



Dear shareholders,

The year 2008 has been an exciting, eventful but also challenging year. The global economic situation changed drastically, which also affected H&M. Despite this, our strong expansion continued. We increased the number of stores by almost 200 net to a total of 1,738 stores around the world and we opened our first store in Japan, a new large market.

We have great respect for the economic downturn, but at the same time, our successful business concept and our financial strength make us well prepared to meet the challenges and to seize the opportunities. To offer our customers fashion and quality at the best price becomes increasingly important when the economy is weakening. By acting as good salesmen we can benefit from it. Our target remains firm; to increase the number of stores by 10 to 15 per cent per year, with continued high profitability.

### **2008 in figures**

H&M passed a milestone in 2008. We sold fashion for more than SEK 100 billion. Sales including VAT increased by 13 per cent to SEK 104 billion. In local currencies sales increased by 11 per cent.

The gross margin increased by 0.4 percentage units to 61.5 per cent while the operating margin amounted to 22.7 per cent.

Profit after financial items increased by 11 per cent to SEK 21.2 billion.

Profit after tax increased by 13 per cent to 15.3 billion, which represents earnings per share of SEK 18.48.

### **Year in brief**

Among other things appreciated collections and good cost control contribute to the results. We are constantly reviewing and improving the organisation in order to be able to continue expanding profitably.

In 2008 H&M was established in several new markets. Stores were opened on a franchise basis in the new markets Egypt, Bahrain, Saudi Arabia and Oman. But the big step was the successful establishment in Japan which is another proof that our business concept works globally.

During the year we also grew through the acquisition of FaBric Scandinavien including the store chains Weekday and Monki as well as the Cheap Monday brand. Through the acquisition we strengthen our position in a fast growing segment with trend conscious customers.

Newer initiatives like COS and shoes continued to develop according to plan and we prepared for the launch of H&M Home, a range of textiles for interior decorating.

We continued raising the standard of our stores to enhance the customer experience, thereby further increasing H&M's competitiveness.

Internet and catalogue sales are becoming increasingly important sales channels. For many years our Nordic customers have been able to shop via mail order and internet and since 2007 the expansion has continued outside of the Nordic countries. First to the Netherlands and then to Germany and Austria. Internet and catalogue sales are one of our most important ventures and it has been very well received.

In 2008 a new logistics centre was opened in Hamburg serving the stores in Germany, the Netherlands and Austria. By developing our logistics, we can utilise our stock-in-trade more efficiently and support the strong expansion of stores as well as internet and catalogue sales.

### **Sales per market**

At the end of the year our customers could buy our fashion in 33 different markets. In all our markets, retail sales have been restrained but H&M has continued to increase its market shares.

We continued to grow in our largest market Germany in spite of another challenging year for German retail sales.

Switzerland and Austria are two other examples of old H&M countries which have developed well during the year.

France was one of the markets where sales in SEK increased the most, and the country reached the position as our second largest market. In total, we opened 16 new stores in France.

In the Nordic region sales were slower following some very strong years in terms of sales, but we performed better than most retailers in a very difficult market.

Also in Spain, the retail sector saw curbed sales although from a very high level. But H&M still sees great potential for further growth in the country.

The same is valid for the U.S. despite of the fact that the economic problems have been great there. The expansion continued with 24 new stores in 2008. Seattle, San Diego and Atlanta became new H&M cities for the year.

In the U.K. it went slightly better than expected. In local currencies sales increased by 10 per cent and the number of stores increased by 17.

China has developed very positively since the start in 2007 and sales during the year developed well in Hong Kong as well as in Shanghai.

The same goes for Japan. In September the first store opened its doors with almost 8,000 expectant customers. Two months later, it was time for store number two.

During the first two months we sold fashion for almost SEK 200 million in Japan and sales exceeded our highly set expectations. The establishment received great media coverage and is one of H&M's most successful openings ever.

Also in the Middle East both we and our franchising partner were pleased with the development in 2008. At the end of the period there were 18 franchise stores in seven countries.

### **First quarter 2009**

Looking at the development in the beginning of the year, we can see that it has continued to be challenging in many of our markets. Considering this, we have done well in the first quarter.

In Swedish kronor, sales including VAT increased by 17 per cent to SEK 27 billion compared to the first quarter last year. In local currencies the increase was 4 per cent.

The price reductions remained on the same low level as in the first quarter last year. That the gross margin decreased by three percentage units is mainly an effect of the large volatility in the foreign exchange markets. The underlying profitability remained high; excluding the negative exchange rate effects the gross margin would have increased to 60.8 per cent.

The profit after financial items was SEK 3.6 billion and the profit for the quarter was SEK 2.6 billion.

In March, the first month of our second quarter, sales in local currencies increased by 6 per cent. In comparable units, sales decreased by 3 per cent.

### **Profit development**

Taking a long-term view, the profit trend has been stable with steadily increasing sales and profits. In the last five years, sales have increased by more than 80 per cent. At the same time the profit has increased by 140 per cent.

### **Dividend development**

We have really grown with continued high profitability, a development that also is reflected in H&M's dividend, which has increased throughout the years.

The proposed dividend for 2008 is SEK 15.50, or 84 per cent of profit for the year, corresponding to SEK 12.8 billion.

### **Collections**

Behind the strong development lies our ability to meet customers' demand for fashion and quality at the best price. H&M's design and buying departments play an important

role in this. More than 100 designers work together with buyers to translate fashion trends into high value fashion.

At H&M there should be something available for everybody and every occasion. There should always be something happening in the H&M stores. Our recurrent collaborations with designers and style icons contribute to this. During the spring of 2008 we launched a summer collection with Marimekko's well-known patterns from the 50's, 60's and 70's. And during the autumn we gave the customers a new exciting designer collaboration, this time with Rei Kawakubo and her Comme de Garçons. The Japanese designer's innovative yet completely timeless women's and men's collection was launched at the same time as our second store was opened in Tokyo in November. The reception and the impact were very good. The same goes for this spring's designer collaboration.

### **Matthew Williamson**

Together with Matthew Williamson we have developed a colourful collection with high fashion content for the perfect spring and summer wardrobe. The British designer is renowned for his artistic and colourful style.

The Matthew Williamson collection will be launched at two different points of time. In April a limited collection with exclusive fashion for women was launched and in May a broader collection for women and men will be launched. The first collection, which was sold in around 200 stores, was a success. The second will be available in almost all H&M stores around the world.

Collaborations like these confirm that fashion and design are not a matter of price. Customers get value for money at H&M.

### **H&M Home**

The fact that customers appreciate our collection makes it possible for H&M to continue its expansion. This year, we take it a step further by introducing a range of textiles for interior decorating, H&M Home. The reception from customers and media was positive when H&M Home was launched in February. H&M Home offers fashion for the home in our internet and catalogue sales markets. The collection comprises everything from linen and pillows to towels. The aim is the same as for H&M's other ranges; everyone should be able to find something that suits their personal style at a good price.

### **H&M in Russia**

The start in Russia has been a success. In March we opened the doors to our first two stores in Moscow and sales exceeded our expectations. I was there myself and I enjoyed seeing so many fashion interested Muscovites queue up. This autumn we open another store in Moscow and we are looking for further store locations. Moreover, our first store

contract in St Petersburg has been signed, with the opening scheduled for 2010. We see great potential in Russia.

### **H&M in Asia**

We also see great potential in Asia. In April we opened the first store in the rapidly growing and expansive Beijing. The reception was very good. More than 17 million people live in the area and we plan to open more stores in Beijing during the remainder of 2009.

Next year we take the step into South Korea with our first store at prime commercial location in Seoul. South Korea has 49 million inhabitants of which 23 million live in the Seoul region, where the interest for fashion and the purchasing power is great. The establishment in Seoul is deemed to have the same potential as the one in Tokyo.

Together with our franchise partners we are opening the first H&M store in Lebanon this year, and next year it is the première for Jordan and also for the first store in Israel.

### **Employees**

Committed employees are essential for continued successful growth. The employees are H&M's most important resource. At H&M we share the same goals, at the same time we minimise bureaucracy and focus on the individual.

The expansion requires that we are successful in transferring knowledge and the H&M corporate culture to our employees in the new H&M countries. The expansion also gives those working at H&M opportunities to assume more responsibilities by supporting employees in a new market.

The very successful establishment in Japan is a good example. It was our greatest opening success ever, very much thanks to the support from employees in established H&M countries.

That we are ranked as one of Sweden's most attractive employer among university students shows that our corporate culture is appreciated. This is important. Long term success requires that we can retain and develop our good employees and to attract new.

### **Responsibility**

Our customers can trust that the items they buy at H&M have been produced in a responsible manner. This is key for H&M to be able to continue to grow with continued good profitability. Sustainability is one of the cornerstones in H&M's corporate culture. This is true both for our own stores and for our suppliers' factories. 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.

In 2008 we have developed a new sustainability strategy under which sustainability will be considered in all departments within the company and the responsibility is shared by all H&M employees. Sustainability is something everybody within H&M bears in mind when making decisions.

Our organic cotton initiative continues. In 2008 we increased the use to more than 3,000 tonnes from 1,300 tonnes in 2007. Our goal is to increase the percentage of organic cotton by at least 50 per cent annually compared with the previous year's goal. On a small scale we have developed garments of organic wool, recycled cotton and recycled polyester during the year.

Water is one of H&M's primary sustainability issues in 2009. By signing the CEO Water Mandate, a voluntary initiative that is part of UN's Global compact scheme, H&M has pledged to work on issues of sustainable water management. The main focus is on improving the efficiency of the water use of our suppliers. Together with the suppliers, we also work with treatment of polluted water from washing and dying for instance. We will publicly report the results of our efforts in our sustainability report.

## **H&M 2009**

This year we are planning to open a net amount of 225 stores, which mean that we are approaching 2,000 stores. Most of the expansion will be in the US, France, Italy, Spain, the UK and Germany. Included in the expansion goal for the year are eight COS stores and 15 new Monki and Weekday stores.

The current economic situation increases the opportunities to find attractive new commercial locations. And our position to negotiate is also strengthened when negotiating prices with our suppliers. At the same time we continue to rebuild our stores to enhance the attractiveness further.

In order to grow we need to recruit. In total we were 73,000 employees at the end of last year. This year we plan to increase the number of positions by 6,000–7,000.

Our business concept, fashion and quality at the best price, takes us to new large markets. In 2007 we took the step into China, in 2008 to Japan, in 2009 Russia and in 2010 South Korea. We have an exciting and challenging time ahead of us.

Ladies and gentlemen, this summer I am handing over to Karl-Johan Persson, and I wish him all the best in the work that lies ahead of him.

Thank you, and now I would like to hand over to the Chairman of the board.