# H \& M HENNES \& MAURITZ AB 

## SIX MONTH REPORT

1 December 2006-31 May 2007

- Sales for the H\&M Group excluding VAT for the first six months of the financial year amounted to SEK $36,822 \mathrm{~m}(32,134)$, an increase of 15 per cent. In local currencies, the increase was 18 per cent and in comparable stores 6 per cent.
- Profit after financial items for the first six months was SEK 8,545 m ( 6,600 ), an increase of 29 per cent. Group profit after tax was SEK $5,768 \mathrm{~m}(4,455)$, corresponding to SEK $6.97(5.38)$ per share.
- Sales for the second quarter excluding VAT amounted to SEK $20,050 \mathrm{~m}(17,063)$, an increase of 18 per cent compared with the previous year. In local currencies, the increase was 20 per cent and in comparable stores 7 per cent.
- Profit after financial items for the second quarter was SEK 5,134 m $(3,920)$, an increase of 31 per cent.
- Expansive quarter. Successful launches of H\&M in four new countries and of the store chain COS. The expansion of online and catalogue sales in the Netherlands and of shoes has surpassed expectations.


## Sales

Sales excluding VAT for the H\&M Group in the first six months of the financial year amounted to SEK $36,822 \mathrm{~m}(32,134)$, an increase of 15 per cent.
In local currencies the increase was 18 per cent and 6 per cent in comparable stores. Sales including VAT amounted to SEK $43,255 \mathrm{~m}(37,655)$.

Sales excluding VAT in the second quarter amounted to SEK 20,050 m $(17,063)$, an increase of 18 per cent. In local currencies the increase was 20 per cent and 7 per cent in comparable stores. Sales including VAT amounted to SEK $23,554 \mathrm{~m}(19,969)$.

In local currencies, the sales in May increased by 10 per cent compared to the same month last year. Sales in comparable stores decreased by 2 per cent.

During the first half-year, the Group opened 83 stores (57) of which five stores were opened on franchise basis. Eight stores were closed (6). The total number of stores in the Group thus amounts to $1,420(1,244)$.

## Results for six months

Gross profit for the first six months amounted to SEK 22,219 m (18,688), which corresponds to 60.3 per cent (58.2) of sales.

The operating profit after deducting selling and administrative expenses was SEK $8,158 \mathrm{~m}(6,372)$. The result corresponds to an operating margin of 22.2 per cent (19.8).

Operating profit for the first half-year has been charged with depreciation amounting to SEK 958 m (822).

Consolidated net interest income was SEK 387 m (228).
Profit after financial items amounted to SEK 8,545 m (6,600), an increase of 29 per cent.

Group profit after tax (estimated average effective tax rate) of 32.5 per cent (32.5) for the six month period was SEK $5,768 \mathrm{~m}(4,455)$, corresponding to earnings per share of SEK 6.97 (5.38).

Return on shareholders' equity (rolling 12 months) was 52.3 per cent (47.2) and return on capital employed (rolling 12 months) was 76.4 per cent (68.2).

The result of the six month period before tax was negatively affected by currency translation effects of about SEK 230 m compared to the same period last year. These currency translation effects arise because of the development in the exchange rates between the foreign subsidiaries' local currencies and the Swedish Krona compared to the same period previous year.

## Results for the second quarter

Gross profit for the second quarter amounted to SEK $12,343 \mathrm{~m}(10,174)$ which corresponded to a gross margin of 61.6 per cent (59.6).

Operating profit was SEK 4,935 m $(3,798)$ for the second quarter corresponding to an operating margin of 24.6 per cent (22.3).

Profit after financial items was SEK $5,134 \mathrm{~m}(3,920)$ an increase of 31 per cent.

## Comments on the second quarter

The spring collections have been well received by the customers during the whole first half-year. This was reflected in a sales increase in local currencies excluding VAT of 20 per cent for the second quarter.

The size and composition of the stock-in-trade is deemed to be very good. The stock level in comparable stores is approximately 10 per cent lower than at the corresponding point of time last year.

The gross margin increased by 2 percentage units compared to the same period last year. The explanation is, as in the previous quarter, among other things a more efficient buying process, a lower proportion of price reductions and a favourable US dollar exchange rate.

The good sales increase along with a good cost control resulted in that the operating costs in relation to sales decreased from 37.3 per cent to 37.0 per cent despite the fact that several new markets were opened and several new concepts are under development.

The expansion pace of the Group has been high during the quarter with successful store openings and launches. Among other things, stores were opened in the new H\&M markets Hong Kong, Shanghai, Slovakia, Greece and Qatar. The opening in Doha, the capital of Qatar, was done in cooperation with the franchisee Alshaya. The launch of the Madonna collection in over thousand stores in all markets, and the new store chain COS with eight stores in the UK, Germany, Belgium and the Netherlands were well received both by customers and media.

## Financial position and cash flow

Consolidated total assets as of 31-05-2007, increased by 13 per cent compared to the same time last year and amounted to SEK 32,203 m $(28,525)$.

During the first six months of the financial year the Group generated a positive cash flow from the running operations of SEK $7,584 \mathrm{~m}(5,054)$. Cash flow was among other things affected by dividends of SEK $9,517 \mathrm{~m}(7,862)$, investments in fixed assets of SEK 1,490 m (734), and by financial investments with a duration of three to twelve months of SEK $8,748 \mathrm{~m}(5,550)$. Cash flow for the first half-year amounted to SEK $5,301 \mathrm{~m}(2,064)$. Liquid funds and short-term investments amounted to SEK 15,332 m (13,114).

The stock-in-trade increased by 2 per cent compared to the same time last year and amounted to SEK $6,451 \mathrm{~m}(6,328)$. This corresponds to 8.8 per cent (9.7) of sales excluding VAT rolling twelve months. The stock-in-trade was 20.0 per cent (22.2) of total assets.

The equity/assets ratio was 75.8 per cent (76.8) and the share of risk-bearing capital was 77.5 per cent (79.0).

Shareholders' equity apportioned on the outstanding 827,536,000 shares on 31 May 2007 was SEK 29.50 (26.47).

## Expansion and customer offerings

During the remainder of the financial year 95 stores net are planned to open mainly in USA, France, Spain, Germany, the UK and Italy.

The expansion of H\&M's online and catalogue sales will continue during the second half-year with online sales in Germany and Austria.

The launch of H\&M Home is planned for the autumn 2007 via online and catalogue sales in the Nordic countries and in the Netherlands, and by online sales in Germany and Austria.

The sales of the shoe assortment have started well. The shoe assortment will be enlarged by a smaller collection of men's shoes during the autumn.

The preparations for the establishment in Tokyo, Japan in 2008 are going according to plan. A contract has been signed for a second store in Tokyo which will open in autumn 2008.

The collaboration with this year's guest designer, Roberto Cavalli, is today announced at the fashion week in Florence. A women's and a men's collection will be available from November 8 in around 200 stores in all 28 markets. For more information see www.hm.com/press.

## Taxes

The current trend towards a reduction in corporate tax rates in different EU countries (e.g. Netherlands, Germany, Denmark) will have a positive impact on the Group's future overall tax rate. Furthermore a review and refinement of the Group structure has been conducted to facilitate the regional grouping of distribution activities and to support the ongoing expansion, as stated in the full year report. As a consequence thereof, the central functions for design, buying, production, logistics and warehousing have been entrusted to a group buying company in Sweden. The transfer pricing model has been aligned accordingly, effective June 1.

## The Parent Company

The parent company achieved sales excluding VAT during the first six months of the financial year of SEK $4,303 \mathrm{~m}(3,677)$ with an estimated result before balance sheet appropriations of SEK 4,964 m (2,571), of which SEK 4,147 m $(1,785)$ consisted of dividends from subsidiaries. Investments in fixed assets amounted to SEK 64 m (37).

## Accounting principles

The Group is applying International Financial Reporting Standards (IFRS). This report for the Group has been prepared in accordance with IAS 34 Interim Financial Reporting, which accords with the requirements set in Recommendation RR 31 of the Swedish Financial Accounting Standards Council on Consolidated Interim Financial Reporting.

The accounting principles applied in this report are those described in the Annual Report for 2005/2006, in Note 1 - Accounting principles.

The parent company is applying Recommendation RR 32:06, Accounting for Legal Entities, which essentially means that IFRS is being applied. In accordance with RR 32:06, the parent company is not applying IAS 39. The main difference is that hedge accounting in the parent company is applied in accordance with the principles of deferred hedge accounting, which means that the derivatives are not recognised until the hedged transaction takes place.

## Reporting dates

26 September 2007
31 January 2008
27 March 2008
Nine Month Report, 1 Dec 2006 - 31 August 2007

8 May 2008 Full Year Report, 1 Dec 2006 - 30 November 2007 Three Month Report, 1 Dec 2007- 29 Feb 2008 Annual General Meeting 2008

This six month report has not been audited.
Stockholm, 20 June 2007
The Board of Directors

## Contact persons:

| Nils Vinge, IR | $+46-8-7965250$ |
| :--- | :--- |
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Information about H\&M and press images are available at www.hm.com

CONSOLIDATED INCOME STATEMENT
(SEK m)

|  | $\begin{aligned} & 1 \text { Dec. 2006- } \\ & 31 \text { May } 2007 \end{aligned}$ | $\begin{aligned} & 1 \text { Dec. 2005- } \\ & 31 \text { May } 2006 \end{aligned}$ | 1 March 2007- <br> 31 May 2007 | 1 March 200631 May 2006 | $\begin{aligned} & 1 \text { Dec. } 2005- \\ & 30 \text { Nov. } 2006 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Sales including VAT | 43255 | 37655 | 23554 | 19969 | 80081 |
| Sales excluding VAT | 36822 | 32134 | 20050 | 17063 | 68400 |
| Cost of goods sold | -14 603 | -13 446 | -7 707 | -6 889 | -27 736 |
| GROSS PROFIT | 22219 | 18688 | 12343 | 10174 | 40664 |
| Selling expenses | -13 208 | -11615 | -6 948 | -6 010 | -23 971 |
| Administrative expenses | -853 | -701 | -460 | -366 | -1 395 |
| OPERATING PROFIT | 8158 | 6372 | 4935 | 3798 | 15298 |
| Interest income | 389 | 230 | 200 | 123 | 515 |
| Interest expense | -2 | -2 | -1 | -1 | -5 |
| PROFIT AFTER FINANCIAL ITEMS | 8545 | 6600 | 5134 | 3920 | 15808 |
| Tax | -2 777 | -2 145 | -1 668 | -1 274 | -5 011 |
| PROFIT FOR THE PERIOD | 5768 | 4455 | 3466 | 2646 | 10797 |
| Earnings per share, SEK, (before and after dilution) | 6,97 | 5,38 | 4,19 | 3,20 | 13,05 |
| Number of shares, thousands, (before and after dilution) | 827536 | 827536 | 827536 | 827536 | 827536 |
| Depreciation, total | 958 | 822 | 489 | 414 | 1624 |
| of which cost of goods sold | 100 | 87 | 51 | 37 | 172 |
| of which selling expenses | 812 | 696 | 415 | 357 | 1374 |
| of which administrative expenses | 46 | 39 | 23 | 20 | 78 |

## CONSOLIDATED BALANCE SHEET

## (SEK m)

31 May 200731 May 2006
30 Nov. 2006

| ASSETS |  |  |  |
| :---: | :---: | :---: | :---: |
| Fixed assets |  |  |  |
| Intangible assets | 247 | 285 | 222 |
| Tangible assets | 8169 | 7222 | 7554 |
| Financial assets | 289 | 174 | 257 |
| Total fixed assets | 8705 | 7681 | 8033 |
| Current assets |  |  |  |
| Stock-in-trade | 6451 | 6328 | 7220 |
| Current receivables | 1715 | 1402 | 1677 |
| Short-term investments, 3-12 months | 0 | 800 | 8748 |
| Liquid funds | 15332 | 12314 | 9877 |
| Total current assets | 23498 | 20844 | 27522 |
| TOTAL ASSETS | 32203 | 28525 | 35555 |
| EQUITY AND LIABILITIES |  |  |  |
| Equity | 24414 | 21902 | 27779 |
| Long-term liabilities* | 801 | 779 | 780 |
| Short-term liabilities** | 6988 | 5844 | 6996 |
| * Refers to deferred tax debts and allocation to pensions. |  |  |  |
|  |  |  |  |
| ** No short-term liabilities are interest bearing. |  |  |  |

## CHANGE IN EQUITY

| Equity, opening balance, 1 Dec. 2005 | 27779 | 25924 | 25924 |
| :--- | ---: | ---: | ---: |
| Currency translation effects etc. | 384 | -616 | -1081 |
| Income and expenses posted directly to equity | 384 | -616 | -1081 |
| Profit for the period | 5768 | 4455 | 10797 |
| Total income and expenses | 6152 | 3839 | 9716 |
| Dividend | -9517 | -7861 | -7861 |
| Equity, closing balance, 31 May 2007 | 24414 | 21902 | 27779 |

## GROUP CASH FLOW ANALYSIS

## (SEK m)

| CURRENT OPERATIONS | $\begin{aligned} & 1 \text { Dec. 2006- } \\ & 31 \text { May } 2007 \end{aligned}$ | $\begin{aligned} & 1 \text { Dec. 2005- } \\ & 31 \text { May } 2006 \end{aligned}$ |
| :---: | :---: | :---: |
| Profit after financial items* | 8545 | 6600 |
| Provisions for pensions | 10 | 10 |
| Depreciation | 958 | 822 |
| Tax paid | -2 778 | -3 071 |
| Cash flow from current operations before changes in working capital | 6735 | 4361 |
| Cash flow from changes in working capital |  |  |
| Current receivables | -15 | 214 |
| Stock-in-trade | 911 | 278 |
| Current liabilities | -47 | 201 |
| CASH FLOW FROM CURRENT OPERATIONS | 7584 | 5054 |
| INVESTMENT ACTIVITIES |  |  |
| Investments in intangible assets | -45 | -67 |
| Investments in tangible assets | -1 445 | -660 |
| Financial investments, 3-12 months | 8748 | 5550 |
| Other investments | -25 | 48 |
| CASH FLOW FROM INVESTMENT ACTIVITIES | 7233 | 4871 |
| FINANCING ACTIVITIES |  |  |
| Dividend | -9 517 | -7 862 |
| Repaid dividend | 1 | 1 |
| CASH FLOW FROM FINANCING ACTIVITIES | -9 516 | -7861 |
| CASH FLOW FOR THE PERIOD | 5301 | 2064 |
| Liquid funds, opening balance | 9877 | 10496 |
| Cash flow for the period | 5301 | 2064 |
| Exchange rate effect | 154 | -246 |
| Liquid funds, closing balance | 15332 | 12314 |

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## FIVE YEAR SUMMARY

## Six months

Sales including VAT, SEK m
Sales excluding VAT, SEK m
Change from previous year, \%
Operating profit, SEK m
31 May 2007
43255
36822
14,6
8158
22,2
958
8545
5768
15332
6451
24414
827536
6,97
29,50
77,5
75,8

## 31 May 2006 <br> 37655

32134
14,4
6372 19,8
822
6600
4455
13114
6328
31 May 2005
32980
28095

| 31 May 2004 | 31 May $\mathbf{2 0 0 3}$ |
| ---: | ---: |
| 29304 | 27025 |
| 24981 | 23070 |
| 8,3 | 9,5 |
| 4324 | 4028 |
| 17,3 | 17,5 |
|  |  |
| 625 | 570 |
| 4497 | 4256 |
| 2923 | 2766 |
|  |  |
| 10718 | 10285 |
| 4869 | 3631 |
| 18266 | 16579 |
|  | 827536 |
| 827536 | 3,34 |
| 3,53 | 20,03 |
| 22,07 | 82,3 |
| 82,6 | 78,5 |
| 78,9 | 893 |

## Rolling, twelve months

Earnings per share, SEK (before and after dilution)
14,63
Return on shareholders' equity, \%
52,3
Return on capital employed, \%

76,4

11,90
47,2
68,2

9,92
43,1
65,3

7,91
37,6
56,5

7,61
38,8

Definition on key figures see Annual Report.
The International Financial Reporting Standards (IFRS) are beeing applied from 2005/2006. The restatement of 2004/2005 according to IFRS has not involved any adjustment.
Years 2002/2003-2003/2004 have been reported according to the previously applied principles based on the Swedish Financial Accounting Standards Council's recommendations.

| SEK m | $\begin{array}{r} \text { Sales } \\ \text { 2006/07 } \\ \text { incl. VAT } \end{array}$ | $\begin{array}{r} \text { Sales } \\ \text { 2005/06 } \\ \text { incl. VAT } \end{array}$ | Change SEK \% | Change local currency \% | No.of stores 31 May 2007 | Openings during the period | Closings during the period |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Sweden | 3394 | 3182 | 7 | 7 | 122 |  | 1 |
| Norway | 2338 | 2299 | 2 | 7 | 78 |  | 1 |
| Denmark | 1737 | 1577 | 10 | 12 | 60 | 2 |  |
| United Kingdom | 3523 | 3157 | 12 | 12 | 119 | 8 | 1 |
| Switzerland | 2158 | 1918 | 13 | 11 | 57 | 1 |  |
| Germany | 10597 | 9718 | 9 | 11 | 312 | 11 | 2 |
| Netherlands | 2851 | 2306 | 24 | 26 | 87 | 7 | 1 |
| Belgium | 1382 | 1342 | 3 | 5 | 51 | 2 | 1 |
| Austria | 2165 | 2042 | 6 | 8 | 57 | 3 |  |
| Luxembourg | 161 | 149 | 8 | 11 | 8 | 1 |  |
| Finland | 1027 | 935 | 10 | 12 | 34 | 1 |  |
| France | 3264 | 2775 | 18 | 20 | 88 | 3 |  |
| USA | 2715 | 2345 | 16 | 29 | 129 | 15 |  |
| Spain | 2393 | 1758 | 36 | 39 | 71 | 3 |  |
| Poland | 782 | 528 | 48 | 51 | 39 | 5 | 1 |
| Czech Republic | 286 | 239 | 20 | 20 | 13 |  |  |
| Portugal | 330 | 195 | 69 | 73 | 14 |  |  |
| Italy | 736 | 440 | 67 | 71 | 23 | 5 |  |
| Canada | 598 | 410 | 46 | 62 | 29 | 3 |  |
| Slovenia | 213 | 153 | 39 | 42 | 4 | 1 |  |
| Ireland | 200 | 156 | 28 | 32 | 6 | 1 |  |
| Hungary | 91 | 31 | 194 | 188 | 4 |  |  |
| Slovakia | 24 |  |  |  | 1 | 1 |  |
| Greece | 41 |  |  |  | 2 | 2 |  |
| China | 150 |  |  |  | 3 | 3 |  |
| Franchise | 99 |  |  |  | 9 | 5 |  |
| Total | 43255 | 37655 | 15 | 18 | 1420 | 83 | 8 |

## SALES BY COUNTRY AND NUMBER OF STORES

1 March 2007-- 31 May 2007

| SEK m |  |  |  |  | No. of stores |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2006/07 | 2005/06 | SEK | local currency | 31 May 2007 | during the | during the |
|  | incl. VAT | incl. VAT | \% | \% |  | period | period |
| Sweden | 1796 | 1662 | 8 | 8 | 122 |  | 1 |
| Norway | 1176 | 1134 | 4 | 8 | 78 |  |  |
| Denmark | 934 | 812 | 15 | 16 | 60 | 2 |  |
| United Kingdom | 1875 | 1669 | 12 | 12 | 119 | 8 |  |
| Switzerland | 1230 | 1029 | 20 | 11 | 57 | 1 |  |
| Germany | 5763 | 5170 | 11 | 13 | 312 | 11 | 2 |
| Netherlands | 1655 | 1265 | 31 | 32 | 87 | 7 | 1 |
| Belgium | 703 | 697 | 1 | 2 | 51 | 2 | 1 |
| Austria | 1160 | 1073 | 8 | 9 | 57 | 3 |  |
| Luxembourg | 87 | 79 | 10 | 14 | 8 |  |  |
| Finland | 541 | 469 | 15 | 16 | 34 | 1 |  |
| France | 1738 | 1444 | 20 | 22 | 88 | 3 |  |
| USA | 1521 | 1284 | 18 | 30 | 129 | 11 |  |
| Spain | 1255 | 939 | 34 | 35 | 71 | 2 |  |
| Poland | 439 | 302 | 45 | 45 | 39 | 4 |  |
| Czech Republic | 157 | 137 | 15 | 15 | 13 |  |  |
| Portugal | 169 | 102 | 66 | 67 | 14 |  |  |
| Italy | 444 | 255 | 74 | 77 | 23 | 4 |  |
| Canada | 350 | 245 | 43 | 56 | 29 | 3 |  |
| Slovenia | 128 | 93 | 38 | 38 | 4 | 1 |  |
| Ireland | 113 | 84 | 35 | 38 | 6 |  |  |
| Hungary | 51 | 25 | 104 | 96 | 4 |  |  |
| Slovakia | 24 |  |  |  | 1 | 1 |  |
| Greece | 41 |  |  |  | 2 | 2 |  |
| China | 150 |  |  |  | 3 | 3 |  |
| Franchise | 54 |  |  |  | 9 | 5 |  |
| Total | 23554 | 19969 | 18 | 20 | 1420 | 74 | 5 |

## SEGMENT REPORTING

Internal follow-up is carried out by country. To present the information by segments in a comprehensive way the countries are divided into three regions: the Nordic Region, the Eurozone excluding Finland and the Rest of the World. There is no internal division into different lines of business and hence reporting in secondary segments is not relevant.

Slovenia has changed its currency from SIT to EUR, consequently both years' sales figures have been moved to Eurozone from Rest of the World.

|  | $\begin{aligned} & 1 \text { Dec. 2006- } \\ & 31 \text { May } 2007 \end{aligned}$ | $\begin{aligned} & 1 \text { Dec. 2005- } \\ & 31 \text { may } 2007 \end{aligned}$ | 1 March 2007 31 May 2007 | 1 March 2006- <br> 31 May 2006 | $\begin{aligned} & 1 \text { Dec. 2005- } \\ & 30 \text { Nov. } 2006 \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Nordic Region |  |  |  |  |  |
| Net sales | 6824 | 6420 | 3571 | 3275 | 13499 |
| Operating profit | 1588 | 1412 | 821 | 758 | 3655 |
| Operating margin, \% | 23.3 | 22.0 | 23.0 | 23.1 | 27.1 |
| Eurozone excl. Finland |  |  |  |  |  |
| Net sales | 20526 | 17895 | 11156 | 9528 | 37804 |
| Operating profit | 4916 | 3870 | 2941 | 2282 | 8676 |
| Operating margin, \% | 24.0 | 21.6 | 26.4 | 24.0 | 22.9 |
| Rest of the World |  |  |  |  |  |
| Net sales | 9472 | 7819 | 5323 | 4260 | 17097 |
| Operating profit | 1654 | 1090 | 1173 | 758 | 2967 |
| Operating margin, \% | 17.5 | 13.9 | 22.0 | 17.8 | 17.4 |
| Total |  |  |  |  |  |
| Net sales | 36822 | 32134 | 20050 | 17063 | 68400 |
| Operating profit | 8158 | 6372 | 4935 | 3798 | 15298 |
| Operating margin, \% | 22.2 | 19.8 | 24.6 | 22.3 | 22.4 |


[^0]:    * Interest paid amounts to SEK 2.0 m (2.0).

