price. I feel stylish and elegant in it.

DESIGN

“CREATIVITY MADE
H&M WHAT IT IS
TODAY, AND YOU HAVE
TO WORK HARD TO
REMAIN CREATIVE.”

ANN-SOFIE JOHANSSON
HEAD OF DESIGN



HOW *H&M's* FASHION IS CREATED

Fashion and quality at the best price – that is H&M's business concept. In the design department over a hundred designers work transforming trends into fashions for everyone. New Head of Design Ann-Sofie Johansson explains how the process works.

A little less than a year ago, Ann-Sofie Johansson was appointed Head of Design at H&M, succeeding Margareta van den Bosch, who is now a creative advisor to the company. Ann-Sofie began working at an H&M store back in 1987, when she was still studying fashion design. In 1990, she began working as a design assistant, later becoming a designer known within the team for her strong ideas and feel for fashion. For Ann-Sofie herself, the appointment came as a surprise – and the new job is an exciting challenge.

“On my team, we talk a lot about how H&M should work in the future and how the company can stay relevant and modern.”
Ann-Sofie's job is largely about teamwork and upholding a

NAME **ANN-SOFIE JOHANSSON** POSITION HEAD OF DESIGN BORN 1963
 INSPIRATION TRAVEL, ART, PEOPLE IN MOTION



creative culture in H&M's design department, where more than a hundred designers work in teams. Their mission is to strike a good balance between basic garments and the latest fashions. It's all about identifying and adopting trends, then transforming them into fashion that is accessible to everyone.

"Creativity made H&M what it is today, and you have to work hard to remain creative. We help motivate one another in the departments, and make sure we set aside time for creative inspiration."

How do you find inspiration?

"I find it in my surroundings", says Ann-Sofie. "Seeing somebody put together clothing and wear it in an unusual way—that's inspiring."

"The best way of getting to know the customer is to get out among people, in our stores and in metropolises like Tokyo,

New York and Paris. Other sources of inspiration include vintage stores in big cities, flea markets, and of course art, music and films."

What are the trends for spring 2009?

"A romantic, feminine style with floral patterns and a focus on the waistline. For guys a casual preppy look with chinos and a cotton blazer. There is also a more exotic trend with animal prints and safari-inspired garments, and finally there are strong 80s influences with dance-inspired garments and light denim."

Ann-Sofie sees fashion as a means of expressing personality, a voice that speaks of the times we live in. She puts her definition of fashion to work on the job in H&M's design department, where personal style is an important concept.

"At H&M, you should be able to mix different trends and concepts. There

should be something for everybody and every occasion. H&M should be like a candy store where you can pick and choose your favourites."

Another central concept in the world of H&M is "fashion for everybody". Here you can buy trendy items and basics—and once every year or so, special pieces that anyone can afford from the designer collaborations.

"At H&M, we have our own world of fashion where we deliver great fashion and quality at the best price", says Ann-Sofie.

H&M has become a source of inspiration in the fashion industry. Nowadays everybody who can is updating their collections throughout the season and making sure things are constantly happening in the stores. At the same time, voices are starting to be raised against "fast fashion". During the autumn of 2008, an article was published in the International Herald Tribune about fast fashion. Was it here to stay or not? According to Ann-Sofie Johansson, fashion isn't as fast as people think. Changing a silhouette or creating a new trend often takes several seasons.

"Customers with an interest in fashion are always going to want something new for their wardrobe, and they can find it in our stores. At the same time, consumers have learned to take better care of their old clothes. We aren't encouraging people to wear something today and throw it out tomorrow. I have lots of clothes I have worn for several years—for example, an old evening jacket from H&M that's doing just fine.

"We also put a great deal of energy into designing green clothing."

H&M's business concept is based on giving customers fashion and quality at the best price. H&M has stores around the world, with a constantly changing range of products. That's the formula that recently gained H&M recognition as one of the world's strongest brands. What does the design department think of that?

"It's very satisfying, of course", says Ann-Sofie, "but our primary focus is still to work in order to retain the confidence of our customers" ■

**KEYS TO GOOD H&M DESIGN
 ACCORDING TO ANN-SOFIE**
 CUSTOMER FOCUS
 CREATIVITY & INSPIRATION
 COMMERCIAL APPROACH
 COMPETITIVE DESIGN

DESIGN



JACKET € 39.90



SHORTS € 29.90



COAT € 99

“AT H&M, YOU SHOULD BE ABLE TO MIX DIFFERENT TRENDS AND CONCEPTS. THERE SHOULD BE SOMETHING FOR EVERYONE.”

ANN-SOFIE JOHANSSON, HEAD OF DESIGN

H&M's designers create clothing for a wide range of occasions. Here is a selection from H&M Magazine in 2008, showing the variety of H&M's product range.

DESIGN



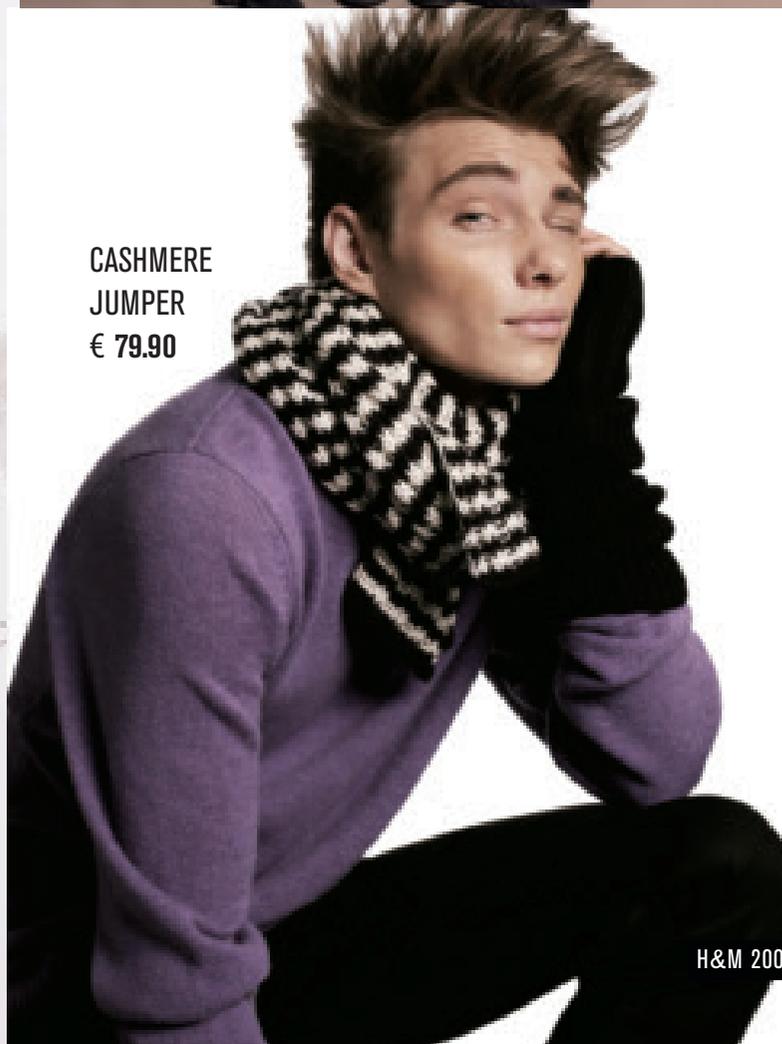
JEANS € 39.90



TRENCH COAT € 79.90



BLAZER € 39.90



CASHMERE
JUMPER
€ 79.90



NAME **PÄR DARJ**
 POSITION **HEAD OF HUMAN
 RESOURCES** BORN 1954

pipeline with the right H&M spirit, who are committed to their work and prepared to take on new challenges”, says Pär Darj. “We have them at every level, from store staff to country managers, as well as in the central departments.”

Internal recruiting and job rotation enable H&M to grow quickly but remain a values-based company that puts common sense, hard work and team spirit first, where colleagues can take on challenges and take the initiative.

“At H&M, you can come in as a floor manager and become a store manager in six to twelve months, depending on the rate of growth in your country”, says Pär. “It’s not just a matter of climbing the corporate ladder, though. You have to accumulate experience – fill your kit bag, so to speak, with as much useful learning as possible.”

In order to meet people’s expectations of H&M as an attractive employer, the company is working hard to develop global guidelines on diversity, equal rights and against discrimination.

“We do our best to maintain good relations with the unions representing our employees”, says Pär. “It is H&M’s goal to be a good employer even in countries whose laws and regulations do not live up to H&M’s standards. All of our operations are typified by an essential respect for the individual. That includes everything from reasonable wages, reasonable hours and freedom of association to the opportunity to grow and develop within the company.”

H&M’s values are the foundation for a multicultural company in a multicultural market where great respect is paid to the individual and everyone is represented. At H&M, everyone should feel like a part of the company’s success.

“We are a large global company that feels like a small family company”, says Pär Darj. “We believe in people and see their potential. Formal education is not always what is most important at H&M – it’s more important to be committed and have the right attitude.”

“As an employee of H&M, you can be an entrepreneur and you will be given responsibility early on. Along with a group of like-minded colleagues, you are a part of the company, shaping its results and improving it in big ways and small. We are proud of the company culture we have. Building on it, we can achieve our very ambitious growth and sales goals. The journey has only just begun” ■

HOW H&M GROWS

Committed employees are one of the keys to H&M’s success. Internal recruiting and job rotation enable the company to grow quickly. Head of HR Pär Darj explains what H&M is doing to remain an attractive employer in the future.

Our capable 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 end of the financial year H&M had 73,000 employees in 33 countries. The growth target is 10–15 percent new stores each year, which means that 6,000–7,000 new jobs will be created in 2009.

Pär Darj, Head of HR, came to H&M as area controller more than 30 years ago. Since then he has been the chief accountant in the UK and Sweden and country manager in both Austria and the US.

Today Pär Darj is working to staff a rapidly growing company with the right people in the right places, and ensure that H&M’s corporate culture lives on at a global scale.

“The keywords for continued growth are responsibility and commitment”, says Pär. “We have committed employees and we are prepared to delegate responsibility at every level. I usually tell employees, ‘If you don’t grow, neither will H&M’.”

When H&M is going to open in a new market, it always recruits locally. During the start-up phase, the new employees receive support from more experienced employees. For example, the first H&M employees from Japan spent time at stores in Norway and Germany. During the sales-intensive opening phase, colleagues from other countries are brought in temporarily.

“When we started H&M in China, we brought in specialists from seven different countries”, says Pär Darj. “We selected them because they were good role models who could show us how everything should work when we’re opening in a new country. However, we quickly transferred authority to local employees.”

The need for recruiting will continue to be great in the future. H&M must continue to be an attractive employer, actively communicating how the business operates and what opportunities are available to employees. In the future, too, the main emphasis will remain on internal recruiting. In 2008, H&M established an internal “Global Job Market”.

“We need to have talented people in the

OUR PEOPLE



NAME YANIRA RAMIREZ **POSITION** STORE MANAGER **BORN** 1976 **CITY** LONDON
HOBBIES TRAVELLING AND READING **STORE** OXFORD STREET EAST **NO. EMPLOYEES** 135
EMPLOYED SINCE JUNE 2002

What is a typical day at work like for you?

“The day begins with deliveries. Then I review the goals for the day for every department with all the floor managers. After that I spend most of the day out in the store, because I believe in symbolic leadership, but also in order to meet our customers.”

What is special about the store where you work?

“We have a fantastic atmosphere, are very structured and professional yet have a lot of fun. The employees are very committed.”

What’s the best thing about working at H&M?

“The people and the possibilities. H&M is a workplace where you can achieve

your full potential.”

How do you inspire your colleagues’ enthusiasm?

“By being a good example. I love working at H&M, and I’m passionately dedicated to my work. I believe that makes me a role model. I also try to inspire the team to be creative, take responsibility and develop.”

What is the biggest challenge for a store manager?

“Keeping a cool head amidst everything that’s happening. I have to maintain a consistent, professional attitude towards employees and customers even if I’m having a bad day” ■

NAME CLAUDIA TASSLER **POSITION** STORE MANAGER **BORN** 1972 **CITY** BERLIN
HOBBIES READING, FAMILY LIFE, GARDENING **STORE** KURFÜRSTENDAMM 237 **NO. EMPLOYEES** 114
EMPLOYED SINCE APRIL 2004

What is a typical day at work like for you?

“We start the day with a review of our turnover and other sales figures. After that, I have brief conversations with all the assistant managers. I feel it’s important to stay in close contact with my colleagues and I make time to do so. I have a look at the store floor and displays; they have to look neat and tidy, and there has to be enough clothing on the shelves and in the display areas. Finally I check to make sure the signage is inviting and inspiring. At lunchtime, we meet again to discuss the

priorities for the afternoon. After that, we continue to focus on customers and sales.”

What is special about the store where you work?

“Our fantastic team. Even though there are a lot of us, it feels like a big family, and that’s what makes work fun.”

What’s the best thing about working at H&M?

“Every day is a new challenge, so it’s never boring, and there are many opportunities to develop and take on new responsibilities.”

How do you inspire your colleagues?

“By working with the team and maintaining open communications, and by taking part and providing support” ■



NAME KENICHI MINAMIURA **POSITION** STORE MANAGER **BORN** 1976 **CITY** TOKYO
HOBBIES SNOWBOARDING AND SURFING **STORE** GINZA **NO. EMPLOYEES** 125 **EMPLOYED SINCE** NOVEMBER 2008

What is a typical day at work like for you?

“Every morning, I take a walk around the store and say hello to my colleagues. Before the store opens, I walk through each floor and make sure that it’s clean and that the displays and floor spaces look good. The time before we open is far and away the best time to go over the day’s procedures, current campaigns and new jobs. As soon as we open, the store is full of customers.”

What is special about your store?

“Ginza is an elegant office district, and

we sell a lot of suits. Our neighbours are luxury brands, and our customers expect a high level of service. We do our best to provide it.”

What’s the best thing about the store you work in?

“The flat organisational structure. In Japan we are used to hierarchies, so this is different and I love it.”

What is your biggest challenge?

“We just opened in Japan, and the challenge is to make sure we all grow, including myself” ■





NAME MAKOTO HAGIWARA BORN 1985 CITY TOKYO

POSITION SALES ASSOCIATE STORE HARAJUKU

How did you first come in contact with H&M? Through H&M's website. I had been looking at the website ever since I heard H&M was coming to Japan. **Why did you apply for a job here?** H&M believes in people, and after I heard about H&M's values, I was very interested in working here. **How did you learn to do your job?** We spent five days in a classroom in Tokyo learning about H&M's history, values, clothing presentation, and much more. **What's the best thing about working at H&M?** Teamwork, I would have to say. I respect all of my colleagues, and my supervisor is fantastic.



NAME STEFANIE KRÜGER BORN 1956 CITY BERLIN

POSITION SALES ASSOCIATE STORE KURFÜRSTENDAMM 237

How did you first come in contact with H&M? I grew up with H&M. It was always my first choice. **Why do you want to work with fashion?** Because it's a fantastic way of expressing your personality. **What do you expect from your job?** I hope I can put my creativity in the service of my colleagues and gain new ideas from them and the customers. I would like to see everybody leave the store with a smile on their face. **How did you learn to do your job?** The introduction was intense – there was really a lot to learn! Everybody on the team helped out and provided support, and people told me they appreciated my ideas.



NAME SHARON BARTELS BORN 1982 CITY BERLIN

POSITION SALES ASSOCIATE STORE KURFÜRSTENDAMM 237

What are you expecting of your job? A wonderful team that makes it fun to work. It's exciting to meet so many different kinds of customers, too. And then there are the development opportunities for me and the team. **How did you learn to do your job?** I felt welcome, even though there was a lot to learn; I could always count on help from my colleagues. During the first few weeks, there was one colleague in particular who helped me with everything. **What's the best thing about working at H&M?** The team, and the many opportunities to develop and take on new challenges. It is really fun to try new things and meet so many different kinds of people every day.



NAME NICK BUDGE BORN 1978 CITY LONDON

POSITION SALES ASSOCIATE STORE CHELMSFORD

How did you first come in contact with H&M? I saw a help wanted sign in the window and looked them up on the Internet. **Why did you apply for the job?** I used to work for Uniqlo in London, and I thought H&M would be a good way back into retail and good for my career. **It's very common for people to switch jobs within H&M, would you like to move on to another job within the company later?** Yes, I hope to become a floor manager next year, and if possible move to a London store.

SUSTAINABILITY – A SHARED RESPONSIBILITY

The basic idea of H&M's CSR efforts is to succeed by being a good company. *The focus is on sustainability at every level* – including the environment, social issues, and economics.

Taking responsibility for how our business affects people and the environment is essential in order for H&M to continue growing profitably. The focus of H&M's CSR efforts is sustainability at every level – including the environment, social issues and economics.

2008 was an important year in the history of H&M. During the autumn, the company launched a new sustainability strategy that means corporate social responsibility (CSR) is no longer just a corporate department but an issue for every employee.

Ingrid Schullström is H&M's environmental and CSR manager. Together with employees, suppliers and other interested parties, she works to improve sustainability both within H&M and throughout the supply chain.

"Sustainability is a shared responsibility for all the decision makers within the company", says Ingrid. "Previously, sustainability efforts originated in the CSR department – we took the initiative. We are developing into more of a support function, providing expertise and know-how."

H&M was an early proponent of active CSR. Ingrid Schullström began working with such issues in 1997. At that time, her team consisted of a few employees in Stockholm. Today, in addition to over ten employees at the CSR department in Stockholm, almost 80 people work with these issues at the production offices. To help H&M's auditors do their work in the field, we added a brand new position in 2008, hiring an expert on textile manufacture and its environmental impact.

This year marked ten years since H&M began inspecting suppliers' factories.

"Ten years ago, we didn't know as much about how the clothes were manufactured", says Ingrid Schullström. "Today we help by pointing out inadequacies and analysing the causes of problems. Once we identify a problem, we prefer to allow the supplier to develop their own plan of action. We are trying to create partnerships and ultimately get away from an inspections-based approach."

NAME **INGRID SCHULLSTRÖM** **POSITION** MANAGER ENVIRONMENT AND CSR **BORN** 1957
LANGUAGES SWEDISH, ENGLISH, ITALIAN



H&M's SUSTAINABILITY VISION

H&M shall operate in a way that is environmentally, socially and economically sustainable. Sustainable operations fulfil the needs of both present and future generations.

The most common material in the H&M range is cotton. H&M therefore makes a variety of efforts to minimise the negative impact of cotton-growing on the environment.

Organic cotton is produced with no chemical pesticides or synthetic fertilisers whatsoever. It is H&M's goal to increase the percentage of organic cotton by at least 50 percent annually compared with the previous year's goal. A goal that was easily exceeded in 2008. The total volume of organic cotton produced worldwide remains small, however.

H&M also collaborates with the WWF and other organisations and companies in the Better Cotton Initiative (BCI), whose ambition is to improve conventional cotton-growing around the world.

"The BCI focuses on adapting the principles of better cotton to local climates and social situations", says Ingrid Schullström. ▶

SUSTAINABILITY VISION

- H&M's business concept is to provide fashion and quality at the best price. Quality also entails manufacturing products in a way that is environmentally and socially sustainable. Like all H&M's activities, our CSR work is based on a drive for continuous improvement.
- We have a responsibility towards everyone who contributes to our success, including those who are not employees of H&M. That is why we work closely with our suppliers to develop long-term, sustainable social and environmental standards in the factories that manufacture H&M products.
- We ensure that our employees' human rights are not violated. The same applies to employees of our suppliers and other partners as well as our customers.
- We apply the precautionary principle in our environmental work and have adopted a preventative approach with the substitution of hazardous chemicals.
- We strive to use resources efficiently and minimise waste. By adopting new technologies and methods, we can minimise our environmental impact through improved production processes and our choice of materials. We must continually review the company's goals and strategies in order to reduce our climate impact.
- Our decisions are based on careful consideration, where shorter or longer-term environmental benefits are weighed up in order to ensure that we choose solutions which are sustainable in the long term.
- We want to be a good global citizen and act responsibly in our business relations. We take a clear stand against all forms of corruption. We engage in dialogue with all our various stakeholders to build trust in our operations within the environment we rely on for our long-term success.

H&M's CODE OF CONDUCT

H&M's 1997 Code of Conduct is based on the UN Convention on the Rights of the Child and the ILO's conventions on labour and the rights of workers. The Code of Conduct's requirements include:

- Prohibition of child labour
- Good working environment and fire safety
- Reasonable working hours and wages
- Freedom of association
- Prohibition of discrimination
- Environmental and chemical restrictions

► "Producers may feel a general certification is expensive and complicated, for example."

Another important environmental issue is carbon dioxide emissions and their effect on climate. Improving the efficiency of transports and energy use provides both environmental and economic savings. H&M is currently working to replace truck transports with rail, find more efficient lighting sources and influence energy-use procedures.

"In 2004, we set the goal of reducing emissions by 10 percent per krona of sales over the next five years—that is, until 2009. So far we have outstripped our goal".

H&M engages in an ongoing dialogue on CSR with a variety of interested parties. Customers, volunteer organisations and investors all take part in discussions through face-to-face meetings, H&M's website and the sustainability audits we carry out in accordance with the Global Reporting Initiative (GRI) guidelines. Partnerships with local labour unions and volunteer organisations are also important:

"In 2008, H&M was accredited by the US Fair Labor Association, or FLA, which carries out independent factory inspections and publishes the results for the public", says Ingrid Schullström. "This kind of accreditation is proof that we have a robust inspection system, but the FLA's expertise is important to us in other ways, too. They consult with us and provide help on a variety of issues."

Alongside its own sustainability efforts, H&M supports a variety of charity initiatives. Education and water issues are among the focus areas.

To celebrate the 60th anniversary in 2007, H&M established the Anniversary Foundation, setting aside SEK 60 million in the name of all of our employees for initiatives to improve the quality of life in countries where H&M operates. In 2008, the Anniversary Foundation donated USD 250,000 to Hand in Hand, an Indian organisation that provides microloans to women wishing to start companies, and also works to prevent child labour.

Going into 2009, water is one of H&M's primary sustainability issues.

In June 2008 H&M signed the CEO Water Mandate, a voluntary initiative that is part of the UN Global Compact scheme. The CEO Water Mandate consists of a group of companies that have pledged to work together on issues of sustainable water management.

"By signing the CEO Water Mandate, we are pledging to make water use in our direct operations more efficient and work with our suppliers to ensure that they improve the efficiency of both their water use and their treatment of polluted water. We shall also publicly report the results of our efforts", says Ingrid Schullström.

Since 2001, H&M has collected over £1 million for WaterAid. Every year, H&M designs an exclusive bikini and donates 10 percent of the revenue on each bikini sold to WaterAid's water and sanitation projects in Bangladesh and elsewhere.

Putting H&M's new sustainability strategy in practice will continue to be a major focus in 2009.

"We will be looking at each individual department to see what can be improved", says Ingrid Schullström. "The production and buying departments have already been working on social issues for many years. Now sustainability will be a shared responsibility for all of us, something everybody in the company bears in mind when making decisions" ■



H&M, THE ENVIRONMENT AND PEOPLE

Respect for the environment and for people are fundamental to H&M. One of the people who monitors compliance with our Code of Conduct is Tobias Fischer, Regional Coordinator for the Far East.

Hong Kong-based Tobias Fischer is Regional Coordinator for the Far East Region, which includes China, Cambodia, Korea and Indonesia.

Before new suppliers can begin working with H&M, they have to sign on to the Code of Conduct (see box page 38). And they have to mean it. Nearly 80 H&M employees work full-time verifying that the Code is being respected.

“Suppliers don’t usually know when the auditors will come”, says Tobias Fischer. The auditors check up on issues such as factory safety, discrimination, wage payments and various environmental aspects. An initial visit is followed up every third or every sixth month for up to two years. Then the cycle starts over with a new audit and new follow-ups.

Monitoring compliance with the Code of Conduct also includes rewarding suppliers with excellent CSR. Auditors stay closely in touch with those in charge of ordering at H&M’s production offices, keeping them informed about conditions in the factories.

“Our auditors report regularly, about once every other week, on current problems and potential risks. We record the information using easy-to-understand systems—with colour coding, for example. The whole point is to ensure that the production offices, which have to make decisions fast, can understand the situation quickly and easily.

“Nothing is impossible”, says Tobias, explaining that CSR work requires patience.

The quickest route to success is co-operation.

“We push for what we want, but we always give the other side a chance to have their say”, he says. “We don’t just dictate terms—we help suppliers implement improvements themselves.”

The long-term goal of the work is to let suppliers take ownership of CSR issues, identifying their own problems and opportunities to improve.

“In a perfect world, CSR would not exist”, says Tobias. “My long-term goal is to put myself out of a job” ■



SUSTAINABILITY REPORTING

H&M’s sustainability report can be found at www.hm.com/csr. It includes detailed reporting on the most important events of 2008 relating to the environment and social responsibility, including reports on carbon dioxide emissions and audits carried out by H&M during the year at supplier facilities.

NAME **TOBIAS FISCHER** POSITION REGIONAL COORDINATOR FAR EAST BORN 1967



Tobias Fischer talks about *what it's like to work as an auditor in Bangladesh*

I first came to Bangladesh in May 2000. The Code of Conduct auditor who preceded me took me on a hair-raising car ride to one of H&M's suppliers south of Dhaka. The factory wasn't what I expected. It was very modern and they did it all: spun thread, knit, dyed fabric and sewed t-shirts.

Yet there were problems with issues such as wage payments, safety and hygiene. Over the following years I made many trips back and forth to that factory. During the early years, we would make a little progress, but then after a few months, the problems might be back.

That's the way it goes, though. Implementing change takes time. You have to have patience and persistence, and you have to take pleasure in successes large and small. Here, I met factory managers who were willing to listen, who sometimes made mistakes but were able to admit them and try again. A rather common situation.

When I went back to work with the same supplier in Bangladesh after a few years in Stockholm, I could see that our meetings, seminars, training projects and proposals for improvements had finally begun to have an impact.

Management had installed its own systems for monitoring safety, working hours and the working environment. Along with managers from many other factories, they had participated in H&M's Cleaner Production Programme, which encourages adoption of small, simple measures that reduce environmental impact and save energy and money. To recruit and retain personnel, they had turned to H&M for help setting up a training centre—they wanted to follow the same model we used at our training centre for young textile workers in Dhaka. Today they are still one of our bigger and more important suppliers in Bangladesh ■

H&M AND

Quality control of H&M products is an integral part of the entire process, from the design stage to the store.

“Fashion and quality at the best price” is H&M's motto—and these are not just empty words. Tomas Persson is in charge of quality control at H&M. “There's no contradiction in H&M's business concept of offering fashion and quality at the best price”, he says. “It's an equation that has to add up. Quality is extremely important. The customers have to get value for their money. For the customer to feel satisfied with a product, it not only has to be fashionable, it has to be durable and work the way it's supposed to. It should be safe and stand up to fairly rough use.”

Tomas Persson and his colleagues put together the guidelines and standards manufacturers have to follow. At every



SWEATER
€ 14.90

VEST € 9.90

QUALITY

production office, there are quality teams that monitor compliance. The guidelines exist to ensure that all H&M products live up to the toughest standards.

“We update the guidelines regularly, since our ambition is to constantly improve our products, and partly because of changing legislation in the countries where we sell the products”, says Tomas. “Since H&M operates in so many countries with different restrictions and laws, we always follow the country with the strictest rules.

“The guidelines cover things like threshold values for pilling, colourfastness or how much a garment may shrink after washing. H&M also has a list of restricted chemicals. Our products must not contain chemicals that can be harmful to health or the environment.”

H&M has long maintained a product policy establishing our ethical and environmental positions. It includes bans on products including genuine fur or materials from endangered species. In February 2008, a new item was added to the list: H&M does not accept mulesing, a cruel procedure carried out on Merino sheep to prevent fly strike.

How does H&M make sure all these guidelines and restrictions are followed?

“Quality control is part of the entire process, from the design stage right

through until the finished product is hanging in a store. Over the years, we have grown more and more proactive. We engage with quality considerations while products are still the idea phase.

“First we carry out a risk analysis during the development stage, where we judge what is most important to check for a given product type. Before it goes into production, we test aspects such as the product’s colourfastness, tendency to pill and chemical content. We run different tests on different types of products, depending on the properties of the material, areas of use and function.

“If the test results aren’t approved, we don’t start production.”

Quality controllers are on site for production start-up. Before the items are shipped, additional controls are carried out. There’s a particular focus on children’s products, which have to be extra safe.

“The producers follow special procedures with respect to buttons, for example. Children’s clothing must not have loose strings that a child could get tangled in, and we have a complete ban on the use of flame retardants in children’s clothing for health reasons.”

In 2007, the EU passed REACH, a law regulating chemical use in all products sold in the EU, due to health reasons. As part of REACH, the EU published a list of especially hazardous chemicals in October 2008. Under the law, customers have a right to be informed within 45 days if a product contains any of the listed substances.

“Our basic position is that none of these substances may be included in any of our products”, says Tomas Persson.

“Quality work is a living process that is constantly developing. The goal is to make our products durable, easy to use, practical and safe” ■

PRODUCT POLICY AND PRODUCT RECALLS

PRODUCT POLICY

- H&M does not sell genuine fur.
- H&M sells leather only from cows, buffalo, sheep, goats and pigs raised for meat production.
- H&M does not buy leather from India due to the occurrence of cruel animal transportation there.
- H&M does not buy silk from India due to poor working conditions in the Indian silk industry.
- H&M does not accept mulesing, a procedure performed on Merino sheep in order to prevent fly strike.
- H&M products do not contain material deriving from endangered species.
- Down and feathers are only accepted from the carcasses of birds raised for meat production. H&M also requires certification showing that the down and feathers have been properly washed and sterilised.
- For products manufactured from wood originating in countries with tropical rain forests, H&M requires a Forest Stewardship Council (FSC) certificate.
- H&M children’s clothing should be comfortable and practical. H&M strives not to sell children’s clothing that might be perceived as provocative.
- Prints on tops and other goods may not be offensive, racist, sexist, political or religious.
- All goods are labelled with their country of origin.

PRODUCT RECALL PROCEDURE

Despite a comprehensive product safety system, products that do not meet H&M’s requirements occasionally reach the stores. To ensure rapid recall of such products, H&M has a special recall procedure. In 2008 one product was recalled, a children’s sweater.

THIS IS THE PROCEDURE FOR PRODUCT RECALL:

- An unsafe product is identified.
- The quality department and production manager decide on a global recall.
- Sales are stopped immediately on all markets and the relevant authorities are informed.
- Information is provided immediately to employees through internal channels and to customers through newspaper adverts, the internet and signs in the stores.
- The quality department analyses what went wrong to prevent the problem from recurring.
- The recalled products are destroyed.



NAME TOMAS PERSSON **POSITION** QUALITY CONTROL **BORN** 1963



SKIRT € 49.90

CONTACT DETAILS

HEAD OFFICE

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

For information about H&M and addresses of the country offices visit www.hm.com

CONTACTS HEAD OFFICE

CEO ROLF ERIKSEN

FINANCE JYRKI TERVONEN

ACCOUNTS ANDERS JONASSON

SALES JONAS GULDSTRAND

BUYING ANNA ATTEMARK/MADELEINE PERSSON

DESIGN ANN-SOFIE JOHANSSON

PRODUCTION KARL GUNNAR FAGERLIN

CORPORATE SOCIAL RESPONSIBILITY INGRID SCHULLSTRÖM

EXPANSION, BUSINESS DEVELOPMENT,

BRAND AND NEW BUSINESS KARL-JOHAN PERSSON

MARKETING PER SJÖDELL

COMMUNICATIONS KRISTINA STENVINKEL

INVESTOR RELATIONS NILS VINGE

HUMAN RESOURCES PÅR DARJ

IT KJELL-OLOF NILSSON

LOGISTICS DANNY FELTMANN

SECURITY ANGELIKA GIESE

DISTRIBUTION POLICY

H&M Annual Report 2008 is divided into two parts; H&M in words and pictures 2008 and H&M in figures 2008 including the Annual Accounts and Consolidated Accounts. H&M will distribute the printed version of Part I and Part II to shareholders who have specifically expressed interest in receiving the printed version. Part I and Part II are available at www.hm.com

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ОТКРЫВАЕТ
МАГАЗИНЫ
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