


Annual Report  
2004



Turtleneck  
Karl Lagerfeld for H&M  
SEK 398

**H&M**



Wrap over  
SEK 149

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## BUSINESS CONCEPT, GOALS AND 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 per cent per year but also to increase sales at existing stores. The availability of attractive business locations is the major deciding factor in our rate of expansion, since we want quality growth. In 2004, 136 stores were opened and 13 were closed, increasing the net store count by 123 stores, or 13 per cent.

H&M is an expansive and financially strong company. The strategy is to grow whilst maintaining good profitability. In the past four years we have increased turnover by 76 per cent, the number of stores has increased with 57 per cent and earnings per share by 185 per cent. This expansion has been entirely financed from our own resources.

### Strategy

In order to offer the latest fashion H&M has its own buying and design department that creates our collections. We achieve the best price by:

- few middlemen
- buying in large volumes
- having a broad, in-depth knowledge of design, fashion and textiles
- buying the right products from the right market
- being cost-conscious at every stage
- having efficient distribution.

Quality checks are carried out continually in order to ensure that our products are of good quality. In addition to product quality itself, quality also means the goods are being produced with minimal impact on the environment and under good working conditions.

## H&M IN BRIEF

- H&M's first store was opened in Sweden in 1947.
- Today H&M sells clothing and cosmetics in over 1,000 stores in 20 countries.
- H&M's clothing collections for women, men, teenagers and children are created by our more than one hundred designers, working together with buyers and pattern makers.
- H&M also sells own-brand cosmetics.
- New goods are delivered to our stores daily.
- In the Nordic countries H&M Rowells sells fashion by mail order and on the Internet.
- H&M does not own any factories, but instead works with around 700 independent suppliers; around 60 per cent of goods are produced in Asia and the remaining 40 per cent primarily in Europe.
- H&M has 22 production offices around the world, ten each in Europe and Asia and one each in Africa and Central America.
- The Group employs over 45,000 people.
- Turnover including VAT amounted to SEK 62,986 m in 2004.
- Profit after financial items amounted to SEK 11,005 m in 2004.

Cotton Blazer  
SEK 798





Blazer  
SEK 398

## FINANCIAL HIGHLIGHTS

		2004	2003
Turnover including VAT	SEK m	62,985.9	56,550.0
Change	%	+11	+6
Turnover outside Sweden including VAT	SEK m	57,102.9	50,942.0
Turnover outside Sweden as a percentage	%	91	90
Operating margin	%	19.9	19.1
Profit after financial items	SEK m	11,005.3	9,608.7
Net profit for the year	SEK m	7,274.8	6,385.9
Earnings per share	SEK	8.79	7.72
Change from previous year	%	+14	+12
Return on shareholders' equity	%	34.4	32.6
Return on capital employed	%	51.9	48.9
Debt/equity ratio	%	0.2	0.2
Share of risk-bearing capital	%	82.5	81.6
Solidity	%	79.0	78.0
Number of stores in Sweden		124	123
Number of stores outside Sweden		944	822
Total number of stores		1,068	945
Average number of employees		31,701	28,409

## H&M IN 2004

- Improved profitability.
- Substantial expansion – at the end of the year there were 1,068 stores in 20 countries. 136 new stores were opened and 13 were closed during the year, the majority in Germany, Spain, the UK, France, the USA and Poland.
- The reception in our new markets Canada and Slovenia exceeded expectations. Six stores were opened in Toronto and two in Slovenia, one of which is in the capital Ljubljana.
- Substantial growth in Germany, H&M's biggest market, with 34 new stores opened and four closed. In August we took over GAP's ten stores, which are in good locations. These opened as H&M stores in the autumn.
- Nine new stores in the USA, with continued expansion on the East Coast and in the Chicago region. The biggest opening of the year was October's opening of a new big flagship store in prime location on Lexington Avenue, Manhattan.
- H&M's 1,000th store opened in August in Boulogne-sur-Mer, north-west France – which was celebrated with a special offer campaign in all H&M stores around the world.
- A number of concept stores with parts of the range opened. This is a good way of continuing to grow in well developed markets and in big cities.
- The first H&M Man stores opened in Cologne and Munich, where they got a fantastic reception.
- "Karl Lagerfeld for H&M" – a unique collection of around 50 items designed by Karl Lagerfeld at H&M prices was launched in November and was a big success. The message was that design is not a matter of price.
- In order to better achieve future growth targets more easily, the buying organisation has been strengthened by dividing it into two parts: the buying section, which focuses on the customer, fashion and range composition, and the production section, which is responsible for H&M's production offices and contact with our approximately 700 independent suppliers.
- H&M signed a cooperation agreement with Union Network International (UNI), the international umbrella organisation for the retail and services sector.

## FASHION AND QUALITY AT THE BEST PRICE IN 20 COUNTRIES

Business continues to go well for H&M. The year 2004 was eventful and profitable, with a continued high rate of expansion. During the year we opened 136 new stores, closed 13 stores and moved into two new markets – Canada and Slovenia. With over 1,000 stores and more than 45,000 employees, H&M can now be found in 20 countries around the world.

### Very good profitability

Turnover increased by 11 per cent (with comparable exchange rates 12 per cent) to nearly SEK 63 billion including VAT. A falling dollar rate meant that our purchase costs were lower and as a result we reduced the price of many of our products to our customers. The average price per item in 2004 was around 4 per cent lower than in the previous year. This means that the 12 per cent increase in turnover (in comparable currencies) corresponds to a volume increase of 16 per cent.

What was truly evident this year however, was our good profitability. The gross margin improved by 1 percentage unit to 57.2 per cent and the operating margin was 19.9 per cent. Profit after financial items increased by 15 per cent to SEK 11 billion.

### Appreciated collections

What lies behind H&M's success? Many factors play a part. The most important of all is that customers appreciated our collections. We have a wide range of products that are divided into a number of concepts for women, men, teenagers and children as well as cosmetics. Our clothing collections are created by inhouse designers, pattern makers and buyers.

The year's big fashion initiative was "Karl Lagerfeld for H&M" – a success both in the stores and in the international media. The collection was fully in line with our business concept, which shows that design and quality do not have to cost more than most people can afford.

Our good profitability is also a result of a high level of cost-consciousness, a low level of price reductions and the positive effects of a weaker US dollar. Our efficient business model for opening stores in new markets – which involves assistance from neighbouring H&M countries – also played an important part. Last, but not least, a substantial contribution was made by the fantastic work and commitment of H&M's employees.

### Clearer collections with a strengthened buying organisation

Our focus on clarity has also begun to pay off. In order to be better able to cope with future growth and to create clearer collections, we made some changes to our buying organisation during the year. We divided the organisation

into two parts – buying and production. Buying focuses on the customers, the fashion and the composition of our range, while production is responsible for our production offices and contacts with H&M's approximately 700 independent suppliers.

With a strengthened organisation we have refined our range, removed duplicates and can thereby more easily find the right mix of basics, current fashion and trend garments. In this way we have presented our garments in a clearer and more inspiring way to our customers and made the range of products easier for store staff to work with.

**"Design and quality do not have to cost more than most people can afford."**

### Successful expansion

It is with great satisfaction that I can report that our new markets are developing well. In 2003, we moved into Poland, the Czech Republic, Portugal and Italy. H&M stores in all of these countries are doing very well. Our first stores in Canada and Slovenia, which opened in 2004, received a reception beyond our expectations. In March we opened our first store in Toronto, and in August our first in Maribor.

I am also pleased to report that the US business is continuing to improve. One of the highlights of the year was the opening of our flagship store on Lexington Avenue, opposite Bloomingdale's, in Manhattan. A fantastic location and a fantastic store! We are now continuing to expand in the USA and will become established on the West Coast when we open our first store in San Francisco in the autumn.

During the year, we also opened a number of concept stores. This is a good way for us to continue to grow in well developed markets and in big cities. Among these were the first H&M Man stores in Cologne and Munich.

In late August we reached a milestone in H&M history when we opened our 1,000th store in the city of Boulogne-sur-Mer, in north-west France. The opening was celebrated with a special campaign in H&M stores around the world.

### 145 to 155 new stores in 2005

H&M's strategy is to continue to expand while maintaining profitability. The goal is to increase the number of stores by 10 to 15 per cent per year while at the same time increasing sales at existing stores. Naturally, expansion may vary from year to year since it largely depends on the supply of attractive store locations. In 2005 we plan to open between 145 and 155 new stores – primarily in Germany, the UK, France, Spain, the USA, Poland and Italy.



We will also move into two new markets, Ireland and Hungary. In March we will open the first H&M store in Dublin, in the Dundrum shopping centre. H&M UK will be responsible for product supply and administration. Later in the year we will open the first H&M store in Budapest and our Austrian organisation will be of assistance there.

Other interesting openings during 2005 will include a full range store on Brompton Road in London and one on Princess Street in Edinburgh. Two exciting stores will open in Prague – a teenage store and a city store with a great location. In Italy we will among other things open a new store in Genoa and another in Milan.

#### **H&M's Corporate Social Responsibility**

As an international corporation, H&M takes social responsibility very seriously. It is important that we maintain harmony with the world around us and take responsibility for how people and the environment are affected by our activities. All of this is presented in our CSR report, an updated version of which will be published on our website in April.

#### **Outlook**

At the end of the year 2004, the arrangement known as the Multifibre Agreement came to an end and as a result, textile quotas were abolished. It is difficult to say exactly how this will affect H&M. Various factors come into play, including what happens to the Chinese currency. China has introduced an export tax which will partly counteract the positive effect of the removal of the quotas. As things stand at present, in early 2005, we do not expect any price deflation during the spring.

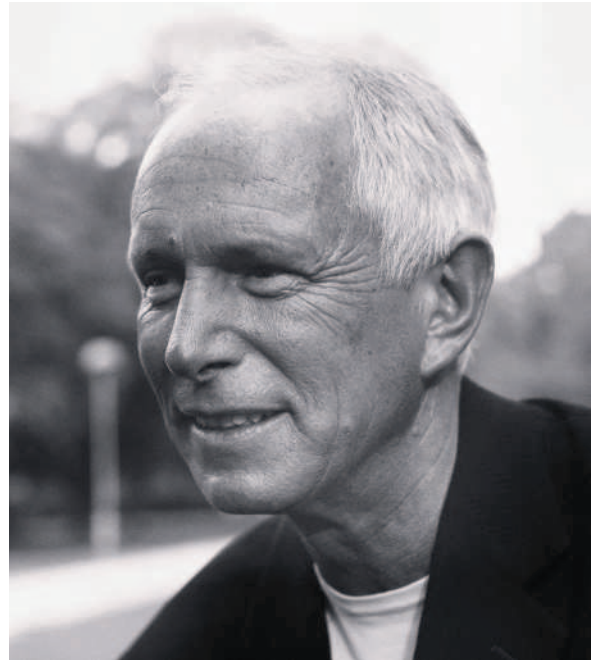
We will always give our customers unsurpassed value through our business concept – fashion and quality at the best price. H&M's strength is to find the right balance between these three parameters.

Our greatest challenge for 2005 is to increase sales in existing stores. Here I have great faith in the way that we have changed our buying organisation and thereby made things clearer for our customers – both in our collections and in the stores.

Welcome in to H&M and see for yourself!



**Rolf Eriksen**



## A WIDE AND VARIED FASHION RANGE

H&M offers fashion and quality at the best price through a wide and varied range of fashion divided into different concepts. The range covers everything from updated classics and basics to clothes that reflect the very latest international trends. It also includes underwear, sportswear, accessories and cosmetics.

The largest department is women's wear, followed by children's wear, teenage fashion and men's wear. The majority of our stores are full-range stores, but H&M also has concept stores offering solely garments for women, men, teenagers or children and stores that sell only cosmetics, lingerie and accessories. ■

### H&M'S PRODUCT POLICY

#### Children's wear

Our children's clothes are as fashionable as they are practical, safe, comfortable and functional. The clothes must be durable, value-for-money and of good quality. H&M does not sell clothes that may be perceived as provocative on small children.

#### Patterns

H&M does not use camouflage patterns on its garments. Prints on tops and other garments must not be offensive, sexist, racist, political or religious.

#### Fur and leather

H&M only sells fur and leather from sheep, pigs, goats and cattle that have been bred for meat production, not just for the sake of the skin. No other fur or leather is permitted in products sold by H&M.

#### Cosmetics

Animal testing is not permitted on our cosmetic products, either during production or on the finished products.

For more information visit [www.hm.com](http://www.hm.com)



### Women

In the women's wear department there are five different concepts. The great variation found within our range guarantees that fashion-conscious women of all ages with different needs and desires are able to find exactly what they are looking for at H&M.

The majority of the range consists of fashion basics and of garments with a higher fashion content. The very trendiest garments are produced in smaller quantities for those who want to be first with the very latest international looks.

L.O.G.G. offers updated classics with the emphasis on durability, quality and function. L.O.G.G. Sport offers modern, functional sportswear.

For fashion-conscious women looking for plus sizes there is BiB, which offers both basics and more high-fashion items.

For the mother-to-be who wants to continue to dress fashionably during her pregnancy there is Mama.

H&M also offers a wide range of underwear and nightwear that is coordinated with our various women's wear concepts. There is everything from simple and sporty undergarments to more exclusive sets. Each concept in our women's range also offers accessories such as jewellery, belts, bags, sunglasses, scarves and hats. The range also includes socks, tights and swimwear.



**Men**

Our men's wear department also has a number of concepts that guarantee that a wide range is available to suit different needs and wishes as regards fashion content, function and price. The main concept comprises a broad range of fashion basics at the best price, as well as clothes with higher fashion content.

One of the concepts builds on high quality tailored garments. Suits are in pure wool fabrics woven mainly in Italy. Shirts are of pure cotton and all the ties are silk.

L.O.G.G. offers updated classics with the emphasis on durability, quality and function. L.O.G.G. Sport offers modern, functional sportswear.

A range of accessories complement each concept. There is also underwear, nightwear, socks and swimwear.



**Teenage**

Divided, our department for teenagers, offers fashion with a young look. The range consists of denim- and street fashion-related garments for boys and girls, as well as partywear and accessories for girls.

The extensive range, which also includes accessories, reflects the very latest international trends.



**Children**

The children's department consists of garments that combine fashion and form with function and safety. We have a baby wear department for the very little ones (0–18 months) and a children's wear department for kids aged from 18 months to 12 years.

Our main concept for children and babies offers contemporary clothing that is modern, practical and comfortable, often with a playful look.

L.O.G.G. offers modern classics of particularly high quality. L.O.G.G. is available in both baby wear and children's wear.

Dubbster offers girls and boys from 7 to 12 years denim-based garments influenced by street fashion.

Both the baby wear and the children's wear ranges are rounded off with accessories, nightwear, underwear and swimwear, as well as socks and tights.



**Cosmetics and accessories**

The range consists of make-up, body care and hair care products as well as accessories for women, men and teenagers.

The products are not tested on animals either during the production process or in the finished state. All suppliers sign an assurance that the content, packaging and labelling of their products meet requirements of quality and safety. All the suppliers have also undertaken to abide by H&M's policy and the EU's directive within this area.



## H&M – ALWAYS FOUND IN THE BEST LOCATION

Location is everything when H&M looks for store premises. Best business location has been a firm principle of H&M since 1947 and is no less true today. We consider it an advantage to be near our competitors, since more customers will be attracted to good commercial areas with many stores – giving us a better chance of offering more customers the opportunity to get a good deal.

H&M aims to be the most attractive option for its customers in every town or city.

Once a lease starts to run, renovation and fitting out can commence. We aim to complete the store as quickly as possible.

### Surveying customer flow

There are many factors influencing the choice of where to establish a new store. If it is a new market it is decided by factors such as demographics, employment, purchasing power and purchasing patterns.

Alongside this, we carry out a local survey to evaluate shopping areas and shopping centres. We chart how big they are, which other stores there are and where our competitors have their stores. Other important factors are traffic flows and accessibility by public transport.

### Full-range store or concept store

We adapt the range mix to each store, depending on factors such as location, size of store and customer flow in the area. The whole scale is represented – from large full-range stores to smaller concept stores such as young concept stores and H&M Man.

### Inspiration through display and presentation

H&M's stores are planned to promote self-service. The store environment must be comfortable and inspiring and generate well-being. It is important to give customers ideas and inspire them to choose things that suit their own style. Displays and mannequins are used to provide customers with inspiration for matching clothes. We also help our customers to find their way about the range and to combine garments successfully. H&M always tries to surprise with something new and new goods arrive at the stores every day.

H&M customers must be able to find their way about in whichever H&M store they happen to find themselves. This is achieved by using our store fittings and the way we display the goods.

The most important thing is to make the most of each particular store. The interior design is often standardised, but sometimes fittings are created for a particular store. One of our flagship stores, which opened in October on Lexington Avenue in Manhattan, for example, has trendy but simple fittings with clean lines.

### Stores are constantly rejuvenated

H&M's stores must always feel fresh and appealing to our customers. Minor superficial renovations are carried out on an ongoing basis. More major renovations and alterations are carried out as needed and are dependent not only by the location and size of the store and its customer flow, but also by which concepts the store sells. Our big city stores – a crucial element of H&M's profile as a trendy fashion house – are renovated more often, as are our teenage stores.

**“H&M aims to be the most attractive option for its customers in every town or city.”**

### Mail order – a complementary sales channel

Since 1980 H&M has offered its customers an alternative and convenient way to shop by mail order through H&M Rowells. Here, again, the business concept is to provide fashion and quality at the best price. H&M Rowells has customers in Sweden, Norway, Finland and Denmark.

H&M Rowells produces two big catalogues per year – a Spring catalogue and an Autumn catalogue. These catalogues are supplemented by a number of smaller seasonal catalogues with a particular orientation. The mail order range is partly the same as in our stores.

### Shop online

In 1998 it became possible to shop at H&M on the Internet, when e-commerce was started on a trial basis in Sweden. In subsequent years this was expanded to include Denmark, Finland and Norway. H&M continually evaluates and improves its e-commerce site. H&M's web sales are administered by H&M Rowells.

We see the Internet as one of several distribution channels, but we anticipate that the bulk of our sales will continue to be made in our stores. ■

◀ ABOVE: Graben 8, Vienna.

BELOW: 558 Broadway, New York.

## 1,068 H&M STORES IN 20 COUNTRIES

As we sum up 2004, we can look back on another year with full of activity. We passed a milestone when we opened our 1,000th store in late August. During the year we opened 136 stores and became established in two new markets – Canada and Slovenia. 13 stores were closed during the year due to relocation. At the end of the year H&M had 1,068 stores in 20 countries. Our strong position in Europe and good foothold in North America give H&M a good base from which to grow further.

H&M's turnover including VAT in 2004 amounted to almost SEK 63 billion, an increase of 11 per cent on the previous year. With comparable exchange rates the increase was 12 per cent.

The majority of H&M's sales take place in our stores. In the Nordic countries customers can also choose to shop by mail order or online via H&M Rowells. The mail order and online business developed positively in 2004 and an increasing proportion of orders are submitted directly through our website.

### Retail trade in 2004

The retail trade has had a subdued year in many markets. Economic growth has been sluggish, with a moderate increase in private consumption. The entire sector has been characterised by price reductions and competition from low-cost stores has increased. Clothes retailing basically follows the same patterns as other areas of retailing.

### Price level in the clothing sector

The price level in the clothing sector has generally fallen over the year in the majority of markets in which H&M is present. This is primarily due to lower purchase costs as a direct result of the continued weakening of the US dollar vis-à-vis the euro and other major trading currencies, since many suppliers price their goods in dollars.

H&M has largely chosen to pass on these price reductions to its customers. The average price of garments over the year was 4 per cent lower than in 2003. Sales volumes measured in terms of items increased by 16 per cent.

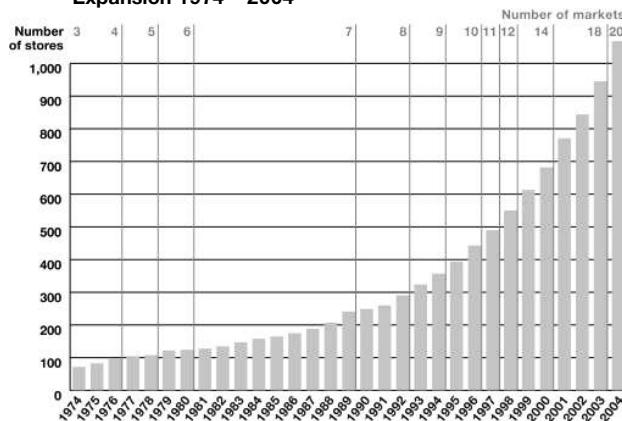
### Competitors

Clothing is a fragmented sector. H&M faces competition in the form of local chains, individual shops, department stores and international retail chains.

### Establishment concept

When we expand into new markets, as far as possible we now draw on support from neighbouring H&M countries which are given responsibility for opening, administering and supporting the stores in the new country alongside their work in their own country.

Expansion 1974\*–2004



\* Expansion since the stock-exchange quotation 1974.

### Canada and Slovenia – new markets in 2004

In 2004 Canada and Slovenia became H&M's 19th and 20th markets respectively. H&M USA and H&M Austria took responsibility for this expansion and for its administration and product supply.

In Canada our first two stores opened in Toronto in March, with a further four stores having opened in the autumn. One of the stores is a flagship store in the Eaton Centre, Toronto's biggest shopping mall. The reception given to H&M in Canada exceeded expectations.

In Slovenia our first store opened in Maribor in August, followed by a store in Ljubljana a few days later. In Slovenia, too, H&M enjoyed a fantastic reception from customers.

### More and more concept stores

Establishing concept stores is a way of continuing to grow in more mature markets and in big cities. The stores, which are aimed at a specific target group, supplement our full-range stores. Opening concept stores also allows H&M to utilise store locations with a smaller floor area (200–700 square metres) and at the same time makes us more visible to customers. It is also easier to find small premises in prime locations.

We currently have concept stores for teenagers, women and children as well as for lingerie and accessories, and also for men.

Our first H&M Man, concept stores for men, opened in Cologne and Munich in Germany in 2004, getting a great reception. The stores offer our entire men's range, from underwear to suits. The interior design is masculine, with wood panelling and stone flooring.



▲ Hohe Straße 104–106, Cologne.

During the year H&M opened concept stores for teenagers in Germany, France, Sweden and the Netherlands. We have also opened more concept stores for children and for cosmetics, accessories and lingerie. Our concept stores for cosmetics, accessories and lingerie are now called H&M Beauty.

#### **Expansion in 2005**

H&M will continue to expand. In 2005 H&M plans to open around 145–155 new stores and 12 stores are scheduled for closure.

Our expansion will mainly take place in Germany, the UK, France, Spain, the USA, Poland and Italy, where the conditions are good for continued growth. These countries have in common the fact that they have a large population base and that H&M's market share remains relatively low at present, providing opportunities to establish stores in many locations.

We will also continue to grow in our other markets by establishing new stores and developing the existing business.

Our first stores in two new H&M countries – Ireland and Hungary – will open in 2005. Our first Irish store will open in March in a big shopping centre just outside Dublin. In Hungary our first store will open in late autumn. Our expansion into Ireland and Hungary is being assisted by the UK and Austria respectively.

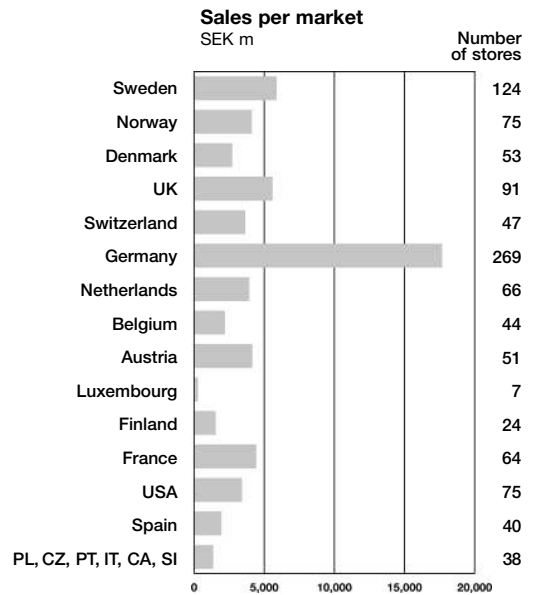
Preparations are also under way ahead of the opening of H&M's first US West Coast store, which is to open in San Francisco in autumn 2005. ■

## COUNTRY BY COUNTRY

H&M can now be found in 20 countries around Europe and North America. During the year we opened stores in two new markets, Canada and Slovenia, and enjoyed a very good reception in both countries.



▲ Lexington Avenue, New York.



The diagram shows sales in H&M's 20 markets. The countries are listed in the order of entry. The six new markets Poland, the Czech Republic, Portugal, Italy, Canada and Slovenia are shown in the same bar.



▲ H&M's 1,000th store opened in Boulogne-sur-Mer in France.



**SWEDEN**

**YEAR ESTABLISHED:** 1947  
**NO. OF STORES:** 124  
**TURNOVER (SEK M):** 5,883  
**EMPLOYEES:** 3,731

H&M's first store was opened in Sweden in 1947. In addition to the company management, H&M's head office in Stockholm is home to the Group's central functions for among other things buying and design.

Sweden is one of H&M's biggest markets with 124 stores and mail order and online business.

H&M's turnover increased by 5 per cent.

H&M Sweden opened four new stores, including a concept store for teenagers with a very trendy profile in the recently opened Brunogallerian mall on Götgatan in Stockholm. The store had a very good reception. A number of stores were refurbished and a few were relocated to better premises. During the year three stores were closed. H&M in Sweden also sells garments by mail order and on the Internet.

**NORWAY**

**YEAR ESTABLISHED:** 1964  
**NO. OF STORES:** 75  
**TURNOVER (SEK M):** 4,124  
**TURNOVER (NOK M):** 3,796  
**EMPLOYEES:** 1,509

Norway, H&M's first foreign venture, this year celebrated its 40th year as an H&M market. The brand is well-known, in a 2004 survey it emerged that over 90 per cent of the population is familiar with H&M. The market is well developed with 75 stores spread throughout the country. We are continuing to grow by developing the existing business and through supplementary stores. H&M in Norway also sells garments by mail order and on the Internet.

Sales increased by 10 per cent in local currency.

Six stores were opened, in locations including CC Vest, a shopping centre outside Oslo and in Sortland in Northern Norway. H&M's big flagship store on Karl Johans gate, Oslo's prime shopping street, has been refurbished. In addition, Norway's first H&M Beauty store was launched in the spring.

**DENMARK**

**YEAR ESTABLISHED:** 1967  
**NO. OF STORES:** 53  
**TURNOVER (SEK M):** 2,726  
**TURNOVER (DKK M):** 2,229  
**EMPLOYEES:** 1,021

H&M has had a presence in Denmark since 1967. Today there are 53 H&M stores around the country and market coverage is good. H&M in Denmark also sells garments by mail order and on the Internet.

Sales in Denmark developed well and turnover increased by 9 per cent in local currency.

A large full-range store was opened in 2004 in Scandinavia's biggest shopping centre, Fields in Copenhagen. This shopping centre, which is strategically located at the traffic intersection between Copenhagen Kastrup Airport and the city's ring road, has a catchment area extending across the whole of the expansive Öresund region and has already impacted on shopping patterns in the Copenhagen region.

**UK**

**YEAR ESTABLISHED:** 1976  
**NO. OF STORES:** 91  
**TURNOVER (SEK M):** 5,602  
**TURNOVER (GBP M):** 419  
**EMPLOYEES:** 3,095

H&M continued its substantial expansion in the UK in 2004 and now has 91 stores across the country. Growth opportunities are good.

H&M's sales in the UK developed well. Turnover increased by 13 per cent in local currency.

H&M opened 12 new stores, including stores in Aberdeen, Reading and Croydon. A further stock warehouse was opened in northern England to facilitate distribution and continued expansion in the north of the country.

**NUMBER OF EMPLOYEES:** Average number of employees converted into full-time positions.

**SWITZERLAND**

**YEAR ESTABLISHED:** 1978  
**NO. OF STORES:** 47  
**TURNOVER (SEK M):** 3,644  
**TURNOVER (CHF M):** 619  
**EMPLOYEES:** 1,222

H&M has had a presence in Switzerland since 1978 and now has stores in most of the country's cities. The potential for growth is therefore limited.

Sales increased by 6 per cent in local currency. H&M benefited from increased interest in value-for-money fashion.

In 2004 a further two stores were opened, including a concept store for children's wear.

**GERMANY**

**YEAR ESTABLISHED:** 1980  
**NO. OF STORES:** 269  
**TURNOVER (SEK M):** 17,693  
**TURNOVER (EUR M):** 1,944  
**EMPLOYEES:** 7,936

Germany is the H&M Group's biggest market and accounts for around 28 per cent of sales. Substantial expansion has taken place since the 1990s and at the end of the year the country had 269 stores. H&M is well represented throughout the country.

Sales increased by 7 per cent in local currency.

In total, 34 new stores were opened and four stores closed. The new openings

included a large store in Hamburg, which opened in March. In August H&M took over GAP's German operations – ten stores and their staff. The stores are situated in very good locations around Germany and following refurbishment re-opened as H&M stores during the autumn. The Group's first H&M Man stores were opened in Cologne and Munich and enjoyed a very good reception. Concept stores for teenagers were opened in several German cities.

**NETHERLANDS**

**YEAR ESTABLISHED:** 1989  
**NO. OF STORES:** 66  
**TURNOVER (SEK M):** 3,939  
**TURNOVER (EUR M):** 433  
**EMPLOYEES:** 1,840

H&M opened its first stores in the Netherlands in 1989. Market coverage is good, but there is still opportunity for continued expansion via supplementary stores.

Sales in the Netherlands increased by 8 per cent in local currency.

There was a high level of activity during the year. Six stores were opened, of which one store was relocated. The Netherlands' first H&M Beauty store opened in The Hague and our biggest store in Amsterdam was rebuilt.

We were pleased to receive the "Human Capital Award 2004" as the company of the year for staff training.

**BELGIUM**

**YEAR ESTABLISHED:** 1992  
**NO. OF STORES:** 44  
**TURNOVER (SEK M):** 2,201  
**TURNOVER (EUR M):** 242  
**EMPLOYEES:** 1,132

Our first store in Belgium opened in 1992. H&M is now well established and growth potential is therefore limited.

Sales increased by 9 per cent in local currency.

During the year four stores were opened in Belgium and two stores closed. Belgium's first H&M Beauty store opened in Antwerp.

**AUSTRIA**

**YEAR ESTABLISHED:** 1994  
**NO. OF STORES:** 51  
**TURNOVER (SEK M):** 4,159  
**TURNOVER (EUR M):** 457  
**EMPLOYEES:** 1,679

H&M established its first store in Austria in 1994. Since then there has been strong expansion and today H&M is well represented in the country.

Sales increased by 2 per cent in local currency.

Three new stores opened in Austria. One of the stores is at one of the best addresses in Vienna, right in the city centre. This store, which offers a selected range of more tailored garments from our women's and men's collections, also sells our Beauty range.

**LUXEMBOURG**

**YEAR ESTABLISHED:** 1996  
**NO. OF STORES:** 7  
**TURNOVER (SEK M):** 282  
**TURNOVER (EUR M):** 31  
**EMPLOYEES:** 122

Luxembourg, with seven stores, is the smallest of H&M's markets in respect to the country's geography and population. The potential for further expansion is limited due to the size of the country.

Sales increased by 5 per cent in local currency.

One new store was opened in 2004. H&M Belgium is responsible for operations in Luxembourg.

**FINLAND**

**YEAR ESTABLISHED:** 1997  
**NO. OF STORES:** 24  
**TURNOVER (SEK M):** 1,548  
**TURNOVER (EUR M):** 170  
**EMPLOYEES:** 591

H&M moved into Finland in 1997. There is still room for H&M to expand further in medium-sized cities. H&M in Finland also sells garments by mail order and on the Internet. In the larger cities there is the potential to open supplementary concept stores.

H&M's sales developed well and turnover increased by 17 per cent in local currency.

Three stores were opened in cities new for H&M – Seinäjoki, Jyväskylä and Oulu.

**FRANCE**

**YEAR ESTABLISHED:** 1998  
**NO. OF STORES:** 64  
**TURNOVER (SEK M):** 4,436  
**TURNOVER (EUR M):** 487  
**EMPLOYEES:** 2,112

H&M has had a presence in France since 1998 and today there are 64 stores spread out across the country. France is an important expansion market for H&M.

Sales in France were good with an increase of 16 per cent in local currency.

During the year eleven new stores opened. These included two trendy concept stores for teenagers, in Paris and Colmar. It was in Boulogne-sur-Mer in north-west France that the Group's 1,000th store opened in August. Our cosmetics range was also introduced into most stores during the year.

**NUMBER OF EMPLOYEES:** Average number of employees converted into full-time positions.

**US****USA**

**YEAR ESTABLISHED: 2000**  
**NO. OF STORES: 75**  
**TURNOVER (SEK M): 3,423**  
**TURNOVER (USD M): 464**  
**EMPLOYEES: 2,812**

H&M has had a presence in North America since 2000. The USA is a market of great interest for expansion. With 75 stores on the East Coast and in the Chicago region, we have a good base from which to grow further. During the year H&M signed its first lease on the US West Coast, in San Francisco. Our store there will open in autumn 2005.

H&M's sales grew substantially throughout 2004. Sales increased by 37 per cent in local currency.

H&M opened nine stores in the USA over the year. These included our continued expansion in the Chicago region, where four new stores opened.

October saw the biggest opening of the year when we opened a large flagship store on Lexington Avenue, one of Manhattan's prime locations.

**ES****SPAIN**

**YEAR ESTABLISHED: 2000**  
**NO. OF STORES: 40**  
**TURNOVER (SEK M): 1,954**  
**TURNOVER (EUR M): 215**  
**EMPLOYEES: 1,293**

H&M's first store in Spain opened in April 2000. H&M has continued to develop positively in Spain, a market that has grown substantially in a short time and where H&M is continuing to grow.

Sales developed well for H&M. Turnover increased by 63 per cent in local currency.

During the year 13 new stores opened, giving us 40 stores in the Spanish market after just five years. Five of the new stores are in Madrid and the others are in large and medium-sized cities such as Bilbao and Valencia or in cities new to H&M such as Seville, Marbella and Leon.

**PL****POLAND**

**YEAR ESTABLISHED: 2003**  
**NO. OF STORES: 15**  
**TURNOVER (SEK M): 462**  
**TURNOVER (PLN M): 235**  
**EMPLOYEES: 390**

Poland was a new market for H&M in 2003. The level of activity has been high and we opened nine new stores during the year.

H&M's first full financial year in Poland was very good. Sales have developed steadily, exceeding expectations.

Of the nine new stores, three are in Warsaw and two each in Gdansk and Wroclaw. One of the new Warsaw stores is situated in Poland's biggest shopping centre, Arkadia. In 2004 a stock warehouse was opened to ensure efficient distribution to the stores.

**CZ****CZECH REPUBLIC**

**YEAR ESTABLISHED: 2003**  
**NO. OF STORES: 7**  
**TURNOVER (SEK M): 196**  
**TURNOVER (CZK M): 697**  
**EMPLOYEES: 109**

The Czech Republic was a new market for H&M in 2003. The Czech Republic is an exciting market where there is a great interest in fashion and H&M's stores have been very well received.

Sales have developed very well to date.

Five new stores were opened in 2004 of which two in Prague and one each in Brno, Plzen and Budejovice.

**PORTUGAL**

**YEAR ESTABLISHED: 2003**  
**NO. OF STORES: 5**  
**TURNOVER (SEK M): 225**  
**TURNOVER (EUR M): 25**  
**EMPLOYEES: 152**

Portugal was a new H&M market in 2003, when three stores were opened. There are now five H&M stores in Portugal.

Sales developed well throughout the year.

At the same time we opened a further two stores. One of the new stores opened in Portugal's second city Porto, the other in Lisbon.

**ITALY**

**YEAR ESTABLISHED: 2003**  
**NO. OF STORES: 3**  
**TURNOVER (SEK M): 237**  
**TURNOVER (EUR M): 26**  
**EMPLOYEES: 158**

In September 2003 Italy became a new market for H&M with the opening of the first store in Milan. Italy is an exciting market with a high level of interest in fashion, where H&M has large potential to continue to grow.

H&M has continued to enjoy a good reception and sales growth has exceeded expectations.

H&M's second store in Milan opened in September, in one of the best locations in the city. In November a further store was opened in a large shopping centre in Bergamo.

**CANADA**

**YEAR ESTABLISHED: 2004**  
**NO. OF STORES: 6**  
**TURNOVER (SEK M): 192**  
**TURNOVER (CAD M): 34**  
**EMPLOYEES: 125**

Canada is a new H&M market. The reception given to H&M in Canada has been very good and sales exceeded our expectations.

Six stores opened in Toronto in 2004. The first two stores opened in March in two of Toronto's big shopping centres, Fairview Mall

and Promenade Mall. We are very pleased with these openings, which also received lot of attention in the Canadian media. In the autumn a further four stores were opened, including a flagship store in the Eaton Centre – Toronto's best shopping mall.

**SLOVENIA**

**YEAR ESTABLISHED: 2004**  
**NO. OF STORES: 2**  
**TURNOVER (SEK M): 60**  
**TURNOVER (SIT M): 1,578**  
**EMPLOYEES: 14**

Slovenia became a new H&M market in 2004.

Two stores were opened in Slovenia in autumn 2004, one in Maribor and one in the country's capital, Ljubljana. Their reception exceeded expectations.

Slovenia joined the EU in May 2004 and is an exciting market enjoying strong economic growth.

**NUMBER OF EMPLOYEES:** Average number of employees converted into full-time positions.



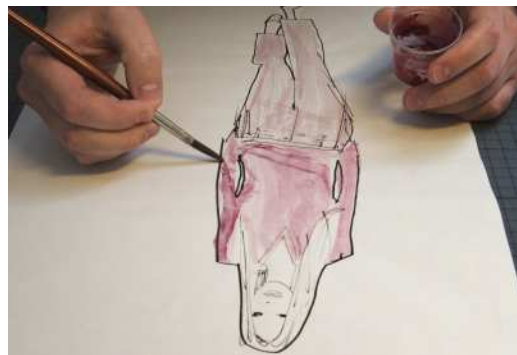
## 1. INSPIRATION

In H&M's buying and design department the big trends are planned up to a year in advance. It starts with observing and analysing the world around us in order to obtain an overall picture of future trends and customer requirements. Inspiration is drawn from exhibitions, different cultures, magazines, travel, street fashion, fashion history, various trade fairs and other sources.



## 2. DESIGN

Once various impressions have been charted, the actual design work starts. The themes, colours, fabrics, silhouettes and even certain garment types start to emerge, which is a feel that will permeate the new season's fashion.



## BUYING AND DESIGN CREATE H&M'S COLLECTIONS

The buying and design department in Stockholm is where H&M's collections are created. Its task is to find a good balance between the three components that make up H&M's business concept – fashion, quality and the best price – for every target group.

Over 500 people work together to create H&M's collections for women, men, teenagers and children. To meet the needs of customers of all ages, each with their own particular style, we offer many different concepts. In the women's wear department, for example, there are concepts aimed at the sporty woman as well as at the classic and trendy woman.

### Customer focus

The most important factor in H&M's success is that customers appreciate our collections. When creating the collections, we always focus on the customer. This means that we constantly ask ourselves who the customer is, what their style is and what they are looking for.

### One team for each concept

Each concept has its own team of designers, buyers, assistants, pattern makers and budget controllers as well as a section manager, all of whom work together. Each team tries to produce the right mix of garments for its concept.

The number of people on the team varies depending on the concept. More designers, buyers and pattern makers may work on the larger concepts, e.g. in women's wear, while concepts such as those for teenagers have smaller teams.

Each member of the team has specific skills that are required in order to create the collection. They are united by their common interest in fashion and trends and by their understanding of what customers want.

### The fashion triangle identifies future favourites

H&M's method of producing goods that are in demand from customers can be illustrated using a triangle. The bottom of the triangle – its base – symbolises the breadth of the range, with updated classics and fashion basics that sell in large volumes. The basics must always be available in every store and great emphasis is placed on identifying the products that are most in demand at the base of the triangle.

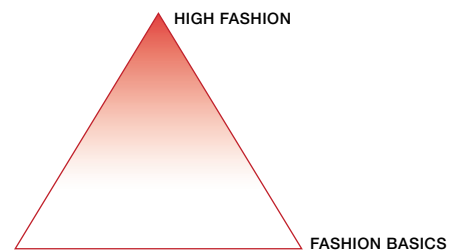
The middle of the triangle represents the current fashion, i.e. items that customers are seeking during the ongoing season. The top of the triangle represents the very latest fashions – the trend garments – that sell in smaller quantities, primarily in the big cities. These trend garments strengthen H&M's image as a fashion company. It is also where we identify many of H&M's future big sellers.

### Building up the range

The range in the store is built up by putting together the right mix of basics, current fashion and trend garments. Experience of previous seasons and customer analyses help to determine the trends that we must focus on for forthcoming seasons. What sold best last season? What do customers want? What should we work on more or less at the various stages in the sales periods? What is technically feasible?

The merchandisers in each sales country also provide information on running price development, sales patterns and how sales are developing.

Some trends are planned up to a year in advance as regards colours, materials and models, while the very latest trends are picked up at much shorter notice. They are influenced by inspirational trips all over the world, street trends, exhibitions, films, magazines and various trade fairs at which material, form and colour are studied. ■



The triangle symbolises the breadth of the assortment, from fashion basics to the very trendiest clothes.

## ONGOING BUYING DURING THE SEASON

H&M's fashion year consists of two main seasons: Spring/Summer and Autumn/Winter. Buying is continually adapted to the prevailing market conditions and based on signals from our stores concerning what is selling well.

To optimise fashion precision, goods are bought in on an ongoing basis during the year. At the start of the autumn, for example, customers want thin knits and light autumn jackets. Later on in the autumn we stock up the stores with coats, heavy knitwear and other more wintry garments on an ongoing basis. The reverse applies in the spring, which starts with relatively warm garments; these are then gradually replaced by thinner garments as summer approaches. Buying varies with the country and climate. In Mediterranean countries, for example, autumn comes later than in Scandinavia – making the season for winter outerwear in stores much briefer.

**“We offer our customers new and updated fashion every day – which is important for our image as a fashion company.”**

### Production offices around the world

H&M has 22 production offices: ten in Europe, ten in Asia and one each in Central America and Africa. The production offices employ approximately 700 people, by far the majority of whom are drawn from the local population. They are responsible for contacts with the approximately 700 independent suppliers that manufacture H&M's products.

The production offices ensure that the buyer places his order with the right supplier, that the goods are produced at the right price and are of good quality, and carries out controls to ensure that production takes place under good working conditions.

Ensuring the safety and quality of the goods largely takes place at the production offices and is the result of extensive testing, including checking for shrinkage, twisting, colour-fastness and dry rubbing, as well as checking that our requirements regarding chemicals have been met.

### The right lead time for each item

We are constantly refining our management instruments to make the flow of goods more efficient. One factor that has contributed to cutting lead times is the fact that the production offices are now responsible for dealing with sample garments, i.e. every aspect of their examination and testing.

Lead times vary from two to three weeks up to six months. The different lead times reflect differences in the nature of the goods. It is important to know the right time to order each item. A short lead time is not always best, since the right lead time is a matter of getting the right balance between price, time and quality.

For high-volume fashion basics and children's wear it is clearly advantageous to be able to place orders far in advance. Trendier garments in smaller volumes require

considerably shorter lead times and when goods are selling well, we need to be able to get supplementary orders out into the stores within just a few weeks.

### Sharing information effectively

Sharing information effectively between the production offices and our suppliers allows fabrics etc. to be bought in early. The actual dyeing and cutting of the garments can then be decided at a later stage in the production process.

We aim to cut lead times further by developing our advance planning. The later an order can be placed, the better becomes the precision and the greater the flexibility – allowing stores to be restocked quickly with the best-selling goods.

H&M's buying method provides a consistent flow of goods with the logistics chain being utilised efficiently in terms of both staffing and premises.

### Well-functioning logistics

Logistics is an extremely important matter for H&M. Fast, efficient flows are crucial – both when it comes to supplying goods from a production unit to the store and for the stores' feedback of sales information to the buying department. Getting the right goods in the right quantity to the right store in the right country at the right time requires a well-functioning distribution system. H&M acts both as importer and as retailer, and thus has full control over each link in the chain. Another important factor is the IT support that is constantly being developed and which forms one of the cornerstones of H&M's logistics.

In 2004 more than 600 million garments and accessories were handled. Stock management is carried out virtually entirely within H&M's own organisation, while freight services are bought in from various transport companies. Part of the range is sent by container load directly from the production country to the various sales countries. Another part of the flow of goods travels from the country of manufacture to the sales country via H&M's transit warehouse in Hamburg, Germany.

When the goods arrive at the respective distribution centre they are checked before being transported on to the stores and to the stores' local stock warehouses. They are then used to restock the stores' shelves according to how well each item is selling. New items come into the stores every day, so that customers can always find something new and exciting.

### Fashion in 2004

H&M has a wide and varied fashion range for women, men, teenagers and children. H&M's fashion inspires and is a complement to the own wardrobe. Fashion at H&M is basically about giving the customers unsurpassed value through our business concept to offer fashion and quality at the best price.

In 2004 fashion was characterised by a return to the classic and to a more well-dressed style. The biggest spring trend was inspired by the 1950s and women's wear showed knitted twin sets and capri pants so typical of this period, while tennis shirts could be found with narrow





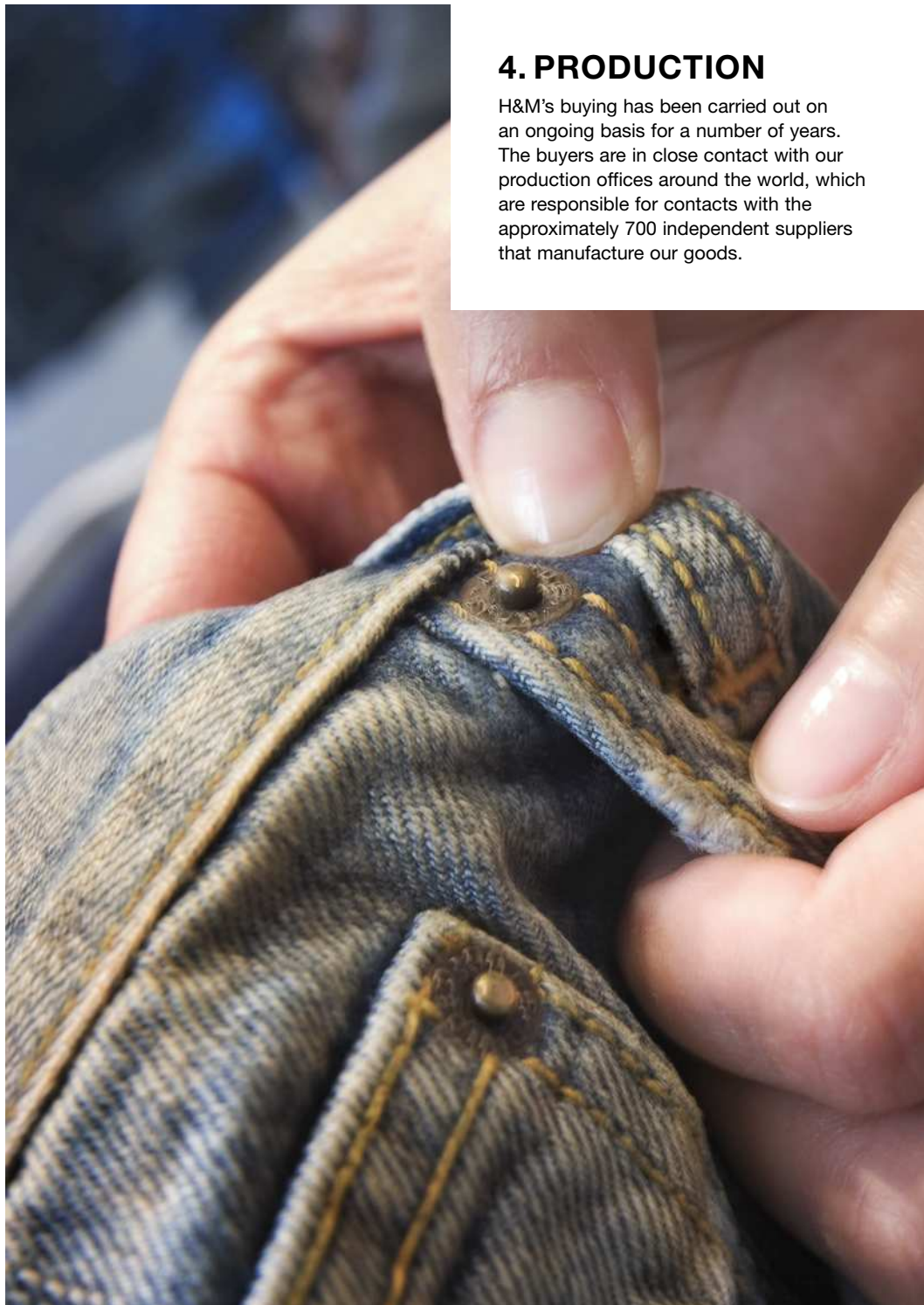
### 3. BUYING

There is a team of designers, buyers, assistants, pattern makers, budget controllers and a section manager for each concept. Each skill has an important part to play in the concept. To meet different needs and wishes within each concept a number of different collections are created during the year.



### 4. PRODUCTION

H&M's buying has been carried out on an ongoing basis for a number of years. The buyers are in close contact with our production offices around the world, which are responsible for contacts with the approximately 700 independent suppliers that manufacture our goods.



### 5. STORES

The time between ordering a garment and it arriving in the stores varies. It may be anything from two to three weeks up to six months, depending on the type of garment. Thanks to an efficient buying process, new goods come into the stores every day so that customers can always find something new and exciting in our range.



trousers in men's wear. The silhouette was narrow but casual and the colour scene was light, with bright fruity colours and pastels combined with black and white.

Autumn fashion was classically British in style, based on tweed or wool and knitwear in lambswool or mohair. For women there were romantic small florals in chiffon and velvet, while the men's collection featured elegant velvet and corduroy or sporty canvas. Shapes remained casual, while colours were autumnal shades such as brown, rust, green and beige, with accents in lilac, turquoise and pink.

### Spring fashion 2005

For this spring our design team has been inspired by nature. The colours are drawn from the earth, plants, the sky and the sea. The garments are mainly made of natural fabrics

such as wool, cotton and linen. The season's major reference is inspired by the 1970s and folklore, with romantic ethnic colours, patterns and garments. Wide blouses and dresses with cuts rich in detail and decoration are combined with denim in white or faded blue with a worn look. The men's side is colourful with lots of patterns and white, as well as denim.

The biggest new feature this spring is the new more casual silhouette, with the garments being more voluminous. A combination of wide and narrow often provides a new shape. The focus is on the waist and hips, accentuated with belts and low-waisted cuts.

Belts are wide with decorative buckles, hats are mainly for men and women can enjoy an abundance of ethnic jewellery. ■

**“H&M's fashion inspires and is a complement to the own wardrobe.”**

#### HIGH QUALITY AND SAFETY REQUIREMENTS

H&M's quality, chemical and safety tests form an important and natural part of our care for and service to the customer. Tests are carried out both in our own laboratories and at external facilities. We have our own laboratories at the majority of our production offices around the world, as well as at our head office in Sweden. Around half a million tests are carried out annually and these include everything from flame tests to testing of pH values.

#### Meticulous quality testing

Tests are carried out at various stages in the production process. Sample garments are tested first; the finished garments are then tested prior to being sent out to stores.

H&M's quality control is an important part of the company's buying work. Inspections start as early as during the production process to ensure the quality of the goods. The production offices have controllers who regularly inspect our suppliers' factories to make sure they are meeting H&M's quality requirements.

Our quality testing includes tests for shrinkage, twisting, colourfastness and dry rubbing. In addition, we test salt and chlorine bleaching, pilling and seam strength. Durability tests are carried out on details such as zippers and press buttons. Flame tests are carried out on all clothing suspected of being easily flammable such as thin and fluffy materials or fabrics with a brushed surface.

#### Extra high quality requirements for children's wear

When H&M designs clothing for babies and children, our prime concern is for quality and safety. Children's wear has to be extra hard-wearing, because it is laundered more than twice as often as other clothing. H&M has long been a driving force in the safety of children's wear and always follows the

strictest rules of all the countries in which it has a presence. One example of our safety-mindedness is detachable hoods on outerwear to reduce the risk of accidents if the child should get caught by the hood while playing. Other examples of our safety-mindedness include no cords or drawstrings around necks and hoods, few details on clothes in order to minimise the risk of accidents and careful checks on buttons. There must be no sharp edges or objects that might present a choking risk. More information on quality and safe children's wear can be found at [www.hm.com](http://www.hm.com).

#### Strict chemical restrictions

H&M's fashion items are produced with the greatest care and consideration for the customer. All H&M's suppliers must abide by a special agreement – H&M's Chemical Restrictions\*.

The restrictions include a list of chemicals that are not permitted in our clothes or must not be present above specified levels. Substances on the list include metals such as cadmium, lead and mercury, certain dyes, formaldehyde, PVC and brominated flame retardants.

Neither do we permit nickel content capable of causing allergic reactions in metal parts that are in contact with the skin. Particular consideration is given to substances that could cause skin irritation or allergies or that may be carcinogenic. The products undergo extensive testing to check that all our chemical requirements are met. Most of the tests are carried out at external laboratories.

As an important part of H&M's long-term work against allergies we are participating in European standardisation work aimed at establishing reliable standards for testing allergenic substances.

\* H & M Hennes & Mauritz AB and H & M Rowells AB Chemical Restrictions for Textile, Leather, Plastic and Metal products.



Skirt  
SEK 198

## OUR SOCIAL RESPONSIBILITIES

As an international corporation we have a great responsibility to the world around us. To create good relations with the outside world we must take responsibility for how people and the environment are affected by our activities.

CSR, or Corporate Social Responsibility, has become an increasingly important strategic matter for H&M. Taking social responsibility also accords completely with the company's fundamental values.

### No factories of our own

H&M does not own any factories. Instead, we buy our clothes and other products from around 700 independent suppliers, primarily in Europe and Asia. A fundamental principle is that our clothes must be manufactured under good working conditions. H&M therefore sets high requirements in this respect and works towards long-term improvement of working conditions for the people producing our goods.

### H&M's Code of Conduct

H&M has a Code of Conduct. The Code is aimed at our suppliers. Its guidelines concern improvements in working conditions in the factories. In no circumstances will H&M accept child labour, forced labour or discrimination in any of our suppliers' factories. H&M's Code of Conduct also requires suppliers to observe the laws of the land, to maintain a good working environment and safety, to provide at least the minimum wage prescribed by law and reasonable working hours and to allow freedom of association.

The Code of Conduct is partly based on the UN Convention on the Rights of the Child and ILO conventions on working conditions and employment rights.

### Suppliers must observe our Code of Conduct

H&M's suppliers must sign an agreement declaring their intention to comply with the requirements in our Code of Conduct. Not every supplier will meet all the requirements at the start. In order to be accepted as a supplier they must therefore sign a declaration stating that they will implement the improvements required by H&M within a certain specified period.

The application of our Code of Conduct is constantly being developed and requirements are specified in more detail as we learn more about the prevailing circumstances in different areas.

### Compliance is checked by inspections

H&M carries out regular inspections of the factories to check how well suppliers are observing the Code of Conduct. Inspections may be carried out with or without notice. In many cases our main suppliers in turn subcontract the production of our products. It is therefore very important that we are able to inspect these factories as well.

Auditors with the task to control the following of the Code of Conduct, are employed full-time at H&M's more than 20 production offices to carry out repeated inspections of the suppliers.

There are three areas of which we take a particularly serious view: any incidence of child labour, the use of

factories that have not been approved by us and any false documentation (such as falsified overtime reporting). If we find any occurrence of these, we often decide to terminate our cooperation with the supplier permanently.

During the year H&M has also acted in several cases involving the dismissal of factory workers for membership of trade unions. In such cases we have demanded that the person concerned be reinstated.

### A new platform for our Code of Conduct

During the year we have worked on producing a new platform for our future Code of Conduct work. It is now time to deepen our dialogue with our suppliers. Until now, our work has primarily focused on establishing a set of rules for our suppliers' conduct and ensuring that they abide by these rules. Now that we have established routines in place, we can go into the causes of the occasional lapses in compliance in greater depth.

We want to increase the realisation among our suppliers that the Code of Conduct and their cooperation with us represent an investment in the future; that our suppliers benefit from the improvements made – as a result of lower staff turnover, increased productivity and higher quality – and that the improvements can also create new business opportunities. The training and education of suppliers' supervisors is a way of increasing knowledge of the positive effects achieved by improved working conditions.

This is a long-term commitment in which constructive dialogue with the factory managers is crucial.

At a meeting by the end of the year we held a gathering of all our auditors in order to establish the new platform and discuss how we can support our suppliers further.

### Cooperation across borders for long-term change

The key word for achieving change is cooperation. Not just between H&M and our suppliers, but also – and perhaps to an even greater degree – with fellow-members of our industry, voluntary organisations and trade unions as well as the UN. Our chances will be better if we can coordinate our efforts with other retail corporations, so that we are all working towards the same type of requirements.

H&M is a participant in the UN's Global Compact and supports its ten principles. In doing so we want to show that we respect human rights and are prepared to contribute to sustainable development within the areas that we are able to influence. H&M also supports the OECD's guidelines for multinational enterprises and is a member of the Amnesty Business Forum.

During the year H&M also entered into a three-year cooperation agreement with UNICEF in which H&M undertakes to support two of UNICEF's programmes, one helping girls in 25 countries to get an education and the other programme is about preventing the spread of HIV/AIDS in Cambodia.

### CSR training in Bulgaria

Bulgaria is one of H&M's production countries. During the year H&M, together with others, including three other clothing companies, took part in an EU-funded project to



PHOTO: UNICEF. MARIELLA FURRE

▲ In 2004 H&M entered into a three-year cooperation agreement with UNICEF to support two programmes in the third world. One programme is aimed at helping girls with education and the other is about preventing the spread of HIV/AIDS in Cambodia.

educate the Bulgarian textile industry in CSR matters – an important preparation for the country's application for membership of the EU.

As part of the project, factory managers, workers and trade union representatives received training in how to improve working conditions and increase productivity and quality. The aim is that by taking the lead on CSR issues, the factories in Bulgaria will be better able to compete with manufacturers in regions such as Asia.

#### Training project in Bangladesh

In Bangladesh H&M has started cooperating with a local organisation to educate factory employees regarding their workers' rights. Particular emphasis has been placed on educating women in matters such as labour legislation, equality and maternity rights.

#### H&M included in CSR-related share indexes

As a mark of recognition of our CSR work H&M has been included in a number of share indexes that take account of companies' CSR work, including the Dow Jones World Sustainability Index and the FTSE4Good. ■

#### H&M'S CSR REPORT

Since 2002 H&M has issued a yearly CSR report. The report describes in detail H&M's work towards meeting its voluntary commitments in respect of environmental and social responsibility. Above all, it describes our efforts to ensure that our suppliers respect human rights and offer their employees good working conditions. Our environmental work both internally and in respect of our suppliers is also described in the report.

The CSR report for 2004 will be available from April 2005 at [www.hm.com/csr](http://www.hm.com/csr).

#### H&M's Code of Conduct comprises eight sections:

- |                       |                               |
|-----------------------|-------------------------------|
| 1. Legal requirements | 5. Factory conditions         |
| 2. Child labour       | 6. Housing conditions         |
| 3. Safety             | 7. Environment                |
| 4. Workers' rights    | 8. Monitoring and enforcement |

## H&M AND THE ENVIRONMENT

H&M's environmental work is carried out systematically within the framework of the CSR department's work and is largely integrated with social responsibility issues. Our aim is to carry on environmental work as part of our day-to-day work in every area of the company's activities.

### H&M's overall environmental objectives

H&M has established six overall environmental objectives that stipulate the long-term orientation of its environmental work. Within each overall objective, work over the years has been aimed at the efforts described below.

■ *Environmental awareness – promotion of environmental awareness among our employees and suppliers.*

H&M carries out ongoing training programmes to increase knowledge and awareness of environmental issues among its suppliers and employees. In 2004 this training focused on environmentally efficient transport, more efficient logistics and increased recycling in stores.

■ *Respect for nature – caution in decision-making out of respect for nature.*

Not using chemicals that may be dangerous or harmful to nature is important in all our operations. H&M actively endeavours to replace hazardous substances with better alternatives. We apply the precautionary principle: in other words, we ban substances that may conceivably be harmful to man or the environment at an early stage. Our suppliers therefore have to guarantee that our products do not contain prohibited substances.

H&M supports the principles of REACH, the chemicals legislation proposed by the EU. These include among other things that the chemicals industry must take clearer responsibility by providing its customers with sufficient and accurate information on contents, environmental effects, etc., which will facilitate H&M's work on avoiding chemicals hazardous to health or the environment in its products.

■ *Sustainable use of resources – resource conservation, recycling and reduction of waste.*

In our stores we take the environment into consideration as far as possible by applying resource-conserving solutions and using resources efficiently. Energy consumption is the biggest individual environmental aspect in stores. We are therefore trying to reduce consumption, for example through management of how our stores are lit and the use of low-energy lighting.

During the year H&M reduced its consumption of plastics by avoiding unnecessary packaging, but also by reducing the thickness of the plastics used in packaging. H&M is actively working to increase recycling of sign materials and clothes hangers. In 2004, for example, we recycled over 4,000 tonnes of hangers.

■ *Healthy products – products that are safe to use and harmless to the environment.*

An important part of H&M's environmental work involves restricting the use of chemicals that are harmful to health and the environment. A large number of chemicals are therefore banned from our products. All the limit values and prohibitions are collected in H&M's chemical restrictions. Our suppliers sign an agreement undertaking to comply

with the restrictions. Products undergo regular testing to check that the chemical requirements are met. Most of the tests are carried out at external laboratories.

Our chemical restrictions have been updated six times since 1995, most recently in 2003. The restrictions now encompass a total of 144 substances. Substances that must not be present in H&M's products include lead, cadmium, mercury, PVC, certain dyes, organotin and brominated flame retardants. Through these restrictions we contribute to reducing the environmental impact of the production stage and encourage the recycling of worn-out goods.

During the year H&M took the decision to sell environmentally-labelled baby clothes. From 2005 onwards our stores will offer basic baby garments that are labelled with the EU Flower. Manufacturers of clothing labelled with the EU Flower must be able to demonstrate that they meet certain requirements in respect of health, quality and the environment. All products labelled with the EU Flower have been checked by independent organisations to guarantee that they meet the strict requirements.

■ *Clean production chain – sustainable production and production methods throughout the supply chain.*

We set environmental requirements in our Code of Conduct. We require our suppliers to comply with local environmental legislation and to have all the necessary permits and licences for their activities. To monitor and follow up environmental aspects better we have produced a checklist of environmental aspects that is used during inspection of our suppliers' factories. It includes matters such as water treatment and how chemicals and hazardous waste are dealt with.

The greatest environmental impact comes from cotton growing and the dyeing of cloth, i.e. long before the sewing of H&M's clothes is started. H&M is therefore working with some suppliers, for example to improve water treatment in various types of wet processes. With effect from September 2004 we have tightened up our requirements in respect of water treatment at our suppliers' dyeworks and laundries.

In the longer term we are working to encourage the factories to adopt cleaner production methods by avoiding unnecessary spillage, reducing waste volumes and reducing water consumption.

■ *Green transport – clean and efficient transport with limited influence on the climate.*

During the year we decided to reduce carbon dioxide emissions from our business by a total of 10 per cent (in relative numbers) over the coming five years. The primary source of carbon dioxide within H&M is energy consumption in our stores and distribution centres. Outside H&M, the transportation of goods is the biggest source of emissions. Work is therefore in progress with a view to reducing the impact that our transportation has on the environment.

H&M also wants to increase environmental thinking among freight companies and in recent years these have therefore completed environmental declarations for transport by road, rail and sea/waterway. Those transporting goods by road must meet six minimum requirements, including engine class, fuel type and driver training in fuel-efficient driving. H&M carries out random checks to ensure that the freight companies are meeting the minimum requirements. ■



Rugby-shirt  
SEK 129

Hooded  
Sweatshirt  
SEK 198

#### H&M'S ENVIRONMENTAL POLICY

Continuous improvements are significant for all H&M activities. This includes our environmental effort, which is conducted within the framework of our business operations. H&M's business concept is to give our customers unsurpassed value by offering fashion and quality at the best price.

Our quality concept is based on ensuring that our customers are satisfied with our products and H&M as a company. To this end, we are committed to acting responsibly in our community. We shall also cooperate with our suppliers to improve the social and environmental standards in the factories that manufacture H&M clothing, thereby contributing to sustainable development in these areas. To achieve this goal, H&M has adopted the following principles:

#### We shall...

- always consider the health and safety of our employees and customers. By adopting the precautionary principle, we will continuously update our restrictions against the use of environmentally and health hazardous chemicals in the production of our garments and other products,
- continuously update ourselves on environmental news and legislation. We will not be content to follow existing environmental legislation, but will in certain areas do more than the law requires,
- conduct our business in a manner that utilises natural resources as efficiently as possible,
- develop new and continuously improve existing environmental requirements concerning the purchase of products and services,
- train, inform and motivate our employees to participation and responsibility, thereby making environmental work an integrated part of H&M daily routines,
- specify for our suppliers our position regarding behaviour towards the environment and human rights and follow up to ensure that our suppliers improve their operations according to these requirements.

## COMMUNICATING THE H&M BRAND

The purpose of H&M's communication is to build the brand in the longer term. Much of H&M's credibility is based on the way we communicate with the world around us. Both internal and external communications must therefore be characterised by an open attitude, clear messages, objectivity, accessibility and sensitivity.

We communicate and convey our brand – which is one of our most important assets – via a number of different channels. The main forum for communication is via our stores. We also communicate via the media, advertising in magazines, on television, billboards and the Internet – as well as through our employees. To provide continuity in all our communication the source must always be clear and the messages consistent, so that customers always feel at home.

### **The store is our primary information channel**

The store is definitely H&M's main information channel, since it is our interface with our customers. As representatives of H&M, our store employees have a very important role to play in respect of our customers.

The stores must offer a comfortable environment that helps strengthen the shopping experience, with the shop window a central point for showing people what we have to offer. H&M also puts a lot of work into keeping customers informed through the way the goods are presented and information on garment labels. To provide information on where the garments are produced all H&M garments are labelled with the country of origin in a visible place on the label.

The way we present our goods is designed to provide customers with guidance and to inspire them. It is essential to allow them to find their way about the store easily and to suggest exciting combinations of H&M's garments. Each store follows guidelines provided for presentation of the goods, but within this framework there is plenty of room for their own creativity. Just as important as the fact that each store is unique is the matter of creating the right H&M feel, which must be the same in all our sales countries.

### **The same message via different channels**

We communicate our business concept – fashion and quality at the best price – through a number of advertising campaigns each year. The advertisements are our way of inviting customers into our stores in an attractive and informative way. The central message of the campaigns is to show our collections.

All H&M's advertisements are produced centrally at the head office in Stockholm in cooperation with external creative professionals. This means that the advertisements are largely the same in all our markets, but the media mix is adapted to local needs and circumstances. The message is communicated via a number of channels such as our stores, billboards, magazines, catalogues and the Internet, as well as TV and cinema commercials.

H&M's advertisements have a major impact and there is often great interest in our advertising campaigns. Our ambition is therefore to communicate a positive and healthy image. Since this is always the basic idea behind our choice of models, we use different characters and a mixture of styles, looks and ages.

H&M launches a number of big campaigns each year, with smaller campaigns in between. The campaigns are naturally linked to the current season and are designed to signal the arrival of the new collections and to generate curiosity concerning the new seasonal range in the stores. Our ambition is that the campaigns should be inviting and have the ability to surprise.

### **PR strengthens the brand and makes it clearer**

To strengthen and clarify the brand in a cost-effective way H&M regularly carries out various communications and PR activities. Communicating what H&M stands for and what we offer customers are the central messages.

H&M is in contact with the media, both the business press and the fashion press, on an ongoing basis. The media are invited to various press gatherings in the sales countries, where H&M's fashion and trends are shown. These gatherings provide opportunity for dialogue and generate interest in the forthcoming collections.

The big PR event of the year was undoubtedly our cooperation with fashion designer Karl Lagerfeld, which received a great deal of attention in all H&M's markets and even far beyond these.

The launch of the collection took place at a major press event in Paris, to which over 1,100 guests were invited. The collection was positively received by both customers and the media. We see this cooperation as clear confirmation of the strength of our business concept, in which design is not a matter of price.

### **H&M Wallpaper and H&M Magazine**

Among the different ways that we pass on information and strengthen our corporate culture are our internal wall-posted newspaper H&M Wallpaper and our fashion magazine H&M Magazine. H&M Magazine describes the fashion and the latest trends and is aimed equally at both staff and customers.

### **Financial information**

The H&M share is one of the most traded shares on the Stockholm Stock Exchange, and today the company has over 175,000 shareholders. H&M communicates continuously with the business press and financial markets, for example by holding press conferences and telephone conferences for journalists and analysts when the quarterly reports are published.

Sales figures are published monthly. H&M's Investor Relations (IR) function is responsible for ongoing contact with the financial markets.

### **H&M's website reaches many different target groups**

H&M's website, [www.hm.com](http://www.hm.com), is aimed primarily at our customers, but also at the general public, the media, the financial markets and shareholders.

The aim is to make it easy for people to find information and news on our website about H&M and its advertising campaigns, collections, markets and stores. The website also has a job opportunities page for those interested in working for H&M. ■





## EMPLOYEES INVALUABLE IN UPHOLDING OUR CULTURE

At the end of the year H&M had more than 45,000 employees. The average number of employees was 31,701 (converted into full-time positions), 20 per cent of whom were male.

H&M's strong corporate culture – the spirit of H&M – has existed ever since the days of H&M's founder, Erling Persson. This strong culture is of great value and is a contributory factor to H&M's successes over the years.

### H&M's fundamental values

The spirit of H&M is based on a number of values that describe in simple terms how we want to work. These are in turn based on our business concept – fashion and quality at the best price.

The fundamental values behind the spirit of H&M are among other things common sense and own initiative.

Within H&M we provide room for people to make their own decisions and take responsibility, and employees get regular feedback on their performance. It is an important part of H&M's culture that responsibility is delegated to the stores. Great engagement is essential and own initiatives should be taken within certain given confines. Creativity and job satisfaction increase when there is a good working environment.

### Employees in focus

Our employees' commitment makes a major contribution to H&M's successes. We believe in individuals' abilities and encourage our employees to develop further. Respect for the individual is a fundamental value at H&M. This applies to everything from fair pay, reasonable working hours and freedom of association to the opportunity to grow and develop with the company.

### Internal recruitment takes precedence

H&M principally recruits internally. Employees recruited from outside the company primarily join the company as sales staff for the stores, who later form a good recruitment base for positions of responsibility both within the stores and in other areas of H&M. This gives our employees every opportunity to develop continually, while at the same time ensuring that the spirit of H&M is spread throughout the company.

### Job rotation and skills development

Job rotation is common at H&M. In the stores, for example, duties may vary between the cash desk, fitting rooms and deliveries to goods display, advertising and campaigns. Working in the store provides very important experience and is a way of getting to know H&M from its very foundation.

Attracting and retaining skilled staff is important for H&M's success. We therefore work constantly on skills development and all training is carried out within our own organisation. However, the biggest knowledge gain is made through active learning on the job.

All new members of staff are given a mentor. Newly appointed employees complete an introduction programme and thereafter receive regular training as needed in customer care, textiles and display.

The introduction programme guarantees that everyone has an equal grounding in and insight into H&M's way of working. Management training is also carried out, with the emphasis on being a good communicator of H&M's values and setting a good example in this respect.

### Transferring the culture to new stores and countries

When H&M opens a new store the employees get support from experienced staff at established H&M stores. They help to build up the store, recruit staff and run the business. In addition, they are important bearers of the culture who help pass on H&M's values to the new employees in a simple way. All this creates cross-border understanding, creativity and commitment.

Generally, H&M employees within a country assist each other. When H&M opens stores in new countries, it is even more important to provide support and to transfer knowledge from staff in established countries. Employees with language skills stay to help out during the start-up phase. Often a number of specialists will relocate to the new country for a longer period in order to pass on their specialist skills, so that the business can get going quickly.

Transferring knowledge and the culture to our new countries of Canada and Slovenia has been made considerably easier by the fact that their neighbouring countries have assisted with construction, warehousing, administration and training. The basic framework is already in place there and committed employees have ensured that the new countries have gained the knowledge and natural understanding of H&M's values that is so important when expanding the business.

### Organisation

The company management is based at H&M's head office in Stockholm. Stockholm is also where the main functions for buying and design, finance, accounts, expansion, interior design and display, advertising, IR, communications, human resources, logistics, security and IT are located.

H&M has 14 country offices that are responsible for the various functions in each sales country. The country office in Belgium is responsible for administration of the Luxembourg stores.

H&M also has 22 production offices which take care of contacts with our approximately 700 independent suppliers. There are ten production offices in Europe, ten in Asia and one each in Central America and Africa. ■

The commitment of H&M's over 45,000 employees is one of the keys to H&M's success. Here is some of the staff gathered at the opening of one of our flagship stores on Lexington Avenue in New York.



## EXTERNAL FACTORS INFLUENCING H&M

A number of factors may affect H&M's results and business. Most of these can be dealt with by internal routines, while others are largely affected by external factors.

### Fashion

Working in the fashion industry is a risk in itself. Fashion is a perishable item and there is always a risk that a collection will not be well received by customers.

Within each concept H&M must have the right volumes and achieve the right balance in the mix between fashion basics and the trend fashion that is so important for H&M's image. To optimise the fashion precision H&M is working with ongoing buying during season. Production of garments with a high fashion content is also being commissioned in Europe, where lead times are shorter. This allows production to be adapted to customer demand more quickly.

H&M has sales operations in 20 countries on two continents. Although purchasing patterns are relatively similar in the various markets, differences do occur. The start of the season varies between countries, for example, as does the length of the season. Consequently both delivery dates and volumes of goods for the different stores are adjusted to match.

### The weather

H&M's goods are bought in and launched in stores on the basis of normal weather patterns, i.e. assuming that autumn will arrive when it should according to the statistics and will maintain a certain temperature. Major departures from the norm will affect sales. The effect will be greatest if there are major departures at the beginning of a season.

### The economic cycle

In 2004 economic growth remained weak in some of H&M's markets, resulting in generally weaker demand. It is difficult to measure how an economic downturn will affect H&M's sales, but historically it has emerged that H&M does not tend to see any significant reduction in sales when there is a downturn in the economic cycle.

### Currency hedging

The most significant purchase currencies for the Group are the US dollar and the euro. Fluctuations in the dollar/euro exchange rate form the largest individual transaction exposure within the Group.

To hedge against fluctuations in the dollar rate and thus reduce the effects of future exchange rate movements, the US dollar is secured under forward contracts on an ongoing basis throughout the year.

Since the sole aim of this currency management is to reduce risk, only actual exposure is hedged.

In addition to the transaction exposure arising from purchases in foreign currencies, the Group is affected by currency fluctuations as a result of the receivables and liabilities that arise continuously between Group companies. The introduction of the euro has reduced this exposure somewhat. The majority of the remaining risk is hedged through forward contracts.

During the year the US dollar continued to weaken, which resulted in gradual reductions in buying costs as the forward hedging matured. The lower purchase costs were passed on to customers in the form of lower prices. Price per item was in average 4 per cent lower than previous year.

### Translation effects

In addition to the effects of transaction exposure, translation effects also affect the Group's result. These arise when a foreign subsidiary's profit/loss is converted into Swedish kronor in order to be consolidated in the Group accounts.

The underlying profit/loss in each market may be unchanged, but then either reduces or increases when converted into Swedish kronor.

Translation effects also arise in respect of the Group's net assets on consolidation of the foreign subsidiaries' balance sheets. No equity hedging is carried out for this risk.

### Liquidity management

Liquid surplus funds are invested short-term in banks or government securities in the currency of the company in question. During 2004 the longest investment period has been six months. The Group does not use any derivative instruments in the interest-bearing securities market.

The Group does not trade in shares or similar instruments. ■

## ADMINISTRATION REPORT

The Board of Directors and Managing Director of H & M Hennes & Mauritz AB (publ), corporate identity number 556042-7220, domiciled in Stockholm, submit herewith their annual report and consolidated accounts for the financial year 1 December 2003 to 30 November 2004.

### BUSINESS

The Group's business consists of the sale of clothing and cosmetics to consumers.

H&M's business concept is to offer fashion and quality at the best price. The business is operated from leased store premises as well as via mail order and the Internet. At the end of the financial year store sales were carried on at 1,068 stores in 20 countries and mail order and Internet shopping was offered in Sweden, Norway, Denmark and Finland. H&M's own buying and design department creates the collections, which are then produced by nearly 700 external suppliers in around 20 countries.

The best price is achieved by having few middlemen, buying in large volumes, getting the right product from the right market, cost-consciousness at every stage and having efficient distribution.

Quality checks are carried out continually in order to ensure that the products are of good quality.

### SIGNIFICANT OCCURRENCES

During the year, 136 stores were opened: 34 in Germany, 13 in Spain, 12 in the UK, eleven in France, nine each in Poland and the USA, six each in Norway, the Netherlands and Canada, five in the Czech Republic, four each in Sweden and Belgium, three each in Austria and Finland, two stores each in Denmark, Switzerland, Portugal, Italy and Slovenia, and one in Luxembourg. 13 stores were closed. Of the net increase of 123 stores, 66 were opened and four were closed in the fourth quarter. The total number of H&M stores thereby amounted to 1,068 (945) as of 30 November 2004.

During the year H&M opened stores in two new markets: Canada and Slovenia. The reception was very good in both markets. Our simplified opening procedure, in which the neighbouring countries assist with administration and product supply, has now been successfully practised in six new markets. In each case it has meant that we were able to become established more quickly and that the costs were considerably lower than would otherwise have been the case.

During the year the buying department was divided in two, one section focusing on production and the other on the product range, partly in order to meet future requirements but also in order to focus more clearly on customer groups and range composition.

### SALES

Turnover excluding VAT for the H&M Group increased during the past financial year by 11 per cent (with comparable exchange rates, the increase was 12 per cent) compared with the previous year and amounted to SEK 53,695.0 m (48,237.7). Turnover including VAT was SEK 62,985.9 m (56,550.0).

### PROFITS

Gross profit for the year amounted to SEK 30,718.0 m (27,092.6), which corresponds to 57.2 per cent (56.2) of sales.

After deduction of selling and administrative expenses, operating profit was SEK 10,667.3 m (9,223.0). This corresponds to an operating margin of 19.9 per cent (19.1). Operating profit has been charged with depreciation according to plan of SEK 1,232.2 m (1,125.6).

Group financial net income amounted to SEK 338.0 m (385.7). Profit after financial items was SEK 11,005.3 m (9,608.7), an increase of 15 per cent.

After deduction of taxes of SEK 3,730.5 m (3,222.8), profit for the year amounted to SEK 7,274.8 m (6,385.9). The profit achieved corresponds to earnings per share of SEK 8.79 (7.72).

Net profit for the year has been negatively affected by currency translation effects of SEK 87.0 m compared with the previous year. The translation effects arise when the foreign subsidiaries' profit/loss is converted into Swedish kronor in order to be consolidated in the Group accounts.

Return on shareholders' equity was 34.4 per cent (32.6) and return on capital employed was 51.9 per cent (48.9).

### LIQUIDITY AND FINANCING

The Group balance sheet total increased by 9 per cent, amounting to SEK 28,127.3 m (25,761.7) on 30 November 2004.

During the year, the H&M Group generated a positive cash flow from current operations of SEK 8,568.3 m (6,235.9). SEK 1,588.5 m (1,274.0) was invested through net acquisitions of fixed assets.

Cash flow for the year amounted to SEK -1,262.2 m (-9.9). The dividend to shareholders was SEK 4,965.2 m (4,965.2) and financial investments amounted to SEK 3,250.0 m (-).

Financial assets amounted to SEK 15,051.3 m (13,193.5). Stock-in-trade increased by 2 per cent and amounted to SEK 5,141.6 m (5,050.1). Stock-in-trade in relation to turnover was 9.6 per cent (10.5) and 18.3 per cent (19.6) in relation to total assets.

The Group's debt ratio was 0.2 per cent (0.2). The share of risk-bearing capital was 82.5 per cent (81.6).

The Group's equity on 30 November 2004 was SEK 22,209.0 m (20,096.7), which apportioned to the 827,536,000 outstanding shares equals SEK 26.84 (24.28) per share.

### FUTURE DEVELOPMENT

H&M's objective is to increase the number of stores by 10 to 15 per cent new stores each year while at the same time increasing sales at existing stores.

In the 2004/05 financial year 145–155 stores are planned to open, with 12 closures planned. H&M's main expansion will take place in Germany, the UK, France, Spain, the USA, Poland and Italy. Two new markets will be added in 2005, Ireland and Hungary.

In spring 2005 the Group's first store in Dublin, Ireland will open, to be followed by a further two stores in the autumn. H&M's organisation in the UK will be responsible for product supply and administration.

H&M will open its first store in Hungary in autumn 2005 in Budapest. This establishment will be taken care of by H&M's organisation in Austria.

#### **ADJUSTMENT TO IFRS**

During the year the Group continued its work on bringing its accounts into line with the new IFRS rules (International Financial Reporting Standards), which in H&M's case will be applied for the first time in the 2005/06 financial year. For further information refer to the notes to the financial statements under the heading IFRS.

#### **DIVIDEND POLICY**

The improved profits in recent years have provided the Group with liquidity that is currently judged to be above that which may be required of H&M's continued strong expansion. In view of this, the Board of Directors feels that H&M's dividend policy should be changed.

H&M's financial goal is for the company to continue to enjoy healthy growth as well as to be ready to exploit future business opportunities. It is essential that expansion, as in the past, continues with the same high degree of financial strength and continued freedom to act.

Dividends should equal around half of the profit after taxes. In addition, the Board of Directors may propose that the calculated surplus liquidity can also be distributed.

For this reason, the Board of Directors will propose to the Annual General Meeting a dividend of SEK 8.00 per share (previous year ordinary dividend of SEK 2.90 and bonus dividend of SEK 3.10, totalling SEK 6.00).

#### **BOARD OF DIRECTORS' WORK**

Since the Annual General Meeting on 28 April 2004 the Board of Directors has had 13 members, of which four are deputy members (eight men and five women). The Board of Directors met six times during the financial year. At the statutory meeting following the AGM Stefan Persson was re-elected Chairman of the Board and rules of procedure were adopted for the Board, the audit committee and the election committee. The Board's rules of procedure regulate matters such as the distribution of work between the Board

and the Managing Director, financial reporting, investments and financing policy. The rules also call for the Board to hold five ordinary meetings annually, the statutory meeting not included. In its work the Board of Directors has kept abreast of the financial development and position of the Group, made decisions on investments for the forthcoming financial year, resolved on expansion into new markets and kept up-to-date on organisational changes. Auditor Åke Hedén reported on the year's audit work when the Board dealt with the proposed annual report.

#### **AUDIT COMMITTEE**

During the year the audit committee, with Stig Nordfelt as Chairman and Werner Hofer and Bo Lundquist as members, held two minuted meetings. The committee dealt with matters concerning the company's financial reporting as well as the scope and orientation of the audit. It also established guidelines concerning which services other than auditing the company may procure from the company's auditors.

Auditor Åke Hedén participated in both meetings and reported back on the audit work.

#### **NOMINATING COMMITTEE**

In accordance with the decision of the Annual General Meeting on 28 April 2004, a nominating committee has been formed. The nominating process took place such that at the end of August 2004 the members of the nominating committee were appointed by the principal shareholder and the five next largest shareholders. The committee was composed as follows:

SHAREHOLDER	REPRESENTATIVE
Stefan Persson and family	Stefan Persson
Lottie Tham	Lottie Tham
Robur fonder	Marianne Nilsson
Alecta	Tomas Nicolin
AMF Pensionsförsäkrings AB	Tor Marthin
Nordea fonder	Peter Rudman

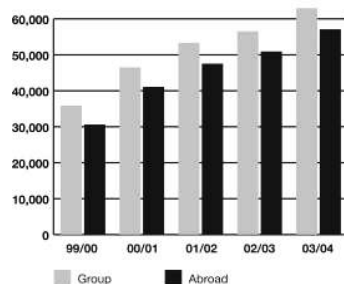
The nominating committee held one minuted meeting. ■

## INCOME STATEMENTS

1 December – 30 November  
(SEK m)

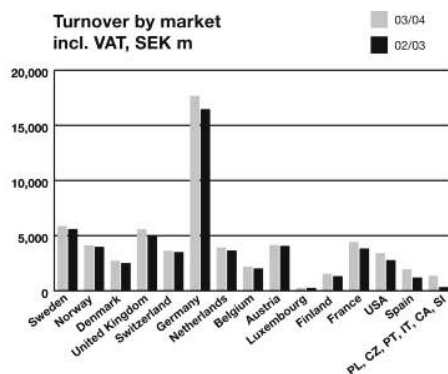
	GROUP		PARENT COMPANY	
	2003/04	2002/03	2003/04	2002/03
Turnover, including VAT	62,985.9	56,550.0	6,658.6	6,284.0
Turnover, excluding VAT, Notes 1, 2, 3	53,695.0	48,237.7	5,362.9	5,069.0
Costs of goods sold, Notes 3, 4, 5	-22,977.0	-21,145.1	-1,617.8	-1,729.7
<b>GROSS PROFIT</b>	<b>30,718.0</b>	<b>27,092.6</b>	<b>3,745.1</b>	<b>3,339.3</b>
Selling expenses, Notes 3, 4, 5	-18,927.7	-16,827.3	-2,183.9	-1,913.9
Administrative expenses, Notes 3, 4, 5, 6	-1,123.0	-1,042.3	-465.9	-459.9
<b>OPERATING PROFIT</b> , Note 1	<b>10,667.3</b>	<b>9,223.0</b>	<b>1,095.3</b>	<b>965.5</b>
Result from financial investments				
Dividend from subsidiaries	–	–	7,405.8	3,923.1
Interest income	341.2	388.5	192.2	177.5
Interest expense	-3.2	-2.8	-0.5	-1.1
<b>PROFIT AFTER FINANCIAL ITEMS</b>	<b>11,005.3</b>	<b>9,608.7</b>	<b>8,692.8</b>	<b>5,065.0</b>
Appropriations, Note 7	–	–	-291.1	-279.4
Taxes, Note 8	-3,730.5	-3,222.8	-281.8	-245.0
<b>PROFIT FOR THE YEAR</b>	<b>7,274.8</b>	<b>6,385.9</b>	<b>8,119.9</b>	<b>4,540.6</b>
Profit per share, SEK	8.79	7.72	–	–
Number of shares: 827,536,000				

Turnover incl. VAT, SEK m



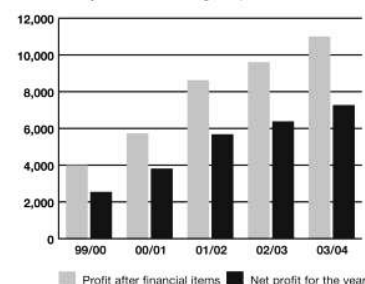
Turnover including VAT has increased by over 75 per cent over the past four years.

Turnover by market incl. VAT, SEK m



Turnover in the new countries – Poland, the Czech Republic, Portugal, Italy, Canada and Slovenia – amounted to SEK 1,372 m.

Profit after financial items and net profit for the year, SEK m



Profit after financial items increased by 15 per cent compared with the previous year, amounting to SEK 11,005.3 m.

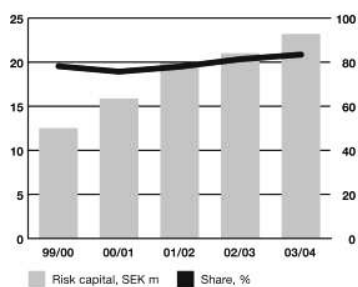
## BALANCE SHEETS

30 November  
(SEK m)

### ASSETS

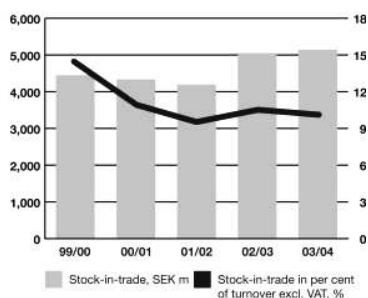
	GROUP		PARENT COMPANY	
	2004	2003	2004	2003
<b>FIXED ASSETS</b>				
<b>Intangible Assets</b>				
Renting rights, Note 9	101.4	111.7	-	-
<b>Tangible Assets</b>				
Buildings and land, Note 9	437.2	460.1	67.9	71.0
Equipment, tools, fixtures and fittings, Note 9	5,992.0	5,663.9	450.2	466.7
	<u>6,429.2</u>	<u>6,124.0</u>	<u>518.1</u>	<u>537.7</u>
<b>Financial Assets</b>				
Shares and participation rights, Note 10	-	-	8.5	8.5
Long-term receivables, subsidiaries	-	-	24.0	24.0
Other long-term receivables	146.0	119.7	12.3	9.4
Deferred tax receivables, Note 8	35.0	86.3	8.3	7.0
	<u>181.0</u>	<u>206.0</u>	<u>53.1</u>	<u>48.9</u>
<b>TOTAL FIXED ASSETS</b>	<b>6,711.6</b>	<b>6,441.7</b>	<b>571.2</b>	<b>586.6</b>
<b>CURRENT ASSETS</b>				
Stock-in-trade	5,141.6	5,050.1	604.6	625.5
<b>Current receivables</b>				
Accounts receivable, trade	712.9	617.0	411.1	354.1
Accounts receivable from subsidiaries	-	-	3,344.1	3,418.7
Other receivables	98.9	81.4	26.2	14.6
Prepaid expenses accrued income, Note 11	411.0	378.0	78.3	53.3
	<u>1,222.8</u>	<u>1,076.4</u>	<u>3,859.7</u>	<u>3,840.7</u>
Short-term investments, Note 12	12,566.9	7,267.3	5,670.1	2,194.8
Cash and bank balances	2,484.4	5,926.2	301.4	488.1
<b>TOTAL CURRENT ASSETS</b>	<b>21,415.7</b>	<b>19,320.0</b>	<b>10,435.8</b>	<b>7,149.1</b>
<b>TOTAL ASSETS</b>	<b>28,127.3</b>	<b>25,761.7</b>	<b>11,007.0</b>	<b>7,735.7</b>

Risk capital



H&M's share of risk capital remained high at 82.5 per cent.

Stock-in-trade



The stock-in-trade at the end of the year was SEK 5,141.6 m and equalled 9.6 per cent of turnover, which is a historically low level.



## BALANCE SHEETS

30 November  
(SEK m)

EQUITY AND LIABILITIES	GROUP		PARENT COMPANY	
	2004	2003	2004	2003
<b>EQUITY</b>				
<b>Restricted Equity</b>				
Share capital, Note 14	206.9	206.9	206.9	206.9
Restricted reserves	<u>2,538.5</u>	<u>2,411.3</u>	<u>87.8</u>	<u>87.8</u>
	2,745.4	2,618.2	294.7	294.7
<b>Non-restricted Equity</b>				
Profit brought forward, Note 15	12,188.8	11,092.6	243.9	667.8
Profit for the year	<u>7,274.8</u>	<u>6,385.9</u>	<u>8,119.9</u>	<u>4,540.6</u>
	19,463.6	17,478.5	8,363.8	5,208.4
<b>TOTAL EQUITY</b>	<b>22,209.0</b>	<b>20,096.7</b>	<b>8,658.5</b>	<b>5,503.1</b>
Untaxed reserves, Note 16	–	–	1,329.7	1,038.6
<b>Provisions</b>				
Provisions for pensions, Note 17	41.2	36.0	29.6	25.1
Provisions for deferred tax liabilities, Note 17	<u>992.0</u>	<u>925.2</u>	–	–
	1,033.2	961.2		
<b>Current Liabilities</b>				
Accounts payable, trade	1,092.3	1,154.7	432.1	492.9
Accounts payable, subsidiaries	–	–	15.6	100.6
Income tax liabilities	778.2	1,084.3	90.5	148.3
Other liabilities	1,246.1	862.2	110.0	91.5
Accrued expenses and deferred income, Note 18	<u>1,768.5</u>	<u>1,602.6</u>	<u>341.0</u>	<u>335.6</u>
	4,885.1	4,703.8	989.2	1,168.9
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>28,127.3</b>	<b>25,761.7</b>	<b>11,007.0</b>	<b>7,735.7</b>
Securities provided	–	–	–	–
Contingent liabilities, Note 19	8,949.1	8,939.4	8,949.1	8,939.4

**CHANGE IN SHAREHOLDERS' EQUITY**

(SEK m)

**GROUP**

	Share capital	Restricted reserves	Unappropriated earnings	Total shareholders' equity
Shareholders' equity 1 December 2003	206.9	2,411.3	17,478.5	20,096.7
Dividend	-	-	-4,965.2	-4,965.2
Capital shares in untaxed reserves etc.	-	143.5	-143.5	-
Refunded dividend	-	-	0.7	0.7
Translation differences*	-	-16.3	-181.7	-198.0
Profit for the year	-	-	7,274.8	7,274.8
<b>Shareholders' equity 30 November 2004</b>	<b>206.9</b>	<b>2,538.5</b>	<b>19,463.6</b>	<b>22,209.0</b>
Shareholders' equity 1 December 2002	206.9	2,256.4	16,624.4	19,087.7
Dividend	-	-	-4,965.2	-4,965.2
Capital shares in untaxed reserves etc.	-	202.3	-202.3	-
Refunded dividend	-	-	0.7	0.7
Translation differences*	-	-47.4	-365.0	-412.4
Profit for the year	-	-	6,385.9	6,385.9
<b>Shareholders' equity 30 November 2003</b>	<b>206.9</b>	<b>2,411.3</b>	<b>17,478.5</b>	<b>20,096.7</b>

\* At the end of the financial year accumulated translation differences amounted to SEK -504.1 m (-306.1).

**PARENT COMPANY**

	Share capital	Restricted reserves	Unappropriated earnings	Total shareholders' equity
Shareholders' equity 1 December 2003	206.9	87.8	5,208.4	5,503.1
Dividend	-	-	-4,965.2	-4,965.2
Refunded dividend	-	-	0.7	0.7
Profit for the year	-	-	8,119.9	8,119.9
<b>Shareholders' equity 30 November 2004</b>	<b>206.9</b>	<b>87.8</b>	<b>8,363.8</b>	<b>8,658.5</b>
Shareholders' equity 1 December 2002	206.9	87.8	5,632.3	5,927.0
Dividend	-	-	-4,965.2	-4,965.2
Refunded dividend	-	-	0.7	0.7
Profit for the year	-	-	4,540.6	4,540.6
<b>Shareholders' equity 30 November 2003</b>	<b>206.9</b>	<b>87.8</b>	<b>5,208.4</b>	<b>5,503.1</b>

## CASH FLOW ANALYSES

1 December – 30 November  
(SEK m)

	GROUP		PARENT COMPANY	
	2003/04	2002/03	2003/04	2002/03
<b>CURRENT OPERATIONS</b>				
Profit after financial items*	11,005.3	9,608.7	8,692.8	5,065.0
Provisions for pensions	5.6	30.8	4.5	25.1
Depreciation	1,232.2	1,125.6	105.5	102.8
Tax paid	-3,899.6	-3,564.4	-340.9	-183.2
<b>Cash flow generated by current operations before changes in working capital</b>	<b>8,343.5</b>	<b>7,200.7</b>	<b>8,461.9</b>	<b>5,009.7</b>
<b>Cash flow generated by changes in working capital</b>				
Current receivables	-157.0	-108.3	-19.0	-564.1
Stock-in-trade	-141.2	-948.6	20.9	-66.8
Current liabilities	523.0	92.1	-121.9	38.2
<b>CASH FLOW GENERATED BY CURRENT OPERATIONS</b>	<b>8,568.3</b>	<b>6,235.9</b>	<b>8,341.9</b>	<b>4,417.0</b>
<b>INVESTMENT ACTIVITIES</b>				
Investments in renting rights	-14.1	-18.0	-	-
Sales of and investments in buildings and land	3.5	11.9	-	-
Investments in fixed asset	-1,577.9	-1,267.9	-85.9	-103.3
<b>CASH FLOW FROM INVESTMENTS ACTIVITIES</b>	<b>-1,588.5</b>	<b>-1,274.0</b>	<b>-85.9</b>	<b>-103.3</b>
<b>FINANCIAL ACTIVITIES</b>				
Financial investments, 3–6 months	-3,250.0	-	-3,250.0	-
Long-term receivables	-27.5	-7.3	-2.9	-0.3
Dividend for the year	-4,965.2	-4,965.2	-4,965.2	-4,965.2
Refunded dividend	0.7	0.7	0.7	0.7
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>-8,242.0</b>	<b>-4,971.8</b>	<b>-8,217.4</b>	<b>-4,964.8</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>-1,262.2</b>	<b>-9.9</b>	<b>38.6</b>	<b>-651.1</b>
Liquid funds, beginning of the period <i>(including short-term investments, 0–3 months, Note 12)</i>	13,193.5	13,479.6	2,682.9	3,334.0
Cash flow for the year	-1,262.2	-9.9	38.6	-651.1
Changes in currency rates	-130.0	-276.2	-	-
Liquid funds, end of the period <i>(including short-term investments, 0–3 months, Note 12)</i>	11,801.3	13,193.5	2,721.5	2,682.9

\* Interest paid amounts for the Group to SEK 3.7 m (3.8) and for the parent company to SEK 1.4 m (1.1).

## NOTES TO THE FINANCIAL STATEMENTS

### CORPORATE INFORMATION

The parent company H & M Hennes & Mauritz AB (publ) is a limited company domiciled in Sweden. The parent company's corporate identity number is 556042-7220. The Group's business consists of the sale of clothing and cosmetics to consumers. The annual report was approved for publication by the Board of Directors on 27 January 2005 and will be submitted to the Annual General Meeting for adoption on 26 April 2005.

### ACCOUNTING PRINCIPLES

#### BASIS FOR PREPARATION OF THE ACCOUNTS

This annual report has been prepared in accordance with the Swedish Annual Accounts Act and the recommendations issued by the Swedish Financial Accounting Standards Council. All amounts in tables are shown in SEK m.

#### CONSOLIDATED ACCOUNTS

The consolidated accounts have been prepared in accordance with recommendation RR 1:00 issued by the Swedish Financial Accounting Standards Council. Among other things, this means that the consolidated accounts have been prepared using the acquisition method and include all subsidiaries in which the Group has more than 50 per cent of the votes at its disposal. Currently all subsidiaries are 100 per cent owned. Where possible, the acquisition value of shares in subsidiaries is distributed in the consolidated accounts to the identifiable assets and liabilities taken over on acquisition. This distribution is carried out based on a valuation at actual values and amounts that are not distributed, represent Group goodwill. If the acquisition value of the shares is lower than the actual value of the assets, negative goodwill arises.

The effects of intra-group transactions and unrealised gains in stock-in-trade are eliminated.

The Group's foreign subsidiaries are independent and their accounts are converted using the current rate method in accordance with RR 8, Effects of Changes in Exchange Rates, which means that assets and liabilities are converted at the rate on the closing date. The income statements are converted at the average rate for the year. The translation differences thereby arising have no effect on the Group's results but are instead reported directly against Group equity.

#### REPORTING OF INCOME

The Group's income is generated by the sale of clothing and cosmetics to consumers. Sales revenue is reported less value-added tax, returns and discounts. The income is reported in conjunction with sale/delivery to the customer.

### RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY

Receivables and liabilities are assessed at the exchange rate on the closing date. Forward exchange agreements, which secure the flows of currencies between countries, have been dealt with in a manner whereby receivables and liabilities are assessed at a forward rate. Currency hedging measures are not reported until the flow hedged is reported in the balance sheet. Exchange rate differences on forward contracts are reported in the income statement in the same period as the hedged transaction is entered.

#### LEASING

The Group has entered into no leasing agreements other than leases for premises concluded on normal market terms. See also Note 9.

#### TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets are reported at acquisition cost less accumulated depreciation according to plan, based on expected period of use. Additional expenses are added to the acquisition cost where the performance of the asset is enhanced relative to the level effective when originally acquired. All other additional expenses are reported as costs in the period in which they arise. See also Note 9.

#### STOCK-IN-TRADE

Stock-in-trade has been valued at acquisition cost (purchase price plus delivery costs) less a deduction for market obsolescence.

#### FINANCIAL INVESTMENTS

All investments are reported at the acquisition cost on acquisition. The book value of short-term investments plus book accrued interest equals the actual value. See also Note 12.

#### REPORTING OF CORPORATE INCOME TAX

Taxes in the income statements represent current and deferred corporate income tax payable by Swedish and foreign subsidiaries. Corporate income tax is calculated at the rate applicable in the country in question. The statutory corporate income tax rate in Sweden is 28%. Deferred tax is reported on differences that may arise between the written-down values and book values of assets and liabilities, known as temporary differences. Temporary differences arise when the date of taxation differs from the date when the transaction is to be reported according to good accounting practice. Deferred tax may also be reported for loss carry-forward for tax purposes, to the extent that it is likely that the loss carry-forward will offset against future profits. The Group has no loss carry-forward other than the reported temporary taxes receivable. See also Note 8.

**PROVISIONS**

Provisions are reported in the balance sheet when there is a commitment as a result of an event that has occurred and it is likely that an outflow of resources will be required in order to settle the commitment and the amount can be reliably estimated.

**CASH FLOW ANALYSIS**

The cash flow analysis is prepared according to the indirect method. Liquid funds are calculated as the total cash and bank balances plus the share of short-term investments with a term of less than three months. These short-term investments are regarded as liquid funds if they are traded on an open market for known amounts and are at only minor risk of fluctuations in value.

**DERIVATIVES**

The derivatives consist of forward currency contracts. These are reported outside the balance sheet, applying deferred hedge accounting. Gains and losses on derivatives are reported when the transaction hedged takes place. For further information see Note 13.

**SEGMENT REPORTING**

For segment reporting internal follow-up is carried out by country. To assist with compiling information on geographical areas these are divided into three geographical regions: the Nordic region, euro zone countries excluding Finland and rest of world. There is no internal division into different lines of business and hence reporting in secondary segments is not relevant. See also Note 1.

**ACCOUNTING PRINCIPLES WITH EFFECT FROM 2004/05**

From and including the 2004/05 financial year, Recommendation RR 29 from the Swedish Financial Accounting Standards Council relating to Employee Benefits, will be applied. The main differences between RR 29 and the rules currently applied relate to the reporting of defined benefit plans for benefits after employment has ended. RR 29 requires commitments under these plans to be calculated using actuarial methods and benefit amounts to be calculated by applying the Projected Unit Credit Method and to be reduced by the market value of pension assets.

H&M has several different plans for benefits after employment has ended. The plans are either defined benefit or defined contribution plans. Defined contribution plans are reported as an expense in the period when the employee performs the service to which the benefit relates. Defined benefit plans are assessed according to the accepted principles of pension accounting in the country concerned. Defined benefit commitments minus plan assets are reported under the heading Provision for pensions and similar commitments.

For employees in Sweden H&M applies the ITP plan through insurance with Alecta. According to a statement by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force (URA 42), this is a defined

benefit plan which covers several employers. Until the company gains access to the information that will allow this plan to be reported as a defined benefit plan, the plan will be reported as a defined contribution plan.

**IFRS**

From and including the financial year commencing 1 December 2005, H&M will apply the International Financial Reporting Standards (IFRS, formerly IAS). The annual report for 2004/05 will therefore be the last annual report prepared according to the recommendations issued by the Swedish Financial Accounting Standards Council. Swedish accounting principles have been gradually adapted to IFRS in recent years. However, there are still certain areas where differences remain. During 2004 the company continued its work on analysing the effects on accounting principles and requirements of expanded supplementary information. Based on current knowledge, H&M has identified IAS 39, Financial Instruments: Recognition & Measurement, as the recommendation that differs most substantially from the accounting principles currently applied. Primarily, IAS 39 will mean that all derivatives are reported at actual value. The estimated effect as of 30 November 2004 is reported in Note 13. On the transition to the new rules the effects will be reported as an adjustment in opening shareholders' equity.

**FINANCIAL RISKS**

Through its business the Group is exposed to risks in financial instruments such as liquid funds, short-term investments, accounts receivable, accounts payable and forward currency contracts. The risks related to these instruments are primarily:

- Interest risks in respect of liquid funds and short-term investments
- Currency risks in respect of the flows in foreign currency
- Credit risks attributable to financial activities

How these risks are dealt with and controlled is regulated in the financial policy adopted by the company's Board of Directors. The financial policy is the most important financial control instrument for the company's financial activities and establishes the framework within which the company works.

**Interest risk**

Interest risk is the risk that the value of a financial instrument will vary due to changes in market interest rates. The interest risk relates to the risk that the Group's exposure to changes in the market interest rate may affect net profit. The Group's exposure to risk from changes in interest rates relates to liquid funds as well as short-term investments. See also Note 12. In accordance with its financial policy, the Group's surplus liquidity is invested in current bank accounts or in interest-bearing instruments with high liquidity (treasury bills or investments in banks). The term of the investments as of the closing date is up to six months. The financial policy allows investments for up to two years.

### Currency risks

Currency risk is the risk that the value of a financial instrument will vary due to changes in exchange rates. H&M's accounts are kept in Swedish kronor, but the Group has business in countries all over the world. This means that the Group is exposed to currency risks due to the fact that changes in exchange rates may affect profit and capital.

### Credit risk

Credit risk is the risk that a party in a transaction involving financial instruments is unable to meet its commitments, thereby causing the other party a loss.

Credit risk exposure arises on the investment of liquid funds, including short-term investments, but also as a counterparty risk when trading in derivatives. To limit the credit risk, translations in forward contracts are concluded only with counterparties with good creditworthiness. Moreover, funds are placed only in banks and treasury bills.

The overwhelming majority of the Group's sales are made against payment in cash and consequently this part of the credit risk is low.

### Transaction exposure in commercial flows

With a view to dealing with the currency risk in respect of changes in exchange rates, the Group hedges its currency risks within the framework of the financial policy. The currency risk exposure is dealt with centrally.

The most significant purchase currency for the Group is the US dollar. Fluctuation in the dollar/euro exchange rate forms the largest individual transaction exposure within the Group.

To currency-hedge purchases in foreign currency and thus reduce the effects of future exchange rate movements, the majority of the Group's contracted purchases of goods are secured under forward contracts on an ongoing basis throughout the year. Since the sole aim of this currency management is to reduce the risks, only actual exposure is hedged.

The Group's operating result for the year has been negatively affected by SEK 31 million from exchange rate differences relating to goods flows (last year negatively by SEK 95 million).

### Translation exposure on consolidation of units outside Sweden

In addition to the effects of transaction exposure, translation effects also affect the Group's result when foreign subsidiaries are consolidated. These effects arise when a foreign subsidiary's profit/loss is converted into Swedish kronor (translation exposure in the income statement). The underlying profit/loss in a market may be unchanged in local currency, but when converted into SEK may have increased if the Swedish krona has weakened or reduced if the Swedish krona has strengthened. These translation effects have negatively affected the result for the year by SEK 87 million (SEK -157 million).

Translation effects also arise in respect of the Group's net assets on consolidation of the foreign subsidiaries' balance sheets (translation exposure in the balance sheet). No equity hedging is carried out for this risk. The translation differences for the year, which are reported directly against Group equity, amount to SEK -198 million (previous year SEK -412 million).

## 1 SEGMENT REPORTING

	2003/04	2002/03
<b>Nordic region</b>		
Net turnover	11,495	10,815
Operating profit	2,202	2,015
Operating margin in %	19.2	18.6
Assets	10,382	7,012
Liabilities	1,384	1,366
Investments	225	142
Depreciation	187	180
<b>Euro zone countries excl. Finland</b>		
Net turnover	29,907	26,994
Operating profit	6,625	5,859
Operating margin in %	22.2	21.7
Assets	11,450	12,984
Liabilities	1,831	1,482
Investments	857	768
Depreciation	608	553
<b>Rest of world</b>		
Net turnover	12,293	10,429
Operating profit	1,840	1,349
Operating margin in %	15.0	12.9
Assets	6,260	5,679
Liabilities	933	808
Investments	507	364
Depreciation	437	393
<b>Total</b>		
<b>Net turnover</b>	<b>53,695</b>	<b>48,238</b>
<b>Operating profit</b>	<b>10,667</b>	<b>9,223</b>
<b>Operating margin in %</b>	<b>19.9</b>	<b>19.1</b>
<b>Assets excl. taxes recoverable</b>	<b>28,092</b>	<b>25,675</b>
<b>Liabilities, excl. tax liability and equity</b>	<b>4,148</b>	<b>3,656</b>
<b>Investments</b>	<b>1,589</b>	<b>1,274</b>
<b>Depreciation</b>	<b>1,232</b>	<b>1,126</b>

## 2 NET TURNOVER BY COUNTRY

	2003/04	2002/03
Sweden	4,717	4,495
Norway	3,326	3,215
Denmark	2,183	2,015
UK	4,909	4,355
Switzerland	3,387	3,261
Germany	15,258	14,201
Netherlands	3,310	3,073
Belgium	1,819	1,676
Austria	3,485	3,414
Luxembourg	254	242
Finland	1,270	1,090
France	3,709	3,207
USA	3,231	2,680
Spain	1,685	1,036
Poland	384	72
Czech Republic	164	61
Portugal	189	99
Italy	197	46
Canada	168	-
Slovenia	50	-
<b>Total</b>	<b>53,695</b>	<b>48,238</b>

### 3 SALES TO GROUP COMPANIES

Parent company net turnover includes SEK 70.5 m (124.6) in respect of internal sales of goods to subsidiaries.

### 4 SALARIES, OTHER REMUNERATION AND PAYROLL OVERHEADS

2004	Board MD, salary	Other salaries	Total payroll overheads	of which pensions	of which pensions Board + MD
Sweden	12.3	1,039.1	469.1	80.9	6.3
Norway	1.9	507.5	85.6	12.0	2.0
Denmark	2.0	275.3	25.7	3.2	0.1
UK	4.4	568.6	43.0	2.3	0.2
Switzerland	3.0	444.9	56.9	0.8	-
Germany	7.1	1,826.2	393.5	0.3	0.2
Netherlands	4.8	356.8	88.3	0.1	-
Belgium	1.8	240.0	50.1	-	-
Austria	1.7	317.3	98.6	-	-
Luxembourg	-	24.5	2.7	-	-
Finland	2.1	110.5	24.3	0.1	0.1
France	2.7	403.0	164.7	0.3	0.2
USA	2.1	437.0	79.4	4.3	0.6
Spain	3.5	192.1	56.5	0.4	-
Poland	-	21.3	3.5	-	-
Czech Republic	-	6.3	2.1	-	-
Portugal	-	20.2	4.1	-	-
Italy	-	48.4	10.9	0.2	-
Canada	2.0	20.5	5.2	4.8	0.4
Slovenia	-	1.3	0.2	-	-
Other countries	-	90.6	18.2	1.3	-
<b>Group, total</b>	<b>51.4</b>	<b>6,951.4</b>	<b>1,682.6</b>	<b>111.0</b>	<b>10.1</b>
2003	Board MD, salary	Other salaries	Total payroll overheads	of which pensions	of which pensions Board + MD
Sweden	12.2	987.9	466.7	95.1	23.3
Norway	2.8	488.9	82.6	12.5	5.5
Denmark	1.9	247.7	22.1	2.9	0.1
UK	3.9	497.6	37.2	2.0	0.2
Switzerland	3.0	433.0	58.0	0.9	-
Germany	6.5	1,662.5	367.5	0.4	0.2
Netherlands	3.1	334.3	82.5	0.4	0.3
Belgium	2.2	212.7	46.7	0.2	0.2
Austria	1.7	321.2	90.6	-	-
Luxembourg	-	22.9	2.5	-	-
Finland	2.5	98.3	20.9	0.3	0.1
France	2.8	374.3	150.9	0.3	0.2
USA	2.2	395.8	77.0	4.4	0.3
Spain	3.4	128.1	36.8	0.5	-
Poland	-	4.8	0.9	-	-
Czech Republic	-	2.4	0.8	-	-
Portugal	-	13.1	2.1	-	-
Italy	-	6.0	1.5	-	-
Canada	0.2	0.6	0.9	-	-
Other countries	-	96.8	19.5	2.2	-
<b>Group, total</b>	<b>48.4</b>	<b>6,328.9</b>	<b>1,567.7</b>	<b>122.1</b>	<b>30.4</b>

#### Board fees

Board fees for the year as approved by the AGM amounted to SEK 3,900,000 (3,900,000), of which SEK 2,700,000 (2,700,000) was paid to the Chairman of the Board. No Board fees were paid to Board members who are also employees of the company. The Board consists of nine ordinary members and four deputy members. Five of the members are female and eight male; five out of thirteen are employed within the company.

#### Managing Director's terms of employment

Remuneration to the Managing Director in the form of salary and benefits amounted to SEK 8,368,000, which included a bonus of SEK 1,500,000 (previous year SEK 8,358,000 including a bonus of SEK 1,500,000). Pension expenses for the Managing Director during the year were SEK 6,319,000 (previous year SEK 23,290,000), of which SEK 2,641,000 comprises pension commitments entered as liabilities. The Managing Director may retire at the age of 62 and receive a pension of 65% of regular salary until ordinary pension age.

From the age of 65 the Managing Director will receive a lifelong old-age pension of 50% of the regular salary effective at the time. The Managing Director is entitled to 12 months' notice. In the event that the company should cancel his contract of employment the Managing Director will receive an extra year's salary as severance pay, in addition to the 12 months' notice. There are no other agreements regarding severance pay in the Group. The Managing Director's terms of employment are decided by the Board of Directors.

#### Terms of employment for other Group senior executives

Remuneration to other members of the Group management in the form of salary and benefits amounted to SEK 23,835,000 (19,215,000), which included bonuses of SEK 2,000,000 (SEK 1,500,000). Pension expenses for other members of the Group management during the year were SEK 4,653,000 (previous year SEK 4,195,000).

Other Group management comprises ten people, three of whom are female. In addition to the Managing Director, the management team includes those responsible for the following functions: finance, buying, production, expansion, IR, accounts, marketing, HR, communications plus environment & social responsibility.

There are rulings in respect of supplements to retirement pensions beyond the usual plan which cover certain senior employees. The retirement age for these varies between 60 and 62 years. The cost of these payments has been covered by separate insurance policies.

In addition, a bonus amounting to SEK 6.1 m (6.0) was paid to 13 country managers.

The terms of employment for other members of the Group management are decided by the Managing Director and the Chairman of the Board.

#### Bonus system

The Managing Director, country managers and certain senior executives are included in a bonus system. The size of the bonus is based on 0.2% of the increase in the ordinary dividend decided by the Annual General Meeting, which is then adjusted to take account of the result in their respective areas of the business. The maximum bonus per person and year has been set at SEK 500,000.

In the case of the Managing Director the bonus is 0.6% of the ordinary dividend increase, up to a maximum of SEK 1,500,000.

The bonus paid after tax must be invested in its entirety in shares in the company, which must be held for a minimum of five years.

## 5 DEPRECIATION ACCORDING TO PLAN

Equipment and leasehold rights have been depreciated at a rate of 12% of acquisition cost, based on estimated economic lifetime. The fact that lease rights are depreciated over a period of more than five years is due to the central importance of the store locations to the business. Buildings have been depreciated at 3% of acquisition cost.

No depreciation is applied to land values. Depreciation for the year is reported in the income statement as follows:

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
Cost of goods sold	134.3	123.8	13.3	13.0
Selling expenses	1,038.2	947.4	87.1	84.8
Administrative expenses	59.7	54.4	5.1	5.0
<b>Total</b>	<b>1,232.2</b>	<b>1,125.6</b>	<b>105.5</b>	<b>102.8</b>

## 6 AUDIT FEES

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
<b>Ernst &amp; Young</b>				
Audit assignments	8.0	7.4	1.5	1.4
Other assignments	5.8	5.5	0.3	0.1
<b>Other auditors</b>				
Audit assignments	2.1	2.5	-	-
Other assignments	1.7	1.2	-	-

## 7 APPROPRIATIONS

	PARENT COMPANY	
	03/04	02/03
Depreciation in excess of plan	-6.9	-22.4
Change in tax allocation reserves	-284.2	-257.0
<b>Total</b>	<b>291.1</b>	<b>-279.4</b>

## 8 TAX ON PROFIT FOR THE YEAR

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
Current tax	-3,605.5	-2,995.8	-283.0	-252.0
Deferred taxes in respect of utilised loss carry-forward	-52.6	-105.2	-	-
Deferred taxes in respect of untaxed reserves	-73.7	-128.8	-	-
Deferred taxes in respect of other temporary differences	1.3	7.0	1.2	7.0
<b>Total</b>	<b>-3,730.5</b>	<b>-3,222.8</b>	<b>-281.8</b>	<b>-245.0</b>
Expected tax expense according to Swedish tax rate 28%	-3,081.5	-2,690.4	-2,352.5	-1,340.0
Difference in foreign tax rates	-576.4	-621.8	-	-
Sundry non-deductible/non-taxable	-76.9	57.7	-2.9	-3.5
Tax effect of loss carry-forward	4.3	31.7	-	-
Tax-free dividend from subsidiary	-	-	2,073.6	1,098.5
<b>Total</b>	<b>-3,730.5</b>	<b>-3,222.8</b>	<b>-281.8</b>	<b>-245.0</b>

Long-term receivables in the balance sheet include a deferred tax receivable in respect of temporary differences of SEK 35.0 m (86.3), of which SEK 26.7 m refers to loss carry-forward estimated to be utilised within the next few years and SEK 8.3 m to pension expenses that will become deductible in the future. There are no other deductions for losses.

## 9 LEASEHOLD RIGHTS, BUILDINGS, LAND AND EQUIPMENT

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
<b>Leasehold rights</b>				
Acquisition value brought forward	185.8	173.1	0.7	0.7
Acquisitions during the year	13.3	16.6	-	-
Sales/disposals	-0.7	-0.8	-0.7	-
Translation effects	-1.7	-3.1	-	-
Closing acquisition value	196.7	185.8	-	0.7
Depreciation brought forward	-74.1	-54.8	-0.7	-0.6
Sales/disposals	0.7	0.8	0.7	-
Depreciation for the year	-23.3	-21.6	-	-0.1
Translation effects	1.4	1.5	-	-
Closing accumulated depreciation	-95.3	-74.1	-	-0.7
<b>Closing residual value according to plan</b>	<b>101.4</b>	<b>111.7</b>	<b>-</b>	<b>0.0</b>

### Buildings

Acquisition value brought forward	501.8	536.1	106.8	106.8
Acquisitions during the year	1.0	0.3	-	-
Sales/disposals	-12.8	-11.0	-	-
Translation effects	-0.2	-23.6	-	-
Closing acquisition value	489.8	501.8	106.8	106.8
Depreciation brought forward	-101.7	-90.6	-39.1	-36.1
Sales/disposals	-	-	-	-
Depreciation for the year	-14.9	-14.9	-3.1	-3.0
Translation effects	0.2	3.8	-	-
Closing accumulated depreciation	-116.4	-101.7	-42.2	-39.1
<b>Closing residual value according to plan</b>	<b>373.4</b>	<b>400.1</b>	<b>64.6</b>	<b>67.7</b>

### Land

Acquisition value brought forward	60.0	62.4	3.3	3.3
Acquisitions during the year	3.6	-	-	-
Sales/disposals	-	-0.1	-	-
Translation effects	0.2	-2.3	-	-
<b>Closing acquisition value</b>	<b>63.8</b>	<b>60.0</b>	<b>3.3</b>	<b>3.3</b>

The assessed values of the Swedish properties amount to SEK 57.3 m (57.3).

### Equipment

Acquisition value brought forward	9,740.7	9,023.8	894.8	853.9
Acquisitions during the year	1,731.2	1,499.7	86.0	103.3
Sales/disposals	-540.6	-347.2	-72.9	-62.4
Translation effects	-214.5	-435.6	-	-
Closing acquisition value	10,716.8	9,740.7	907.9	894.8
Depreciation brought forward	-4,076.8	-3,413.5	-428.1	-390.7
Sales/disposals	431.7	277.8	72.9	62.3
Depreciation for the year	-1,194.0	-1,089.1	-102.5	-99.7
Translation effects	114.3	148.0	-	-
Closing accumulated depreciation	-4,724.8	-4,076.8	-457.7	-428.1
<b>Closing residual value according to plan</b>	<b>5,992.0</b>	<b>5,663.9</b>	<b>450.2</b>	<b>466.7</b>

The Group has entered into no leasing agreements other than leases for premises concluded on normal market terms. Rental charges for the 2003/04 financial year amount to SEK 5,794 m (5,261).

**Contracts for leased premises in the Group** (basic rent excluding any sales-dependent supplements).

Due 2005	4,684
Due 2006–2009	14,497
Due 2010 and later	10,391



## 10 PARTICIPATION IN GROUP COMPANIES (All companies are wholly owned)

	Corporate ID number	Number of shares	Book value	Domicile
Parent company participation				
K E Persson AB	556030-1052	1,000	0.1	Stockholm
AB Hennes	556056-0889	1,000	0.1	Stockholm
Big is Beautiful, BiB AB	556005-5047	3,300	0.4	Stockholm
Beká AB	556024-2488	450	1.3	Stockholm
Impuls AB	556151-2376	1,250	0.1	Stockholm
Carl-Axel Hermode AB	556099-0706	1,000	3.0	Stockholm
H & M Rowells AB	556023-1663	1,150	0.6	Stockholm
Mauritz AB	556125-1421	2,000	0.2	Stockholm
Erica Modehus AB	556070-1715	1,000	2.6	Stockholm
H & M Hennes & Mauritz International BV	EUR 18,151	0.1		Netherlands
<b>Total</b>			<b>8.5</b>	

### Subsidiary participation in Group companies

Carl Axel Petterssons AB	556027-7351	1,200		Stockholm
H & M Hennes & Mauritz A/S				Norway
H & M Hennes & Mauritz A/S				Denmark
H & M Hennes Ltd				UK
H & M Hennes & Mauritz SA				Switzerland
H & M Trading SA				Switzerland
H & M Hennes & Mauritz GmbH, Hamburg				Germany
Impuls GmbH, Hamburg				Germany
Modehaus H & M Hennes & Mauritz GmbH, Munich				Germany
Magis GmbH & Co. KG, Hannover				Germany
GAP (Deutschland) GmbH				Germany
H & M Hennes & Mauritz Holding BV				Netherlands
H & M Hennes & Mauritz Netherlands BV				Netherlands
H & M Hennes & Mauritz USA BV				Netherlands
H & M Hennes & Mauritz Belgium NV				Belgium
H & M Hennes & Mauritz GesmbH				Austria
H & M Hennes & Mauritz OY				Finland
H & M Hennes & Mauritz SARL				France
H & M Hennes & Mauritz LP				USA
H & M Moda SL				Spain
H & M Hennes & Mauritz sp.z.o.o.				Poland
H & M Hennes & Mauritz CZ, s.r.o.				Czech Republic
Divided Moda-Comércio de Vestuário, Unipessoal Ida				Portugal
H & M Hennes & Mauritz Srl				Italy
H & M Hennes & Mauritz Inc.				Canada
H & M Hennes & Mauritz d.o.o.				Slovenia
H & M Reinsurance SA				Luxembourg
H & M Hennes & Mauritz Far East Ltd				Hong Kong
Puls Trading Far East Ltd				Hong Kong
H & M Hennes & Mauritz International Ltd				Hong Kong
Puls Trading International Ltd				Hong Kong

## 11 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
Prepaid rent	284.5	252.2	42.0	38.1
Accrued interest income	27.3	23.5	15.8	8.8
Other items	99.2	102.3	20.5	6.4
<b>Total</b>	<b>411.0</b>	<b>378.0</b>	<b>78.3</b>	<b>53.3</b>

## 12 SHORT-TERM INVESTMENTS

This balance sheet item includes only interest-bearing investments, i.e. investments in securities issued by governments or banks or in short-term bank deposits. As of 30 November 2004 all investments mature in less than six months. All investments are reported at the acquisition cost on acquisition. The book value of short-term investments plus accrued interest equals the actual value. The investments are made on market terms and the interest rates are in the range 0.38%–4.74%. The difference in interest rate depends on the currency in which the amount is placed.

	GROUP	PARENT COMPANY
Term		
Up to three months	9,316.9	2,420.1
Three to six months	3,250.0	3,250.0
<b>Total</b>	<b>12,566.9</b>	<b>5,670.1</b>

Accrued interest on short-term investments is included in Prepaid expenses and accrued income (Note 11) at SEK 24.9 m (21.3).

## 13 FORWARD CONTRACTS

Forward currency contracts are entered into in order to hedge risks associated with future currency flows. The table below shows the outstanding forward contracts in respect of currency flows as of the closing date:

Currency pair	Nominal amount	Market value	Average remaining term in months
<b>Put options</b>			
NOK/SEK	436	0	2.0
DKK/SEK	232	4	2.0
GBP/SEK	599	19	2.0
CHF/SEK	443	5	2.0
EUR/SEK	3,407	65	2.0
PLN/SEK	66	-1	2.5
CZH/SEK	33	0	2.5
CAD/SEK	78	2	2.0
<b>Total</b>	<b>5,294</b>	<b>94</b>	
<b>Call options</b>			
USD/SEK	3,192	287	2.5

The nominal amount of currency forwards reported outside the balance sheet thus amounts to SEK 8,486 m gross and the unrealised forward profit as of the closing date amounts in total to SEK -193 m net.

The market valuation was performed guided by information obtained from the banks.

## 14 SHARE CAPITAL

The share capital consists of 97,200,000 class 'A' shares (10 votes per share) and 730,336,000 class 'B' shares (one vote per share), all with a par value of SEK 0.25 each. The total number of shares is 827,536,000.

## 15 APPROPRIATION OF PROFITS IN ACCORDANCE WITH THE RESOLUTION OF THE 2004 ANNUAL GENERAL MEETING

Unappropriated profit as per balance sheet,	
30 November 2003	5,208.4
Dividend, SEK 6.00 per share	-4,965.2
Refunded dividend	0.7
<b>Unappropriated profit carried forward</b>	<b>243.9</b>

**16 UNTAXED RESERVES**

	PARENT COMPANY	
	03/04	02/03
Depreciation in excess of plan	253.9	247.0
Tax allocation reserves	1,075.8	791.6
<b>Total</b>	<b>1,329.7</b>	<b>1,038.6</b>

**17 PROVISIONS**

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
<b>Pensions</b>				
Provisions brought forward	36.0	5.2	25.1	-
New provisions	5.2	30.8	4.5	25.1
Provisions utilised	-	-	-	-
<b>Provisions carried forward</b>	<b>41.2</b>	<b>36.0</b>	<b>29.6</b>	<b>25.1</b>
<b>Deferred tax liabilities</b>				
Provisions brought forward	925.2	818.6	-	-
New provisions	73.7	128.8	-	-
Translation effects	-6.9	-22.2	-	-
<b>Provisions carried forward</b>	<b>992.0</b>	<b>925.2</b>	<b>-</b>	<b>-</b>

Deferred tax liabilities refer to estimated tax on untaxed reserves.

**18 ACCRUED EXPENSES AND PREPAID INCOME**

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
Holiday pay liability	370.7	322.7	119.6	113.2
Payroll overheads	173.3	215.9	111.1	110.6
Accrued interest expense	0.7	1.2	0.3	1.2
Wage and salary liability	258.0	238.8	50.0	47.9
Costs relating to premises	476.1	359.0	-	-
Other accrued overheads	489.7	465.0	60.0	62.7
<b>Total</b>	<b>1,768.5</b>	<b>1,602.6</b>	<b>341.0</b>	<b>335.6</b>

**19 CONTINGENT LIABILITIES**

	GROUP		PARENT COMPANY	
	03/04	02/03	03/04	02/03
Parent company's lease guarantees	8,939.1	8,929.4	8,939.1	8,929.4
Disputes	10.0	10.0	10.0	10.0
<b>Total</b>	<b>8,949.1</b>	<b>8,939.4</b>	<b>8,949.1</b>	<b>8,939.4</b>

**20 SPECIFIC RELATED PARTY DISCLOSURES IN ACCORDANCE WITH RR 23**

The H&M Group leases the following store premises in properties directly or indirectly owned by Stefan Persson and family: Drottninggatan 50–52 in Stockholm, Drottninggatan 56 in Stockholm, Sergelgatan 11 in Stockholm, Kungsgatan 55 in Gothenburg, Stadt Hamburgsgatan 9 in Malmö and Amagertorv 23 in Copenhagen.

Rent is paid at market rates and amounted to a total of SEK 46.7 m for the financial year (previous year SEK 42.0 m).

**21 AVERAGE NUMBER OF EMPLOYEES**

	03/04		02/03	
	Total	Male %	Total	Male %
Sweden	3,731	19	3,709	20
Norway	1,509	11	1,420	9
Denmark	1,021	5	954	5
UK	3,095	23	2,794	23
Switzerland	1,222	9	1,134	10
Germany	7,936	20	7,199	19
Netherlands	1,840	19	1,772	18
Belgium	1,132	16	1,051	16
Austria	1,679	13	1,613	13
Luxembourg	122	32	120	32
Finland	591	13	527	11
France	2,112	26	1,865	30
USA	2,812	33	2,255	30
Spain	1,293	21	975	21
Poland	390	29	88	20
Czech Republic	109	6	38	11
Portugal	152	27	125	26
Italy	158	16	106	25
Canada	125	21	8	50
Slovenia	14	13	-	-
Other countries	658	37	656	37
<b>Total</b>	<b>31,701</b>	<b>20</b>	<b>28,409</b>	<b>20</b>

Sickness absence in Sweden	Sickness absence as % of ord. working hours		% of sickness absence lasting over 60 days	
	03/04	02/03	03/04	02/03
All employees	6.5	6.3	55.3	55.2
Female employees	6.9	6.8	57.2	57.1
Male employees	4.2	3.7	40.0	38.3
Employees < 30 years old	3.9	3.7	31.4	28.8
Employees 30–49 years old	7.3	7.2	60.4	60.7
Employees > 50 years old	11.2	11.6	68.6	70.7

The figures relate to the full financial year.

**22 KEY RATIO DEFINITIONS**

<b>Return on equity:</b>	Profit for the year divided by average shareholders' equity.
<b>Return on capital employed:</b>	Profit after financial items plus interest expense divided by average shareholders' equity plus interest-bearing liabilities.
<b>Debt/equity ratio:</b>	Interest-bearing liabilities divided by shareholders' equity.
<b>Share of risk-bearing capital:</b>	Shareholders' equity plus deferred tax liability divided by the balance sheet total.
<b>Solidity:</b>	Shareholders' equity in relation to balance sheet total.
<b>Interest cover:</b>	Profit after financial items plus interest expense divided by interest expense.

**PROPOSED DISTRIBUTION OF EARNINGS****Group**

According to the Group Balance Sheet, unappropriated  
Group profit amounts to SEK 19,463.6.

At the disposal of the Annual General Meeting SEK 8,363,813,387

The Board of Directors and Managing Director proposes that:	
shareholders be paid an ordinary dividend of SEK 8.00 per share	SEK 6,620,288,000
To be carried forward as retained profits	SEK 1,743,525,387
	SEK 8,363,813,387

Stockholm, 27 January 2005

Stefan Persson  
Chairman

Fred Andersson

Vivian Enochsson\*

Werner Hofer

Sussi Kwart

Bo Lundquist

Stig Nordfelt

Marianne Norin-Broman\*

Melker Schörling

Rolf Eriksen  
Managing Director

\* Employee representative

**AUDITORS' REPORT**

To the general meeting of the shareholders of  
H & M Hennes & Mauritz AB  
Corporate identity number: 556042-7220

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and Managing Director of H & M Hennes & Mauritz AB for the financial year 1/12 2003–30/11 2004. These accounts and the administration of the company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated accounts are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of information in the annual accounts and consolidated accounts.

As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company to be able to determine the liability, if any, to the company of any Board member or the Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, The Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual report and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of shareholders that the income statement and balance sheet of the parent company and the group be adopted, that the profit for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 28 January 2005

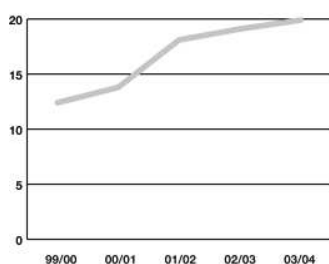
Åke Hedén  
Authorised Auditor  
Ernst & Young AB

Åsa Lundvall  
Authorised Auditor  
Ernst & Young AB

## FIVE-YEAR SUMMARY

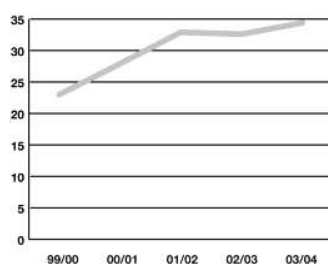
	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Turnover, including VAT, SEK m	35,876.1	46,528.2	53,331.7	56,550.0	62,985.9
Change from previous year, %	+9	+30	+15	+6	+11
Turnover outside Sweden including VAT, SEK m	30,621.0	41,095.0	47,545.0	50,942.0	57,102.9
Foreign share of turnover, %	85	88	89	90	91
Operating margin, %	12.4	13.8	18.1	19.1	19.9
Profit after financial items, SEK m	4,003.2	5,734.0	8,628.9	9,608.7	11,005.3
Net profit for the year, SEK m	2,552.7	3,816.4	5,686.8	6,385.9	7,274.8
Cash and Bank balances including short-term investments, SEK m	5,403.2	8,530.9	13,479.6	13,193.5	15,051.3
Stock-in-trade, SEK m	4,448.7	4,332.4	4,192.5	5,050.1	5,141.6
Restricted equity, SEK m	1,880.7	2,475.4	2,463.3	2,618.2	2,745.4
Non-restricted equity, SEK m	10,009.1	12,956.2	16,624.4	17,478.5	19,463.6
Return on shareholders' equity, %, Note 20	23.0	27.9	32.9	32.6	34.4
Return on capital employed, %, Note 20	35.8	41.6	49.7	48.9	51.9
Debt/equity ratio, %, Note 20	1.2	1.2	0.4	0.2	0.2
Share of risk-bearing capital, %, Note 20	79.8	77.8	79.0	81.6	82.5
Solidity, %, Note 20	75.7	75.6	75.7	78.0	79.0
Interest cover, Note 20	225.9	304.4	654.7	3,432.7	3,440.2
Number of stores in Sweden	115	118	120	123	124
Number of stores outside Sweden	567	653	724	822	944
Total number of stores	682	771	844	945	1,068
Average number of employees	20,680	22,944	25,674	28,409	31,701

**Operating margin, %**



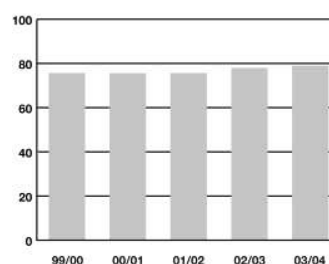
H&M strengthened its operating margin by 0.8 percentage units to 19.9 per cent in 2004.

**Return on shareholders' equity, %**



The return on shareholders' equity remained very good and amounted to 34.4 per cent.

**Solidity, %**



H&M is in a very strong financial position, which was strengthened further during the year. Solidity increased by one percentage unit to 79 per cent.

## THE H&M SHARE

### Business ratios per share

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Shareholders' equity per share, SEK	14.37	18.65	23.07	24.28	26.84
Earnings per share, SEK	3.08	4.61	6.87	7.72	8.79
Change from previous year, %	-17	+50	+49	+12	+14
Dividend per share, SEK	1.35	1.75	6.00	6.00	8.00*
Market price on 30 November, SEK	169.00	213.00	191.00	176.50	216.00
P/E ratio	55	46	28	23	25

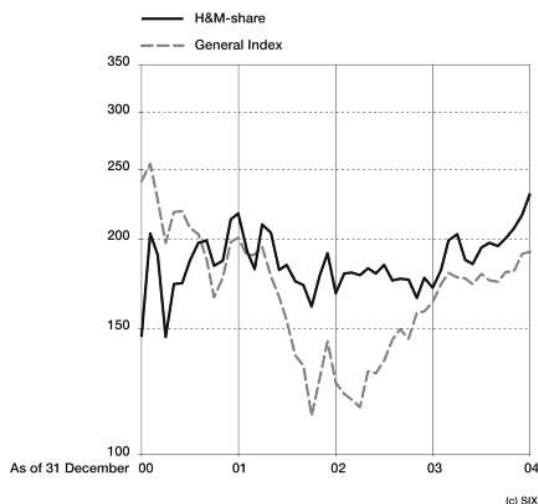
### Distribution of shares, December 2004

Shareholdings	Number of shareholders	%	Number of shares	%	Average number of shares per shareholder
1 – 1,000	164,058	93.1	32,294,531	3.9	197
1,001 – 5,000	9,224	5.2	20,520,286	2.5	2,225
5,001 – 10,000	1,245	0.7	9,252,102	1.1	7,431
10,001 – 50,000	1,144	0.7	24,220,393	2.9	21,172
50,001 – 100,000	173	0.1	12,609,548	1.5	72,888
100,001 –	369	0.2	728,639,140	88.1	1,974,632
<b>TOTAL</b>	<b>176,213</b>	<b>100.0</b>	<b>827,536,000</b>	<b>100.0</b>	

### Major shareholders, December 2004

	Shares held	% of voting rights	% of capital stock
The Stefan Persson family	301,672,400	69.1	36.5
Lottie Tham	36,805,700	2.2	4.4
Robur Fonder	22,843,464	1.4	2.8
AMF-Pensionsförsäkring AB	22,293,700	1.3	2.7
Alecta	19,960,000	1.1	2.4
SEB Fonder	15,728,500	0.9	1.9
SHB/SPP fonder	12,483,944	0.7	1.5
Fjärde AP-fonden	12,453,450	0.7	1.5
Nordea fonder	12,216,360	0.7	1.5
Skandia Liv	9,690,112	0.5	1.2

\* Proposed dividend





## BOARD OF DIRECTORS

Top row from left:

**JAN JACOBSEN**

*born 1951*

Deputy member of the board since 1985

**OTHER SIGNIFICANT BOARD ASSIGNMENTS:**

Member of the board of RAM ONE AB, Teknikmagasinet Holding Nordic AB and the Swedish Basketball Federation.

**NO. OF SHARES IN H&M:** 125,000

**MARIANNE NORIN-BROMAN**

*born 1944*

Employee representative since 1995

**NO. OF SHARES IN H&M:** 70

**ROLF ERIKSEN**

*born 1944*

Chief Executive Officer and Managing Director of H&M.

Deputy member of the board since 2000

**NO. OF SHARES IN H&M:** 33,700

**AGNETA RAMBERG**

*born 1946*

Deputy employee representative since 1997

**NO. OF SHARES IN H&M:** 0

**MELKER SCHÖRLING**

*born 1947*

Member of the board since 1998

**OTHER SIGNIFICANT BOARD ASSIGNMENTS:**

Chairman of Securitas AB, Hexagon AB and Karlshamn AB, deputy chairman of Assa Abloy AB.

**NO. OF SHARES IN H&M:** 114,000

Bottom row from left:

**STEFAN PERSSON**

*born 1947*

Chairman, H&M Member of the board since 1979

**OTHER SIGNIFICANT BOARD ASSIGNMENTS:**

The Association of the Stockholm School of Economics, and board assignments in familyowned companies.

**NO. OF SHARES IN H&M:** 283,474,400

**SUSSI KVART**

*born 1956*

Bachelor of Laws, Sussi Kvart AB. Member of the board since 1998

**OTHER SIGNIFICANT BOARD ASSIGNMENTS:**

Member of the board of KW Partners AB, the Board of healthcare Provision, Stockholm County Council.

**NO. OF SHARES IN H&M:** 2,200

**BO LUNDQUIST***born 1942*

Member of the board since 1995 and member of the audit committee

**OTHER SIGNIFICANT**

**BOARD ASSIGNMENTS:** Chairman of ACSC AB, DFAB and Teknikmagasinet Holding Nordic AB.

**NO. OF SHARES IN H&M:** 20,000

**FRED ANDERSSON***born 1946*

CEO, Nicator Group AB  
Member of the board since 1990

**OTHER SIGNIFICANT**

**BOARD ASSIGNMENTS:** Member of the board of Consilium AB, Viamare Invest AB, OY Indoor Group AB.

**NO. OF SHARES IN H&M:** 800

**STIG NORDFELT***born 1940*

Managing Director, Pilen AB,  
Member of the board since 1987 and chairman of the audit committee

**OTHER SIGNIFICANT**

**BOARD ASSIGNMENTS:** Chairman of United Care Scandinavia AB and Surephone AB, board member of IBS AB and CGU Life AB.

**NO. OF SHARES IN H&M:** 4,000

**VIVIAN ENOCHSSON***born 1940*

Employee representative since 1977

**NO. OF SHARES IN H&M:** 600

**EVA NILSSON***born 1944*

Deputy employee representative since 2003

**NO. OF SHARES IN H&M:** 20

**WERNER HOFER***born 1935*

Lawyer, Hamburg  
Member of the board since 1996 and member of the audit committee

**OTHER SIGNIFICANT**

**BOARD ASSIGNMENTS:** Chairman of Puma AG, Electrolux Deutschland GmbH, AEG Hausgeräte GmbH and D + H Mechatronic AG. Member of the board of Ispat Europe Group S.A, Luxembourg, Ispat Germany GmbH, Ispat Hamburger Stahlwerke GmbH and Ispat Stahlwerke Ruhrort GmbH.

**NO. OF SHARES IN H&M:** 4,000

**BOARD OF DIRECTORS' WORK IN 2004**

The Board of Directors met six times during 2004. Stefan Persson was re-elected Chairman of the Board at the statutory meeting following the AGM, when rules of procedure were adopted for the Board, the audit committee and the election committee. The rules of procedure for the Board regulate matters such as the distribution of work between the Board and the Managing Director, financial reporting, investments and financing policy.

During the year the Board of Directors has continually kept abreast of the financial development and position of the Group and its organisational changes, has made decisions on investments for 2004/05 and has also decided on expansion into new markets. When the Board dealt with the proposed annual report, auditor Åke Hedén gave a report on the year's audit work.

Sweaters  
SEK 179





## ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting will be held at the Stockholmsmässan (Victoriahallen) in Stockholm on Tuesday 26 April 2005, at 3 p.m.

Shareholders who are registered in the share register print-out on Friday 15 April 2005 and give notice of their intention to participate in the Meeting no later than 12 noon, Tuesday 19 April 2005 are entitled to participate in the Annual General Meeting.

### Nominee shares

Shareholders whose shares are registered in the name of a nominee must re-register their shares in their own names in order to be entitled to participate in the Meeting. In order to re-register shares in time, shareholders should request temporary owner registration – referred to as voting right registration – via their trustee. The re-registration must be registered in the share register at VPC on 15 April 2005 at latest.

### Notice

Notice of intention to participate in the Meeting must be submitted by mail, fax, telephone or on H&M's website to:

H & M Hennes & Mauritz AB  
 Head Office, A7  
 SE-106 38 Stockholm  
 Telephone: +46 8 796 55 00  
 Fax: +46 8 796 55 44  
[www.hm.com/bolagsstamma](http://www.hm.com/bolagsstamma)

Shareholders must state in the notice their name, civil identity number, telephone number (daytime) and number of shares.

### Dividend

The Board of Directors and the Managing Director will propose to the Annual General Meeting a dividend for 2004 of SEK 8.00 per share.

The Board of Directors has proposed Friday, 29 April 2005 as record day. With this record day, VPC (Swedish Securities Register Centre) is expected to pay the dividend on 4 May 2005.

To have right to get a dividend H&M shares must be bought on 26 April 2005 at latest.

## FINANCIAL INFORMATION

### H & M Hennes & Mauritz AB will provide the following information for the 2005 financial year:

Sales development – January	15 February
Three Months Report	6 April
Sales development – March	15 April
Sales development – April	16 May
Half-Year Report	22 June
Sales development – June	15 July
Sales development – July	15 August
Nine Months Report	28 September
Sales development – September	17 October
Sales development – October	15 November
Sales development – November	15 December

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This information will be available at [www.hm.com](http://www.hm.com)

## ADDRESSES

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**FINANCE:** Leif Persson

**EXPANSION:** Kent Gustafsson

**INVESTOR RELATIONS:** Carl-Henric Enhörning

**ACCOUNTS:** Anders Jonasson

**BUYING:** Madeleine Persson

**PRODUCTION:** Karl Gunnar Fagerlin

**DESIGN:** Margareta van den Bosch

**ENVIRONMENT AND SOCIAL RESPONSIBILITY:** Ingrid Schullström

**MARKETING:** Jörgen Andersson

**COMMUNICATIONS:** Kristina Stenvinkel

**PERSONNEL:** Pär Darj

**IT:** Carsten Mackeprang

**LOGISTICS:** Danny Feltmann

**SECURITY:** Hans Nilson

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Linen Blazer  
SEK 398



Suit  
SEK 1798

**H&M**