



HALF-YEAR REPORT

1 December 2005 - 31 May 2006

- Sales for the H&M Group excluding VAT amounted to SEK 32,134 m (28,095), an increase of 14 per cent. With comparable exchange rates, the increase was 10 per cent.
- Profit after financial items for the half-year was SEK 6,600 m (5,931), an increase of 11 per cent. Group profit after estimated tax was SEK 4,455 m (3,855), corresponding to SEK 5.38 (4.66) per share.
- Sales for the second quarter excluding VAT amounted to SEK 17,063 m (15,486), an increase of 10 per cent compared with the previous year. With comparable exchange rates the increase was 7 per cent.
- Profit after financial items for the second quarter was SEK 3,920 m (3,623), an increase of 8 per cent.
- The increase in sales for the month of May was 13 per cent with comparable exchange rates.
- China to become new market for H&M in 2007. Contracts signed for one store each in Shanghai and in Hong Kong.
- New store chain for women and men to be launched under a separate brand name. About 10 stores planned to open in selected markets in 2007.
- Increased shoe assortment for women in about 200 H&M stores during spring 2007.

Sales

Sales excluding VAT for the H&M Group increased by 14 per cent in the first six months (with comparable exchange rates, 10 per cent, which implies 2 per cent in comparable stores) and amounted to SEK 32,134 m (28,095). Sales including VAT amounted to SEK 37,655 m (32,980).

Sales excluding VAT for the second quarter increased by 10 per cent (with comparable exchange rates, 7 per cent, which implies -1 per cent in comparable stores) and amounted to SEK 17,063 m (15,486). Sales including VAT amounted to SEK 19,969 m (18,160).

The increase in sales for the month of May was 13 per cent with comparable exchange rates, which implies 5 per cent in comparable stores.

During the first six months, the Group opened 57 stores (62); eight in Germany, six in Spain, five each in France, the USA and Canada, four each in the Netherlands and Poland, three each in the UK, Austria and Italy, two each in Sweden, Switzerland and Belgium and one each in the Czech Republic, Portugal, Slovenia, Ireland and Hungary. Six stores have been closed (9). The total number of stores in the Group thus amounts to 1,244 (1,121).

Results for the first half-year

Gross profit for the first six months amounted to SEK 18,688 m (16,469), which corresponds to 58.2 per cent (58.6) of sales.

After deducting selling and administrative expenses, operating profit was SEK 6,372 m (5,730). The result corresponds to an operating margin of 19.8 per cent (20.4).

Operating profit for the period has been charged with depreciation according to plan amounting to SEK 822 m (689).

Consolidated net interest income during the first six months was SEK 228 m (201).

Profit after financial items amounted to SEK 6,600 m (5,931), an increase of 11 per cent.

Profit for the Group after estimated tax of 32.5 per cent (35) for the first six months was SEK 4,455 m (3,855), corresponding to earnings per share of SEK 5.38 (4.66).

Return on shareholders' equity (rolling 12 months) was 47.2 per cent (43.1) and return on capital employed (rolling 12 months) was 68.2 per cent (65.3).

The result of the six months period was positively affected by currency translation effects of about SEK 246 m compared to the same period last year. Translation effects arise when the foreign subsidiaries' results are converted into SEK in order to be consolidated in the Group accounts.

Results for the second quarter

Gross profit for the second quarter amounted to SEK 10,174 m (9,303) which corresponds to a gross margin of 59.6 per cent (60.1).

Operating profit for the second quarter was SEK 3,798 m (3,526) corresponding to an operating margin of 22.3 per cent (22.8).

Profit after financial items was SEK 3,920 m (3,623) an increase of 8 per cent.

Comments on results and sales

The second quarters' sales were weak. Even if the trend during the quarter was rising, the total sales level was not reached as planned. Despite this H&M has taken market shares in basically all markets during the first half year, especially pleasing are very good sales in the Nordic countries.

The stock-in-trade increased by 28 per cent compared with the previous year. This implies that the reduction level for the third quarter will be somewhat higher than previous year, which is expected to have a marginally impact on the gross margin. However, it should be noted that the stock level was low previous year.

The operating margin of 22.3 per cent (22.8) is somewhat lower than previous year, due to increased costs for re-introduced quotas and price reductions.

Financial position

Consolidated total assets increased by 11 per cent compared to the same time last year and amounted to SEK 28,525 m (25,683).

During the first six months the Group generated a positive cash flow of SEK 2,064 m (265). Cash flow was affected by dividends of SEK 7,862 m (6,620) and by SEK 5,550 m (3,250) as a reclassification of short-term investments.

Financial assets and short-term investments amounted to SEK 13,114 m (12,352).

The stock-in-trade amounted to SEK 6,328 m (4,925), an increase of 28 per cent compared to the same time last year. Stock-in-trade in relation to sales excluding VAT was 9.7 per cent (8.6) and 22.2 per cent (19.2) in relation to total assets.

Investments in fixed assets during the half-year amounted to SEK 734 m (909).

The equity/assets ratio was 77 per cent (77) and the share of risk-bearing capital was 79 per cent (81).

Net worth apportioned on the outstanding 827,536,000 shares on 31 May 2006 was SEK 26.47 (23.96).

Expansion

During the remaining part of the financial year approximately 100 stores net are estimated to open mainly in the US, Spain, France, the UK, Canada and Germany. During the corresponding period last year, the net increase of stores was 72.

The preparations for the expansion of the online and catalogue sales outside the Nordic countries run according to plan. In August 2006 customers in the Netherlands will be able to buy H&M's products through the internet.

The H&M Group has signed contracts for the first stores in the Far East. The establishment in China is a first step into a new, large and exciting market. During spring 2007, H&M is planning to open one full-range store each in Shanghai and in Hong Kong in best business location.

During 2007 the Group will establish a new life style concept under a separate brand name. The stores will offer a niched assortment for women and men in a higher price segment. H&M's ambition is to offer the best price for comparable items also in this segment. Approximately ten stores with an average area of about 400 square metres will open in selected H&M markets.

H&M has initiated an increased shoe assortment for women through collaboration with external experts in shoe design and production. As of spring 2007 H&M will launch an extended assortment of shoes for women. The shoe assortment will initially be sold in about 200 H&M stores in all markets. The number of stores carrying shoes will then gradually increase.

The Parent Company

The parent company achieved sales (including inter-company sales) during the period of SEK 3,677 m (3,332) with an estimated result before balance sheet appropriations of SEK 2,571 m (6,100), of which SEK 1,785 m (5,517) consisted of dividends from subsidiaries.

Accounting principles

With effect from 1 December 2005 the Group is applying International Financial Reporting Standards (IFRS). The interim 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 Interim Financial Reporting.

The accounting principles applied in this interim report is those described in the Annual Report for 2004/05 under the section Accounting principles (where applicable) as well as those in the section on Derivatives and hedge accounting.

With effect from 1 December 2005 the parent company is applying Recommendation RR 32 (Accounting for Legal Entities) from the Swedish Financial Accounting Standards Council, which essentially means that IFRS will be applied, but with certain exceptions.

According to IFRS 1, the report is to be prepared in accordance with the IFRS standards effective on 30 November 2006. Moreover, these standards shall have been approved by the EU. The reported effects of the adoption of IFRS are therefore provisional and based on current IFRS standards and interpretations thereof, which may be changed before 30 November 2006 with subsequent consequences for the amounts reported.

Derivatives and hedge accounting

The Group's policy is for derivatives to be held only for hedging purposes. Derivatives comprise forward currency contracts that are used to cover the risk of exchange rate changes in the Group's binding purchase commitments. In previous years the Group has applied hedge accounting in accordance with the accounting rules applicable at that time, which resulted in deferred hedge accounting. This meant that the result from derivatives was not reported until the transaction hedged took place.

With effect from 1 December 2005 H&M is applying hedge accounting in accordance with IAS 39, in contrast to what was stated in the Annual Report for 2004/05, Note 23: Effects of the transition to IFRS. Hedge accounting is judged to provide a more accurate picture of the Group's result. In accordance with the exemption rule in IFRS 1, the information for the comparison year has not been converted in respect of IAS 39. The effects of the adoption of IFRS on the result and shareholders' equity as stated in the Annual Report for 2004/05 are thus no longer relevant.

H&M reports hedges of the currency risk in binding commitments as hedging of fair value. Derivatives are reported in the balance sheet at their fair value. In the same way, the binding purchase commitment is also reported at fair value in respect of the currency risk hedged. The change in the value of derivatives is reported in the income statement along with the hedged entry. As of 31 May 2006 SEK 231 m is included in current receivables and current liabilities in respect of hedge accounting.

In summary, neither H&M's shareholders' equity as at 1 December 2004 and 1 December 2005 nor its result for 2004/05 is affected by the adoption of IFRS.

This half-year report has not been audited.

The Nine-Month results will be published on 27 September 2006.

The Full-Year results for the financial year 2006/2007 will be published on 25 January 2007.

The Three-Month results for 2006/2007 will be published on 28 March 2007.

The Annual General Meeting takes place on 3 May 2007.

The Board of Directors

Stockholm, 21 June 2006

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CONSOLIDATED INCOME STATEMENT
(SEK m)

	01-12-2005- 31-05-2006	01-12-2004- 31-05-2005	01-03-2006- 31-05-2006	01-03-2005- 31-05-2005	01-12-2004- 30-11-2005
Sales including VAT	37 655	32 980	19 969	18 160	71 886
Sales excluding VAT	32 134	28 095	17 063	15 486	61 262
Cost of goods sold	-13 446	-11 626	-6 889	-6 183	-25 080
GROSS PROFIT	18 688	16 469	10 174	9 303	36 182
Selling expenses	-11 615	-10 137	-6 010	-5 457	-21 801
Administrative expenses	-701	-602	-366	-320	-1 208
OPERATING PROFIT	6 372	5 730	3 798	3 526	13 173
Profit from financial investments					
Interest income	230	203	123	98	384
Interest expense	-2	-2	-1	-1	-4
PROFIT AFTER FINANCIAL ITEMS	6 600	5 931	3 920	3 623	13 553
Taxes	-2 145	-2 076	-1 274	-1 268	-4 306
PROFIT FOR THE YEAR	4 455	3 855	2 646	2 355	9 247
<i>Earnings per share, SEK</i>	<i>5.38</i>	<i>4.66</i>	<i>3.20</i>	<i>2.85</i>	<i>11.17</i>
Number of shares: 827 536 000					
Depreciation, total	822	689	414	353	1 452
of which cost of goods sold	87	74	37	38	70
of which selling expenses	696	582	357	298	155
of which administrative expenses	39	33	20	17	1 227

CONSOLIDATED BALANCE SHEET

(SEK m)

	31 May 2006	31 May 2005	30 November 2005
ASSETS			
Fixed assets			
Intangible assets	285	195	250
Tangible assets	7 222	6 784	7 619
Financial assets	174	195	208
Total fixed assets	7 681	7 174	8 077
Current assets			
Stock-in-trade	6 328	4 925	6 841
Current receivables	1 402	1 232	1 419
Short-term investments, 3-12 months	800		6 350
Liquid funds	12 314	12 352	10 496
Total current assets	20 844	18 509	25 106
Total assets	28 525	25 683	33 183
Equity and liabilities			
Equity	21 902	19 826	25 924
Long-term liabilities*	779	1 086	775
Short-term liabilities*	5 844	4 771	6 484
Total equity and liabilities	28 525	25 683	33 183
* No liabilities are interest bearing.			
CHANGE IN EQUITY			
Equity, opening balance	25 924	22 193	22 193
Profit for the period	4 455	3 855	9 247
Dividend	-7 861	-6 619	-6 619
Currency translation effects etc.	-616	397	1 103
Equity, closing balance	21 902	19 826	25 924

CASH FLOW ANALYSIS (SEK m)

	01-12-2005- 31-05-2006	01-12-2004- 31-05-2005
CURRENT OPERATIONS		
Profit after financial items*	6 600	5 931
Provisions for pensions	10	7
Depreciation	822	689
Tax paid	-3 071	-1 918
Cash flow from current operations before changes in working capital	4 361	4 709
Cash flow from changes in working capital		
Current receivables	214	13
Stock-in-trade	278	309
Current liabilities	201	-354
CASH FLOW FROM CURRENT OPERATIONS	5 054	4 677
Investment activities		
Investments in intangible assets	-67	-110
Investments in tangible assets	-660	-928
CASH FLOW FROM INVESTMENT ACTIVITIES	-727	-1 038
FINANCING ACTIVITIES		
Financial investments, 3-12 months	5 550	3 250
Financial fixed assets	48	-5
Dividend	-7 862	-6 620
Refunded dividend	1	1
CASH FLOW FROM FINANCING ACTIVITIES	-2 263	-3 374
CASH FLOW FOR THE PERIOD	2 064	265
Liquid funds, opening balance (incl.short-term investments, 0-3 months)	10 496	11 801
Cash flow for the period	2 064	265
Changes in exchange rates	-246	286
Liquid funds, closing balance (incl.short-term investments, 0-3 months)	12 314	12 352

* Interest paid amounts to SEK 2.0 (1.1)

FIVE YEAR SUMMARY

(SEK m)

Six months	31-05-2006	31-05-2005	31-05-2004	31-05-2003	31-05-2002
Sales including VAT	37 655	32 980	29 304	27 025	24 706
Sales excluding VAT	32 134	28 095	24 981	23 070	21 075
Change from previous year, %	14.4	12.5	8.3	9.5	15.5
Operating profit	6 372	5 730	4 324	4 028	3 159
Operating margin, %	19.8	20.4	17.3	17.5	15.0
Depreciation for the period	822	689	625	570	532
Profit after financial items	6 600	5 931	4 497	4 256	3 318
Profit after estimated tax	4 455	3 855	2 923	2 766	2 157
Number of shares (thousand)	827 536	827 536	827 536	827 536	827 536
Earnings per share, SEK	5.38	4.66	3.53	3.34	2.61
Liquid funds (including short term receivables)	13 114	12 352	10 718	10 285	9 419
Stock-in-trade	6 328	4 925	4 869	3 631	3 983
Equity	21 902	19 826	18 266	16 579	15 895
Rolling, twelve months					
Earnings per share, SEK	11.90	9.92	7.91	7.61	5.36
Net worth per share, SEK	26.47	23.96	22.07	20.03	19.21
Return on shareholders' equity, %	47.2	43.1	37.6	38.8	31.2
Return on capital employed, %	68.2	65.3	56.5	58.6	48.1
Debt/equity ratio, %	0.0	0.0	0.0	0.0	1.2
Share of risk-bearing capital, %	79.0	80.9	82.6	82.3	79.7
Equity/assets ratio, %	76.8	77.2	78.9	78.5	76.1
Interest cover, %	7 112	3 275	5 108	904	420
Number of stores	1 244	1121	994	893	801

Definition on key figures see Annual Report

SALES BY COUNTRY AND NUMBER OF STORES
01-12-2005 - 31-05-2006

SEK m	Sales 2006 incl. VAT	Sales 2005 Incl. VAT	Change SEK %	Change local currency %	No.of stores 31-05-2006	Change since 01-12-2005
Sweden	3 182	2 922	9	9	121	-3
Norway	2 299	2 072	11	5	78	
Denmark	1 577	1 394	13	10	56	
United Kingdom	3 157	2 758	14	10	105	3
Switzerland	1 918	1 827	5	3	54	2
Germany	9 718	9 247	5	2	296	8
Netherlands	2 306	1 970	17	13	77	4
Belgium	1 342	1 164	15	12	50	2
Austria	2 042	2 002	2	-1	55	3
Luxembourg	149	140	6	3	7	
Finland	935	808	16	12	27	
France	2 775	2 371	17	13	76	5
USA	2 345	1 751	34	21	96	5
Spain	1 758	1 281	37	33	55	5
Poland	528	337	57	43	31	4
Czech Republic	239	158	51	38	13	1
Portugal	195	134	46	41	8	1
Italy	440	239	84	79	13	3
Canada	410	252	63	36	16	5
Slovenia	153	111	38	33	3	1
Ireland	156	42	271	260	5	1
Hungary	31				2	1
Total	37 655	32 980	14	10	1 244	51

SALES BY COUNTRY AND NUMBER OF STORES
01-03-2006 - 31-05-2006

SEK m	Sales 2006 Incl. VAT	Sales 2005 Incl. VAT	Change SEK %	Change local currency %	No.of stores 31-05-2006	Change since 01-03-2006
Sweden	1 662	1 535	8	8	121	-1
Norway	1 134	1 025	11	5	78	
Denmark	812	734	11	8	56	
United Kingdom	1 669	1 517	10	8	105	2
Switzerland	1 029	1 003	3	2	54	2
Germany	5 170	5 167	0	-2	296	7
Netherlands	1 265	1 125	12	10	77	4
Belgium	697	625	12	9	50	1
Austria	1 073	1 095	-2	-4	55	3
Luxembourg	79	76	4	1	7	
Finland	469	426	10	8	27	
France	1 444	1 310	10	8	76	4
USA	1 284	1 010	27	19	96	5
Spain	939	716	31	28	55	5
Poland	302	195	55	42	31	4
Czech Republic	137	99	38	28	13	1
Portugal	102	75	36	35	8	1
Italy	255	164	55	52	13	2
Canada	245	155	58	35	16	5
Slovenia	93	66	41	37	3	1
Ireland	84	42	100	93	5	1
Hungary	25				2	1
Total	19 969	18 160	10	7	1 244	48

REPORTING BY REGION, SEK m

	01-12-2005- 31-05-2006	01-12-2004- 31-05-2005	01-03-2006- 31-05-2006	01-03-2005- 31-05-2005	01-12-2004- 30-11-2005
Nordic Region					
Net sales	6 420	5 780	3 275	2 989	12 556
Operating profit	1 412	1 112	758	642	3 020
Operating margin, %	22.0	19.2	23.1	21.5	24.1
Eurozone excl. Finland					
Net sales	17 767	15 789	9 451	8 813	34 197
Operating profit	3 831	3 665	2 256	2 217	7 854
Operating margin, %	21.6	23.2	23.9	25.2	23.0
Rest of the World					
Net sales	7 947	6 526	4 337	3 684	14 509
Operating profit	1 129	953	784	667	2 299
Operating margin, %	14.2	14.6	18.1	18.1	15.8
Total					
Net sales	32 134	28 095	17 063	15 486	61 262
Operating profit	6 372	5 730	3 798	3 526	13 173
Operating margin %	19.8	20.4	22.3	22.8	21.5

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.