



Three-Month Report

1 December 2005 - 28 February 2006

- **Group turnover excluding VAT amounted to SEK 15,071 M (12,610), an increase of 20 per cent. With comparable exchange rates, the increase was 14 per cent. Turnover including VAT was SEK 17,686 M (14,820).**
- **Profit after financial items amounted to SEK 2,680 M (2,309), an increase of 16 per cent. Group profit after estimated tax was SEK 1,809 M (1,501), corresponding to earnings per share of SEK 2.19 (1.81).**
- **Gross profit for the period amounted to SEK 8,514 M (7,167), which corresponded to a margin of 56.5 per cent (56.8 per cent).**
- **Operating profit amounted to SEK 2,574 M (2,204). Operating margin was 17.1 per cent (17.5).**
- **Greece to become new H&M market. Planned opening in Athens during spring 2007.**

Turnover

Turnover excluding VAT for the H&M Group increased by 20 per cent during the first quarter (14 per cent with comparable exchange rates) and amounted to SEK 15,071 M (12,610). Turnover including VAT was SEK 17,686 M (14,820).

The turnover increase including VAT in the month of February was 11 per cent excluding exchange rate fluctuations. In comparable stores the increase was 2 per cent. For the quarter the increase was 4 per cent in comparable stores.

H&M opened six stores during the first quarter, of which one each in Sweden, the UK, Germany, Belgium, France and Italy. Three stores were closed. The total number of stores in the Group thereby amounted to 1,196 (1,069). During the same period last year five stores opened and four closed.

Results

Gross profit amounted to SEK 8,514 M (7,167), which corresponds to a gross margin of 56.5 per cent (56.8).

After deduction of selling and administrative expenses, the operating profit amounted to SEK 2,574 M (2,204), an increase of 17 per cent. This corresponds to an operating margin of 17.1 per cent (17.5).

The operating profit for the period has been charged with depreciation according to plan amounting to SEK 408 M (336).

Group financial net interest income was SEK 106 M (105).

Group profit after financial items amounted to SEK 2,680 M (2,309), an increase of 16 per cent.

Profit after estimated tax of 32.5 (35.0) per cent was SEK 1,809 M (1,501), corresponding to earnings per share of SEK 2.19 (1.81).

Return on shareholders equity (revolving 12 months) was 37.1 per cent (33.6) and return on capital employed (revolving 12 months) was 54.0 per cent (50.7).

Comments on the Results

The profitability remained good. The gross margin of 56.5 per cent (56.8) is somewhat lower compared to last year. This depends on increased costs for reintroduced textile quotas and a slightly higher dollar exchange rate.

Increased marketing efforts have contributed to the good sales development. The selling and administrative expenses were 37.2 per cent (37.1) of turnover excluding VAT.

The Group's tax rate for the financial year is estimated to 32.5 per cent, which is 2.5 percentage units lower than the former standard tax rate. The decrease mainly depends on lowered tax rates in a number of sales countries.

Financial Position

The Group balance sheet total increased by 16 per cent compared to the same time last year and amounted to SEK 34,206 M (29,503).

During the period, the Group generated a positive cash flow of SEK 247 M (4,081) of which SEK -790 M (3,250) depends on changed durations of investments.

The financial assets and short-term investments amounted to SEK 17,812 M (15,966).

The stock-in-trade amounted to SEK 7,073 (5,395), an increase of 31 per cent compared to the same time last year. Stock-in-trade for new stores accounted for 10 percentage units of the increase, currency translation effects accounted for 7 percentage units and increased stock-in-trade for comparable stores for 14 percentage units. The composition of the stock-in-trade is deemed to be good.

During the period SEK 249 M (359) was invested in fixed assets.

The Group's equity/assets ratio was 80.8 per cent (80.8) and the share of risk-bearing capital was 82.7 per cent (84.2).

Net worth apportioned on the outstanding 827,536,000 shares on 28 February 2006, equals to SEK 33.40 (28.82) per share.

Expansion

The Group plans to open 54 stores during the second quarter. The largest part of the expansion takes place in the USA, Germany, Spain, Holland and Poland. Two stores will be closed during the quarter. In the corresponding period last year, 57 new stores were opened and five were closed.

H&M plans establishment in Greece. The first store is expected to open in spring 2007 in Athens.

In the financial year 2005/2006 a net increase of 150 stores is planned.

Sales in March

The start of the season has been delayed due to the cold weather in March. The late spring and the fact that Easter does not occur until April have led to very weak sales mainly in Central Europe.

The Parent Company

Turnover (including internal sales) for the parent company during the period amounted to SEK 1,754 M (1,377). The estimated result before balance-sheet appropriations was SEK 1,031 M (1,889) of which dividends from subsidiaries amounted to SEK 660 M (1,681).

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 are 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 below.

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 28 February 2006 SEK 47 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.

The interim report has not been audited.

The Half-Year results will be published on 21 June 2006.

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

The Full-Year results will be published on 25 January 2007.

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

The Annual General Meeting takes place on 3 May 2007.

Stockholm 29 March, 2006

The Board of Directors

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For background information about H&M and press pictures please see www.hm.com.

GROUP INCOME STATEMENT (SEK M)

	1 Dec 2005- 28 Feb 2006	1 Dec 2004- 28 Feb 2005	1 Dec 2004- 30 Nov 2005
Turnover, including VAT	17,686	14,820	71,886
Turnover, excluding VAT	15,071	12,610	61,262
Cost of goods sold	-6,557	-5,443	-25,080
GROSS PROFIT	8,514	7,167	36,182
Selling expenses	-5,605	-4,681	-21,801
Administrative expenses	-335	-282	-1,208
OPERATING PROFIT	2,574	2,204	13,173
Result from financial investments			
Interest income	107	106	384
Interest expense	-1	-1	-4
RESULTS AFTER FINANCIAL ITEMS	2,680	2,309	13,553
Taxes	-871	-808	-4,306
PROFIT FOR THE PERIOD	1,809	1,501	9,247
Profit per share, SEK	2.19	1.81	11.17
Number of shares 827,536,000			
Depreciation, total	408	336	1,452
of which cost of goods sold	50	36	155
of which selling expenses	339	284	1,227
of which administration expenses	19	16	70

GROUP BALANCE SHEET SUMMARY

(SEK M)

28 Feb 2006 28 Feb 2005 30 Nov 2005

ASSETS

Fixed assets

Intangible Assets	293	170	250
Tangible Assets	7,393	6,452	7,619
Financial Assets	174	175	208
Total fixed assets	7,860	6,797	8,077

Current assets

Stock-in-trade	7,073	5,395	6,841
Current receivables	1,461	1,345	1,419
Short-term investments, 3-12 months	7,140		6,350
Liquid funds	10,672	15,966	10,496
Total current assets	26,346	22,706	25,106

Total assets	34,206	29,503	33,183
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Equity and liabilities

Equity	27,638	23,850	25,924
Long-term liabilities*	779	1,080	775
Short-term liabilities*	5,789	4,573	6,484
Total equity and liabilities	34,206	29,503	33,183

* No liabilities are interest bearing

CHANGE IN EQUITY

Equity, beginning of period	25,924	22,193	22,193
Profit for the period	1,809	1,501	9,247
Dividend			-6,619
Currency translation effects, etc	-95	156	1,103
Equity, end of period	27,638	23,850	25,924

CASH FLOW ANALYSES (SEK M)

	1 Dec 2005- 28 Feb 2006	1 Dec 2004- 28 Feb 2005
CURRENT OPERATIONS		
Profit after financial items*	2,680	2,309
Provisions for pensions	5	3
Depreciation	408	336
Tax paid	-1,619	-928
Cash flow generated by current operations before changes in working capital	1,474	1,720
Cash flow generated by changes in working capital		
Current receivables	-1	-114
Stock-in-trade	-252	-217
Current liabilities	32	-212
CASH FLOW FROM CURRENT OPERATIONS	1,253	1,177
INVESTMENT ACTIVITIES		
Investment in intangible assets	-69	-76
Investment in tangible assets	-180	-283
CASH FLOW FROM INVESTMENT ACTIVITIES	-249	-359
FINANCIAL ACTIVITIES		
Financial investments, 3 - 12 months	-790	3,250
Financial fixed assets	33	13
CASH FLOW FROM FINANCIAL ACTIVITIES	-757	3,263
CASH FLOW FOR THE PERIOD	247	4,081

Liquid funds, beginning of the year (incl. short-term investments, 0-3 months)	10,496	11,801
Cash flow for the period	247	4,081
Changes in currency rates	-71	84
Liquid funds, end of the period (incl. short-term investments, 0-3 months)	10,672	15,966

* Paid interest amounts to SEK 1.0 (1.1)

FIVE YEAR SUMMARY (SEK M)

	28 Feb 2002	28 Feb 2003	28 Feb 2004	28 Feb 2005	28 Feb 2006
Turnover including VAT	11,246	12,636	13,807	14,820	17,686
Turnover excluding VAT	9,583	10,771	11,756	12,610	15,071
Change from previous year, %	16.7	12.4	9.3	7.3	19.5
Operating profit	1,101	1,558	1,701	2,204	2,574
Operating margin, %	11.5	14.5	14.5	17.5	17.1
Depreciation for the period	271	284	308	336	408
Profit after financial items	1,180	1,689	1,788	2,309	2,680
Profit after estimated tax	767	1,098	1,162	1,501	1,809
Number of shares	827,536,000	827,536,000	827,536,000	827,536,000	827,536,000
Earnings per share, SEK	0.93	1.33	1.40	1.81	2.19
Liquid funds (incl. short-term investments)	8,760	13,492	13,784	15,966	17,812
Stock-in-trade	4,587	4,368	5,130	5,395	7,073
Equity	15,801	19,999	21,520	23,850	27,638

Revolving,12 months

Earnings per share, SEK	5.09	7.27	7.79	9.20	11.55
Net worth per share, SEK	19.09	24.17	26.00	28.82	33.40
Return on shareholders' equity, %	29.8	33.6	31.1	33.6	37.1
Return on capital employed, %	44.3	50.8	46.8	50.7	54.0
Debt/equity ratio, %	1.2	0.0	0.0	0.4	0.0
Share of risk-bearing capital, %	77.9	82.6	84.7	84.2	82.7
Equity/assets ratio, %	75.9	79.4	81.2	80.8	80.8
Interest cover	368	721	6,935	3,203	3,239
Total number of stores	776	849	948	1,069	1,196

Definition on key figures see Annual Report

TURNOVER PER COUNTRY AND NUMBER OF STORES

1 December 2005 - 28 February 2006

SEK M	Turnover 2006 Incl. VAT	Turnover 2005 Incl. VAT	Change SEK %	Change local currency %	No of stores 28 February 2006	Change since 1 December 2005
Sweden	1,520	1,387	10	10	122	-2
Norway	1,165	1,047	11	1	78	
Denmark	765	660	16	12	56	
United Kingdom	1,488	1,241	20	13	103	1
Switzerland	889	824	8	5	52	
Germany	4,548	4,080	11	7	289	1
Netherlands	1,041	845	23	18	73	
Belgium	645	539	20	15	49	1
Austria	969	907	7	2	52	
Luxembourg	70	64	9	5	7	
Finland	466	382	22	17	27	
France	1,331	1,061	25	20	72	1
USA	1,061	741	43	23	91	
Spain	819	565	45	39	50	
Poland	226	142	59	44	27	
Czech Republic	102	59	73	56	12	
Portugal	93	59	58	50	7	
Italy	185	75	147	137	11	1
Canada	165	97	70	39	11	
Slovenia	60	45	33	27	2	
Ireland	72				4	
Hungary	6	0			1	
Total	17,686	14,820	19	14	1,196	3

REPORTING PER SEGMENT

The internal follow-up is carried out by country. To present the information in a comprehensive way by segments these will be divided into three geographical regions: the Nordic region, the Euro zone countries 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.

	1 Dec 2005- 28 Feb 2006	1 Dec 2004- 28 Feb 2005	1 Dec 2004- 30 Nov 2005
Nordic countries			
Net turnover	3,145	2,791	12,556
Operating profit	654	470	3,020
Operating margin, %	20.8	16.8	24.1
Euro zone countries excl Finland			
Net turnover	8,316	6,977	34,197
Operating profit	1,575	1,448	7,854
Operating margin, %	18.9	20.8	23.0
Rest of the world			
Net turnover	3,610	2,842	14,509
Operating profit	345	286	2,299
Operating margin, %	9.6	10.1	15.8
Total			
Net turnover	15,071	12,610	61,262
Operating profit	2,574	2,204	13,173
Operating margin, %	17.1	17.5	21.5